# Annual Planning

In your young software products and services company you have some idea of what the product lines are, and how the costs are segregated in either direct or indirect cost buckets. You can make decisions in the abstract about which product lines are profitable, which are needed to round out the suite, and which should be reviewed for suspension. Given a certain size of gross profit, and an understanding of how you can roughly map to your industry, you have an idea of how much you can spend in other areas, such as R&D.

But there are all sorts of inter-relationships that muck up the planning:

- Should you pursue a piece of custom work that is not strategic if it will soak up some of the bench time?
- What if you can't get work done for a particular project within the budget?
- What's the tradeoff between keeping a product alive and investing in the future?
- What if your projected revenues don't materialize, or the mix of work is different than anticipated?
- How do you keep everyone busy, and when and how do you decide you need to re-balance the staff to the workload?
- How do you keep the costs under control, and how do you reduce them to better your margins?
- How do you keep people engaged in interesting (but profitable) work?

So, how do companies work on annual plans, to fit all the pieces together?

Let's assume you have classified all your revenue producing work into a series of products, including custom consulting for existing products, which is its own type of product with its own profile and margins. Now two groups have to work toward the annual plan.

First, **Corporate Management** needs to determine the minimum volume necessary to generate a probable profit of sufficient size (the smaller you get, the fewer products and less management you can support; there's a minimum threshold for your type of business.) They treat that as the minimum for their current business structure; below that is the land of crisis and reduction in size. They look at last year and project what seems to be a generic typical growth rate, and that becomes the actual target for the first iteration.

**Sales** then looks at its existing pipeline and extrapolates what mix of products it might be able to sell to its currently identified prospects and likely penetrateable market. This includes upsell and cross-sell to existing clients, information about which it may need to pull from the **Client Management** groups. It will have recommendations about how much Marketing is needed to support this mix. If it can come up with a reasonable mix that can achieve management's target, then we can proceed, else it goes to management and explains its view of reality, and the loop starts again.

Once Sales and Corporate Management have agreed on the possible annual revenue goal, Sales provides forecast detail spread out over quarters, and the **Product Fulfillment** groups look at it by product mix. Each group has to envision what it would mean in staffing if the deals really came in as forecast: how many could be done at the same time, what skill sets would be needed, would all the resources be in house or would there be contractors, is training needed, would there be gaps with insufficient staff utilization costs, and so forth. The groups would then need to lay out a staffing plan that supports the Sales plan. This could include hiring recommendations, layoff recommendations (esp. as the product mix shifts), training recommendations, and out-of-model related costs (training, contractors). Their feedback goes back to Corporate Management which may need to adjust the evolving annual plan accordingly for another loop-through.

Corporate Management needs to review the cash flow implications of the plan and see if **Finance** needs to prepare bridge financing, reserve depletion, etc., and what the associated costs are.

Once these four groups are in basic consensus, the indirect costs have to be factored in. **Finance** or **Corporate Management** usually does this. This will set the budgets for G&A (executive hirings, for example), Marketing (to drive the required sales – Sales will have already made a recommendation about what is needed here), and R&D (the bucket of recommendations for new-product development; the existing-product upgrade development is funded by each product line as part of its direct cost).

At the end of this, you have an annual plan from which you can pull budgets. Alas, it doesn't hold for very long.

So what happens if Sales was wrong in its projections, in either direction? Less revenue than expected has obvious impact. Revenue that is less smooth has other more subtle impacts (benchtime, resource contention). More revenue than expected causes planning difficulties for resources.

Sales' inability to be 100% accurate with its crystal ball is the primary thing that goes wrong, though other things can happen, too. You can acquire a company. You can outsource a cost pool or bring contractors in-house. You can discover your product profile is wrong, and things cost more than you thought. You can have difficulty controlling direct costs for product fulfillment, or indirect costs of all kinds. Benchtime and uneven work distribution can wreak havoc with cost control.

Quarterly reviews of the annual plan, with adjustments where necessary, are crucial. Monthly accountability for budgets and costs is also crucial. If you don't know and track the numbers, and react to red-flags promptly, you can't effectively control your fate.




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