

How to Develop a Strategic Business Plan

By Charles E. McCabe

What Are The Issues?

Those of us who derive our income from tax preparation continue to face the challenges of fierce competition and seasonality. We know the tax business and how to operate profitably as we've always done. But we are now faced with unprecedented threats posed by legislation and technology. These new trends will radically change the way we've always done business. Strategic business planning has always been a good idea for every entrepreneur. However, for tax practitioners, planning is no longer optional—it is a necessity to prepare for the radical changes we face in the years ahead.

Why a Strategic Plan?

Why should you as an entrepreneur spend many hours of your scarce time developing a written strategic plan? After all, you have a vision for your company and your plan is in your head. One good reason is to ensure that someone else can pick up the ball and run with it if something happens to you. But even with you in the picture, you should develop a written strategic business plan for the following reasons: (1) The discipline of putting your plan in writing will force you to think through every aspect of our business, thereby enabling you to identify and clarify obstacles and opportunities, determine areas in which you need professional help, set goals, and refine strategies and tactics. (2) Communicating your vision to your associates is essential for them to make meaningful contributions to the business. (3) Few lenders or investors will give you money unless you have a comprehensive written business plan.

Your business cannot remain static and survive; it must continue to grow or begin to atrophy and eventually die. In today's ever-changing business environment, a long-range strategic plan is essential to ensure continuing growth and survival

Writing Your Strategic Plan

You should start by designing an outline to fit the needs of your company; then research and write the plan section by section. You cannot delegate this project. As the CEO, you must be actively involved in the process. Only you, the entrepreneur, have the knowledge and vision necessary to develop a meaningful plan for your company. Yet you need objective input from others who are not as close to the business as you. Such input might be obtained by utilizing the free resources of your local college(es) to help you develop your strategic plan. Most business schools encourage the faculty to have their students work on real world business projects. This is a win-win scenario for the students, the companies, the college, and the community. The key to a successful project is the knowledge, dedication and teaching skill of the professor.

THE COMPANY

Company Mission

The first step in strategic planning is to develop a concise a mission statement for your company. Your mission statement should not be limited to what your company is doing today, but should also include a vision of where the company is going in the future. It must also be based on the utilization of what Peter Drucker calls your company's "knowledge excellencies". Your mission statement should reflect the following:

The vision of the CEO of your company

- Your company's unique strengths and expertise
- Your company's corporate culture
- Your company's unique selling proposition
- The type of product(s) and/or service(s) provided by your Company

The mission statement of Peoples Income Tax, Inc. reads as follows:

Mission: To be a world-class provider of personalized, affordable, professional financial and educational services and products delivered with consistent quality and value.

History & Personnel

For the benefit of investors, bankers and newer associates, you should provide a concise overview of the history of your company. Describe the founding purpose and all key milestones and achievements, including dates. Provide growth trends and historical financial statements. Identify key suppliers and any strategic partners. Also provide brief biographies of all managers and key employees.

SITUATIONAL ANALYSIS

A written analysis will help you to clarify your company's situation and develop appropriate strategies. A good method is a "S.W.O.T." analysis to identify your company's Strengths, Weaknesses, Opportunities and Threats. The SWOT method can be viewed as a matrix as shown below. Strengths and weaknesses are internal factors. Opportunities and threats are external factors. Obviously, we have more control over internal factors than external factors. Yet we must be aware of the external factors in order to develop effective strategies. A sample outline of a situational analysis for a tax preparation firm appears below. Strengths can usually be translated into opportunities. Opportunities to eliminate or counter weaknesses also exist. Weaknesses and threats can sometimes be turned into opportunities. Each item listed should be explained in writing for the benefit of all interested parties. Your SWOT analysis should be tailored to your unique situation. Use your imagination to expand on the opportunities listed below!

Tax Firm SWOT Analysis:

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none">•Experienced Associates•Prime Office(s)•Reputation/Image•Income Tax School(continue)	<ul style="list-style-type: none">•Utilize Idle Resources During Off-Season(offices, computers, employees)• Negotiate Joint Marketing Arrangements•Expand Course & Seminar Offerings(continue)
WEAKNESSES	THREATS
<ul style="list-style-type: none">•Extreme Seasonality•Undercapitalized•Dependence on CEO(continue)	<ul style="list-style-type: none">•Tax Reform (e.g.: flat tax)•Technology (enabling self-preparation)•IRS Policies (e.g.: DDI elimination)(continue)

MARKET RESEARCH

Effective planning requires detailed information about your prospective clients, the competition, the industry, and the environment. Without good information, you are “shooting in the dark”. By knowing your market, you will be able to create marketing programs that produce results. You need at least the following information: (1) demographic profiles and statistics on your existing and prospective clients (2) your existing and prospective clients’ needs and wants, (3) identities of your competitors and knowledge of their strengths, weaknesses, and strategies, (4) tax industry state-of-the-art methods and trends, and (5) economic, political, regulatory and technology factors affecting the tax industry.

MARKETING GOALS

Once you’ve completed your SWOT analysis and researched the competition and your target clients, your opportunities should be clear and you can then determine the goals you wish to pursue. Your goals should be stated in measurable terms so you will be able to determine the degree to which they are achieved. For example, to attain a 5% share of all tax returns in your zip code market area, or to improve your prior client repeat factor to 80%. Goals should also be prioritized and categorized as short-term and long-term objectives.

SERVICE (PRODUCT) DEVELOPMENT

Trade Names

If you operate under a trade name (a name other than your own legal name), you should consider the laws regarding trademarks and service marks. Many entrepreneurs have spent a great deal of time and money creating awareness of a trade name only to learn too late that someone else has the prior legal right to use that name. You can hire a service to conduct a search to be sure the name you are considering is not already being used. A trademark service or a trademark and patent attorney can assist with your application to the US Patent and Trademark Office, although it’s not difficult to do it yourself.

Services & Products

As a seasonal business threatened with radical legislative and technological changes, you must begin thinking about diversifying to ensure future survival and prosperity. Fortunately, many opportunities exist to add complimentary services and/or products to your tax practice. However, you must not neglect your core business or fail to recognize and exploit new opportunities in the tax preparation industry resulting from radical changes. And in choosing new opportunities, you should find no shortage of ideas, only a shortage of resources necessary to capitalize on the many opportunities. You will especially want to find opportunities to flatten out the seasonality of your revenue. The key is to identify many potential services and products that would compliment your business and utilize your knowledge excellencies and available resources. Then you must prioritize them in order of feasibility and potential for success.

Delivery Systems and Capacity

Well conceived and fully developed operating systems are essential to deliver competitive products and services. Such systems include policy & procedure manuals, operating software (e.g.: tax preparation, accounting), computer networking systems and management information systems, all employing state-of-the-art technology.

Delivery capability should also be described in detail. Who will manage and administer the business and what are their qualifications and credentials? How many people will be needed to perform the day-to-day operating tasks; what qualifications will be required? And how will these people be recruited? Facilities and equipment (including offices, work stations, work processing and administration areas) must also be described. Finally, equipment (computers, furnishings, fixtures, signs, etc.) should be discussed.

Pricing

Pricing is a very crucial decision which will greatly affect your business success. Ultimately, your prospective client will decide if your price is fair based on his perceived value of your products and services relative to all available options. You should determine which competitors provide services comparable to yours and find out what they charge. Your prices don't have to be cheaper than every competitor, but you must be competitive and deliver greater value. Ideally, you will set your prices at the level that will yield the highest possible gross profit. That is the price at which you will realize the largest amount of money after paying wages and other variable costs. Because demand for your services will go down as your price increases above a certain (unknown) level, a lower price might generate a higher gross profit.

Suppliers of Critical Elements

You should also identify your anticipated supply vendors, software & system licensors, service suppliers, government agencies, etc. who will be needed to support your business.

MARKETING PLAN

Marketing Strategies & Tactics

To develop a good strategic plan it is important for you to clearly distinguish between strategies and tactics. A strategy is a broad method of attaining or helping to achieve a goal. For example, if one of your goals is to attain a 5% share of the tax returns in your local market, a strategy would be an advertising campaign, and tactics would be to use network TV, direct mail, etc. Another strategy would be to expand geographically, and tactics could include opening additional offices, providing your services through alternative distribution channels such as lease departments in retail stores, and providing on-site tax preparation for major employers.

Client Segmentation

View your clients and prospects not as a single group of taxpayers, but as several client segments. At Peoples Income Tax, we look at our clients as four distinct groups: low-income, middle-income, upwardly-mobile and executive-level, each having different needs and concerns. We operate different types of offices and have different levels of pricing and tax-associates to accommodate each type of client. And we use different marketing strategies and tactics for each. Segments can be narrowed further to specific client niches, such as doctors, police officers, clergy, teachers, etc. Many smaller tax firms compete effectively with national firms by meeting the specific needs of one or more client niches.

Positioning

To compete effectively with national giants in a mature industry, you must position your firm as being unique and different. If you try to be a clone, you will either fail or realize mediocre success. You can compete to some extent by having lower prices. That may work for low-income and short-form filers, since price-sensitivity is higher and loyalty is lower at those levels. However, taxpayers with more complex situations are not going to choose you because of price alone. You must differentiate and add value in other ways. At Peoples we provide a more private and professional office atmosphere, more personal service, and, among other benefits, a triple guarantee of accuracy, year-round service and satisfaction. Your plan should describe all of the factors that make your firm different and better than the competition.

Bootstrap Marketing

Most small businesses lack adequate capital and human resources to support a professional "textbook" marketing campaign. This is especially true of the tax business due to extreme seasonality. The only answer is to do more with less by employing creative marketing strategies and tactics. This doesn't mean that you must compromise your image. In fact, you can create the image of a major player on a shoestring budget through innovation and resourcefulness. In the tax preparation industry, both mass-market and targeted advertising can

be used complementarily and effectively. Mass-marketing can be used to create awareness and name recognition among all taxpayers. Targeted advertising can be used to sell to specific market niches.

To be effective, your advertising message must be based on sound marketing principles and must reach your target audience with adequate frequency to “sink in”. The advertising acronym “AIDA” stands for Awareness, Interest, Desire and Action, which are the stages a prospective customer goes through in making a purchase decision. Repetition is essential for advertising to work.

Test Marketing

Experimenting with new advertising and promotional methods is a good idea as long as you can test the water before making a major financial commitment. The only way to find out if something is as good as it seems is to test it on a limited basis. If the advertising generates more than it costs, you should consider buying more of it. If not, either drop it, or try another variation of your test. A failure doesn’t always prove that the medium is faulty, it could mean that your message was flawed.

FINANCIAL PLAN

Financial Management

Capital requirements must be determined and anticipated sources of funds identified. The first step is to define, in detail, the financial assumptions upon which your projected figures for revenue and expenses are based. Based on these assumptions, proforma financial statements (P&Ls and balance sheets) should be prepared for three to five years, and a monthly cash flow budget, including sources and uses of cash, should be prepared for at least one year.

Financial Controls should be defined, which should include the analysis of: (1) variances from budgeted to actual results, (2) financial statement (critical ratios), and (3) financial reviews and audits.

RISK FACTORS AND CONTINGENCIES

Potential causes of revenue shortfall or operating obstacles should be identified. Risk factors might include such things as: negative legislation (e.g.: flat tax), economic recession, competition, technology, and adverse publicity. Contingency plans to counter or reduce damages from each of these potential risk factors should be described.

ACTION PLAN

Short-term Plan

While you are developing your strategic plan, you must still run your business and generate revenue and profits to survive. Therefore, you should simultaneously develop and implement a short-term (6-18 month) action plan. You should prioritize the opportunities identified through your SWOT analysis and decide, given available resources, which goals can realistically be accomplished during the current and subsequent year. However, unless essential for survival, you should not pursue short-term goals that are incompatible with your long-range strategies.

Implementation

The biggest mistake entrepreneurs make in strategic business planning is to fail to implement their plans. If the plan is well conceived, it should be put into action. To insure that this happens, an action plan must be developed. Time frames should be established to implement each element of the strategic business plan. This “activity timetable” and the monthly cash flow budget constitute the implementation tools that must be properly used to insure success. Remember the sage advice of the old adage: “plan your work and work your plan”.

ASSESSMENT & REVIEW

Tracking Systems

Systems should be developed to monitor the success of the plan and determine if modifications are necessary. Such systems include methods of measuring and evaluating results and obtaining feedback from clients and employees. Too often marketing campaigns are blindly repeated year- after-year without any idea as to whether or not they have worked. Don't fall into that trap. Set up a procedure to track the sources of all new clients and to learn the reasons prior clients don't return. Your associates should be provided with incentives to be concerned about the growth of your practice. You should also conduct surveys of your clients and prospective clients to determine whether their needs and wants are being satisfied.

Analysis of Results

Evaluation of financial results might include a break-even analysis of each campaign. A market share analysis (before and after) would serve to document marketing success. Client satisfaction surveys will help in evaluating the quality of products and services. Input from associates, perhaps through an advisory board, could provide valuable insight to help improve quality and efficiency.

CONCLUSION

Developing a strategic business plan is no small task. But it's a project that's well worth your effort. A strategic plan, if it is properly done, can help to ensure your long-term survival and prosperity. As with any major project, planning is not so ominous when broken down into smaller tasks that can be completed one step at a time. The outline that accompanies this article may help facilitate that process for you. And it is the process of developing your plan that will yield the greatest benefits for you. The fastest way to finish something is to start. So what are you waiting for?

While we will face great challenges in years ahead, we will also be presented with extraordinary opportunities. Our industry will be starting fresh with a new rule book that will provide a level playing field for tax practitioners. We will all have access to new opportunities such as forming strategic alliances, niche marketing and doing business on the Internet. To grow and prosper, you must know your market and know your clients. You have access to valuable resources, such as the National Association of Tax Practitioners, to help you make the necessary transition. Management guru, Peter Drucker, said: "To lead you must anticipate the future and see what others cannot." Your strategic business plan can help you to reposition your business to prosper well into the 21st Century.

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