



# Writing a Business Plan

by Nina and Paul Winans

When we started our contracting business about 15 years ago, our concerns were pretty immediate — like how to put food on the table and keep a roof over our heads. With no formal training in business, we were fortunate that the California economy was strong during the first several years we were in business. With so much work available, it was easy to recover from our mistakes.

But in 1991, building slowed down in the San Francisco Bay Area where we live and work. As the pressures of the business increased, we began to ask ourselves, “Why are we doing this? Are there alternatives? What do we want from life?” It was obvious that we were doing a lot of work in our business without a vision of what we wanted to accomplish personally. We realized that writing a business plan was one way to help define and achieve our personal goals.

## Getting Started

We began to gather information about business plans from trade and business publications and seminars. But we knew ourselves well enough to know that we needed outside help to get us started. One problem was finding the time to write the plan, since we both had to deal with the day-to-day tasks of running a business. We finally decided to work with our business consultant, who would act as a facilitator to help us get the plan written.

Beginning in January, we met with our consultant every other week. Our goal was to have the plan together by the start of our fiscal year in April. At our meetings, we assigned responsibility for small, realistic amounts of work to be done by the next meeting. Once we had researched our assignments, we reported on our progress and revised each other's work. Our consultant kept us on track. By dealing regularly with manageable tasks, we were able to complete our business plan right on schedule.

We estimate that over a period of three months, we each spent about 24 hours working on our business plan. This time includes 1½ hours for each meeting, as well as time spent on research, calculating financial projections, and actually writing the plan.

## What to Include

Business plans are as varied as the businesses they are written for. But there are several standard elements that should be included.

**Mission statement.** Describe the purpose of your company in a mission statement. Try to answer questions like “Why am I in business?” and “What do I hope the business will achieve?” Include information about the type of work you do, your target market, and the geographic area you work in. Also describe the way you want to be perceived in the community and what you want for your employees.

And don't forget the obvious — a statement that you are in business to make a profit. We almost overlooked this basic goal until we attended a seminar on business planning and saw it in another company's mission statement.

**Company history.** Write a brief description of how your company began and the changes it has gone through to get to where it is today. Include key people in the history. This is a great exercise for a business owner who doesn't often have a chance to sit down and think about the company's evolution. More to the point, banks and insurance companies will want to know the background of your company when you apply for bonding, a line of credit, or a loan.

Your company history should also include an organization chart. Even if you are a one-person operation or have only one employee, it can be helpful to map out who does what in your business. As the company owner, if you are responsible for sales, production, and

administration, put your name under each of those headings. After you see how many hats you and other people in your company are wearing, you may decide to make some changes.

If you are in a partnership, each partner should draw his own chart, then compare it with the others. You may be surprised at what you learn. We went through two or three versions of our organization chart before we agreed on how responsibility flowed through our company.

**Strategies.** This section should answer the question “What are my goals for the next 12 months and how do I plan to achieve them?” Include your targeted sales volume, your projected overhead, and the net profit you hope to earn. Base these numbers on past history and educated estimates. Also think about planned increases or reductions in staff, employee incentive and benefit programs, and new equipment purchases.

Describe a plan for achieving each goal. How, for example, will you recruit new employees? When will you research benefit options and how soon will they be implemented?

**Marketing plan.** You need sales to achieve your goals. To make sales, you need leads, and that requires marketing your company. Analyze where your leads come from and which leads become sold jobs, then target your marketing in that direction. We found that in our area, for example, advertising in the local papers was costly and seldom brought us a lead. On the other hand, most of our work came from either design professionals or past clients. It was pretty clear — once we had done our market analysis — that we should pull the ads and use the money to keep our name in front of the people who gave us most of our work.

A marketing plan doesn't have to be fancy. The goal is to make your targeted market and the general community aware of your business. A truck sign, job sign, and company T-shirt are all inexpensive but effective marketing tools.

Participating in a community group, such as the school board or recreation committee, is also a marketing tool. You don't have to become a glad-handing salesman, but you do have to make

## Calculating Break-Even

### STEP 1: Determine Gross Profit

\$500,000	Sales Volume
<u>-350,000</u>	Direct Expense
\$150,000	Gross Profit

### STEP 2: Convert Gross Profit to a Percentage

$$\frac{\$150,000 \text{ Gross Profit}}{\$500,000 \text{ Sales Volume}} = 30\% \text{ Gross Profit}$$

### STEP 3: Calculate Break-Even Sales

$$\frac{\$135,000 \text{ Overhead Expense}}{30\% \text{ Gross Profit Percentage}} = \$450,000 \text{ Break-Even Sales}$$

Your "break-even" point is a valuable forecasting tool. It tells you how much work you have to sell to cover your overhead.

yourself known and make a good impression on those with whom you interact. You probably won't get a lead immediately, but your name will eventually be given to a third party based solely on your activity in community organizations.

### Financial Projections

The last section of our business plan deals with financial projections. Here's where a solid paper trail goes to work for you. Use financial statements from recent years to estimate income and expenses for the coming year. The figures that will be most useful are:

- Sales volume (combined selling price of all jobs)
- Direct expenses (cost of materials, labor, and subs)
- Overhead expenses (costs you must pay just to keep your doors open)

With this information, you can calculate your break-even point — the volume you must sell just to meet your overhead expenses — in three simple steps (see "Calculating Break-Even"). First, deduct direct expenses from sales volume. The difference is gross profit. Next, divide that number by sales volume to get gross profit percentage. Finally, to find your break-even point, divide your overhead costs by your gross profit percentage. In a competitive climate, it's extremely helpful to know these numbers because you can cut your markup once you have reached your break-even point in your fiscal year.

It's also important to anticipate extra or unusual expenses or income, or a

change in the general economic climate. For us, the Oakland Hills fire substantially increased sales for our 1993-94 fiscal year. We are mindful, however, that this work is temporary, and we are preparing for sales to return to normal levels.

### Use It or Lose It

Once you have your plan together and have had it neatly typed and put into a binder, what's the the next step? Use it! A business plan is a tool for building your business, just as a table saw is a tool for building a house. Writing a business plan will only be worthwhile if you look at it regularly and revise it when necessary. Once a month, we compare our projections to our actual performance, and we try to revise the business plan itself every six months. We check our financial and marketing activities as well as our progress toward achieving our non-financial goals. We regard our business plan as a living document that is subject to change, just like every other aspect of construction.

All of our activities and concerns change continually. For a long time, this prevented us from thinking about our goals and planning for the future. Since we've made the commitment to focus on these issues, our sense of what we're doing and why we're doing it has been clearer. This sense of purpose has been especially helpful in dealing with the unrelenting pressures of a depressed economy. ■

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