Business

How to Write a Practical Business Plan

by Richard Steven

A business plan is like a map. It can help you find the most direct route to your destination and avoid costly detours and delays. Yet most owners of remodeling companies have never written one. For them, the process seems daunting and the actual benefits uncertain.

I'm going to demystify the process of writing a business plan and show you how to make yours a practical management tool. One of the first steps toward effective management is accurate measurement. A good business plan makes your ideas measurable and helps you manage your business better and achieve your goals.

What Can a Business Plan Do for You?

The practical value of a map depends on where you want to go. Not every business needs a business plan. If you want to maintain your business much as it is now, you need to invest time and energy in improving specific areas rather than in creating an overall map. To put it another way, you don't need a map if you're going to cruise familiar roads in a familiar neighborhood.

A practical plan consists of clear goals and effective tracking systems.

But if you want to make a change in your business and go someplace new, a practical business plan is a vital guide. Your plan will show you the way to reach your goal and help you predict what resources you'll need to get there. It will flag potential roadblocks or hazards and tell you when you need new strategies to avoid delays.

With a practical plan, you will always know where you are, how far you've come toward your goal, and just how far you still have to go.

Ingredients of a Practical Business Plan

A *practical* business plan — as opposed to one that gathers dust — consists of clear goals and effective tracking systems. Understanding these basic elements and how they fit together will enable you to create an effective map that can guide your business from where it is now to where you want it to be.

A practical business plan addresses the following issues:

- Sales goals and a tracking system for contracts signed
- Conversion rates and a tracking system for monitoring inquiries and leads
- Sales time needs and a time-tracking system
- Gross margin and pricing policies
- Company budget and a budget-tracking system
- Productivity goals and a productivity-tracking system

Since a business is a financial enterprise, a business plan is really a financial plan. It starts with sales: How many contracts can you expect to sign and at what gross margin?

Of course, if you sell more than you can produce, your "success" will be short and not very sweet. Adequate production capacity is essential to setting meaningful sales goals, just as a reliable vehicle is essential to a successful road trip.

In other words, the best business plan is useless unless you have the resources to execute it. Indeed, one advantage of going through the process of writing a plan is that doing so gives you advance notice of just what resources you'll need to make the plan work.

Sales Goals

To set sales goals, start by analyzing last year's actual construction contracts. Group them into three to six logical categories, such as kitchens, baths, lower levels, additions, general. Sort the contracts into these categories, listing the number of contracts, the total value signed, and the average contract value per category. Add the categories together to get a company total for contracts signed.

Using this breakdown of last year's actual sales as a reference point, make a parallel list of reasonable goals for next year: number of projects by category, average value per project, total value per category. This sounds simple, but it often takes considerable thought.

Let's say you remodeled four kitchens last year at an average price of $43,209.

- How many do you think you can do/want to do/will do next year?
- How many are in the pipeline now?
- What factors might affect the average value?

These goals become the foundation of your business plan, and the more thoughtfully you visualize and set them, the more powerful your plan will be.

After setting initial sales goals, do a reality check against last year's actual performance.

- Are projected changes reasonable?
- If you completed three kitchens last year, can you really do 40 next year?
- What will make that increase possible?

When the sales goals truly seem reasonable and achievable, tentatively adopt them and move to the next step.

Conversion Rates and Leads Needed

Now you need to analyze conversion rates and determine how many leads you will need to meet your sales goals.

This stage involves a series of questions.

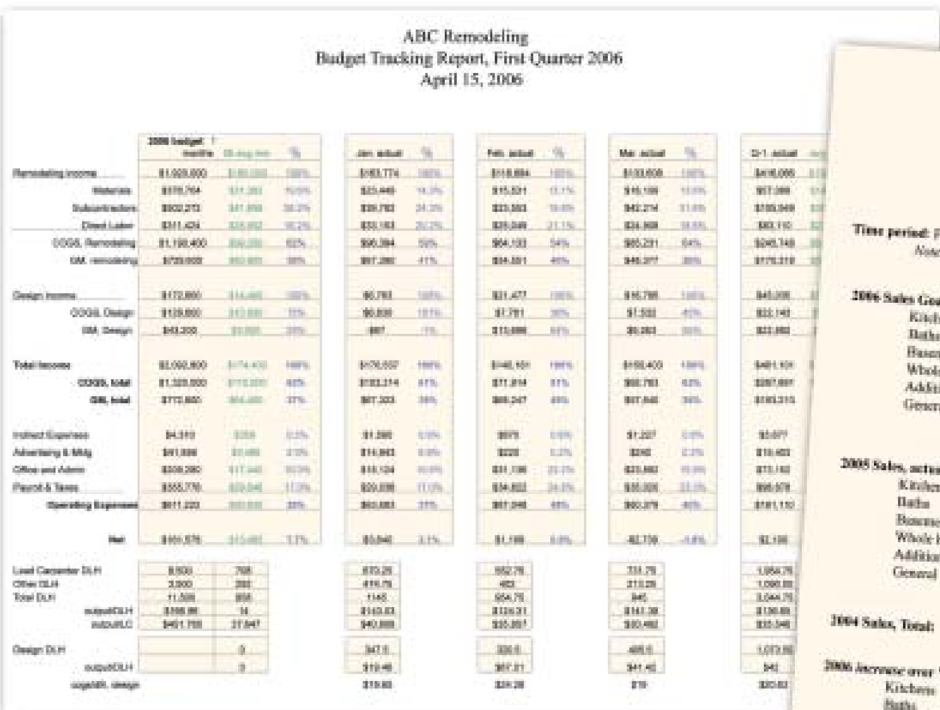
- How many times will the phone need to ring for you to sell the number of contracts you have set as a goal? Again, this question is best answered in relation to last year's actual performance: How many inquiries did you field last year?
- Of those inquiries, how many were target leads? If this data wasn't recorded, make your clear-eyed best guess.
- How many design contracts did you sell?
- How many construction contracts?

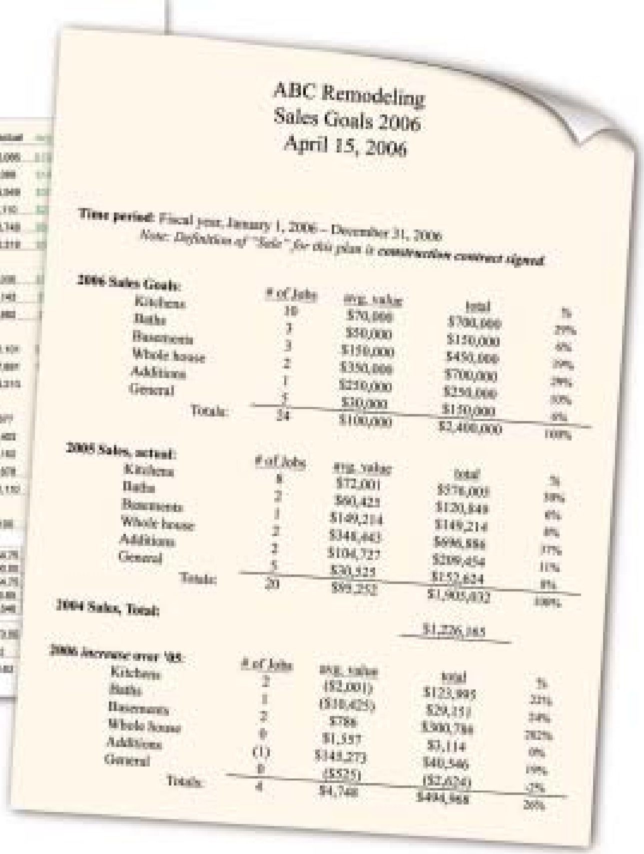
Using those figures, calculate last year's conversion rates.

- How many target leads converted to design contracts?
- How many design contracts converted to construction contracts?
- What percentage of total inquiries were target leads?
- How many total inquiries were needed to yield each construction contract?

Then, based on your analysis of last year, project next year's conversion rates.

- Are the rates themselves likely to change? Why?
- Will your new marketing company produce a higher ratio of target leads to total inquiries?


ABC Remodeling
Budget Tracking Report, First Quarter 2006
April 15, 2006


ABC Remodeling
Sales Goals 2006
April 15, 2006

Time period: Fiscal year, January 1, 2006 – December 31, 2006
Note: Definition of "Sale" for this plan is construction contract signed

2006 Sales Goals:

	# of Jobs	avg. value	total	%
Kitchens	10	$70,000	$700,000	29%
Baths	3	$50,000	$150,000	6%
Basements	3	$150,000	$450,000	19%
Whole house	2	$350,000	$700,000	29%
Additions	1	$250,000	$250,000	10%
General	5	$30,000	$150,000	6%
Totals:	24	$100,000	$2,400,000	100%

2005 Sales, actual:

	# of Jobs	avg. value	total	%
Kitchens	8	$72,001	$576,003	30%
Baths	2	$60,425	$120,849	6%
Basements	1	$149,214	$149,214	8%
Whole house	2	$348,443	$696,886	37%
Additions	2	$104,727	$209,454	11%
General	5	$30,525	$152,624	8%
Totals:	20	$95,252	$1,905,032	100%

2004 Sales, Total: $1,226,165

2006 increase over '05:

	# of Jobs	avg. value	total	%
Kitchens	2	($2,001)	$123,995	22%
Baths	1	($10,425)	$29,151	24%
Basements	2	$786	$300,786	202%
Whole house	0	$1,557	$3,114	0%
Additions	(1)	$145,273	$40,546	19%
General	0	($525)	($2,624)	-2%
Totals:	4	$4,748	$494,968	26%

The act of writing a business plan forces you to look analytically at your company's past performance in order to set reachable goals for the future. And if you don't have tracking systems in place, writing a plan will force you to create them.

- Will improved sales techniques convert a higher number of target clients to construction contracts?

State your assumptions for future reference, then calculate how many leads you need to sell the number of contracts you have set as next year's goal.

- Does it sound possible? Realistic?
- Do the goals need to be changed?

Now you know how many inquiries and leads you need, and you have the basis for planning your marketing activities and budget.

Sales Time Required

How many sales hours it will take to meet projections is a crucial and easily overlooked issue, especially when the company owner wears many hats and handles all the sales.

Begin with this question: How much time was spent on the selling process last year?

Make sure your answer includes the early stages of talking with prospective clients, before a preliminary contract, as well as any salesperson time spent in the "design" process after a preliminary contract. In addition, add all salesperson time spent finalizing specifications or maintaining a good client relationship after the construction contract has been signed.

If you don't have those hours recorded, don't despair. You're not alone. Use your best guess and vow to begin tracking your time so you have accurate figures for next year's plan. In my experience, an owner/salesperson often underestimates time spent in the selling process.

Next, divide the total number of hours spent selling by the number of contracts sold last year to get an average number of sales hours per contract.

You now have a historically accurate (to the extent that your data is accurate) benchmark to use for planning.

For example, if last year you sold 26 contracts in a total of 962 hours, you averaged 37 selling hours per contract. Let's say you plan to sell 33 contracts next year. Assuming you sell as efficiently as last year, you will need 1,221 sales hours, an increase of 259 hours.

So where will the additional hours come from? Will you delegate some of your other activities? Will you hire an estimator or an assistant? Will you sleep less and skip your vacation? Or will you sharpen your sales skills to reduce the average number of hours per contract?

You need to either set a realistic strategy for selling the projected contracts or revise your projections downward to a realistic level.

It's important to articulate your projection of the number of sales hours you will need next year. Such calculations often become the basis for rearranging roles and responsibilities within a company or for deciding to hire additional help. They also provide benchmarks for objectively assessing performance and making investments that increase efficiency.

Gross Margin and Pricing Policies

The sales goals you set will tell you how much money will be available for operating expenses, net profit, and owner income, but you also need to know your company's gross margin (GM).

Once again, actual past performance becomes the basis for future projections. You can learn last year's actual gross margin from your year-end profit-and-loss statement. The gross margin is calculated by subtracting all direct costs — or cost of goods sold (COGS) — from total sales.

It helps to consider this figure both in dollars and as a percentage of sales.

For example, if total remodeling sales amounted to $679,542, and your direct costs were $489,270, your gross margin was $190,272, or 28 percent of sales.

If you expect to sell at the same prices and produce at the same level of efficiency, it is reasonable to use a 28 percent gross margin as your benchmark in setting next year's budget.

To assess whether your targeted gross margin will be adequate, you need to project operating expenses and net profit. Begin by reviewing last year's actual operating expenses and net profit as shown in your year-end profit and loss statement. Examine each line item of operating expense.

- Is it likely to change? Up or down? Why?
- Will you incur new operating expenses next year? By, say, opening a new office or hiring a bookkeeper?

Answer these questions and thoughtfully estimate next year's operating expenses.

Once you've made a reasonable projection of operating expenses, decide on your net profit goal.

Let's assume for simplicity's sake that you decide on a net profit goal of 5 percent.

Given your sales projections, your gross margin goal of 28 percent, and your projected operating expenses, will you be able to achieve a 5 percent net profit? Or does one of the variables need to be changed?

You might realize that you need to increase prices — which is preferable to increasing sales volume at the same margin — or possibly hold the line on your operating expenses.

Remember, there are only two ways to increase your gross margin: by raising your prices or by lowering your direct costs. Unless you are ready and able to do one of these two things, use your actual gross margin percentage from last year to predict your gross margin for next year.

Your gross margin goal informs your pricing policies. Typically, to allow for slippage, your projects should be priced to achieve a gross margin several percentage points higher than your company target.

That means if your company target GM is 28 percent, you should be pricing individual projects at a 31 percent or 32 percent GM.

Company Budget

The most straightforward way to write a company budget is to mimic the format of your P&L statements. The budget is simply a projected statement rather than a historical one. Instead of actual sales, you insert your sales goals.

Using your projected GM percentage, you can calculate both direct costs (COGS) and GM dollars. Subtracting the projected operating expenses from the gross margin will give you the projected net profit figure.

It's helpful to write an annual budget and then break it down into monthly averages. You can then create a spreadsheet comparing each month's actual performance with the budgeted amounts. Information from this budget tracking report is an invaluable management tool that can help you spot potential problems and take corrective steps before they become critical.

Productivity Goals

The final issue you need to address in your business plan concerns field staff: What will be required to produce those sales? To answer this question, you must analyze past productivity and set productivity goals.

Productivity can be objectively measured by dividing the total value of work completed in a specific time period (a month or week, for example) by a relevant unit, such as lead carpenters or direct-labor hours (DLH).

If your P&L sales figure from last year was $679,542 and you employed two lead carpenters, your output per lead carpenter was $339,771. If your total direct-labor hours amounted to 4,432, your output per DLH was $153.33.

Calculate your last year's actual productivity rate. Use that figure as a starting point for setting objective goals for next year. Remember that productivity can be greatly influenced by a variety of factors. Raising your prices will increase output/direct-labor hours (OP/DLH); using a higher percentage of subcontractors will increase OP/DLH; employing better management and scheduling will increase OP/DLH.

There is no "right" productivity figure across the remodeling industry. The correct figure for you will depend on a mix of factors unique to your company.

Calculating your actual historical productivity rate enables you to predict how many direct-labor hours or lead carpenters you will need to produce your projected volume of work next year. It also gives you a benchmark for working to increase your productivity and measuring the results of your efforts.

For illustration purposes, let's say you set a productivity goal of $185 per DLH. If your sales goal is $824,000, you will need a total of 4,454 direct-labor hours. Assuming a full-time field-staff person works 2,000 hours in a year (40 hours a week for 50 weeks), you will need 2.23 people.

Establishing accurate productivity benchmarks has many benefits. These benchmarks help you schedule projects, anticipate needed staffing changes, and identify individual performance that either exceeds or falls short of company expectations.

Bon Voyage

The first time you write a business plan, you'll most likely need to rely on educated guesses for much of your benchmark data. But as you track actual progress in key areas on a monthly basis, you'll build a company database that will allow you to make accurate predictions and better decisions with every planning cycle.

The numbers in your plan have power only if you know what lies behind them and believe in them. Goals plucked from the air cannot pull you forward. Your plan will be an effective map if you visualize the reality behind each goal and thoughtfully accept it.

As with any endeavor, the most difficult business plan to write is the first one. Once you've done it once and have used monthly reports to track progress in key areas, successive plans will become much easier. Instead of facing roadblocks that seem impossibly congested, you will be able to identify and follow the best avenues for your business, creating a practical map that takes you where you want to go.

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Different Folks, Different Strokes

by Melanie Hodgdon

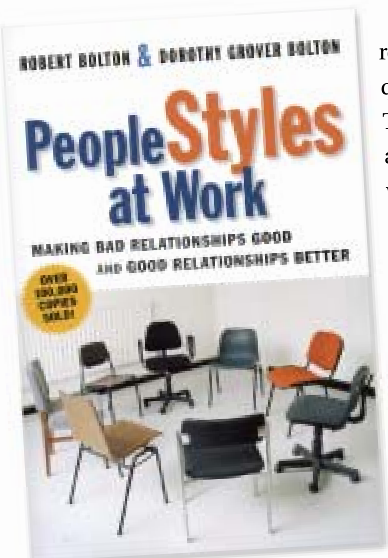
A bookkeeper tells me, "He flies through here and drops some scribbled instructions on my desk, then gets annoyed when what I do isn't what he was looking for. How can I do my job correctly without getting the details I need? Maybe I should find a different job."

A lead man confides, "I go in to talk about a concern I have and he seems to listen, and I feel good about it at the time — but then afterwards I'm not sure that anything concrete really happened."

Personality idiosyncrasies? Unprofessionalism? Lack of consideration? Not necessarily. Often such comments (and the actions that provoke them) are due to differences in personality styles. There are many systems for classifying styles, and they can be divided into two camps: those that sort people according to inner states (Jungian psychology, for example), and those that sort people according to their behaviors.

Personality Types

The behavioral classifications are easier to understand because they're based on what you see people doing. Among this group are several models, but the one I like best is described in *People Styles at Work,* by Robert and Dorothy Grover Bolton.



The book is short and easy to read, and contains a simple 18-question "Behavioral Inventory." The authors identify four personality styles based on a grid in which the X axis describes degree of Assertiveness (to what extent your actions are seen by others as forceful) and the Y axis describes degree of Responsiveness (to what extent you are perceived to show your feelings or to be aware of others' feelings).

Each person falls primarily into one of four boxes: high assertiveness and high responsiveness (Expressives), high assertiveness and low responsiveness (Drivers), low assertiveness and high responsiveness (Amiables), and low assertiveness and low responsiveness (Analyticals).

I am an Expressive: My voice is loud, my gestures are sweeping, I am very people-oriented, I offer opinions easily and confidently. My facial expression is open; strangers on the street tell me their problems.

My Driver husband, Ed, is quiet, structured, logical. He struggles with small talk but speaks easily and authoritatively within his areas of strength. His face is less expressive, but people who know him confide in him readily.

My soft-spoken Amiable aunt goes along with everybody in order to make people feel good, and she would never dream of criticizing folks to their face for fear of hurting their feelings. Her expression is animated, she maintains constant eye contact, she's methodical and detail-oriented, and she's skilled at picking up on others' moods. Everybody tells her about his or her problems.

An Analytical for whom my husband worked lacked social skills to the extent that he was unable to engage in conversation unless it was argumentative. He preferred to work alone on challenging problems, was extremely systematic, and had almost no facial expression. Nobody would ever bother to tell him about his or her problems.

It's not hard to figure out that an Expressive would probably be a more effective motivational speaker than an Analytical, and that an Amiable would probably make a better customer-service representative than a Driver.

It's important to note that although the Boltons identify four types for purposes of discussion, the grid is meant to represent a continuum of traits: Each individual will of course have components and behaviors from each of the four boxes. The labels are for identifying each individual's primary or most often displayed behaviors.

Real-Life Applications

The bookkeeper in the opening paragraph of this story is an Amiable. She's detail-oriented; she wants to do a good job, to have the boss appreciate her work, and to retain her place within the group. But fear of displeasing the boss and frustration with his avoidance of detailed instructions are making her consider leaving.

The lead man is an Analytical. He has carefully noted things that could be improved and enters into conversation with a list of questions, grievances, and suggestions to be covered. He is focused and results-oriented.

The boss in both cases is an Expressive with a relatively low logic component. He is charismatic, flamboyant, and impatient; he wants simple, fast solutions. He frustrates the bookkeeper because he's not highly structured and detail-oriented, and it would never occur to him that somebody else needs those qualities.

He fails to provide the lead man with what he wants, too — a detailed plan for improvement and the discipline and attention required to follow through. He's seeing bigger pictures and instinctively says what needs to be said to win back the lead man's loyalty. This is not a deliberate avoidance technique; he's simply behaving in a way that feels natural to him and that takes care of the situation to his satisfaction. And this is why the lead man feels good during the meeting and only later realizes that, feelings aside, no tangible changes have been made.

A Word to the Wise

When dealing with people whose style occupies a vastly different position on the grid than yours, it's important to keep several principles in mind.

First, be aware of your own style and its accompanying mannerisms and needs. Second, consider the other person's position on the grid and acknowledge that his or her mannerisms and needs may be different than yours. And third, modify your behavior and expectations somewhat to allow the other person's needs to be met. Accept that you may want to speak more slowly and softly to an Amiable than to an Expressive, and that you may want to stick to an agenda and reduce small talk when dealing with an Analytical.

This isn't manipulating or giving in; it's acknowledging that our perceptions of — and expectations for — other people's behavior and needs are based on our own, and that everybody's style is equally valid.

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