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# Business Planning for Contractors

*The Value of Documenting Your History,  
Current Status and Future*

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Date: June 2002

**"If I only had two hours to chop down a tree I'd spend the first hour sharpening the ax."**

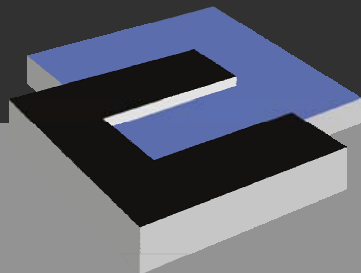
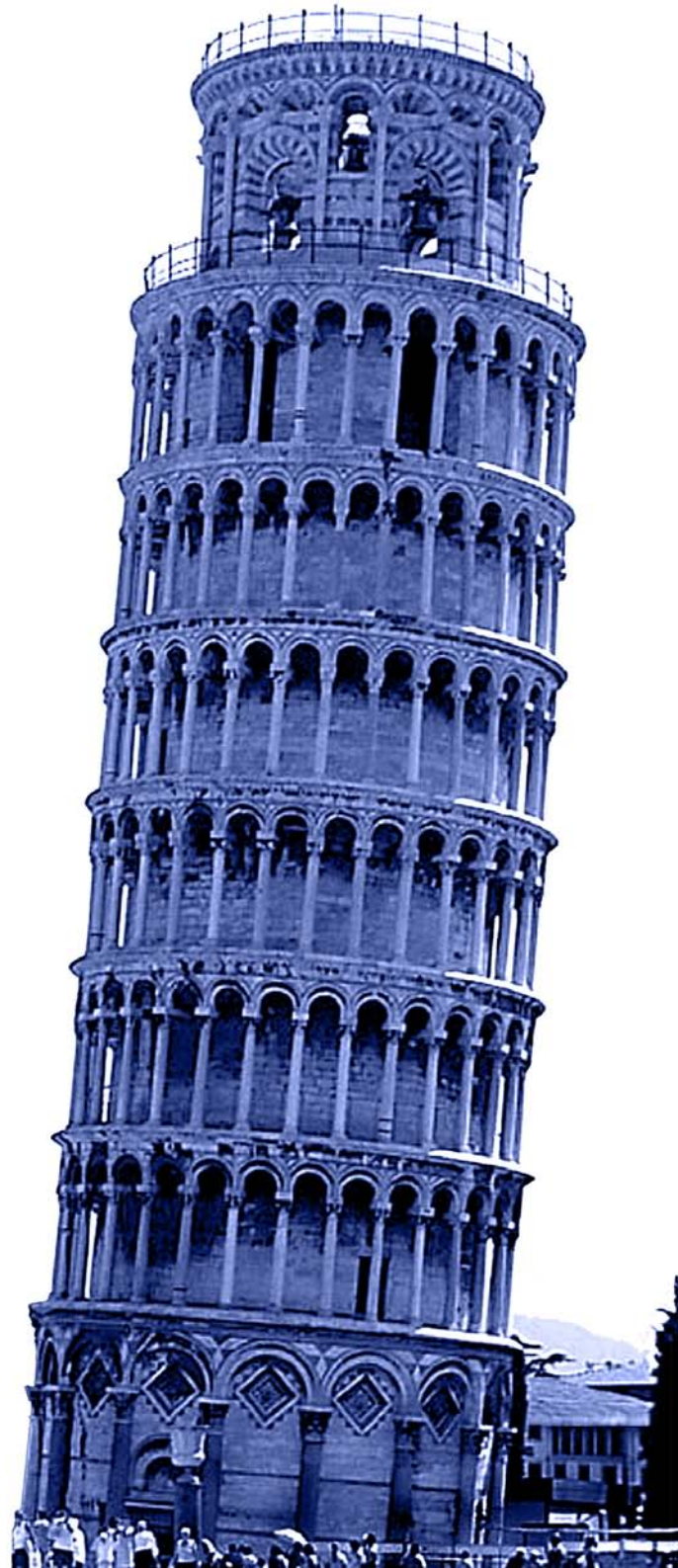
- Abraham Lincoln

As an owner or senior manager business planning is something you do everyday in your head. When you started the business it was with a dream that you could build a solid company. At that time you had a clear strategy and you could communicate it easily to the few other people on your team. Over time your company grows and you become caught up in the daily functions of managing cash, trying to keep your employees busy, getting new customers and generally trying to keep all the many balls of business successfully juggled.

- ▶ **Planning, Communication & Execution**
- ▶ **Ownership Goals**
- ▶ **Defining Culture**
- ▶ **The Market-Driven Approach**
- ▶ **Organizational Structure**
- ▶ **Financial Structure**
- ▶ **Management Information Systems**

# INFRASTRUCTURE

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**A Hands-On Approach**

*By this time the business has become more complex. There are areas such as finance, human resources, contract administration or even new types of work that you are unfamiliar with. You don't have a lot of time to think about a solid business plan that will continue to shape the company in your vision. Even the things you do have time to think about you have a hard time communicating to your whole company.*

*No matter how thin you are stretched, no matter how little time you have, no matter what your financial situation you cannot afford to not plan your business. The process is 33% of the battle. It will help you clarify in your mind exactly how you want your company to progress. The second 33% is in communication. The best plan in the World means nothing if it's not communicated to everyone.*

*The last 33% is execution – which is a lot easier with the proper planning and communication up front. From the planning phase you can produce documents in various levels of summary that can be shared with every person who has a stake in your future including Senior Management, Project Managers, Office Staff, Field Crews, your Bank, Bonding company and even your Customers.*

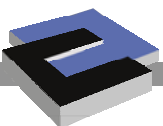
*People come to work focused on some sort of goal and work towards that goal. They want to help move the company forward. They often just don't know exactly which direction to go. A well-thought out and clearly documented business plan provides the guiding light to shape your company's future.*

## Ownership Goals

If you own the business, are a partner or aspire to own the business then you need to think through your personal goals for the business. While there are many other stakeholders in the business it is primarily an extension of you. Your goal needs to be focused on aligning your personal goals with those of the business. Most likely you started the company because your personal goals were not aligned with those of another business.

Are you 100% happy with the current alignment of your personal goals and the status of your business? Look into the mirror hard. Talk to your family. Talk to your friends. Talk to your managers. Talk to your employees. Ask these questions over and over until you are satisfied with the answers.

- What excites you the most about the business? The technical side? The customers? The money? The freedom? Something else?
- What are your size goals for the business? Why?



- What is your timeline for the business achieving these goals? Do you want aggressive growth? What about maintaining the company and slight growth? Perhaps the company is too large – do you want to scale back in some areas? When do you want these changes to occur?
- What management style do you prefer? Hands-on? Hands-off? Tight control? Loose control?
- How you see succession planning taking place? Even if this is 15+ years down the road you need to think about it today. This is one of the trickiest parts of ownership and most companies don't get it right because by the time the owner decides he or she wants out there isn't enough time to develop the systems and people required for proper succession. Do you have family that would take it over? Key employees? Would you sell to investors or a larger company?

These are tough questions but they need to be answered before any meaningful planning can take place. If these questions are not thoroughly answered then either your actions will differ from the goals documented in the plan or you will be unhappy with the results. Either way the process will be a failure.

If you are not an owner but are pushing to develop a business plan for your company these same rules apply. You must fully understand what the owner wants from the organization and then start working on the plan to get there. The final plan will most likely be a compromise on some items but it's absolutely crucial to align the company with the owner.

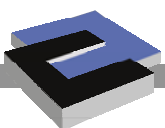
## Defining Culture

After defining the ownership goals for the business the next crucial element is taking a serious look at what kind of culture you want to exist inside the organization. While this may seem like a very "soft" issue it's very critical to many aspects of your future. Having a strong and clearly defined culture will determine what kind of people you recruit. It will determine what kind of impression you leave on customers. It will determine your place in the community.

Defining what kind of culture you want starts with you. Most likely you started this company because you wanted a certain culture – or at least a change from the culture you were at. Sketch out a few key points. Do you want your team driven and in the office on Saturday mornings? Do you want them more family focused and offer flex schedules to parents with children? Do you actively push community service as part of doing business? Are you focused on innovation and trying out new ideas constantly or are you more focused on doing the basics absolutely perfect and building value that way?

After you think through these questions yourself for a few days or weeks it's important to start talking to the rest of the stakeholders in your business. Start with your office staff and management team. You could do a quick survey with some basic questions sent out to all your employees. You could modify the survey to send to your customers. What do they like about you? What would they change? What would they add?

Have a roundtable discussion with all these people in small groups. This is such a vague area that you will have to take all the input and put together an easily understandable description of your culture as it stands today and where you want it to be.



Don't skip this part. Most people think a business plan is a bunch of hard facts and numbers. It's true. A lot of plans are focused 100% on numbers, projections, histories, ratios, etc. These plans are ineffective and will only work in the short-term. To guarantee the long-term success of your business you need to be clear what your goals are, have a strong team surrounding you with a culture that makes everyone want to stick together and work towards common goals.

Without this foundation there is no amount of number crunching in the World that will make your company grow and prosper. The good news is that your company is probably 75% there in terms of these first two elements.

Next we will get into what really defines the business – your customers. It has been said that “The purpose of a business is to make a profit.” Don't be too quick to agree with that statement.

“The purpose of a business is to make products or provide services that add value to their customers.” IF the business can do this AND the cost of providing these services is less than the market value of the services THEN the business will make a profit. With that in mind you should approach the rest of the plan in two main categories – Markets, Customers & Services and then Cost-Control, Budgets, Efficiency & Feedback. Profit and growth come as a byproduct.

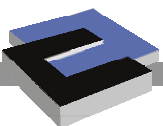
## The Market-Driven Approach

If the purpose of a business is to provide a service that adds value for a customer then the starting point for defining your current business and shaping your future should be with the customers. This isn't about planning for a start-up company so obviously you already have one or more services that you provide that add value to your customers.

Can you clearly define specific groups of customers (Market Areas) that you provide a service to? These may be separated by Service Types, Size, Geographic Area or other defining characteristic. How many Market Areas do you currently provide services for? Can you clearly see ALL the costs associated with providing services to each Market Area? How does the profile for growth, risk, profit and stability look for each Market Area? Are there any Market Areas you would like to get into that you are not currently competing in?

This is time to brainstorm. Classify all Services you provide by a defined Market Area. Add to the list with Market Areas that you see opportunities in. Make notes as to your competitors in the area, current customers, your potential customers, employee skills in each market, etc. This is a SWOT (Strengths, Weaknesses, Opportunities & Threats) analysis of your company by Market Area.

Now that you have a list of Market Areas and a lot of notes to go with them you should group areas together that share common traits such as Employee Skills, Project Size, Geographic Area, Special Equipment, etc. By the time you are done you should have a chart for your company defining it's Market Groups & Market Areas that looks similar to the chart on the following page. Remember that this is just an example for the structure. There is no specific rule of three – it was just convenient for the diagram. If you are more specialized you may only have one Market Group and a few Market Areas. If you are very diverse you may have almost as many Market Groups as Market Areas. It all depends on the specifics of your company.

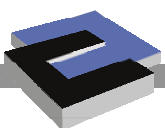
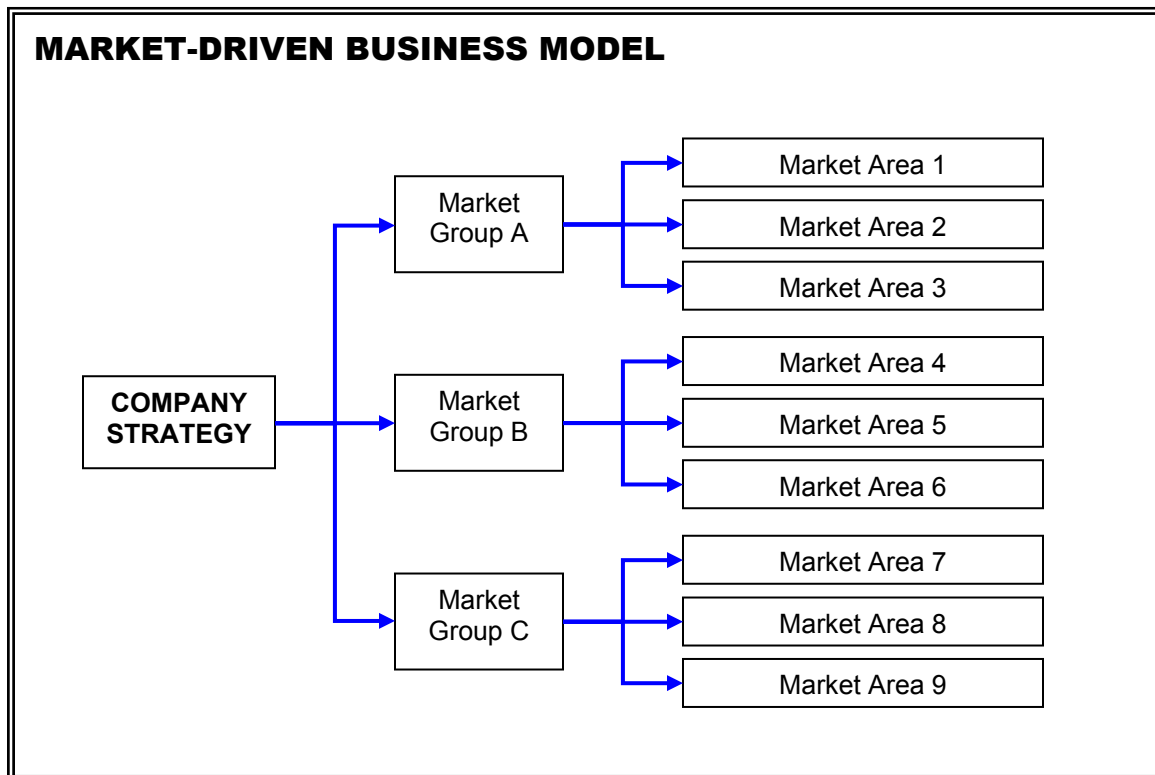


Clearly defining your Market Groups and Areas for your current business and for where you want to be is important because your Organizational Structure and Financial Structure will need to follow this format for your plan to be successfully implemented.

## Organizational Structure

Organizing your business around your customers by Market Area and Market Group means that you should take a similar approach to your internal talent. Organize them around each Market Area. Put them together on teams to work out synergies for Market Groups. When it comes to getting anything done it all boils down to talented people focused on providing a service that adds value for a customer at a cost lower than the market value for that service.

Like defining your Market Areas and Groups this is not as perfect as a few boxes on a page as show below. Your company probably has one person filling several of the positions and you probably fill many yourself.



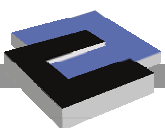
The first step is dividing up your organization between those people that serve internal customers versus those that help provide the services to your external customers. Your internal functions include Finance, Human Resource, Information Technology, Equipment, Purchasing, Contract Administration, etc. Most likely several of these functions are filled by one person and that person may also have responsibilities to external customers. You may have external consultants or other professional services filling some of these areas. This is all OK. Try to define these roles as closely as you can. After that it's time to take a closer look at the people on your team that serve your external customers. Start organizing them around your market areas.

Your organizational structure should start to take a similar shape to the one on the following page. Look at your chart for Markets and your notes. Start filling in names of the current people on your team that are serving these Market Areas or Market Groups. Classify as many of your team as possible into Areas and Groups even if the same names keep popping up over and over again.

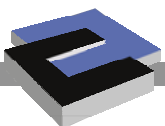
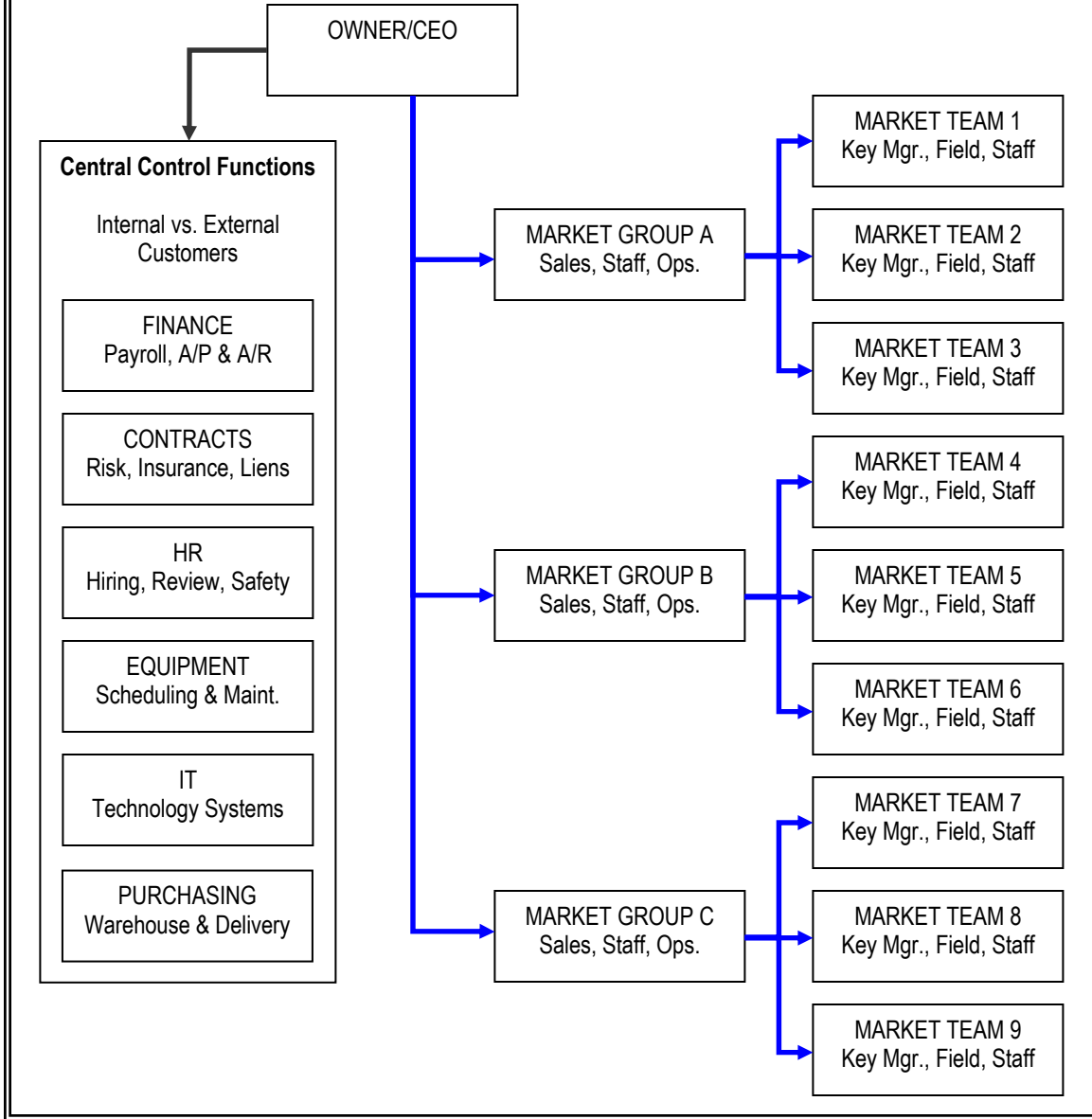
There may be Market Areas that you are struggling with and need a solid manager in place for. There may also be areas that you are not currently in and don't have a significant amount of existing skills in. You will need to recruit more talent to fill these areas as well. Make notes on these areas as you are designing your organizational structure.

The main purpose of this part of the plan is to clearly lay out responsibilities your team focused on your customers. By defining all your current and future markets and defining an organizational structure to serve these markets you can clearly lay-out career development plans for your existing team members and develop a solid recruiting plan for filling in key positions.

Having the structure defined in your business plan will help a growing company develop internal talent faster and keep them motivated while also allowing for the recruitment of top talent to keep the business growing. The table on the following page shows how one talented team member today can develop into a Market Group leader over the next three years.



# MARKET-DRIVEN ORGANIZATIONAL STRUCTURE



## DEVELOPMENT OF A TEAM

TODAY		3 YEARS FROM NOW	
<i>TALENTED PERSON "Wearing Many Hats"</i>		<i>MARKET GROUP &amp; AREA TEAM EMERGING</i>	
<b>BUSINESS DEVELOPMENT</b>	<b>ESTIMATING</b>	<b>BUSINESS DEVELOPMENT</b>	<b>ESTIMATING</b>
JOHN D. <i>(Strongest Skills)</i>	JOHN D.	JOHN D. <i>(Market Group Leader)</i>	JOE <i>(Market Group)</i>
<b>PROJECT MANAGEMENT</b>	<b>FIELD OPERATIONS</b>	<b>PROJECT MANAGEMENT</b>	<b>FIELD OPERATIONS</b>
JOHN D.	JOHN D.	MARY <i>(Market Area 1)</i>	DAVID <i>(Market Group)</i>

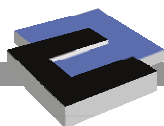
Today you may have a very talented manager named John. His strongest skill is that he brings in new customers on a regular basis and can basically smell money. Right now he is managing a several field crews and doing all the estimating, project management and operational support for them. During the planning process you clearly defined two separate Market Areas that John's team currently serves. Both are small but have potential. There is another Market that you want to compete in that would utilize a lot of the same skills that John's team already possesses.

By clearly laying this out in your business plan and working towards this goal John's group begins to grow. Instead of having the usual problems of when to hire someone, what they will do and how they will interact with the team you already have laid-out exactly what positions John will need in the future. Today he fills all the positions. As his team grows it becomes easy to promote some internal people into support positions. Everyone in the company had known since the business plan was put together exactly what career opportunities would open up so the most ambitious team members strove to fill the positions.

To make your company truly effective your Market strategy, Organizational structure and Financial structure must be mirror images of each other. Without making these mirror images of each other it's hard to set goals for your team and measure performance. Next we will take a look at making your Financial Structure match your Market and Organizational Structure.

### Financial Structure

Like the organizational structure the financial structure of the company should follow the market based structure as closely as possible. Most accountants are focused only on the GAAP (Generally Accepted



Accounting Principles) and their guidelines. Their focus is getting out a consolidated Work-In-Progress (WIP), Income Statement (P&L), Balance Sheet and possibly a Cash Flow statement. The bottom line is determining the total tax liability for the company. If required for the bank they may turn out specific ratios. These reports are usually produced 30+ days after the close of a monthly period and provide little information to actually run the company. The GL (General Ledger) accounts have usually been simplified down to provide just the most basic analysis and make accounting easier.

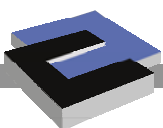
Most likely you have a financial management system that can provide you with Job Cost reports and some other basic financial reports that help you manage your company day-to-day but does it really give you the information on exactly who well each of your resources are being used? Does it tell you how well your managers are performing? Do you know who your most profitable customers are? How rapidly do you get even basic information about your company? Is it too old by the time you get it? Do you fully understand it? Do you have a system for getting various levels of information out to the managers and team members who can make a difference?

You probably answered yes to a few of these questions and no to most of them. As a company grows it has to continually upgrade it's accounting system to keep pace. The accounting system involves people, processes and software. All three of these will need to continually change as your company grows.

Each situation is unique but most accounting systems can be easily modified to substantially follow your Market and Organizational structure. The idea is to feed the proper information into the system as soon as possible and organize it around your Markets and Organization. The exact details of making the modifications to your GL Account structure and overall accounting system are too long and unique to each company to tackle in here but the basic idea is to build a system that looks like the chart on the next page.

Track your Revenue and job performance by Market Area. Track all costs directly associated to each Market Area's overhead expenses. Look at the profitability of each Market Area individually. Track how much overhead is required for general management or other support for a Market Group. Measure the profitability of each Market Group individually. Look at your central control overhead costs for Finance, HR, IT, Equipment, etc.

When you started your business you probably saw and controlled every cost. As your company grew these basic buckets got larger and larger and people stopped watching as closely. This gives you a method to keep pulling the buckets apart and assigning responsibilities to specific team members for keeping the costs low. In general it will help you make solid decisions about your team and your customers.



## MARKET-DRIVEN FINANCIAL STRUCTURE

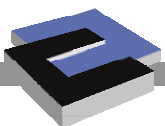
BASIC GAAP FINANCIAL STRUCTURE	MARKET-DRIVEN FINANCIAL STRUCTURE
REVENUE	MARKET AREA REVENUE
JOB COSTS	DIRECT JOB COSTS
<b>PROJECT GROSS PROFIT (LOSS)</b>	<b>PROJECT GROSS PROFIT (LOSS)</b>
OVERHEADS	DIRECT MARKET OVERHEADS
<b>NET PROFIT (LOSS)</b>	<b>MARKET AREA PROFIT (LOSS)</b>
	MARKET GROUP OVERHEADS
	<b>MARKET GROUP PROFIT (LOSS)</b>
	GENERAL OVERHEADS
	<b>COMPANY NET PROFIT (LOSS)</b>

REVENUE – SALES & BACKLOG TARGETS	Standard model – 1 consolidated point for measurement and setting goals. With Market-Driven approach you can set goals and measure performance for each individual market area. Add market areas as company expands and diversifies.
OVERHEADS – BUDGETING POINTS	Market-Driven approach adds many more points of control and also adds more managers to control these budgets. Tie these costs directly to a market area or group to measure your return on investment (ROI)
<b>PROFIT (LOSS) MEASUREMENT</b>	With Market-Driven model you can see exactly how each market area and group really contributes to your bottom-line. Goals can be set, decisions made and management effectiveness to be measured and rewarded.

### Critical Numbers

Your accounting system will be able to spit out thousands and thousands of numbers about your company. Forget that level of detail for your Business Plan and for managing your company. Every business boils down to a few basic numbers that determine its health. What are yours? Cash? Backlog? Gross Margin? Overhead Budget Variance? Sales Calls Per Day? Debt-to-Equity? Under Billings?

If your background is not in finance then you will probably get overwhelmed by all the detailed reports that come out of your accounting system and that's not effective for managing your business. You should



take a close look at about 10 critical numbers that will determine the health of each Market Area, Group and of the whole Company.

Knowing what these numbers are, what drives them and where you want them to be should be clearly laid-out in your Business Plan. Lay out each number for each market area and make a list of the activities that drive the numbers. Now make a list of the people in your organization that perform these activities. Now it's time to train everyone on what the numbers are, how they affect them and where you need them to be.

## Management Information Systems

By now you should have a clear picture of what you personally want, what customers you want to serve, how your organization will be structured, what your financial system will look like and what critical numbers you will monitor along with what activities drive these numbers and who performs these activities.

Now it's time to execute. Execution involves information flow. Just producing a written Business Plan is an excellent start. If you edit versions to go out to all your employees, bankers and bonding company then they will all be on the same page. The plan lays out your current status and your goals. You have modified your accounting system to give you financial output based on your plan.

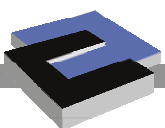
Starting your company or publishing a Business Plan is like launching a ship for a sailing trip across the ocean. Just building the ship and launching it is a monumental task in itself. Sailing the ship efficiently across a turbulent ocean is just as monumental of a task. The course may be charted but staying on course requires constant feedback as to your current position versus where you want to be and a whole series of corrections. The turbulence of the sea starts moving the ship off-course as soon as the course is set by the captain. Your business is no different.

When the captain only had the stars to guide him by the ship could become almost a full day off-course before he would be able to get feedback and take corrective actions. These journey's took a very long time.

Now the captain gets much more rapid feedback as to his current position and therefore can make many more but smaller adjustments to the course. How often do you get feedback about your business? How often do you give feedback to your team? How often do you adjust course?

The more rapid and accurate the feedback you can get about your business the sooner you can make the small adjustments to keep your plan on course. Basically your Management Information System provides this feedback to your organization and allows you the forum to execute the small changes necessary to stay on course. It consists of a series of reports and meetings at specific times with specific members of your team.

Your Management Information Systems should be streamlined enough to be quick and easily understandable. It should add clarity to your organization, not complexity. These systems should be laid out clearly in your Business Plan so that everyone knows both what is expected of them and how they will get feedback.



## Desktop Displays

Remember the captain of the ship making adjustments to keep the ship on course? How often does your team get updated information? At best you can expect to get financial reports monthly within a few days of the close of the month. Pushing for much more information than this would be too demanding on the accounting staff and produce limited return on investment (ROI). How do you efficiently provide the feedback to make the minor adjustments every day and every week to keep the ship on course?

**DESKTOP DISPLAYS – CRITICAL INFORMATION DAILY**

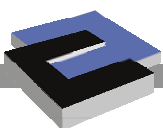
ABC Construction		PLAN YEAR: 2005	
Market: School Mods		Manager: Jim Smith	
WORK-IN-PROGRESS	ACTIVE	INACTIVE	TOTAL
REVENUE	425,236	726,502	1,151,738
JOB COSTS	352,946	573,937	926,882
GROSS MARGIN	72,290	152,565	224,856
OVERHEADS ACCRUED	FIXED	DIRECT	TOTAL
	90,411	72,665	163,076
ANNUAL NET P&L			61,780
ANNUAL PROGRESS	% COMP	GOAL	TARGET RATIO
	45.2%	67,808	0.9
BILLING STATUS	OVER	UNDER	TOTAL
	28,650	34,962	(6,312)
RECEIVABLES	RETENTION	CURRENT	PAST DUE
	42,524	72,598	53,238
PAYABLES	RETENTION	SUBS	PROJECT E, M, O
	8,505	32,650	47,626
BACKLOG			860,517
INVENTORY			NO INVENTORY
CASH			(24,111)
LAST UPDATED			6/15/2005

Navigation: << >> CORP SAFETY MKT1 MKT2 MKT3

Taskbar: Start | Desktop Display | Desktop Display.vsd - Mi... | Adobe Photoshop Elements | 10:59 AM

Depending on your financial software package you can probably feed real-time critical numbers directly to the desktops of your key management. The display above was designed to tie directly into ForeFront accounting software by Dexter+Chaney with a relatively simple IT Structure.

The display is updated every few hours automatically and displays the basic financial information for each Market Area. It shows the status of Projects for that Market Area, Overheads, Over & Under Billings, Accounts Receivable, Accounts Payable, Inventory Levels and a basic calculation of Cash



Utilization. There are many ways to customize these displays to help advance your goals on a regular basis.

The key advantage to the Desktop Display is that it allows your team to watch the numbers change in real-time and see the relationships between them. When the PM submits a billing the Over/Under Billing changes along with the A/R status but the Cash Utilization does not change. When they collect money from a customer the A/R status changes and so does the Cash Utilization but the Over/Under Billings and Profit don't move. Over time combined with your Management Information Systems this will develop stronger business acumen in yourself and your team. This is especially true if you tie compensation to some of the critical numbers on the Display.

Not all companies have systems that are currently ready for this rapid form of feedback. Put it in your plan as a goal. Your Business Plan is about the future and how to get there, not about what parts cannot be executed today. No matter where you are at today you must constantly push for more rapid feedback mechanisms to help you attain your goals.

## Summary

Business planning is not something that software package can do for you. It's not something that exists in detailed spreadsheets. In this paper we outlined the basics of building a solid foundation for future growth. Most likely it will take your business three years just to lay out the solid foundation as described above and have it working smoothly. It's after the foundation is laid that things get to be fun. This is when you are really on track to achieving your goals.

There are also other elements to your business plan that need to be addressed. You will need to include strategies and goals for each of your internal departments – Finance, IT, HR, Equipment, etc. Beyond that you will still need to do some historical financial analysis and future financial projections.

We have not gone explored these areas in this paper because they are not the most important parts of the Business Plan. If you lay out the general goals for the organization the rest of your departments will fall into line. Your past financial results have already occurred. You are putting into place an excellent system to understand your current financial results and your future results are probably almost impossible to predict at this time. Over time as your team develops their business acumen they will be able to help you deliver predictable performance and then accurate financial projections will be a reality for your company.

Starting a business took a lot of effort. Keeping it running takes a lot of energy by itself. Shaping it into exactly what you want is almost impossible. Business Planning is not a one-time event. It's an ongoing process that has to be woven into the fabric of your company. Use this paper as an outline to help guide the process. For more information look online at [www.dbrownmanagement.com](http://www.dbrownmanagement.com) or e-mail me at [david@dbrownmanagement.com](mailto:david@dbrownmanagement.com).

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