
Chapter 1

Life and Business Planning

*"Every strong entrepreneurial personality has an extraordinary need for control. Living as he does in the visionary world of the future, he needs control of people and events in the present so that he can concentrate on his dreams."
Michael Gerber*

Personal life and business life normally become intertwined for the small business owner. This is especially true for the construction contractor. The construction contractor's office and home are often the same place. Most nights, the contractor leaves the dinner table only to make business phone calls to prepare for tomorrow's work.

Although this course focuses on the financial concerns of a construction business, a brief "discussion" regarding life and business planning is appropriate. Financial planning is the fundamental tool that enables the small business owner to attain both business and personal goals. One's business and personal goals provide the motivation for developing financial strategies.

Life plans and business plans work best when they are built on sound financial footings.

Your Life Plan

Simply put, your life plan is a written scheme of how to achieve your short-term and long-term goals.

The first step in developing a life plan is to define your goals. If you can clearly define your goals, you can express them in a simple sentence or two. For example:

- To purchase beach-front property by the year 2001
- To send your children to college
- To save \$500,000 in a tax-deferred account by retirement age

Factors to Consider When Developing a Life Plan

The second step in developing a life plan is to select a strategy or approach. You may achieve your goals using an aggressive, conservative, or speculative approach.

Aggressive means you set aside money into a plan that strives for growth to attain a certain amount of money by a date in the future, usually over 5 years or more.

Conservative means you invest money into a plan that protects principal while gaining growth. This plan is best for a short term.

Speculative means you have more time to achieve your goal or you are willing to take more risk in order to obtain as much gain as possible.

However, there are several factors you should consider before deciding on a strategy. These factors include your:

- **Age and family status.** A family person cannot afford to take the same risks as an unmarried and childless person.
- **Future goals and responsibilities.** Take into consideration the funds you need to support various goals, for example your business, home, college fund for children, etc.
- **Emergency funds.** Set aside cash reserves for illness, accidents, and natural calamities aside from any insurance coverage you have. Use these rainy day funds for their intended purpose only.
- **Current and anticipated income, savings, and wealth.** In this calculation, include your:
 - ◆ Business's stability in the marketplace
 - ◆ Spouse's income and job stability, if this is the case
 - ◆ Vested interest in company pension or profit-sharing plans, including IRA or SEP-IRA accounts
- **Insurance coverage.** It is wise to invest in substantial life, health, and disability insurance policies if you have dependent children. The amount of insurance you need depends upon your:
 - ◆ Assets
 - ◆ Assured income (IRA, SEP-IRA, savings)
 - ◆ Probable needs
- **Tax position.** If you pay income taxes at a rate of 35 percent or more, check into tax-deferred investments. A personal pension plan is your best bet, but if you have extra savings, look at other tax shelters. Be careful. Consult and retain a knowledgeable tax advisor.

If you are not in the latest style, the chances are you are not deep in debt.

Work done with little effort is likely to yield little results.

- *Retirement.* Design your financial plan to achieve your goals by retirement age. Retirement planning is often overlooked by small business owners, yet these independent business people most need to focus on their retirement plans.
- *Time.* A life plan is effective for planning, controlling and evaluating your financial transactions. However, you need to support it with sound management practices.

If you intend to achieve your goals, you have to keep evaluating your plans, and make necessary adjustments in view of current circumstances. Check the Resources section for items to assist you in developing life plans.



Tip

Develop a plan that is flexible enough to allow you to shift funds if your goals or resources change.

The Business Plan

As a business owner, you need to develop a business plan. There are initial steps that are helpful in developing an outline of your business plan:

- Identify your goals
- Develop a mission statement
- Select a strategy style:
 - ◆ Aggressive
 - ◆ Conservative
 - ◆ Speculative

Volume 10 in the Advantage Contractor Business Success Series, Business Planning for Construction Contractors, will help you set up a complete business plan.

Identify Your Goals

As with the life plan, the first step in developing a business plan is to identify and define your goals clearly and write them in a simple sentence or two. For example:

- To start my own cabinet-making business within the next two years

- To buy out my partner at the end of the year
- To become the expert in the county on energy-saving devices or certain types of home construction

If you doubt the advisability of doing a thing, give yourself the benefit of the doubt and do not do it.

Select a Strategy Style

As with your life plan, you need to select a business strategy that is either aggressive, conservative or speculative. However, there is one important stipulation, the strategy you select for your business plan should compliment your life plan.

For example, if your business venture is speculative, it would not be wise to put your life savings into speculative investments. Perhaps a conservative strategy in life planning would better support the high risks associated with "spec" business ventures.

Mission Statement

One of the quickest ways to focus on your business goals is to develop a mission statement. By summarizing your business identity and desired goals, you can prepare a short description of what you do in the business and why you do it.

The Academy's Mission Statement

We offer the Academy's mission statement as an example of this type of statement and hope you find it useful.

"Using the techniques of self-publishing and direct marketing, the mission of the Academy is to provide our construction contractor customers with the educational materials to help them start and maintain profitable, successful contracting businesses."

Limit your mission statement to 35 words if possible. Using fewer words will help you to focus on your intent.

People sink millions of dollars into unsound financial schemes, one of which is the attempt to keep up with the neighbors.

Rules for Successful Planning

The rules for successful planning in the construction contracting business are the same as those in any business. You have to:

- Gather information.
- Use logical assumptions and projections to develop a written plan.
- Act decisively when implementing the plan.
- Develop methods for "tracking" business activity.

- Evaluate the progress or lack of progress.
- Revise the plan as necessary.
- Repeat the process.

Gather Information

A friendly warning to all construction contractors: Keep your business finances in order or risk a hard failure.

The construction industry has always been complex. Today, numerous changes contribute to this spiralling complexity:

- *Regulations.* Federal, state, and local regulations affecting construction contracting continue to change and increase. There are volumes of rules, statutes, and guidelines that various government agencies require contractors to follow, whether they are excavating a project site or paying taxes.
- *Sophisticated owners.* Home and property owners have become more educated about the design and construction options available to them. They demand state-of-the-art products, quality work, and excellent service from contractors.
- *Cost of land, labor, and materials.* The primary resources of the building industry (land, labor, and materials) are becoming more precious. The relative scarcity of these resources has led to large increases in development and construction costs. For any given construction project, there is much at stake regarding financial risks.
- *Funding.* Banks and other lending institutions are becoming more selective in approving construction loans or extensions of credit. Lenders require proof of good financial condition and management skills.
- *Competition.* Your competitors in the industry are also becoming more sophisticated. They are taking classes, developing marketing strategies, and implementing total quality control procedures to provide services as efficiently as possible.
- *More than a builder.* As a contractor you have to develop and use your skills as a:
 - ◆ Salesperson
 - ◆ Accountant
 - ◆ Collection agent
 - ◆ Labor negotiator
 - ◆ Project planner
 - ◆ Laborer
 - ◆ Estimator
 - ◆ Business manager

Make Logical Assumptions and Projections

You develop a written business plan using logical assumptions and projections based on the credible information you have gathered.

Enthusiasm is apt to breed more action than accuracy.

Developing a Written Business Plan

The success of any business plan is greatly enhanced by taking the time and effort to write down your thoughts. Use your initial outline of desired goals and your mission statement and begin to expand your ideas.

To help organize this process, it is beneficial to develop mini-plans within your overall business plan. The typical business plan will include the following mini-plans:

- Marketing plan
- Production plan
- Control plan (accounting and record keeping)
- Financial plan

These mini-plans correspond with the basic components of all businesses. Large corporations have distinct departments in charge of each of these areas. Typically, each department has a vice-president in charge of each operation. The chief executive officer (ceo) coordinates the activities among these departments.

None of these mini-plans can exist independent of the others. However, by breaking down the business and the business plan into distinct categories, running a small business becomes more manageable. Small business owners cannot afford to have vice-presidents in charge of marketing, production, control, and financial planning. These areas are not as distinct in a small business.

Focusing

Develop your business plan by first focusing on your market role. By narrowly defining your market, and the role of your business in the market, you can concentrate your efforts (ads, promotions, public relations) in areas where you will receive the greatest benefit.

"Businesses in this country simply do not work. That's not because people who own and operate businesses don't work. They do. The problem is that they're doing the wrong work."
Michael Gerber
The E Myth



Tip

By selecting a market niche (a small, specialty area within a larger market) you have a better chance to establish a new or fledgling business.

Marketing Plan

To develop marketing goals, you first have to describe your business, and your purpose for doing business, as clearly and succinctly as possible. One way to do this is to pose various questions about your business. The answers to these questions then define your business market goals. Some of the questions you should ask include:

- What area of the construction market should my business focus on, what is my "niche," or specialty?
- Why does the customer need my product or service?
- Could my business identity use polishing?
- What separates me from the competition (quality service, for example)?
- Who are my customers?
- Do I have or need sales savvy?
- How will I reach my target customer (for example, newspaper, radio, or television ad, direct mail, or word-of-mouth)?

Many contractors fail because of their optimism. They think they will be successful right off and make a lot of money. They fail to plan for an alternative to their optimism.

These are just a few general questions you might pose about a business. Develop your own list of questions that reflect your specific circumstances.

Act Decisively

Now that you have a clearer picture of what you intend to do in your business and why, you are ready to develop your production plan.

Production Plan

Because a production plan is trade specific, we will only list the general components of a production plan in this course.

A production plan:

- Describes how the project is going to be built
- Considers all the labor and materials required to produce the project
- Explains the scheduling system used to provide the service or product. (See the *Advantage Contractor Business Success Series* course, *Project Scheduling for Construction Contractors*.)

If your production plan goes as you predict, your business will

generate income and incur expenses. You need to organize this information in a systematic way.

Tracking Business Activity

Keeping track of your business's activities is essential to the operation of all the components of your business. By developing a practical accounting and record keeping system you can record the information (the numbers) needed to develop:

- Methods of operation
- Strategies for maintenance and growth of the business
- Evaluation procedures for determining adjustments to business activity

Happiness is that place between too much and too little.

Control Plan (Accounting and Record Keeping)

A control plan is not a strategic exercise but a clerical task. A control plan requires that you record income and expenses (direct costs and indirect costs) on a regular basis. The Academy recommends that you organize your records according to the IRS "Schedule C" Tax Form because:

- Most accounting and record keeping categories are represented.
- Tax reporting becomes simplified.



Tip

The Academy offers the *Advantage Contractor Business Success Series* course, *Record Keeping for Construction Contractors*. It is customized for the construction contracting business, and offers a practical solution for organizing business transactions.

The record keeping and accounting system you choose has to provide up-to-date and accurate information. The numbers in the control plan are used later for your financial plan.

There are a lot of hot arguments over "cold cash."

Financial Plan

The financial plan involves a great deal of strategies. In general, it is the tool you use to evaluate how your business:

- Acquires its funds
- Uses its funds

Contentment is when your earning power equals your yearning power.

- Plans to acquire and use its funds in the future

The details of this process are reviewed in the following sections. Briefly, financial planning involves:

- Capital and cash management
- Estimating and pricing
- Financing through a lender

There are many ways to develop a business plan. In this section, you have learned the basics. Check the Resources section of this course and your library for more information about business plans. This course specifically focuses on financial planning. We cannot tell you how to run your own business. You are ultimately the best judge of that.

Summary

Your business is an extension of your life. The plan is the focus of its activity. Your life goals and business goals have to match up for the best overall results in your life and business. Failure occurs without plans. Long term success can only come with planning and looking at the results of the plan. The process allows corrections to the business activities that keep the success going.

