

# Business Planning

# Session objectives

**By the end of this session you should have an understanding of:**

- The key elements of a business plan
- How to do an industry analysis summary using PEST
- How to conduct a competitive analysis using SWOT
- Operations risk analysis
- “Simple” versus “Robust” business plans

# Business Plan

- Helps you and others understand what your business aims to achieve
- Answers the questions of who, what, when, where, why and how of your business
- The process of preparing a business plan forces you to think about all aspects of your business
- Your business plan should be a living document and a tool to help you manage your business
- A business plan is a key document when applying for bank financing





# Executive summary

- Tells the reader what you are looking for (e.g.: Financing)
- Business description (what you will do and what need you serve in the marketplace)
- High level financial projections
- Financial requirements (how much money is required for start-up and where are the funds coming from)
- Form of organization (corporation, partnership, sole proprietorship)
- Successes (what successes have been realized to date – business location, equipment, critical contracts)



# Business description

- Business overview (who you are and what you do)
- Reiterate legal form of organization
- Who will you sell to – what is your target market
- What makes you better than the competition?
  - Background / experience
  - Contacts in the industry
  - Services offered
  - Equipment / technology



# Example 1

## Example 1 – Business Description

## **Example 1 – Business Description**

Jack Johnson and Hank Foreman have known each other for many years. Mr. Johnson began working in the construction business immediately out of high school, and has proved himself as an equipment operator, construction foreman, and project manager. Mr. Foreman, after graduating from college with a degree in civil engineering, began work in the construction business with the Utah Department of Transportation. After moving to San Francisco, Mr. Foreman received an MBA and worked for several construction firms in Oregon and Northern California as a general manager and financial analyst. Over the years, both individuals realized that the Pacific Northwest lacked a commercial construction company that could consistently provide high quality work and on-time delivery. With this in mind, and wishing to capitalize on this opportunity, the two investors have formed *Hard Hats Construction*.

The current trend of technology companies desiring a presence in “silicon forest” and with local companies expanding operations the commercial building market is growing in the Pacific Northwest. The two investors relationships with many of the companies relocating and expanding will be a competitive advantage.

*Hard Hats Construction* will exist as an equal partnership between the principles: Jack Johnson and Hank Foreman. As one of the company's goals is to focus on high quality workmanship, retaining as much talent as possible is crucial. Therefore, the company plans to add more partners to the firm as opportunities arise. We intend to grow gradually, to reduce the chance of becoming too large too quick. The company will expand the crew as contracts require.

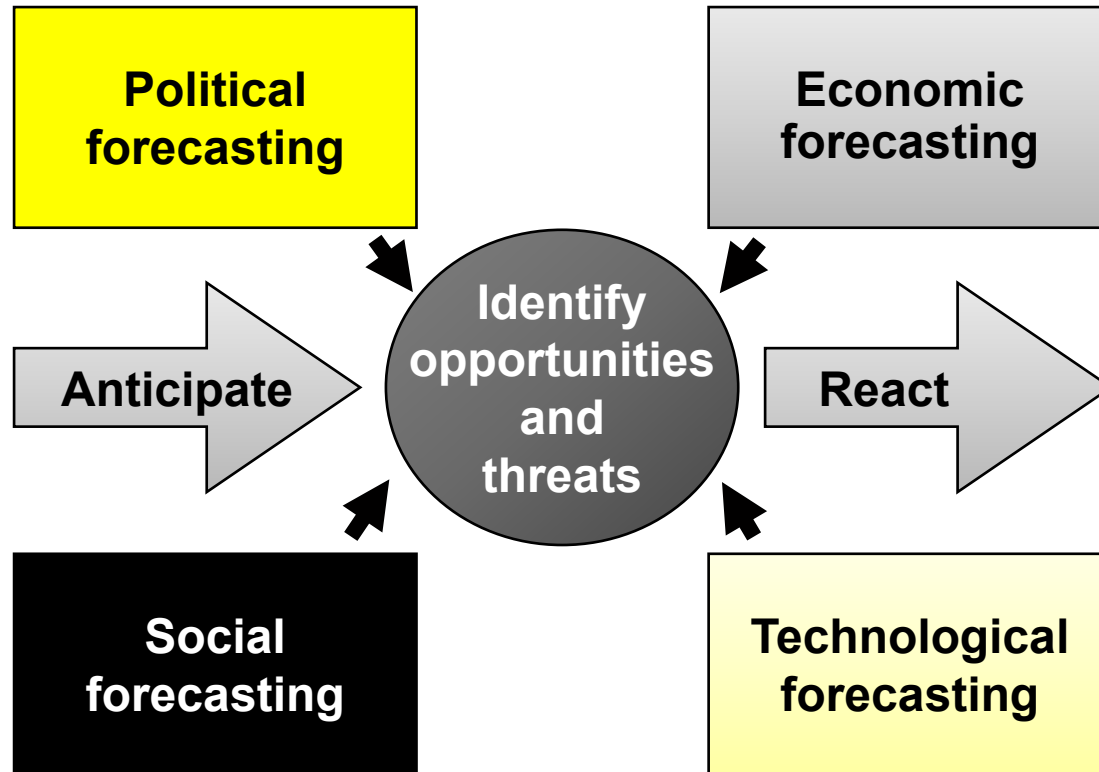
The crew of *Hard Hats Construction* is formulated of individuals with a talent for craftsmanship in ground up commercial building construction. The company prides itself on only hiring experienced tradespersons for its crews. The quality assurance guarantees are provided, not only by the company, but by each individual working on the project



# Industry analysis

- Describes the state of the industry that you are entering
- Is the industry in growth, stability or decline
- What trends are happening in the industry that could impact your business
- For industry reports, go to: <https://rmau.org/> and search by North American Industry Classification System (NAICS) code
- What external forces may impact your business performance (PEST Analysis)
  - Political
  - Economic
  - Social
  - Technological

# PEST analysis



# PEST analysis

<b>Political forecasting</b>  Legislation Taxation Regulations Gov't/business relations New competition	<b>Economic forecasting</b>  Economic cycle Interest rates Consumer spending Government spending Business investment Exchange rates
<b>Social forecasting</b>  Demographics Lifestyles Attitudes Needs and desires	<b>Technological forecasting</b>  Leading edge developments Own R&D Competitors' R&D

# Example 2

Example – Industry analysis summary

## **Example 2 – Industry Analysis Summary**

**Political** issues relating to documentation, permits, licenses, taxes and the role of regulatory authorities in public and private construction should be evaluated for core business functions. For example, a new change in a permitting process can impact costs and schedule if not investigated prior to submitting proposals.

**Economic** issues related to market demand, inflation, and future growth should be researched and accounted for when forecasting future revenue plans. An increase in the rate of inflation of the economy may affect the way the company sets the price of its products and services.

**Social** factors related to the perception of the industry and attitudes toward working in it and around it. Are people attracted to working in the industry?

**Technological** forecasting of leading-edge developments in the means and methods currently being used in the industry and the cost/benefit of adopting them. As technology many times becomes obsolete within a few months after being launched, it is crucial to consider the return on investment.

# Product and service description

- Detailed description of the services you are offering
- What need does your product or service address in the marketplace?
- How will you compete in the marketplace?
  - Location?
  - Special skills and capabilities?
  - Niche market?
- Provide visuals as appendices to your business plan if possible



# Example 3

Example – Product and service description

### **Example 3 – Product and service description**

*Hard Hat Construction* provides commercial construction services, with a primary focus on large urban structure development. This includes the following types of construction:

- Office Buildings
- Strip Malls
- Commercial Parking Lots and Garages
- Apartment Complexes
- Restaurants
- Schools
- Government Contracts

*Hard Hat Construction* will provide the installation of all required business/operation systems such as electrical, lighting, refrigeration, heating, data information systems, etc. *Hard Hat Construction* will also provide demolition services as a part of building re-construction projects. *Hard Hat Construction* has been awarded a few government contracts since its inception and hopes to increase this market segment.

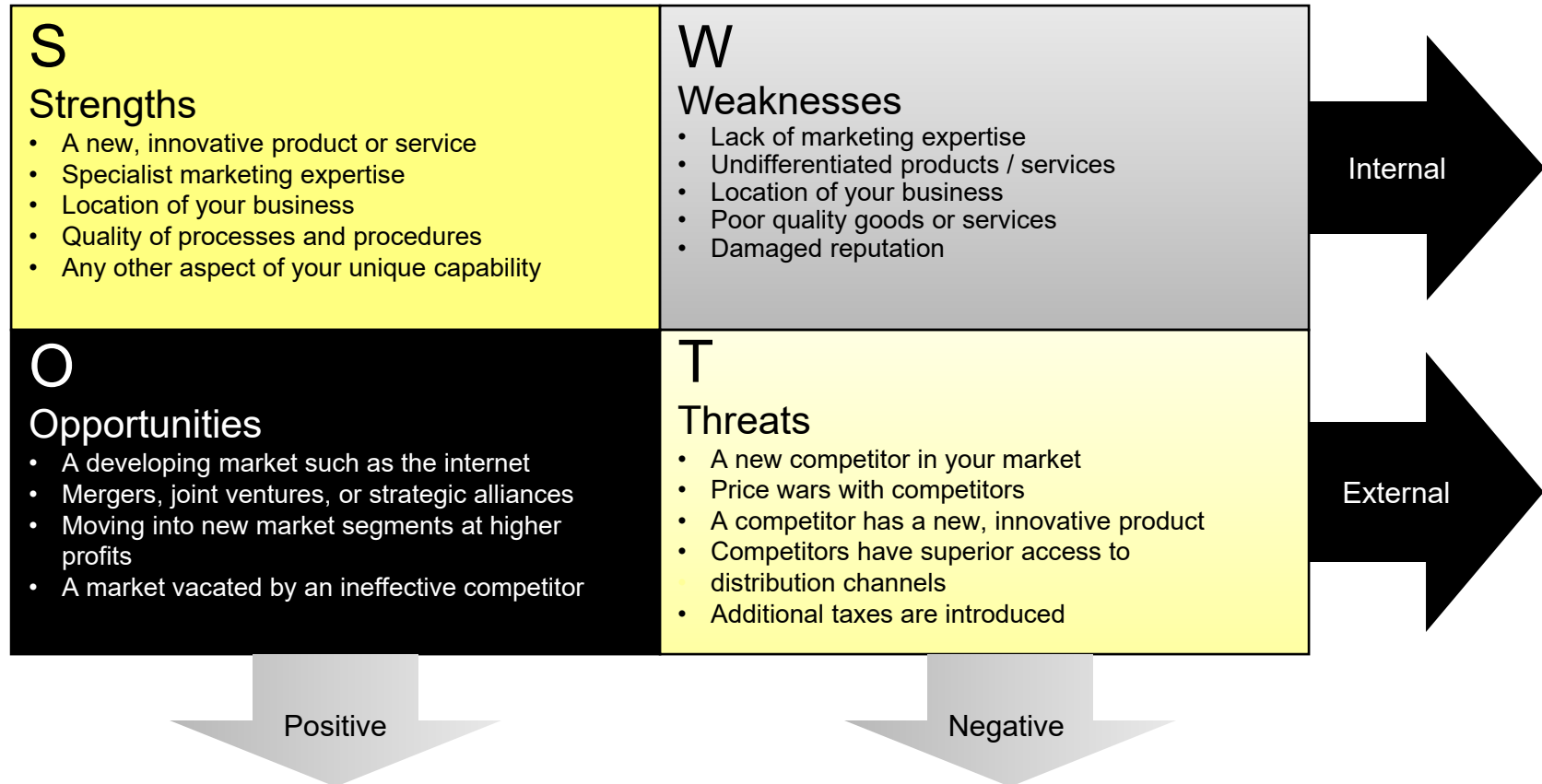


# Marketing and sales strategy

- Clearly describe your market
  - Who are your potential customers?
  - Where are they located?
  - What is the demand for your product or service?
- How will you reach your market?
  - Website
  - Existing contacts
- How will you price your product or service?
  - If you're offering a unique service that is not readily available, will you demand a premium?
  - If service is readily available, how will you be competitive?



# SWOT Analysis



# Example 4

Example – SWOT analysis and marketing/sales strategy

#### **Example 4 – SWOT analysis and marketing/sales strategy**

(S)trengths: diversified services; located in multiple states

(W)eaknesses: lack of scale; risk involved in government contracts

(O)pportunities: new government contracts; demand for demolition services

(T)hreats: highly competitive industry; increased OSHA regulations on demolition services

The total market demand in the U.S. commercial construction industry sector is huge. It is estimated that the total demand was \$173 billion for fiscal year 2018. For the California, Washington, and Oregon area, the total demand is \$24.6 billion. Even with *Hard Hat Construction's* expected large-scale growth due to its contacts and reputation, the market is so large that, by the end of 2021, *Hard Hat Construction's* projected market share for the Pacific Northwest will only be one quarter of one percent.

*Hard Hat Construction* has a focus on meeting the development demand for urban located properties. *Hard Hat Construction* will hope to bid on government projects as resources permit.

*Hard Hat Construction's* competitive edges are its book of contacts which make up a healthy referral network, and its competitive cost on projects.

*Hard Hat Construction* plans to deliver contract revenue of approximately \$40 million in the first year, \$51 million in the second year, and \$65 million in the third year.

# Operations

- Stage of development (new business, operating business...)
- Risk Identification - Identify operational risks and mitigation plans
- Resources Requirements:
  - Time to become operational (for new business)
  - Land, building and equipment requirements
- Policies and Procedures:
  - Construction and fabrication processes
  - Materials and inventory handling
- Critical Suppliers and Contacts
  - List of suppliers
  - Industry association memberships



# Example 5

Example – Operations risk analysis

## **Example 5 – Operations Risk Analysis**

### **Project Management**

#### **Risk:**

Misunderstanding of contract terms & conditions

#### **Mitigation ideas:**

- Conduct contract reviews with project management team and senior management
- Retain a construction attorney to seek clarifications
- Provide training opportunities in construction contract law for the project management team

### **Estimating**

#### **Risk:**

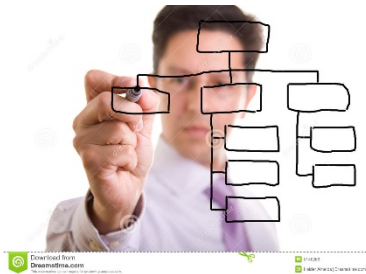
Poor estimates that leave money on the table

#### **Mitigation ideas:**

- Have an independent review of the take off's/quantity calculations
- Conduct a cross check of the estimated productivity ratios with field personnel
- Perform random reviews of the estimating files by members of senior management

# Organization and management

- Describes how your company is organized
- Include an organization or accountability chart if available



- Legal structure of the business
- Biographies of key management and personnel
  - Education and certifications
  - Years experience in the industry
  - Description of past work experience
- Any special licenses or patents that your company holds



# Financial management plan and projections

- Gives the reader an understanding of the financial capacity and profitability of the business
- For existing business
  - Financial statements for last 3 years
- New business
  - Projected revenue and financial statements for the next year
  - Estimate of start-up costs
- If applying for financing
  - Personal financial statements for principal owners
  - 2 years of income tax returns



# Appendices

- Images of company products / services
- Resumes for management and key personnel
- Pictures of business location and equipment (if possible)
- Additional industry information supporting projections
- Key agreements (leases, contracts, etc.)
- List of existing equipment / equipment being purchased



# Example 6

Example – Executive summary

## Example 6 – Executive Summary

*Hard Hats Construction* is a medium-sized commercial construction company with offices in Seattle, Portland, San Francisco, and Los Angeles. *Hard Hats Construction* has been fortunate to be awarded some initial sizable contracts for several projects among its four locations. Local contacts and competitive pricing have propelled rapid growth of this new company.

*Hard Hats Construction* aims to provide high quality craftsmanship in the commercial construction industry at a very competitive cost. It is the goal of the company to achieve a greater reputation for quality and on-time delivery than the current competitors in the Pacific Northwest region. *Hard Hats Construction* is committed to delivering on-time completion. *Hard Hats Construction* maintains high integrity on all promised timelines and quality assurances.

*Hard Hats Construction* keys to success are comprised of the following factors:

- Many relationships among the commercial real estate community.
- Impeccable and unique workmanship.
- Retaining high-quality, on-site management.
- Track the progress of each construction project to ensure the scope, cost, and schedule of each is maintained.

*Hard Hats Construction* is requesting start-up capital as described in the table below:

**Table: Start-up Capital Requirements**

Start-up Expenses	
Legal	\$ 5,000.00
Office Setup	\$ 500,000.00
Rent	\$ 12,000.00
Insurance	\$ 5,000.00
Utilities	\$ 1,200.00
Other	\$ 1,000.00
Total Start-up Expenses	\$ 524,200.00
Start-up Assets	
Cash Required	\$ 1,500,000.00
Other Current Assets	\$ 100,000.00
Long-term Assets	\$ 2,500,000.00
Total Assets	\$ 4,100,000.00
Total Start-up Requirements	\$ 4,624,200.00

# Example 7

Example – “Simple” and “Robust” business plan template

Regarding the attached editable business plan template please see below for an explanation on the differences between a "**Simple**" business plan structure and a "**Robust**" business plan structure:

### **Simple business plan structure:**

The "**Simple**" business plan structure answers the following four questions at a minimum:

1. What is our product(s) and services(s)?
2. How will we get work?
3. How will we perform work?
4. How will we keep score?

The answer to question **1** can be included in the "**Product and Service Description**" section of the attached business plan template.

The answer to question **2** can be included in the "**Marketing and Sales Strategy**" section of the attached business plan template.

The answer to question **3** can be included in the "**Operations**" section of the attached business plan template.

The answer to question **4** can be included in the "**Financial Management Plan and Projections**" section of the attached business plan template.

### **Robust business plan structure:**

The "**Robust**" business plan structure in the attached business plan template contains the following sections:

- Executive Summary
- Business Description
- Industry Analysis
- Product and Service Description - "**Simple**"
- Marketing and Sales Strategy - "**Simple**"
- Operations - "**Simple**"
- Organization and Management
- Financial Management Plan and Projections - "**Simple**"
- Appendix

In summary to start with the "**Simple**" business plan structure you can use the attached "**Robust**" business plan template and complete only the following sections:

- Product and Service Description
- Marketing and Sales Strategy
- Operations
- Financial Management Plan and Projections

The "**Simple**" and "**Robust**" business plan structures are just suggestions based on my experiences and are simply guidelines and tools to be modified for your specific business needs. That being said feel free to modify the attached editable business plan template however you see fit to work for your business and make your business work better!

replace with  
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# [Title]

[Business Plan Subtitle]

[Street Address]  
[City, ST ZIP Code]

p. [Telephone]  
f. [Fax]

[Email]  
[Web address]

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# Executive Summary

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Provides high level context to the reader as to what your business is about, why you will be successful, and what you are seeking in terms of capital. The executive summary should be written last as it provides an overview of the other sections. Topics include:

## Highlights

Key aspects of your business that you want the reader to know up front. May include:

- Form of organization (sole proprietorship, corporation, etc.)
- Description of what you do and what need you are filling in the market
- Describe why your business is positioned to fill that need

## Financial Projections

High level summary of past financial performance and future financial projections

## Financial Requirements

Be specific about what you are looking for in terms of financing requirements including a description of what you will do with the funds

## Key Successes

A summary of key successes that have been achieved to this point. May include:

- Business location
- Equipment purchased
- Critical contracts secured to date
- Website design / advertising

# Business Description

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Provides the reader with a detailed understanding of what your business does, your vision for the future, your target market, and what it is that makes your business better than the competition.

## Business Overview

Describe in detail what your business does. Also reiterate here the form of organization (sole proprietorship, corporation, etc.). Include the following elements:

- History of the business
- List of owners and key management
- Key goals and objectives
- Mission: what you are in business to do
- Vision: a statement about your plans for the future

## Target Market

Describes who you are selling your products or services to and what need you're filling in the industry. Include:

- Identify whether you are selling to individuals or other businesses
- Describe in detail, the types of individuals or businesses you are selling to; be sure to identify five specific companies that you want to have as your customers and also five specific companies that will be your direct competition
- If your target market are individuals, what are their demographics in terms of age, gender, income level, occupation and any other relevant information
- If you are selling to businesses, identify what industry are they in and what is the health of that industry in terms of overall profitability and growth projections; Use the North American Industry Classification System (NAICS) code to identify your industry or the industry you will work in
- Describe what share you currently have of the market you are selling to and what share you project to have as your business grows

## Competitive Advantage

Your competitive advantage is your ability to outperform the competition in the industry you are in. Your competitive advantage can come from:

- Your background, experience and unique capabilities
- Contacts you have in the industry that can help you win business
- The uniqueness of the services you offer
- Any equipment / technology you possess that will give you an advantage over your competition

## Industry Analysis

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Describes the current state of the industry as a whole. Should give the reader an understanding of where the industry is at in terms of future growth projections and trends.

## Stage of Development

- Describes whether the industry is in growth mode, stability or if it is in decline in terms of total sales

## Industry Trends

- Describe any new products or services being offered in the industry
- Provide details of any trends with respect to new ways of performing work or providing services

## Industry Growth

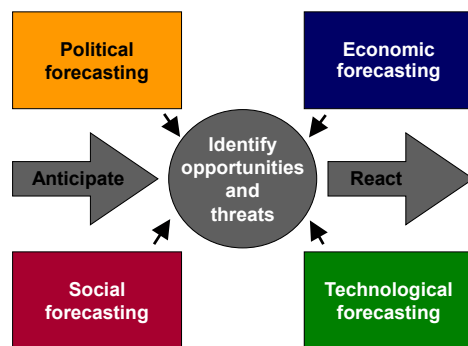
- Provide information on historical growth patterns in the industry
- Describe future growth projections for the industry

## Sources of Information

- Industry publications
- RMA University ( [www.rmau.org](http://www.rmau.org) ) provides details on past and projected growth for various industries

## PEST Analysis

- A PEST analysis that looks at external forces including Political, Economic, Technological and Social trends in the industry
- Helps you and the reader understand what potential opportunities and threats exist in the industry that may affect your business



## Product and Service Description

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This section provides a detailed description of the products / services that you are offering to the market and will provide an understanding of why you are in business.

### Product Description

- Provide a detailed description of the product or service you are offering
- Describe the need that your product or service fills and why there is a demand for it
- Provide details on any unique characteristics of your product or service
- If location is key to your product or service, include this in your description

### Illustrations

- Where possible, help the reader visualize your product or service by including illustrations in the appendix to the business plan

## Marketing and Sales Strategy

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Your marketing and sales strategy provides the reader with an understanding of who you are selling your product or service to, how you will price your product or service, and how you plan to reach your market.

## Describe Your Market

- Who you are selling to – provide a detailed description
- Where your customers are located
- What line of business your customers are in

## Promotion

- Website
- Direct contacts in the industry
- Trade shows
- Advertising and promotion

## Pricing

- How will you price your product or service (consider uniqueness of your product or service)
- If your service is readily available, describe how you will compete with other companies offering similar services

## SWOT Analysis

Provide an analysis of strengths, weaknesses, opportunities and threats

	Helpful	Harmful
Internal	<b>S</b> Strengths	<b>W</b> Weaknesses
External	<b>O</b> Opportunities	<b>T</b> Threats

## Operations

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Operations refers to specific details about how you will carry out your business, an analysis of the risks of your business, and a description of what is required to get your business operational.

## Stage of Development

- Provide details on the stage of development of your business in terms whether it is a new business or an existing operation

## Risk Identification

- Understanding risks in your business helps with your ability to react when things don't go according to plan
- Identify risks from an operations standpoint and develop mitigation plans for those risks that have a moderate degree of likelihood and a moderate degree of consequence should the risk materialize

## Resources Requirements

- If your business is new, describe how much time is required for your business to become operational
- Provide details on equipment, land and building requirements

## Policies and Procedures

- Think through and document your operating procedures including material handling and inventory control
- Identify and documents critical safety procedures to ensure safe operations
- Identify what administrative procedures are required to operate your business

## Critical Suppliers

- Identify a list of suppliers that are critical to your operation
- If there are only a few suppliers for required materials, document how you will ensure that they are able to consistently fill your demand

# Organization and Management

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This section describes how your company is organized and provides detailed biographies on key management personnel

## Organization

- Provide a description of management and key personnel in the form of an organization chart
- Indicate key roles and responsibilities for each manager and key employee
- Provide description of any agreements that are in place with management (e.g.: partnership agreements)

## Biographies

- This is an opportunity to share the background and experience for key management and staff and how that experience will help ensure success of the business
- Provide a biography for each manager and key personnel including education, certifications, years' experience in the industry, and any experience the individuals have in running a business (can include resumes in the appendix)
- Highlight key strengths and areas of expertise
- Indicate where additional skills and expertise may need to be sourced from outside the company

## Licenses

- Provide details of any special licenses or rights to technology that your company holds

## Financial Management Plan and Projections

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This is a key section of your business plan. It provides the reader with an understanding of the profit potential of the business and the financial capacity of the business to meet start-up or expansion requirements.

### Capital Requirements

- For a new business, provide details on one-time start-up costs including purchase of equipment, land, buildings, and any other purchases required for initial start-up
- For existing businesses looking to expand, indicate what the requested capital is to be used for

### Financial Statements and Projections

- For existing businesses, provide financial statements for the preceding two years
- Banks will also require personal financial statements for the principle owners of the business that indicate the borrower's personal assets and liabilities
- Projected balance sheet for 3 years
- Projected cash flow statement for 3 years
- Projected income statement for 3 years
- Specifically highlight salaries that will be paid to owners of the business

### Financial Controls

- Indicate how management will ensure that the company will remain viable from a financial standpoint including who will be looking after finances and what accounting systems will be used to track financial performance

# Appendix

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Include supporting documentation that may include:

- Industry reports
- Financial statements
- Resumes for key management and personnel
- Organizational or Accountability Chart
- Company Operating System or Policies and Procedures
- Promotional items
- Illustrations of products and services
- List of equipment
- Key agreements and contracts (e.g.: building or large equipment leases)