

1. Elements of Running A Successful Construction Business

Company Organization:

The objective is to show control, efficiency and effectiveness of standard administrative functions. Also to outline how the company will operate, to show lines of authority and chain of command, and to clarify responsibility.

What is your organization structure – organization charts become visual depictions of how your company is to operate. Structure typically centers around administrative, financial, personnel or human resources, technology, field operations, sales and marketing, customer service, manufacturing or production, product or service delivery, quality control, estimating, executive management and leadership.

Does everyone know who reports / answers to whom?

Are clear lines of authority and responsibility established?

Do you have a bookkeeping and accounting system set up?

What are your administrative policies, procedures and controls for management reporting?

What are your administrative policies, procedures and controls for employee training, probation periods, promotions, incentives, discipline, coaching, etc?

What are your administrative policies, procedures and controls for travel, phone usage, supplies, car allowance and other expenses?

What are your management philosophies and style?

How will you motivate employees?

How will you create a positive work environment?

How will you manage for goal attainment?

How will you encourage creativity and entrepreneurship?

How will you foster commitment and loyalty in your employees?

What is your current personnel makeup?

What is your average or expected turnover?

What are your personnel needs?

How will you attract and compensate employees?

How do your personnel know where they stand?

What are they supposed to do? (Job descriptions)

When are they supposed to do it?

How are they supposed to do it?

What are the expectations of management and prospects for employee advancement?

Common Mistakes to Avoid:

- Using a poor or inadequate system of accounting and other business records
- Failing to have some preconceived notions on how to manage and encourage the best possible performance.
- Not having enough personnel to accomplish the tasks at hand.
- Being overstaffed; too many people doing too little work.
- Established no clear lines of authority or accountability; having poor management control systems.
- Planning inadequately for future staff needs in light of growth or other changes.
- Adopting poor training and orientation procedures for personnel.
- Offering substandard compensation and incentives.
- Having top-heavy management (too many chiefs and not enough Indians to do the work)
- Failing to demonstrate company purpose and commitment to team goals (not showing that what is good for the whole is good for the parts).

Management

Management has to do with the tasks, getting work done. Management has to do with overseeing and inspecting the work to be sure that it is done correctly the first time for quality.

Management has to do with setting up the proper controls, processes, standards, practices and systems that allows work to get done efficiently and effectively.

Management is not leadership. Both management and leadership is needed within an organization for it to be successful.

Leadership

Leadership has to do with people and culture, and creating an environment where people enjoy going to work. Leadership has to do with coaching, supporting, motivating and inspiring employees to do their best.

Leadership is what company owners and top management do to bring out the best in their people. Leadership is all about setting a good example and modeling the behavior you want your employees to practice.

Leadership is something that can be learned, cultivated and developed over time.

Leadership is about maximizing employees' performance by building them into a strong, cohesive team who are working for a common goal or vision.

Leadership is about excellence and helping to move the company forward so the company and employees can reap the benefits of sustained success and growth.

Leadership is not management.

Outline for Business Plan

I. COVER LETTER

- A. Nature of Business
- B. Solicitation for Financing
- C. How Much?
- D. Purpose
- E. Repayment Plan
- F. Security Collateralization

II. EXECUTIVE SUMMARY

III. PRODUCT / SERVICE DESCRIPTION

- A. Intro to Your Company
- B. Company History
- C. Technical Description of Product / Service
 - 1. General Contracting Function
 - a. Job Management
 - b. Mobilization
 - c. Financing
 - 2. In-house Production Function
 - a. Capabilities
 - b. Mobilization
 - 3. Subcontracting Function
- D. SIC Code and Description
- E. Summary of Jobs
 - 1. Description of Best Three Representational Jobs
 - a. Restaurant
 - b. Finish Out
 - c. Specialty / Commercial
 - 2. Complete Job List
 - 3. Illustrations, Pictures, Etc.

IV. ENVIRONMENTAL ANALYSIS

- A. Economic Overview
 - 1. Economic Trends and Effects On:
 - a. New Starts
 - b. Finish Out / Remodeling
 - c. Contract Prices and Bidding Process
 - 1. Suppliers
 - 2. Efficiency
 - d. Business Cycle
- B. Consumers- Potential Buyers
 - 1. National
 - 2. Texas
 - 3. Metroplex
 - a. Categorical description of type of buildings, volume,

- cost/profit, technical differences, etc.
 - b. Past, Present, Future
 - 4. Need for GC Services
 - 5. Target Market and Customers
 - a. General Description and Rationale
 - 1. Type of Building
 - 2. Geographical Emphasis
 - b. Big Projects
 - c. Small Projects
 - 1. Cost / Volume / Profit
 - 2. Cash Flow Considerations
 - 6. Total Market Share
 - a. Share of Market
 - b. Sales Projections
- C. Regulatory Environment
 - 1. Labor Availability
 - 2. Zoning / Permits
 - 3. Bonding
 - 4. Insurance
- D. Competition
 - 1. Area Contractors
 - a. Sales
 - b. Employment
 - c. Scope of Activity
 - d. Geographic Scope
 - e. Customer Base
 - f. Strengths and Weaknesses
 - g. Competitive Advantages / Disadvantages
- E. Suppliers
- F. Subcontractors
- G. Labor
 - 1. Availability
 - 2. Price Stability
 - 3. Business Relationships
- H. Bidding Process
 - 1. Large vs. Small Projects
 - 2. Procedures
 - 3. Cost / Volume / Profit
 - a. Original Contract
 - b. Change Orders
 - 4. Contract Procurement
 - a. Determination of Price
 - b. Legal Aspects
 - c. Bad Debt and Credit Checking
 - d. Negotiations

V. FORM OF ORGANIZATION AND MANAGEMENT

- A. Legal Form of Organization
 - 1. Present Rationale
 - 2. Plans for the Future
- B. Organization
 - 1. Organizational Chart
 - 2. Job Descriptions
 - 3. Vision, Mission and Core Values
 - 4. Standard Operating Procedures- SOP's
- C. Principles
 - 1. Business Background
 - 2. Management Experience
 - 3. Work Experience
 - 4. Education
 - 5. Personal Info.
- D. Compensation Policies
 - 1. Base Salary and Benefit Package
 - 2. Incentives and Bonus Plan
- E. Professional Services
 - 1. Legal
 - 2. Accounting
 - 3. Banking
 - 4. Insurance & Bonding
 - 5. Public Relations
 - 6. Consulting

VI. CASH CYCLE DEVELOPMENT

- A. Facilities and Fixed Overhead
 - 1. Location
 - 2. Capital Requirements
 - 3. Personnel
 - 4. Overhead
 - 5. General Administration Budget
- B. Variable Expenses
 - 1. Supplier Terms
 - 2. Subs
 - 3. Labor
 - 4. Other
- C. Revenues
 - 1. Contracts
 - a. Billing Cycle
 - b. Warranties
 - 2. Other Revenue Sources
- D. Cash Cycle
 - 1. Illustrations and Descriptions
 - 2. Methods of Control

- VII. MARKETING AND SALES
 - A. Industry Overview
 - B. Sources and New Business
 - 1. Architects
 - 2. Real Estate Personnel
 - 3. Designers
 - 4. Public Records / Government
 - 5. Private Services
 - 6. Owners and Past Clients
 - 7. Networking
 - 8. Professional and Trade Associations, ie. AGC
 - 9. Reputation and Word of Mouth
 - C. Geographic Feasibility
 - D. Marketing Objectives
 - 1. Sales
 - 2. Profit
 - 3. Growth
 - 4. Target Market
 - E. Marketing and Strategies and Tactics
 - 1. Sales
 - 2. Profit
 - 3. Geographic
 - 4. Public Relations and Promotion
 - 5. Media Relations
 - 6. Exceptionally Satisfied Customers
 - 7. Personal Selling
 - F. Customer Relationships and Customer Loyalty
 - 1. Deliver Customer Service
 - 2. Know and Meet Customer Needs and Expectations
 - 3. Create an Exceptional Service Experience

- VIII. FINANCIAL ANALYSIS
 - A. Sales
 - 1. Historical Analysis
 - 2. Projections
 - 3. Profit
 - B. Breakeven
 - 1. Current
 - 2. Contingency Analysis
 - C. Cash Budget
 - D. Income Statements
 - 1. Historical
 - 2. Proforma

- E. Balance Sheets
 - 1. Historical
 - 2. Proforma

- F. Ratio Analysis
 - 1. Historical
 - 2. Proforma
 - 3. Comparative

- G. Controlling
 - 1. Purchase Orders
 - 2. Voucher Approval
 - 3. Job Scheduling and Budgeting
 - 4. Check Writing
 - 5. Adherence to Budgets

IX. FINANCIAL STRUCTURE AND FINANCING REQUIREMENTS

- A. Analysis of Debt Structure
- B. Risk Analysis
- C. Debt Requirements
- D. Equity and Owner Compensation

X. SUPPORTING DOCUMENTS

- A. Resumes
- B. Personal Financial Statement
- C. Letters of Reference
- D. Suppliers List
- E. Sub List
- F. Customers
- G. Lease Agreements, Etc.
- H. Insurance Policies
- I. Credit References
- J. Income Tax Statements

XI. APPENDICES

2. Developing a Business Plan

Introduction to Business Planning

What is a Business Plan:

The primary value of your business plan will be to create a written outline that evaluates all aspects of the economic viability of your business venture including a description and analysis of your business prospects.

A business plan is an essential step for any prudent entrepreneur to take, regardless of the size of the business. This step is too often skipped but the discipline required to develop a plan will impact your ability to succeed not only in the short-term but also over the long term.

Business plans can vary enormously. They can range from a one page outline or a comprehensive document including detailed market analyses, competitive analysis, and three-year financial projections. Many concepts for a new business can take shape on something as primitive as a cocktail napkin similar to what Herb Kelleher did when he first conceived his idea for Southwest Airlines.

Why Prepare a Business Plan:

Your business plan is going to be useful in a number of ways. Here are some reasons not to skip this valuable tool.

- First and foremost, it will define and focus your objective using appropriate information and analysis.
- You can use it as a selling tool in dealing with important relationships including your lenders, investors and banks.
- You can use the plan to solicit opinions and advice from people, including those in your intended field of business, who will freely give you invaluable advice. Too often, entrepreneurs forge ahead ("My Way!") without the benefit of input from experts who could save them a great deal of wear and tear. "My Way" is a great song, but in practice can result in unnecessary hardships.
- Your business plan can uncover omissions and/or weaknesses in your planning process.

What to Avoid in Your Business Plan:

Place some reasonable limits on long-term, future projections. (Long-term means over one year.) Better to stick with short-term objectives and modify the plan as your business progresses. Too often, long-range planning becomes meaningless because the reality of your business can be different from your initial concept.

Avoid optimism. In fact, to offset optimism, be extremely conservative in predicting capital requirements, timelines, sales and profits. Few business plans correctly anticipate how much money and time will be required.

Do not ignore spelling out what your strategies will be in the event of business adversities. Use simple language in explaining the issues. Make it easy to read and understand.

Don't depend entirely on the uniqueness of your business or even a patented invention. Success comes to those who start businesses with great economics and great passion for what they are doing and not necessarily great inventions.

Necessary Factors to Produce a Successful Business:

- **A sound business concept.** The single most common mistake made by entrepreneurs is not picking the right business to begin with. The best way to learn about your prospective business is to work for someone else in that business before beginning your own. There can be a huge gap between your concept of a fine business and reality.
- **Understanding of your market.** A good way to test your understanding is to test market your product or service before you start. You think you have a great kite that will capture the imagination of kite flyers throughout the world? Then hand-make some of them and try selling them first.
- **A healthy, growing and stable industry.** Remember that some of the great inventions of all time, like airplanes and cars, did not result in economic benefit for many of those who tried to exploit these great advances. For example, the cumulative earnings of all airlines since Wilbur Wright flew that first plane are less than zero. (Airline losses have been greater than their profits.) Success comes to those who find businesses with great economics and not necessarily great inventions or advances to mankind.
- **Capable management.** Look for people who you like and admire, have good ethical values, have complementary skills and are smarter than you. Plan to hire people who have the skills that you lack. Define your unique ability and seek out others who turn your weaknesses into strengths.
- **Able financial control.** You will learn later the importance of becoming qualified in accounting, computer software and cash flow management. Most entrepreneurs do not come from accounting backgrounds and must go back to school to learn these skills. Would you bet your saving in a game where you don't know how to keep score? People mistakenly do it in business all the time.
- **A Consistent business focus.** If you think of specific products or services, you will find that specialist will outperform non-specialists. Zero in on something you can do so well that you will not be subject to competing with someone with a lower price.

Understanding the Planning Process

Start-up entrepreneurs often have difficulty writing out business plans. To make it easier, here are ten steps that will get you to a worthwhile plan:

1. Write out your basic business concept.
2. Gather all the data you can on the feasibility and the specifics of your business concept.
3. Focus and refine your concept based on the data you have compiled.
4. Outline the specifics of your business. Using a "What, where, why, how, when, who" approach might be useful.
5. Put your plan into a compelling form so that it will not only give you insights and focus but, at the same, will become a valuable tool in dealing with business relationships that will be very important to you.
6. Conduct a Situation Analysis that helps you assess current facts that are known regarding your business and the company's strengths, weaknesses, opportunities and threats (also known as a SWOT analysis). Looking at your business in this manner helps to identify critical issues, opportunities and top priorities that will impact your company's performance and allows you to take positive action.
7. Establish goals, strategies and tactics. Translate your top priorities and critical issues into measurable goals that help you determine "how" you are going to implement.
8. Establish accountability for Plan implementation. Incorporate into your plan the details of "who" is going to do "what" and "when". Putting together a detailed implementation timetable with mileposts established in advance will help you stay on track.
9. Set up measurements in your plan to help you assess your progress toward achieving your goals and take time to celebrate the successes. This approach helps to build team confidence and cohesiveness in working toward your vision.
10. Save a clean copy of your plan to refer to each week keeping in mind that plans are not set in concrete and can be changed as the need arises. Consider using a second copy of your plan as a working copy where you can place notes to help on stay on track regarding what you are accomplishing and where you need to be accomplishing more.

Components of a Plan

Includes a systematic assessment of all the factors critical to your business purpose and expected results.

- **An Executive Summary.** The objective is to get the reader to keep on reading; to highlight the most significant points of your plan.
- **A vision statement.** A vision is a realistic, credible, attractive future for your organization. It is a carefully formulated statement of intentions that defines a destination or future state of affairs which an individual or group finds particularly desirable.
- **A mission statement.** This is an enduring statement of purpose for an organization or "reason for being" that identifies the scope of its operations in product and market terms, and reflects its values and priorities. A mission statement will help a company to make consistent decisions, to motivate, to build an organizational unity, to integrate short-term objectives with longer-term goals, and to enhance communication.
- **Core values.** They are the collective principles and ideals, which guide the thoughts and actions of an individual, or a group of individuals. Values define the character of an organization -they describe what the organization stands for. They answer the question- who we are. Values are the essence of a company's philosophy for achieving success. They are the bedrock of corporate culture. Values provide employees with a sense of common direction and guidelines for day-to-day behavior.
- **The people.** By far the most important ingredient for your success will be yourself. Focus on how your prior experiences will be applicable to your new business. Prepare a resume of yourself and one for each person who will be involved with you in starting the business. Be factual and avoid hype. This part of your business plan will be read very carefully by those with whom you will be having relationships, including lenders, investors and vendors.

However, you cannot be someone who you are not. If you lack the ability to perform a key function, include this in your business plan. For example, if you lack the ability to train staff, include an explanation of how you will compensate for this deficiency. You should add a partner to your plan or plan to hire key people who will provide skills you don't have. Include biographies of all your intended management.

- **Your business profile and business concept.** Define and describe your intended business and exactly how you plan to go about it.
- **Targeted market and customers.** Describe your customer profile and why they want or need your product or service. Also define what you will do to build customer relationships and deliver superior customer service.

- **Describe your products and/or services.** Know what it is that you are selling or offering in the way of value to your customers. Products are tangible and they can be viewed or tested in advance, inventoried and stockpiled. Services are intangible so they become more difficult for customers to experience on the front end- thus if you offer services, keep in mind that the interaction between the seller and buyer becomes much more important in the selling process since this is where the buyer gains confidence in what he/she is purchasing.
- **Economic assessment.** Provide a complete assessment of the economic environment in which your business will become a part. Explain how your business will be appropriate for the regulatory agencies and demographics with which you will be dealing. If normally available from local planning departments. Also know the growth trends for your business- find out if the market for your product or service is growing or shrinking.
- **Cash flow assessment.** Include a one-year cash flow that will incorporate your capital requirements. Include your assessment of what could go wrong and how you plan to handle problems.
- **Business Organization.** Explain the form of business organization you intend to use and why it is best for your business. Also include the names of your attorney, accountant, insurance agent and any other outside professional resources.
- **Licenses.** List what licenses you will require to go into business.
- **Insurance.** List the forms of insurance coverage including costs that are anticipated.
- **Risk analysis.** Identify areas in which the company's risks should be minimized before selecting strategies. Small businesses are most vulnerable to financial risk including undercapitalization, inefficient collection practices, and insufficient reserves to cover emergencies.
- **Technology assessment.** Evaluating software and hardware capabilities both currently and in the future to streamline internal and external flow of information, operations, etc.
- **Premises criteria.** Outline your location criteria having to do with space requirements, future requirements, site analysis study if needed, demographic study if needed, lease check-off list, estimated occupancy cost as a percent of sales, and zoning and use approvals.
- **Accounting.** Furnish, as a separate exhibit, your starting balance sheet and projected income statements for the first six months to one year.
- **Analysis of costs.** Identify all of your costs- fixed, variable, product, service, delivery, etc.
- **Internal controls.** Explain your intended internal controls and cash controls, check signing policy, strategy for controlling short-term cash, and control for incoming merchandise.
- **Pricing power.** Explain the unique qualities or circumstances concerning your product or service that will enable you to maintain profitable pricing.

- **Computer and communication tools.** Furnish a tabulation of each piece of equipment you intend to use including a description and the budget for each. Includes communication equipment, telephones, pagers, fax machines, computers, internet capability, etc.
- **Marketing Plan.** Describe your overall marketing and sales strategy including how you plan to get and retain customers. This also includes public relations, promotional and publicity strategies you will use to build your company's image and reputation in the marketplace and with other key company stakeholders, ie. Employees, customers, key influencers, etc. Also assesses your strengths and weaknesses against your top competitors and helps to establish your competitive advantages.
- **Employee development.** Includes your plans for recruitment, hiring and training of your employees. Also addresses how you will address the career advancement of your employees and what type of succession plan is in place to replace top management over time.
- **Growth plan.** Describes how you anticipate growth occurring – at what point in time and what preparations you are making to plan for this growth. This may refer to development of profitable pilot operations, sources for new financing, incentive compensation plan for managers, benefits packages and policies, etc.