**Constructing a Business Plan**

**Adapting Common Business Sense to Our Uncommon Industry**

**Overview**

Frequently, systems contractors (or other businesses in our industry) plunge into the market with technical skills, a hot product concept, or a few captive customers--but without a business plan. Too often the results are disappointment and burnout rather than happy customers and financial success. Like system design and installation, business planning and marketing are “technical” skills which can be developed and sharpened over time.

Can business problems be anticipated and prevented? Can contractors, specifiers, and systems integrators learn from other industries and apply common sense lessons? elsewhere.

**Section 1: Business Planning Basics**

**Why have a business plan?**

1. Road Map

2. Measuring Stick

3. Opportunity Management Tool

4. Lower Stress

5. Catalyst For Best Work

6. Competitive Weapon

7. Secure Financing

**Definitions**

• Strategy: Decision made now which affects future activities.

• Tactic: Activity designed to achieve desired result.

• Goal: Desired result; often long term.

• Objective: Aspect of a goal which is specific, measurable, and achievable.

**The Elevator Test: Do We Have a Viable Business Idea?**

First we need to determine if we have the basis for a business. This is done by answering three key questions:

1. What’s the business or product?

2. What’s the market or customer?

3. How does everyone get paid?

Assuming that these three questions are answered, then proceed to the preliminary planning.

**What’s in a business plan?**

A business plan includes five “chapters”, plus an executive summary and an appendix with reference material and detailed financial schedules. The five chapters are:

1. Description of the company, business, and industry. (15%)

2. Description of products and services: features, benefits, advantages, risks. (15%)

3. Market overview and marketing strategy: size and growth of target segments, competitive environment, promotional strategy, distribution, salesforce. (35%)

4. Management and organizational overview: experience, history, and needs. (25%)

5. Financial summary: sales, expenses, capitalization, cash and income forecast. (10%)

Note: The %’s shown above indicate the relative weight or importance of each section.

**Guideline: If it’s not written down, it’s not a plan. The Business Planning Flowchart**

Here is the sequence for creating the key elements of your business plan.

**Item How Long Level of Precision**

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | Company charter or mission statement | Indefinite | Values |
| 2. | Brand positioning statement | Indefinite | Goals; long term objectives |
| 3. | Product plan | 2-5 years | Strategy |
| 4. ter | Detailed operating plan m | 1-2 years | Tactics; short objectives |

\* Budgets

\* Themes and standards

\* Specific programs

5. Action Daily Implementation

**Section 2: Building Your Brand**

Marketing and sales make the critical difference between success and failure in any business. Ironically, many business plans are weakest in the area of marketing.

**What’s in a marketing plan? The 5 P’s and more...(7 total elements)**

1. **Products** available or needed. Systems contracting industry examples include...

• system design

• system installation

• system service and maintenance

• systems integration

• project coordination and management

• recurring revenue like business music or security monitoring

• your specialty here

2. **Price** range and trends: how much things sell for or “what the market will bear” financially. This varies widely depending on the product category. Determine if prices are going up, down, or staying the same.

3. **Promotional methods** and costs: includes media advertising (print and broadcast), publicity, sales literature, websites, trade shows, showcase installations, and direct marketing.

4. **Sales channels** and where business is conducted (place): this depends on the product and ranges from home offices to large office/engineering facilities.

5. **Salesforce** options: who does the selling, what skills salespeople need, and how much it costs to employ good salespeople.

6. **End-user/audience/buyer profiles**: key characteristics of customers, including:

• Institutional vs. Individual.

• Demographic information--income, education, occupation.

• Geographic information--where they live and/or do business.

• Psychographic information--what they think about.

• Buying habits and preferences.

• Special needs or characteristics.

7. **Competitive environment**: identify your competitors’ strengths and weaknesses. There are two types of competition:

• Direct Competition = similar businesses in the same product category. Examples include other contractors, specifiers, retailers with contracting divisions, manufacturers selling direct.

• Indirect Competition = any product or service which goes after the same target customer’s attention (“mindshare”) and money. Examples include not only other subsystem specialists (entertainment, communications, life safety, environmental control, lighting), but alternative purchases like computer systems, choir robes, restaurant equipment, etc. and/or activities like vacations, hobbies, sports, and leisure.

**Workshop Lesson: Who are your top five competitors?**

• Direct

1.

2.

3.

4.

5.

• Indirect

1.

2.

3.

4.

5.

**How is marketing different from sales?**

Even the dictionary has a hard time differentiating between marketing and sales. They are cross-referenced to the extent that a casual reader could conclude that they mean essentially the same thing. However, they are as different as art and science, yet willing partners in the world of business. Here is a composite dictionary definition:

Marketing: The act of developing products or services and exposing them for sale to a specified customer base.

Sales: The act of causing and expediting a purchase at a specified price (or within a price range).

The key word is "specified." It implies that the activities are deliberate as opposed to accidental or random. In less formal language, here are several ways to say the same thing:

1. Marketing opens the door; Sales closes it.

2. Marketing prepares a sales environment; Sales operates within that environment.

3. Marketing defines the product/service and prepares targeted customers to buy; Sales finishes the job by completing the transfer of goods.

4. Marketing is the art of communicating with potential customers; Sales is the science of converting potential customers into real paying customers.

5. Marketing hooks 'em; Sales reels 'em in.

**Your Marketing Plan Outline**

Use the following as an outline or checklist for creating your marketing plan.

1. **Essence of the Selling Strategy**.

2. **Product packaging and mix**.

3. **Pricing model and strategy**.

4. **Promotion plan**. Forecasted expenses are included in the “Fixed Marketing Expenses” budget at the end of this section. Key elements of the promotion plan are listed below.

• Advertising media.

• Publicity campaign.

• Training program.

• Sales literature.

• Technical literature and design aids.

• Direct marketing.

• Trade shows and special events.

• Consultant/specifier relations.

• Incentivized referrals.

• Wearables and identity items.

• Other collateral materials.

• Showcase installations.

• End-user/client incentive programs.

• Website and e-commerce strategy.

5. **Channels of distribution/place or location of business**.

6. **Salesforce profile and staffing needs**.

7. **Attractive end-user segments**.

8. **Direct competitors**. List top three by product category

•

•

•

•

•

9. **Schedule of Key Milestones**

**Section 3: Common Sense: Business Lessons Applied to the World of Systems**

**Contracting**

**Lesson 1: When in doubt, quantify.**

• Common Pitfalls:

--No budget or financial tracking.

--Lack of understanding how long things take or how much things cost.

--Decisions based on gut feel, intuition, or how others have done things.

• Recommended Action: Start with a basic revenue and expense forecast before going to work. See what expenses are feasible in the first year. Do the math and let the numbers guide you.

**Lesson 2: The chain is only as strong as the weakest link.**

• Common Pitfalls:

--Thinking that the technology is all that matters or that strong design and installation skills (“product”) can make up for weakness in other areas.

--Focusing on one area to the exclusion of the others (see below).

• Recommended Action: Go for balanced strength in each of the key areas of the business.

|  |  |  |  |
| --- | --- | --- | --- |
| Business  Function | Contractor | Consultant/Specifier | Systems Integrator |
| Product  Development | System design and installation | System design, project management | System design, installation, integration with other sub- systems, project management |
| Production and  Manufacturing | Documentation, fabrication, technical services | Documentation, project management services | Documentation, fabrication, technical and business services |
| Marketing and  Sales | Attracting clients, integrators and specifiers | Attracting clients, contractors, and integrators | Attracting clients, specifiers, and contractors |
| Finance and  Operations | Accounts receivable and payable; budgets and tracking; information systems | Accounts receivable and payable; budgets and tracking; information systems | Accounts receivable and payable; budgets and tracking; information systems |
| Management | Planning, organizing, motivating, controlling | Planning, organizing, motivating, controlling | Planning, organizing, motivating, controlling |

**Lesson 3: The business stuff--especially sales--is a full time job.**

• Common Pitfalls:

--Hiring friends or relatives on a part-time basis.

--Assuming that business people are selfish crooks and not appropriate for the engineering world.

• Recommended Action: Build the team consisting of people who are well qualified in their respective areas (see five “links in the chain” above). Examples range from bookkeepers and accountants to sales engineers and marketing services providers.

**Lesson 4: Build on strengths and delegate the weaknesses.**

• Common Pitfalls:

--Failure to identify strengths and weaknesses objectively.

--Setting unrealistic expectations on how long it takes to learn special skills (like sales or finance).

--Working on weaknesses rather than delegating, often at the expense of leveraging strengths.

• Recommended Action: Do what you are good at and like--hire out the rest. The reason is that we don’t have time to learn brand new skills soon enough to make a difference--unless it’s a hobby.

**Lesson 5: Understand your customers and give them what they want, plus a little more.**

• Common Pitfalls:

--Lack of definition of target customer profiles.

--Assuming that “if we do it, they will buy it”, or that clients make decisions only on price.

--Cutting corners on promotional materials to save money. Being “penny wise and pound foolish”.

• Recommended Action: Establish a clear definition of your market and focus your promotional efforts on those customers. Don’t worry about the “mass market” because there isn’t one. Exceed your customers’ expectations for quality and quantity of whatever you do.

**Lesson 6: Understand your competitors and differentiate yourself from them.**

• Common Pitfalls:

--Assuming that we need to be just like our competitors in order to succeed.

--Ignoring competition, especially the indirect kind (see above).

• Recommended Action: Conduct a competitive analysis. Identify the top five competitors in each relevant category. List similarities and differences between you and your competitors and focus on the positive differences in your marketing plan.

**Section 4: Getting Started**

**Your Business Planning Checklist**

Before you draft the official business plan documents, you will need to gather information and make business decisions. Here is a checklist of the essential items.

1. **Market Overview**. The market overview outlines what is happening now and in the future, whether you were in business or not. It describes the business environment, which you plan to focus on. Elements of the market overview include product and pricing trends, common promotional techniques and their costs, salesforce options, strengths and weaknesses of key competitors, and detailed profiles of actual buyers.

2. **Risk Analysis**. Business involves risk. Planning can help minimize risk and prevent problems. Four things are at risk in any business: your time, money, reputation, and self-esteem. To analyze the risk you are taking, ask yourself these key questions:

• Is anyone buying what I’m selling?

• Is the market growing, declining, or staying the same?

• Is the market big enough to support me financially over time?

• Where will the money initially come from?

• How will I pay the bills of the business during the startup and growth phases?

• Who will handle the key functional aspects of the business?

• Do I have the people in place or available to do the work?

3. **Mission, Vision, and Values Statement**. It is important to clarify why you are in business and what your long-term goals are. All financial and operational decisions flow from your core values, vision, and business mission.

4. **Brand Positioning Statement**. The brand positioning statement is the foundation of your marketing plan and clearly establishes how you are different from your competitors. It is a one-page document which answers the following four questions accurately and succinctly. See worksheet below.

5. **Three Year Business Objectives**. This includes your planned sales revenue, business expenses, number of jobs or installations performed, etc. Determine where you want to be in three years, then work back through years two and one. Ironically, many businesses only look one year ahead (if that) and as a result, they fail to optimize their full potential.

6. **Sources of Working Capital** ($ to fund the business). When you start a business, there is seldom enough revenue from sales operations to cover initial expenses and the costs involved in growth. Many businesses fail because they cannot cover expenses in the early days. Identify in advance where your working capital will come from. Sources

include supplier credit, savings, loans, or investment capital (sale of ownership in your company to outside investors and/or employees). See worksheet below.

7. **Operational Elements**. Creating the product is important, but delivering it consistently and profitably points to a business’s operations and ability to execute the plan. Determine your needs and costs (including staffing) in each of the following areas:

• Location and infrastructure

• Licenses and business registration or incorporation

• Staff organization, job descriptions, and benefits

• Marketing plan

• Accounting and financial management

8. **Detailed Business Plan Document**. Once you have completed #1—7 above, organize it, edit it, and add the details described earlier in this workshop. You now have a road map for success!

**Worksheets You Can Use Now**

On the following pages are worksheets you can complete as elements of your business plan. In this workshop, we will focus on two items:

1. Brand Positioning Statement

2. Three-year Trackable Objectives

**Mission, Vision, and Values Statement**

• We are in business to:

• We believe that the future of our business is bright because:

• We believe in the following business values and operating principles:

**Brand Positioning Statement**

The brand positioning statement is the foundation of your marketing plan and clearly establishes how you are different from your competitors. It is a one-page document which answers the following four questions accurately and succinctly: Use this page as a worksheet, then refine from there.

• What business are we in?

• Who are our customers?

• What makes us special?

• What’s in it for everybody (customers, vendors, community, owner/investors, us)?

**Three Year Business Objectives**

Determine where you need to be in three years, then work back through this year and next year:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Last Year | This Year | Next Year | Year Three |
| Sales Revenue $ |  |  |  |  |
| Business Expenses $ |  |  |  |  |
| Profit $ |  |  |  |  |
| Milestones |  |  |  |  |
| • number of jobs |  |  |  |  |
| • average $ per job |  |  |  |  |
| • number of employees |  |  |  |  |
| • sales $ per employee |  |  |  |  |
| • smallest $ job |  |  |  |  |
| • largest $ job |  |  |  |  |
| • |  |  |  |  |
| • |  |  |  |  |
| • |  |  |  |  |

**Sources of Working Capital ($ to fund the business)**

When you start a business, there is seldom enough revenue from sales operations to cover initial expenses and the costs involved in growth. Many businesses fail because they cannot cover expenses in the early days. Identify in advance where your working capital will come from.

|  |  |  |  |
| --- | --- | --- | --- |
| Funding Source | Year One | Year Two | Year Three |
| • Savings |  |  |  |
| • 401K/IRA |  |  |  |
| • Sale of assets: real estate, securities |  |  |  |
| • Second mortgage |  |  |  |
| • Credit card cash advance |  |  |  |
| • “Rich uncle” (friends and relatives) |  |  |  |
| • Bank loan |  |  |  |
| • Private investor or “angel” |  |  |  |
| • Supplier credit |  |  |  |
| • Re-invested profits (your business) |  |  |  |
| • Other: |  |  |  |

The following are not viable sources of business funding:

• Spouse’s income.

• Part time jobs.

• Bake sales and car washes.

• Children’s allowances.

• Illegal activity.

**Operational Elements**

Creating the product is important, but delivering it consistently and profitably points to a business’s operations and overall ability to execute the plan. Think through each of the following and estimate costs and time needed. Use this worksheet as a quick start and checklist. Create financial spreadsheets and other documentation as your business plan comes together.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Project or  Purchase | Estimate d Cost $ | Who’s  Responsible | Deadline  Date |
| • Location and infrastructure |  |  |  |  |
| • Licenses and business registration/incorporatio n |  |  |  |  |
| • Staff organization and benefits |  |  |  |  |
| • Marketing plan |  |  |  |  |
| • Accounting and success measurement |  |  |  |  |

**Three Key Points for Today**

**1. Double the planning time and cut the implementation time in half.** It’s easier and less costly to do the planning on paper than to learn by trial and error. This points to the value of constructing your business plan early in the game.

**2. The biggest challenge is competing for attention.** We are continually bombarded with information today, and things are unlikely to change. This points to the value of your marketing plan in the overall scheme of things.

**3. Someone has to handle the business.** If not you, find someone who will. This points to the value of identifying your strengths and weaknesses and building your team.

**Action Items**

List your follow up activities here while they are fresh in your mind.

|  |  |  |
| --- | --- | --- |
| **Item** | **Who Helps** | **Deadline Date** |
| 1. |  |  |
| 2. |  |  |
| 3. |  |  |
| 4. |  |  |
| 5. |  |  |
| 6. |  |  |
| 7. |  |  |
| 8. |  |  |
| 9. |  |  |
| 10. |  |  |
| 11. |  |  |
| 12. |  |  |