



Business Planning for Contractors 2009-2010

Part 1



In Part 1 of Business Planning we are going to review 2009 and plan for 2010. I am borrowing some thoughts from *Tony Robbins*, one of the best known motivational speakers and educators. I also got help from my late friend Sonny Lykos, who was in business many years and was familiar with this exercise.

First thing, describe your business. What is it exactly that you do? What is it exactly that you want to do? Are the two the same? Write it down so you can see and touch it, make it yours. This is no time to get lazy. You'll want a reference point throughout this exercise.

➤ **ASSESSING 2009**



In reviewing 2009, we want to look at all the issues, not just the good stuff that has happened. This is called an honest evaluation.

Let's start with the following.

- How much business will be sold, built and collected by December 31?
- What will be your net profit?
- What will be your gross profit?
- What will be your gross margin?
- What will be the owner's total compensation?
- How many leads did you receive?
- How many leads turned into actual appointments with customers?
- How many jobs did you sell?
- What was your sales-to-leads ratio?
- What was the average sale price?
- What markup (or gross margin) did you use?
- Did you use just one markup or did you fall into the trap of different markups on different jobs?
- List all of your lead sources.
- List the leads and sales in each category.

- Calculate the cost of each lead in each category.
- Who are your employees?
- What are their skills?
- What is their record of on-time performance, both showing up for work and getting jobs done?
- Do you have dead wood on staff?
- List the good and bad experiences you've had with each employee.
- If there was a problem, did you come up with a solution and implement it?
 - Do you have a program in place for cross training employees?
 - Are any of your employees willing to be cross trained?
 - Are any of your employees willing to cross train others?
 - Who can you train to cover for or replace you?
- Do you have ongoing relationships with any of your subs? Which ones?
- What subs are on your "don't use again" list, and what subs are on your "call first" list?
- What is their record of on-time performance, both showing up for work and getting jobs done?
- What are the strengths and weaknesses of each of your subs?
- How was your safety record?
- Did you hold regular safety meetings?
- How did each of your jobs end this year?
- Are you on good terms with the building owner or was it a relief to both of you to end the job? If things went wrong, where and when did they go wrong?

“You don't know where you are or set a course for where you want to go until you know exactly where you have been.”

You should be getting the idea of where I am going with all this. You don't know where you are nor can you set a course for where you want to go until you know exactly where you have been.



Compiling the info above, plus anything else you can think of that is important, will give you a clear picture of your company and how efficiently it is running. It will also tell you if you are a good owner/manager or if you have become one.

Now answer these questions (from Tony Robbins):

What are the key strengths of your business?

Do you have a unique selling point that separates you from your competition? Write it down.

What are the weaknesses or challenges of your business?

Put this down on paper also, so you can see it, read it and most importantly, own it. We are where we are and that is a fact of life. Face it straight on.

› BUDGETING FOR 2010

I have been through eight cycles in this business for the last forty-plus years. A cycle that was high, with a great business climate and more business than anyone could handle, down to an economy in the tank due to high interest rates and “Oh, woe is me” attitudes. Then back up to “everything is beautiful.” It is the same old story. Things repeat themselves every five to seven years.

I think we are at or near the bottom of a cycle, waiting for things to get better. That said, for planning purposes

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it would be good to assume that 2010 will be about the same as 2009. Take a conservative approach, and if you can surpass your goals and projections, that’s terrific.

Estimate how much business you will do in 2010. If you have been in business more than three or four years, you might be able to forecast an increase of 5-8 percent growth, maybe more

depending on your market. If you have been in business less than three years, your growth can be as much as 10-30 percent as your business becomes known. Most, if not all, of your growth next year will depend on your marketing programs for 2010.

Remember, when the economy tightens up you must increase your advertising budget, not reduce it. Those that cut back on their

advertising when the economy makes an adjustment, go away. Cutting your advertising budget to save money is like stopping your watch to save time.

I recently spent three days working with a company in Florida that is doing exceptionally well in this business climate. They have a solid marketing plan in place supported by a good budget. They schmooze and they ask for referrals. They take self-promotion seriously and as a result they will do over \$6.5M this year. Best part of it is their net profit is well over 10 percent. Their biggest concern is how to get the jobs done. It all boils down to your marketing campaign.

If you aren't sure how to estimate how much business you will do next year, use the owner's compensation method. Determine exactly how much money you, as the owner, want to make next year, and divide that number by 8 percent (.08). The answer is the amount of business (in dollars) you must sell, build and collect for the company to support your salary.

► **BREAKING DOWN YOUR SALES GOAL**

You now have your sales goal for 2010. Let's say you want to sell, build and collect \$1.5M. That is 7 percent more than the \$1.4M you sold, built and collected in 2009. The math shows you can safely pay yourself \$120,000 compensation for 2010. ($\$1,500,000 \times .08 = \$120,000$). That should keep you focused.

Now the question that begs to be asked is how do you get that \$1,500,000 in the door? Let's assume that your overhead figures

this year (2009) were 31.5 percent of total sales.

Because the economy is tight and will be for the next year, and your focus needs to be on getting (or keeping) your company debt-free, you will be forced to maintain the 31.5 percent overhead and spend not a dime more. That is the way a disciplined and prudent company is run. Cardinal Rule #8 is: You shall honor your overhead budget at all times, and spend not

otherwise. If you haven't been doing that, this is a good time to start.

Our overhead for next year will be a total of \$472,500, of which you

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will pay yourself \$120,000, and 5 percent of your total budget is for marketing. 5 percent of \$1,500,000 is \$75,000. So subtract those two expenses from your overhead budget ($\$472,500 - \$120,000 - \$75,000 = \$277,500$). We now have \$277,500 to pay the entire balance of the overhead for the company.

For larger companies, you might consider hiring a full time Marketing Manager. I have read several reports about companies putting such a person in place and it seems to be working well. It is worth looking into.

Now look at what you spent last year and where you spent it, and apportion the \$277,500 available to pay those bills in 2010. Make a plan to have 2010 a “No New Toys” year. Sorry, but the discipline must start somewhere and this is as good a spot as any.

► SALES PLANNING FOR 2010

Now sales. Reviewing our numbers from 2009 we find that we sold 43 jobs with an average sales price of \$32,558. If you sell primarily large jobs with a few small ones, throw out the small ones when calculating your average sales price. You want the average to be as close to average as you can get.



If your sales-to-leads ratios are normal, you will sell about 1 in 4 leads. That means to sell 43 jobs, you need 172 leads. For safety's sake, add about 20 percent to cover the possibility of more “tire kickers,” “I want a square-foot price,” or “I am just looking for the cheapest price,” calls next year. 172 plus 20 percent means you need 206 leads.

In your review of 2009, you found that your average lead cost you \$73. So to generate 206 leads in 2010 you can reasonably expect to spend $206 \times \$73$, or \$15,038 to get the leads in the door.

This is well short of the budgeted \$75,000. Where does the balance of the money get spent? Part of your review from last year was to:

List all of your various lead sources.

List the leads and sales in each category.

Calculate the cost of each lead in each category.

That tells you where the best place is to spend the initial investment of \$15,038. Now let's enhance the number of leads that come in from each source. If you know that your web site generated half your leads last year, it would be smart to enhance your web site so you get the maximum advertising value from that source. If you do kitchens and baths, why not have a web page for each? Can you add testimonials or pictures?

Have you tried direct mail advertising? What have you tried that generated the type of leads you want? That is where to invest your money. Check the results monthly and adjust your advertising as needed.

Want to learn more? Read Part 2 to continue this exercise and finish planning for 2010.

Michael Stone (www.markupandprofit.com), author of two construction business management books, "Markup and Profit; A Contractor's Guide" and "Profitable Sales, A Contractor's Guide" has more than four decades of experience in the building and remodeling industry. He provides Coaching and Consulting services for construction companies throughout the U.S., as well as audio and CD programs for business management. He can be reached by e-mail at michael@markupandprofit.com, by phone at 1-888-944-0044, or on the web at www.markupandprofit.com.