

# HOW TO WRITE A BUSINESS PLAN FOR BUILDING AND CONSTRUCTION COMPANIES

Business planning is an important management tool for either a start-up or an existing business in any industry.

A sound business plan is often required by external parties such as financiers and investors, insurers and government organisations, but is equally important for the internal analysis and planning purposes. Both business owners and managers and the external stakeholders want to see a profitable business run for a long-term success.

A business plan is a dynamic document and ideally should be reviewed each time

a significant event happens in either the business's internal or external environment. A good approach would be to set a structured plan and then review and update it at least annually. The financial projections part of your business plan can be used as your annual budget.

Business planning is a part of a continuous strategic management process most successful companies employ. It involves the following key stages: market research, external factors and internal capabilities analysis, planning for success, implementation and execution and evaluation. Going through all of these stages promotes strategic thinking, and as such maximises your chances to succeed and reduces your chances to fail.

Business plan structure is similar for any company, big or small. The Australian Department of Industry provides a lot of valuable business planning resources on its website, [business.gov.au](http://business.gov.au), and recommends structuring the information around four major sections: the business, the market, the future and the finances.

## The business

Generally, a business plan should answer four questions about your business: What? Why? How? Who?

**What** are your products and services?

Describe your business concept, pricing strategy, and how you want your customers to perceive your product or service.

For example; a construction business may position itself as a regional or national individual house builder who caters for the first home buyer.

**Why** would customers want to buy your products and services? What value proposition do you have for your customers? How it is better than the exiting market offer or, in other words, what is your competitive advantage?

Most companies in the construction industry use product differentiation business strategy to gain a competitive advantage. A construction product can be differentiated based on unique design, superior quality or customer service and timeliness. House and land packages and special inclusions are other possible product differentiation strategies, predominantly used by larger-scale builders.

Price differentiation is an important source of competitive advantage, provided the builder has a strong reputation and still competes on the basis of quality and timeliness.

**How** do you do it? Describe your operating model, functional strategies, what resources, competencies and capabilities you have. Explain how you create value and achieve the superior quality, customer service, timelines and efficiency that drive your competitive advantage.

A successful construction business should have established operational systems and procedures in place. Both primary and secondary activities should be covered, for example:

- Client relations management. A good CRM system helps to keep customers informed and engaged, and also documents all interactions properly, which greatly reduces chances of any costly disputes.
- The construction process. Project planning and scheduling is absolutely essential in construction, so are the project safety, quality and financial controls applicable to each stage. An effective construction process is the key source of the competitive advantage.
- Compliance with industry regulations. Construction industry is an industry highly regulated by the government. Issues such as registrations and licensing, safety and quality, adequate insurance cover, local and state building standards, approvals and zoning, pollution, etc. should be addressed through appropriate internal processes and continuously monitored.

- Advertisement and marketing strategies. Word-of-mouth is one of the most effective marketing tools, especially in the construction industry. Other common promotional methods include: display homes construction, direct marketing, on-site advertisement, advertisement in local newspapers and directories, online campaigns, and marketing through affiliates such as local architects and developers.
- Labour and material procurement. According to an Australian market research company IBISWorld, material costs absorb approximately 30 per cent of the house construction industry revenue while payments to subcontractors form another 30 per cent. Established relations with reliable suppliers and subcontractors are important in securing competitive prices, sufficient and timely supply of materials, and access to skilled labour even when demand, driven by the cyclical nature of the industry, is high.
- Information systems. What software packages do you have? Do they help you to run your business in the most efficient way and eliminate errors and duplication of effort, which happens when same data gets entered in multiple disintegrated systems?
- Human resources. For larger companies, an effective organisational structure helps make most use of the team members' talents and aspirations.
- Risk mitigation. Construction business is risky: projects often run behind schedule and over budget. Analyse those risks and set up a risk mitigation plan to manage them.

Policies and procedure can be devised as standalone documents and included as addendums to the business plan. Your business plan should set directions for each business process documented in a policy or procedure.

**Who** runs the business? This is an important question for the external stakeholders such as investors and insurers, and they often read it first. Experience, skills and personalities of the management team have a huge effect on long-standing success of any company. According to IBISWorld, up to 60 per cent of Australian building businesses are non employing establishments comprising sole proprietors and partners, thus the owners' professional background is of a paramount importance.

#### The future

Outline your vision and mission. What are your highest hopes and brightest dreams and what does your business do to achieve it?

How do you see your business in 1, 5, 15 years time? Set short and long-term goals and support each goal with several more specific and measurable objectives to track your progress. Most commonly set business goal "To be profitable" may be matched with objectives such as "To generate gross profit of 20 per cent in Year One and 30 per cent in Year Two".

#### The market

Business planning process should start with market research. It is essential to base your business strategy, goals and objectives on what you've learnt about the market. Market research should cover the following major components influencing your business: the industry conditions, competitors and customers.

How is your **industry** behaving and what factors influence it? Is there a place for your business in the market, or a space for it to grow? Construction industry is cyclical and regularly fluctuates between periods of high and low activity in the cycle. It is important to identify where the industry is in the cycle and plan accordingly for the slow periods. The building and construction industry associations constantly track various external drivers to assess the industry position.

The **completion** in the construction industry is high and it is vital to know your competitors, their strengths and weakness, and the key factors that make businesses succeed.

#### Companies exist to satisfy **customers**.

Understanding your target customers helps providing maximum value to them. What do they want? How do they behave? What can they afford?

Use the information gathered about the external environment to analyse your company's Strengths and Weakness and your industry's Opportunities and Threats, the so called SWOT analysis. This is the basis for developing and sustaining a competitive advantage for your company.

#### The finances

The financial plan is a business plan component which you always prepare very last. The financial projections translate strategies and goals into numbers, and help efficient capital requirement planning and performance tracking.

Start your financial planning with sales projections. Sales projections should take the industry's cyclical fluctuations into account and be supported by the company's available resources and capabilities.

**Cash flow** projections take all incoming and outgoing cash into account and show if the company has enough cash to pay its bills. This report is always scrutinised by lenders as they want to see that the business is able to make its loan repayment.

**Profit and loss** account demonstrates if the company is making any profit. Profit is the key financial performance measure and one of the major business objectives. The business's profit target should be both acceptable and achievable. An acceptable profit target should equal the minimum amount required for the operation to remain viable, be sufficient to remunerate business owners for their time and effort, and provide reasonable return on the funds invested in the business.

An achievable profit target depends largely on the business efficiency, but would most probably not exceed the industry's profitability. Industry profitability is driven by various market forces and fluctuates in accordance with changes in the competitive conditions, customers and suppliers behaviour.

It is good practice to establish various financial performance metrics, or financial key performance indicators (KPI), and compare them with the industry's standard and best practice. This benchmarking process will help you to analyse your business processes further and to improve it if required.

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