

Year-End Planning, Part 1

By Michael Stone

We have a ten part series on our blog titled "Steps to Positive Cash Flow" (www.markupandprofit.com/tag/steps-to-positive-cash-flow). A common thread is knowing where things stand. Are sales on track with your projections? Is your overhead spending within budget? Where are you?

So, let's start with what you know about this year. This applies to any type of construction-related business, it doesn't matter if you are a general contractor or a specialty contractor, building new homes or remodeling, residential or commercial. Adapt as needed, these questions apply to every construction-related business.

STEP 1 - COLLECT DATA

Your planning process will begin with answering these questions. They help you look honestly at this year.

Sales and Profitability

Sales Performance

- How many leads did you get in?
- How many leads turned into actual appointments?
- How many jobs did you sell?
- What was your sales to leads ratio?
- List all of your lead sources.
- List the leads and sales in each category.
- If possible, calculate the cost of each lead in each category.
- If possible, calculate what each new customer cost you to obtain

Financial Performance

- How much business will be sold, built and collected by December 31?
- What will be your net profit? Gross Profit?
- What will be the total owner's compensation?
- Did you pay yourself a regular salary for owning and running your business?
- What was the average sale price?
- What markup (or gross margin) did you use?
- Did you use just one markup or different markups on different jobs? If you used different markups, what was the rationale?
- How close did your estimates come to your actual job costs?
- If your estimates aren't close to actual job costs, what can you do to improve them?

Overhead

Overhead Expenses

- How much was spent on overhead last year? How does it compare to the budget that was set?
- What unexpected expenses were incurred?
- How large is the "miscellaneous" or "other" category on your P&L? Go back and look at each one, and properly categorize it if possible. Miscellaneous doesn't tell you anything, it should only include small, one-time expenditures, not to exceed \$100.

Office / Office Staff

- Do you have staff members that might function better in a different place in the office? And here is a question few owners want to face; do you have staff members that just need to be replaced or aren't needed at all? There is a graph in Chapter 6 of *Markup and Profit, A Contractor's Guide Revisited* (<https://www.markupandprofit.com/more/markup-profit-revisited/>) showing the relationship between employees and production; use it to determine if you have the correct number of employees for your sales volume.
- Does your office run smoothly? Can things be found that need to be found?
- What equipment needs to be repaired or replaced? What can you make work for one more year? Yes a new printer would be nice, but do you really need it?
- Is the traffic flow in your office good or do you need to rework or remodel your office next year for a more efficient operation?
- Is your showroom a collection spot for almost anything that comes in the front door, or is it kept neat, clean and ready to help your customers make buying decisions?
- Are parking spaces in front of the office reserved for potential clients only? Staff, subs and suppliers should park away from the front entry so your customers have easy access to your front door.
- Is the signage on the front of your building warm and friendly, telling the passerby exactly what you do? Do you have a sign over the back door so your business is easy to find from the backside?
- What kind of condition is the exterior of your building in? Do you have windows and doors that need repair, paint that is peeling, roofing that won't keep the water out? Do you have piles of junk or building materials, old trailers or vehicles sitting around cluttering up the yard?

Other Expenses

Look through your P&L and review the other expenses in your overhead. Are they reasonable? Have you recently investigated other options for insurance, telephone and rent? It never hurts to take a few minutes to ask questions, maybe talk with some new providers.

Production

Employees

Some companies have cut way back on employees over the last 3 – 4 years. Most are now down to the bare minimum necessary to get the job done, which makes this next section even more important.

- 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?
- List the good stuff they did and any problems you had with each employee.
- If you had a problem, did you come up with a solution and implement it? Did it work?
- 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?
- Do you have deadwood on staff and what are your plans to resolve that issue?
- Who can you train to cover for or replace you? You should have someone in place who can run your company if you need a vacation or if you are unable to work for a time. Begin planning who could handle this, and how they can be trained.
- Do you have an employee manual? (If not, [take a look at ours](https://www.markupandprofit.com/more/employee-manual/), <https://www.markupandprofit.com/more/employee-manual/>)
- How was your safety record this year?
- If there were safety problems, what has been done to resolve those problems?
- Did you hold regular safety meetings?
- Are you up-to-date on OSHA and state laws that pertain to lead paint, PCB's, Radon, asbestos and other related hazardous materials?

Subcontractors

- What subs do you have an ongoing relationship with?
- What subs are on your "call first" list, and what subs are on your "don't use again" list?
- How dependable are your subs? What's their record of on-time performance both showing up for work and getting jobs done?
- What are the strengths and weaknesses of each sub?
- Do you have a signed agreement with each sub, a subcontractor manual? (If not, [check out ours](https://www.markupandprofit.com/more/subcontractor-manual/), <https://www.markupandprofit.com/more/subcontractor-manual/>) You must protect yourself and your company from guys who are just trying to collect a paycheck at your expense.

Suppliers

- What suppliers do you regularly use?
- How is their customer service? Are the materials on time and as ordered, or are there regular issues with what's supplied?
- What suppliers are on your "only if hell is freezing over" list?

Jobs

- How did each job end this year? Are you on good terms with the building owner or was it a relief for both of you to end the job?
- If things went wrong, where did they go wrong? What have you done to be sure this stuff doesn't happen again? Is it in writing?
- What if anything have you done to make things right with the owner? Can you now ask them for a referral?
- Just as important, have you done a thorough recap of each problem job with the employees involved to prevent those problems from happening again?

Tools & Equipment

- Have someone compile a complete list of all tools and equipment owned by the company, complete with serial numbers, make, model and instruction books. Their condition, any expected repairs and the cost of those repairs should be noted. You should also inventory all fasteners, saw blades, and any other parts and/or pieces that are used with your tools or equipment.
- Who is that tool assigned to?
- What needs to be repaired?
- What needs to be replaced?
- Did you spend more this year to rent equipment than you would have spent purchasing the same equipment?
- Do you have equipment in storage that should be sold? If it has enough dust that you can spell your name on it, maybe it is time to sell that critter.

Vehicles

- Are all of your vehicle licenses up to date? Do you have all the VIN #s and license plate numbers written down and easily accessible? Should you sell one or more of your vehicles that are sitting and not being used? Are all your trailers legal, including lights, license and weight postings? What do the tires on your trailers look like?
- Did you pay more this year for moving equipment to different job sites than you would have spent if you had a trailer for that equipment?
- What vehicle(s) needs to be repaired?
- What needs to be replaced?
- Do you have a written maintenance schedule in place for each vehicle?
- Do you have each vehicle assigned to one person to be sure that maintenance is done on that vehicle on a regular basis?

Inventory

Plain and simple, you should not have any inventory. If you have leftovers from a job, take them back to the supplier and pay the restock fee. It is far cheaper than maintaining a storage facility. A restocking fee, by the way, should always be included in your estimate if you are not absolutely sure of the materials needed.

Big Picture

- What type of work did you do this year?
- Is that work in line with what you wanted to do?
- What are the key strengths of your business?
- Do you have a unique selling point that separates you from your competition?
- What are the weaknesses or challenges of your business?
- Importantly, what kind of jobs did you do that brought in the most profit? Call this your best percent of revenue. Check your books and find out, you might be surprised.

Over the next few weeks, when you remember that problem you fixed on a job that could have been prevented, or the employee who went overboard to do the right thing, the supplier who delivered on time, every time, make a note of it and include it here. The odds are that if you sit down and try to remember everything at once, you'll forget most of it.

STEP 2 - THE FUTURE

Now we're going to start making projections. This happens after you've looked at the past. It's difficult to set an overhead budget for the coming year unless you've projected your sales volume first, so we'll quickly set a sales volume projection.

Project Your Next Year Annual Volume

I have been through eight cycles in this business over the last fifty plus years. Think of a cycle like a roller coaster ride – there are the highs, with a great business climate and more business than anyone can handle, to the lows, with an economy in the toilet for all sorts of reasons, political and otherwise. Then it goes back to a high. Our economy seems to repeat itself every five to seven years. There is history in this business and if one pays attention, one can learn and profit from it.

2020 has been a challenging year for most small businesses. For planning purposes, it might be safe to assume that next year will be the same as this year. A conservative approach would be to assume next year is slightly worse than this year. If it's better and you can beat your goals and projections, that's terrific. Go with your gut and make your own projection for next year based on what you know about your area, your business, and what you want to aim for.

As we have said in previous newsletters, many companies we work with have as much business as they can handle. That's because they have a solid marketing plan in place supported by a good budget for advertising and promotion. They work hard at and have built a good referral network. They make it a point of staying in front of the buying public. It is possible to make things happen but as the old saying goes, "If it is going to be, it is up to me."

If you aren't sure how to estimate how much business you'll do next year, use the Owner's compensation method. If you've been in business less than 5 years, determine exactly how much money you, as the owner, need (or want) to make next year and

divide that number by 8 percent (.08). (If you have been in business five years or more and your business is relatively stable, use 9 or 9.5 or 10 percent instead.) (.09, .095, or .10) The result is the volume of business you must sell, build and collect for the company to support your salary. That is one method of setting your sales goal for next year – as long as the result is realistic.

Example: You've been in business six years and assume you can draw a salary of 9.5 percent. You need a personal pre-tax salary of \$80,000. Divide 80,000 by .095 and your total volume will need to be \$842,105 or \$850,000. (See [this writeup](https://www.markupandprofit.com/articles/calculating-for-taxes) for more on your salary and taxes.) (<https://www.markupandprofit.com/articles/calculating-for-taxes>)

Let's say you've set a projected volume of \$855,000. And you know that your overhead expenses for this year were 33.15 percent of total sales. Because the economy is tight and might continue that way, your focus needs to be on getting (or keeping) your company debt free, so you're going to force yourself to maintain the 33.15 percent overhead and not spend a penny more.

So your overhead budget for next year will be a total of \$283,433 ($\$855,000 \times .3315$). From that, you will pay yourself \$68,400 (8 percent of \$855,000) and you're setting aside \$42,750 (5 percent) for marketing. Subtract those two critical expenses off your overhead budget (owners salary and marketing), and you have \$172,283 to pay the remaining overhead for the company.

How to spend it? Look at what you spent this year and the year before, and use that to determine where the \$172,283 will be spent next year. Until you find out that next year will be the absolutely best sales year ever, plan to make it a "No New Toys" year. Maybe next year.

Plan Your Overhead Expenses

Below is a list of the things that should be resolved regarding overhead during this planning session. Using the stats you compiled from this year, it should be a relatively easy task.

As you work through your overhead, always have an attitude that says, "Where can we save", not "Where can we cut". The attitude of "Where can we save" means thoroughly analyzing the subject at hand. What is it, where and how is it used? Can we use it differently or in conjunction with other things? What can we do to reduce the cost of owning or operating the item? Can we extend its life, can we reduce the maintenance required for successful operation? Saving costs requires a long-term view and results in a thoughtful decision.

"Where can we cut?" is an emotional reaction. It means eliminating something completely so you can save money today, but it doesn't take the long-term view. Normally this happens after giving a subject little thought, it's a reaction that just wants to eliminate an expense. The two are as different as daylight and dark, and if you're prudent, you'll focus on saving rather than cutting.

One of my favorite guys, Brian Tracy, said, "Decisiveness is a characteristic of high-performing men and women. Almost any decision is better than no decision at all." It's time to make some decisions.

Staff

- What is your budget for salaries for office staff for next year?
- Are classes or seminars available to help them do a better job?
- Do you have a plan in place to take key people to at least one convention this year?
- Do you have a plan in place to purchase (and read) at least one new book per month?
- Is there someone you can bring in, a coach, a consultant, a trainer that can provide training for you or your staff? Do you have problems or issues that warrant that? (How do you pick a coach or consultant? [Check this page](https://www.markupandprofit.com/services/coaching-and-consulting/) (https://www.markupandprofit.com/services/coaching-and-consulting/) for an outline of what to look for.)
- Have you scheduled your year-end review for each member of your staff, which should include reading and signing your employee manual? If you don't have an employee manual, here is a good place to start - [Employee Manual](https://www.markupandprofit.com/more/employee-manual/) (https://www.markupandprofit.com/more/employee-manual/)

This review should include an analysis of their performance this year as discussed in our last article. Ask yourself this question for each employee: Do I need this person in this job? Are they doing the job they have been hired for and I am paying them to do? Should I combine two or more jobs, or should I hire another to share their workload?

Education for next year

What educational programs do you need for yourself and your staff? After your review of the current year, you should know if you or your staff need outside instruction on how to do things more efficiently and/or more profitably.

As stated above under "*Staff*", plan on adding at least one new book to the company library each month. Place someone in charge of the library, checking books in and out so they don't wander away permanently.

Plan on attending at least one convention in the next year. You should try to take your key people with you. This is not a fun and games trip, this is an educational trip. You and your staff should take advantage of every class available. Play after the convention.

Paperwork

- What is your budget for paperwork for next year?
- Does your contract need updating? (Most do)
- Do you have pre-printed change work order forms, or are you using other forms?
- Do you have pre-printed Right of Rescission forms?

- Is your company Employee Manual up to date, a copy on file for every employee? Has everyone signed the manual? This should be done by the end of January at the latest.
- Is your subcontractor manual up to date? Are you using an agreement with a separate form for each job? Are all your subs required to sign the agreement before they are allowed onto any job site? If you don't have a subcontractor agreement, [start here](https://www.markupandprofit.com/more/subcontractor-manual/) (https://www.markupandprofit.com/more/subcontractor-manual/).
- Do you have a standard checklist in place for your office manager to check that your subs license, bond and insurance are always up to date?
- Does your company provide or help with obtaining financing for your customers? Do you have a checklist to cover every step that needs to be taken to obtain the financing needed for your work? Remember, obtaining financing right now is getting easier and all the indicators are that it will continue to be for the next year, and perhaps a bit longer. Lenders as always are cautious with their money.

Office

- What is your budget for office equipment for next year?
- What new equipment do we need?
- If you have a showroom, part of your planning this year needs to include what needs fixing, repairing, replacing of just plain finishing. If you have flooring that needs installation, put a date down to get it done. If cabinets need reworking or countertops need replaced, put it on the To-do list with a completion date. Customers are not impressed with half-done showrooms.

Tools & Equipment

- What is your budget for tools and equipment for next year?
- What will be your maintenance cost for next year for tools and equipment?

Vehicles

- What's your budget to plan for future vehicle replacement?

More in [Planning, Part 2](https://www.markupandprofit.com/articles/year-end-planning-part-2). (https://www.markupandprofit.com/articles/year-end-planning-part-2)

"By failing to prepare, you are preparing to fail." - Benjamin Franklin