



# AIA Best Practices:

## Business plans: The executive summary

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Contributed by the AIA Knowledge Resources staff

### Summary

“Failing to plan is planning to fail.” As the adage suggests, the development of a business plan is critical to the success of a new venture. Business plans vary in depth and length depending on the business venture and the intent of the plan. A plan can be used for business administration purposes to clarify an architecture firm’s goals and strategy, or it can be used to garner startup loans or lure potential investors. When used to secure initial financing, the business plan should be a formal, well-organized, broad-reaching document. If it will not be used to acquire a loan, the document can be a comprehensive executive summary.

### The core of a business plan

The U.S. Small Business Administration (SBA) website suggests considering four questions before writing a business plan:

1. What service or product does the business provide, and what needs does it fulfill?
2. Who are the potential customers for the product or service, and why will they purchase it from this business?
3. How will the business reach potential customers?
4. Where will the financial resources to start the business come from?

### Elements of a business plan

According to the *Architect’s Handbook of Professional Practice*, most business plans include three sections:

- market analysis
- operations management
- financial information

Similarly, the SBA outline for a business plan includes a cover page, statement of purpose, description of the business, marketing section, finance section, management section, and appendix of supporting data.

If an architecture firm does not require outside financial assistance to get started, a strong executive summary with supporting data can serve as a business plan. If the summary provides enough information to show the owner has thought through each aspect of a business plan, as listed above, it will suffice.

## The executive summary

Typically, an executive summary is fewer than two pages. If it is serving as the entire business plan, somewhere between two and five pages may be more appropriate.

The writing in a summary should be direct and to the point. Additional information can be provided in backup statements. For example, if an architecture firm's focus is to provide great customer service, the summary should explain what constitutes great customer service and how the firm will fulfill this guarantee.

The following is a sample of subtopics in an executive summary and a description of what should be covered in each section.

## The Company

The opening paragraph should state the name of the architecture firm, type of architectural services offered, name of the owner(s), location, and target market.

## Company Mission

Every company needs a driving mission such as high design, sustainable design, or great client relations. The mission statement can be used to differentiate the firm or define a niche market.

## Services

Succinctly describe which services the firm will offer, and which will be outsourced to subcontractors and consultants. A thorough description would include the names of subcontractors and consultants.

## Marketing Strategy

Unfortunately, potential clients do not start calling the day a firm hangs up its shingle. Word of mouth is a relevant marketing strategy, but it works only when there are clients to do the talking. Thus, firm owners need to develop a marketing strategy. This may include public relations or advertising, but the most important aspect of marketing is researching and understanding client's needs—and being able to fulfill those needs.

## The Competition

The section of the business plan that analyzes the competition is like the marketing section in its need for due diligence. Mine the local AIA component and chamber of commerce for data about competing firms. Determine how many firms could be considered direct competition, and analyze the current size of the market. This section should answer these questions: Is there room for another firm? Which companies are the firm's five biggest competitors?

## Target Market

Once the competition has been determined, define the firm's target market. Answer questions such as: Is the target market corporate clients, developers, public institutions, or private clients? What is the financial backing of potential clients?

## Management

Include a brief biography of the owner(s), and attach additional information in the appendix about past work and other relevant experience. Keep this type of information up-to-date.

## Operations

The operations section will need to be explored much further if the summary business plan is to be used for funding purposes. If the plan will not be used to acquire funding, this section can be one or two paragraphs. It should take the reader from the first day of operation through the first few years and include the following:

- where the firm will be located
- when the firm will hire staff, with associated financial benchmarks
- salary ranges for staff and the owner
- benchmarks for growth
- long-term goals

## Stage of Development

This section will continuously change throughout the life of an architecture firm and can be very brief. If the firm is not in operation, cite a timeline for startup.

## Financials

The goal of this section is to outline potential revenues for the first three to five years, and assess cash flow and profitability based on these projections. The terms "financial performance" and "cash flow analysis" may sound intimidating, but don't omit this information. If this area of the business plan is a struggle, go to the local bookstore or library and look for business references that can help.

Format calculations in three separate columns with different scenario projections for "as expected," "better than expected," and "worse than expected." Projections based on different circumstances are called "pro forma." Develop a pro forma condensed balance sheet and condensed income statement.

A pro forma balance sheet should include projected cash, current assets, current liabilities, retained earnings, and potential profit for each circumstance. Include subcategories for each.

A pro forma income statement should include expected revenues, expenses, and both net and gross profit for each circumstance. Remember that the firm or owner (depending on legal structure) will have to pay taxes

on gross profits. Start to think about the profit benchmarks and revenue amounts needed to meet profitability goals.

## Funds Sought and Utilization

Create a spreadsheet of all initial startup costs, the more detail the better. List any costs the firm will incur in the first two months of business. Categorize startup costs in a spreadsheet by one-time expenses (e.g., furniture and computers) and ongoing expenses (e.g., salary and utilities).

### Typical startup costs

- hardware (computers, printers, plotters, fax machine, phones)
- business cards
- software (accounting, BIM, CAD, graphic)
- legal fees for business startup
- furniture and fixtures
- startup advertising fees

### Ongoing Expenses

- utilities, rent, insurance
- public relations
- salaries

Once these expenses have been identified, define where the money will come from. Will the owner's savings finance the company? If not, how much external funding is needed, and where will it come from?

## Conclusion

Businesses do not always operate as planned, and initial projections may change drastically in the first year. Writing a business plan should provide insight into all areas of firm ownership and give a potential owner a direction to follow.

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## About AIA Best Practices

AIA Best Practices is a collection of relevant, experience-based knowledge and expert advice on firm management, project delivery, contracts and more, aligned with the *Architect's Handbook of Professional Practice, 15th edition*. See the full AIA Best Practices collection at [aia.org/aia-best-practices](https://aia.org/aia-best-practices).

This article corresponds to:

*Architect's Handbook of Professional Practice, 15th edition* Unit 1 - The Profession

Chapter 07 – Financial Management

Section 04 – Developing Annual Budgets and Profit Planning