STRATEGIC BUSINESS PLANNING FOR THE MINORITY CONTRACTOR

by

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ABSTRACT

To overcome competitive disadvantages that blacks historically faced in their efforts to enter the economic mainstream, federal programs to promote black business interests emerged under the auspices of the Small Business Administration. While government programs have improved black entrepreneurial prospects for competition on a competitive footing they are far from ensuring the success for black start-up firms. Successful transcendence into the mainstream for blacks, no less then for whites, depends upon optimal positioning and operating efficiency within an attractive industry.

A survey of minority heavy/highway construction contractors conducted during the course of research for this thesis, revealed that successful minority contractors in the construction industry have no other competitive advantage over their white competitors than their eligibility for SBA contract procurement assistance. However, these same contractors have gained several competitive advantages, such as expertise in pricing and performing public works construction, in the only sector of the market the Department of Commerce forecasts will grow. At the same time, their comparative advantage bears a competitive disadvantage. While government programs have assisted blacks in overcoming obstacles to their advancement, they have not reversed discriminatory trends in the private sector. Blacks still encounter persistent obstacles in their attempts to secure commercial financing.

This thesis concludes with a systematic and methodical planning process adapted from J. Macomber, A. Hax, N. Majluf and M. Porter, leading to a working business plan for a minority heavy construction contracting firm, the Shelton Construction Company. The four step strategy formulation and business planning processes evaluate the viability of the venture and establish the goals and policies by which its objectives may be achieved.
Acknowledgements

I wish to thank:

· The MIT Department of Civil Engineering, the MIT Office of the Dean of the Graduate School, and Bechtel Construction Company for the opportunity to advance in both my studies and profession;

· Professor Fred Moavenzadeh and Mr. Charles H. Helliwell, Jr. for their advice and guidance;

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· the Almighty for having blessed me all of the above.
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Chapter 1

Introduction

1.1 Overview

Technological upheaval, foreign competition, and economical volatility disrupt the predictable environment large companies need to maximize profits as the world undergoes a new industrial revolution. At the same time, small businesses spark a fresh outburst of entrepreneurship that awakens the spirit of free market capitalism just when the American economy needs it most. They create in sum total millions of new jobs throughout the nation that stabilize the economy, and they bear new industries that
facilitate change, offering promise for future U.S. economic competitiveness. These small businesses have been a hidden asset of the U.S. for many years, upon whose economic function the well being of American capitalism depends. They provide main support to free market values within the social-economic environment in which all U.S. economic activity takes place.

Governmental support has been absolutely crucial to the development of small business during the past four decades. After mass production had revolutionized the U.S. not quite a century ago, business leaders, analysts, government officials, and legislators shared in a recognition that the security and well being of the nation would have been jeopardized unless the actual and potential capacity of small business was encouraged and developed. To preserve free competitive enterprise, that which the U.S. adopted and embellished for its economy from birth, the 83rd Congress declared that the Government should aid, counsel, assist, and protect the interests of small business. Their commerce and trade policies set the stage to maintain and strengthen small business enterprises through government programs.

The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry to business, and the opportunity for the expression and growth of personal
initiative and individual judgement be assured. The preservation and expansion of such competition is basic not only to the economic well being but the security of this nation.

83rd Congress - 1st Session, 1953

Recognizing that socially disadvantaged business persons, possessed of their own uniquely fresh motivations, insights, and ideas for enterprise, deserve their own chance for economic participation, the Small Business Act of 1953 was passed by the 83rd Congress. It established the Small Business Administration (SBA) to promote and assist the economically disadvantaged in gaining equal access to resources necessary to develop small businesses. Since that time, numerous programs have been developed and implemented to assist disadvantaged Americans in their efforts to start new economic ventures. Many have been of particular importance to the black entrepreneur in his efforts to enter industries historically dominated by whites enjoying social, political, and economic advantages.

1.2 Research Goals and Scope

In an effort to address the challenges facing black transcendence into the economic mainstream, this thesis will concern itself with the formulation of a business
plan for a black contractor operating within public sector of the construction industry. The construction industry was chosen for several reasons. First, the relative share of black business participation within the industry is very low. Blacks represent a mere 2.26 percent of all U.S. contractors. They accounted for only 1.03% of total receipts in 1991. Second, construction is a small-business dominated industry. There are few barriers to entry, relative to other industries. And third, government contracts, many of which fall under SBA administration, are readily available to general contractors.

1.3 Thesis Organization

This thesis is organized as follows:

Chapter 2 presents background information for a business feasibility study and strategy formulation. The topics covered in chapter two are:

1. historical disadvantages for black businesses in America,
2. government policy towards black business development,
3. SBA contract procurement assistance,
4. the construction industry, and
5. black activity within the construction industry.

Chapter 3 reports and analyzes survey data, compiled for purposes of profiling the
Introduction

Chapter three includes:

1. objectives and methodology of the survey,
2. survey results and analysis, and
3. profile of the minority, heavy-construction contractor.

Chapter 4 illustrates a methodical process in business strategy formulation for a small, black, family-owned construction company. Chapter four includes:

1. the fundamental elements of strategic business planning according to Arnoldo C. Hax and Nicolas S. Majluf,
2. the core concepts of competitive strategy according to Michael Porter, and
3. the business strategy formulation for the Shelton Construction Company.

Chapter 5 introduces the business plan for the Shelton construction Company. Chapter five includes:

1. overview,
2. summary of the industry and the venture,
3. pro forma financial statements,
4. industry analysis,
5. form and organizational structures,
6. strategic plan, and
1 Introduction

7. operating plan.

Chapter 6 presents the conclusion of this thesis.
Chapter 2

Background

2.1 Black Business in America

The Emancipation Proclamation of 1863 granted to blacks personal freedom, but neither liberty nor resources to pursue business opportunities within the mainstream of the American economy. Immediately following the Civil War, the condition of America's new black citizenry was one of extreme chaos. Having been freed from slavery without either prior training for or previous experience with life in the mainstream, the last thing in the world new black citizens understood was economic self
sufficiency. Most blacks were unskilled and illiterate. None owned real property or had many possessions. Few even understood the rudiments of a capitalist system to which white children were accustomed from birth. Ill-equipped as blacks were for life away from the plantation, many actually remained behind on the property of their former masters. There they performed their traditional duties in exchange for food and shelter, rather than face a hostile socio-economic world that afforded them little opportunity for work for wages and no chance at all for education and training in entrepreneurial development.

Blacks of entrepreneurial means were an absolutely rare breed, who soon discovered they could not penetrate most businesses and industries within an economy utterly dominated by whites. Hungry for opportunity, those rare blacks turned to market opportunities eschewed by white-owned and white-operated firms in order to start their businesses. Thus, they entered those poorly remunerated occupations that were dirty, messy, arduous, and/or associated with service status, wherein they met no competition from whites, who considered such work beneath their station. As a result, black businesses emerged in furniture moving and hauling, barbering and cosmetology for a black clientele, and the operation of coal yards, livery stables, restaurants and hotels. Meanwhile, their entrepreneurship remained, of course, prohibited from high value added industries, such as manufacturing and construction, where vast profits were possible. Black entry into those industries was blocked through restrictive real estate
covenants and discriminatory licensing provisions, not to mention the practice and convention of white manufacturers, wholesalers, and consumers, and the legal institutions they dominated. The following occurrence in our own capital, Washington D.C., dating back to 1835, is indicative of a pattern that persisted long after black emancipation some thirty years later. When free Negroes demonstrated an early success in the tavern and restaurant businesses, whites, who controlled city government, passed an ordinance forbidding further issuance of shop licenses to blacks in order to protect white food service interests against black competition.

On the other hand, the same radical segregation that excluded blacks from the white-dominated social mainstream opened additional areas of enterprise for blacks following Reconstruction. In accord with segregationist principles, blacks were, indeed, allowed, if not encouraged, to provide services within their own neighborhoods in such areas as: insurance, banking, retailing of dry goods and other general merchandise, undertaking, and the manufacture of certain ethnic products for hair care and cosmetic purposes. However, the extreme poverty of their neighborhoods made it impossible for black business owners to generate the cash flow to expand their inventories beyond those basic goods for which there existed constant demand, yet alone to enter and compete within the mainstream economy. In fact, a lack of merchandise available to black stores even forced those few blacks escaping poverty to seek their more than basic goods or their desired variety in the larger, white establishments.
2 Background

Thus, a confluence of social and political, as well as economic, realities essentially forced the black entrepreneur to organize his/her enterprise along prescribed lines that were delimited according to prevailing white interests and ambitions. Nor can one argue that blacks brought failure upon themselves through premature renunciation of aspirations toward private enterprise as an avenue toward economic self-sufficiency.

Despite insurmountable obstacles, blacks persisted in their ambitions, as indicated by records from a black business conference at Atlanta University in 1889, where John Hope (who was to become the president of Morehouse College) said:

> It seems to me that the highest privilege, the greatest blessing, and the highest point of development which any man could seek is that of being an interested and controlling member in the foremost matters of his own country and through this interest and control becoming a partner in the world's activity.

His fellow delegates to the conference, who were black businessmen from several southern states, reinforced his sentiments in adopting the following resolutions:

1. Negroes ought to enter into business life in increasing
numbers. The present disproportion in the distribution of Negroes in the various occupations is unfortunate. It gives the race a one-sided development....Moreover, the growth of a class of merchants among us would be a farsighted measure of self-defence, and would make for wealth and mutual cooperation.

2. We need as merchants the best trained young men [and women] we can find...

3. The mass of Negroes must learn to patronize business enterprise conducted by their own race, even at some disadvantage....

In addition, the success of blacks during the decades following their emancipation within industries that were not monopolized by whites refutes arguments to the effect that blacks simply lacked the managerial competence for entrepreneurial advancement. The story of Madame Walker, who earned a fortune in black hair care products, illustrates just how much black entrepreneurial talent could and did accomplish within an unbiased market. On the whole, however, the collective plight of blacks in business was not encouraging. Social, political, and economic factors weighted against blacks did overwhelmingly disadvantage them, relative to their white equals, and absolutely prevent
them from economic transcendence into the mainstream of business activity. Moreover, after more than one hundred years of participation in the American free enterprise system, black business has not gained equal status with white business.

The following three tables summarize recent achievements by blacks within U.S. industry. Table 2.1 indicates most dramatic increases for blacks during a recent twenty year period from 1967 to 1987 in: business services, which include computer consulting, software development, management consulting, and advertising; and health services. Table 2.2 reveals that the total number of black-owned businesses has more than doubled during the same two decade period. From 1982 to 1987 alone, the number rose 37.7 percent, while the comparable gain for all U.S. firms was only 14.2 percent. (Although growth of black firms has surpassed the national average, growth of other minority firms has been still greater, increasing four fold during the same two decades.) Table 2.3 shows that total sales by black firms has risen more than four times from 1967 to 1987, while the national average increased by approximately one-third. (Again, other minority firms enjoyed a still greater increase in sales, well beyond the seven fold mark.)
2 Background

Table 2.1: Top 10 Industries for Blacks
(ranked by total revenue)

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<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Dealerships, Gas stations</td>
<td>$2,156</td>
<td>3,690</td>
</tr>
<tr>
<td>2</td>
<td>-</td>
<td>9</td>
<td>10</td>
<td>-</td>
<td>Business services</td>
<td>1,570</td>
<td>59,177</td>
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<tr>
<td>3</td>
<td>5</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>Health services</td>
<td>1,351</td>
<td>30,026</td>
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<td>4</td>
<td>6</td>
<td>6</td>
<td>4</td>
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<td>Special trade contractors</td>
<td>1,314</td>
<td>29,631</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>Miscellaneous retail</td>
<td>1,086</td>
<td>34,870</td>
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<tr>
<td>6</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>Eating &amp; drinking places</td>
<td>1,084</td>
<td>11,834</td>
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<tr>
<td>7</td>
<td>9</td>
<td>10</td>
<td>8</td>
<td>9</td>
<td>Trucking, warehousing</td>
<td>1,010</td>
<td>19,663</td>
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<tr>
<td>8</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>Food stores</td>
<td>1,001</td>
<td>8,952</td>
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<td>7</td>
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<td>Personal Services</td>
<td>960</td>
<td>56,772</td>
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<td>10</td>
<td>8</td>
<td>3</td>
<td>6</td>
<td>3</td>
<td>Wholesale trade</td>
<td>699</td>
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<td>-</td>
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<td>8</td>
<td>General contractors</td>
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<td></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>Insurance carriers</td>
<td></td>
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Source: Bureau of the Census
2 Background

Table 2.2: Number of Black Businesses
(in thousands)

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<tr>
<td>Black</td>
<td>163</td>
<td>188</td>
<td>231</td>
<td>308</td>
<td>424</td>
<td>160%</td>
</tr>
<tr>
<td>All Minorities</td>
<td>322</td>
<td>368</td>
<td>561</td>
<td>742</td>
<td>1,214</td>
<td>277</td>
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<tr>
<td>All U.S. Firms</td>
<td>7,489</td>
<td>8,730</td>
<td>9,833</td>
<td>12,000</td>
<td>13,700</td>
<td>83</td>
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Source: Bureau of the Census

Table 2.3: Total Sales
(in billions of dollars)

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<tr>
<td>Black</td>
<td>4.5</td>
<td>5.5</td>
<td>8.6</td>
<td>9.6</td>
<td>19.8</td>
<td>340%</td>
</tr>
<tr>
<td>All Minorities</td>
<td>10.6</td>
<td>13.6</td>
<td>26.4</td>
<td>34.5</td>
<td>77.8</td>
<td>634</td>
</tr>
<tr>
<td>All U.S. Firms</td>
<td>1,498.0</td>
<td>2,381.2</td>
<td>633.1</td>
<td>967.5</td>
<td>1,994.8</td>
<td>33</td>
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</tbody>
</table>

Source: Bureau of the Census

**1** Percent change calculated over the twenty year period from 1967 to 1987.
2 Background

2.2 Federal Government Policy

With President Kennedy's Address to the Nation on Civil Rights in 1963, white Americans finally came face to face with what they had been avoiding since the Civil War, the necessity to permit blacks economic competitiveness - that is: equal opportunity to succeed or to fail on the same terms as whites. The President voiced what had been the silent reality of black history -- that blacks had been denied the preeminent right to help themselves. In the President's own words:

In short, every American ought to have the right to be treated as he would wish to be treated, as one would wish his children to be treated. But this is not the case.

The Negro baby born in America today, regardless of the section or the state in which he is born, has about one-half as much chance of completing a high school as a white baby, born in the same place, on the same day; one-third as much chance of completing college; one-third as much chance of becoming a professional man; twice as much chance of becoming unemployed; about one-seventh as much chance of earning ten thousand dollars a year; a life expectancy which is seven years shorter and the
prospects of earning only half as much.

More than integration, more than government benevolence, blacks wanted the right to develop their own potential. Again President Kennedy echoed their sentiments:

> It seems to me that these are matters which concern us all - not merely Presidents, or congressmen, or governors, but every citizen of the United States. This is one country. It has become one country because all of us and all the people who came here had an equal chance to develop their talents.

> We cannot say to ten per cent of the population that "you can't have that right. Your children can't have the chance to develop whatever talents they have..."

I think we owe them and we owe ourselves a better country than that. Therefore, I'm asking for your help in making it easier for us to move ahead and provide the kind of equality of treatment which we would want ourselves -- to give a chance for every child to be educated to the limit of his talent.
In accord with President Kennedy's call for efforts to assist blacks in overcoming the social, political, and economic obstacles to their advancement, federal policy to assist black business emerged, albeit in fledgling form, through administrative action, although without legislative support. Under direction from President Lyndon B. Johnson, SBA administrator, Eugene P. Foley, initiated a pilot program, consistent with the mandate of his agency, to address the needs of disadvantaged, minority business enterprises. This SBA program, titled Six by Six (6 X 6), made $6,000 business loans with six year maturities. Later the provisions were expanded for greater loans to the economically and socially disadvantaged under the Economic Opportunity Act of 1966. Economic Opportunity Loans (EOL), as they were known, continued to constitute the substance of SBA minority enterprise activities until early 1968.

President Richard M. Nixon continued efforts to develop black business potential. While campaigning for the presidency in 1968, he enunciated what was to become the policy of his administration toward black enterprise. In his nationally broadcast speech, *Bridges to Human Dignity*, he made the following statement.

A third bridge is the development of black capitalism. By providing technical assistance and loan guarantees, by opening new capital sources, we can help Negroes to start new businesses in the ghetto and to expand existing ones.
Two months after inauguration, President Nixon issued the executive order that would develop a national program for minority business, and the Office of Minority Business Enterprise (OMBE) was established within the Department of Commerce to develop and coordinate federal programs for minority enterprise. When he signed the order, the President defined as the intent of federal policy to increase minority economic enfranchisement by establishing new minority-owned businesses in the ghetto and in the "larger commercial community."

Toward this end, the OMBE was expected to: organize all federal programs of assistance to minority persons seeking to establish or expand business; encourage and coordinate with the federal government efforts of private agencies; organize a national clearing house for information on minority enterprise; and establish an advisory council of outstanding private sector citizens. Because the role of the OMBE was purely a coordinating one, OMBE had only administrative funds of its own. The SBA was its primary funding agent.

Figures 2.1 and 2.2 summarize SBA loan activity to minority businesses for the more than twenty years, beginning just prior to 1970. Since peak lending in 1973, when more than 9,000 minority businesses received SBA loan assistance, the number of SBA loans has drastically diminished. Most recently, during 1990, less than 3,000 loans were granted. Although loans to minority businesses during the past two decades have decreased in number, average values for SBA loans have increased. The average SBA
loan in 1968, for example, was only $20,000; in 1978, it rose to $66,000; by 1988, it reached $156,000.
2 Background

Figure 2.1: Value of SBA Loans to Minority-Owned Businesses

Source: Bureau of the Census

Figure 2.2: Number of SBA Loans to Minority-Owned Businesses

Source: Bureau of the Census
2.3 Procurement Assistance

Three specific federal programs, relevant to this project will be discussed below. All are under auspices of the SBA. They are as follows: (1) Section 8(a); (2) Set Aside; (3) Minority Small Business and Capital Ownership Development Program.

Section 8(a) of the Small Business Act empowers the SBA to contract with federal procurement agencies for the supplies and services they have budgeted. After having done so, the SBA itself subcontracts with small business firms to furnish the needed goods and services. Thus, Section 8(a) permits the SBA to channel government purchases to small firms which otherwise might not be able to compete successfully with larger ones.

Figures 2.3 and 2.4, which follow, summarize Section 8(a) procurement activity with minority-owned businesses for most of the period from 1968 to 1990. Figure 2.3 reveals that annual values for 8(a) contracts have generally risen since the program's early years. By contrast, Figure 2.4 indicates that the number of 8(a) program participants rose only until 1980, when began a declining trend. Simple calculation confirms that average contract amounts have been consistently on the rise. In 1969, the average value for an 8(a) contract was $297,000; in 1979, it reached $500,000; by 1989, $854,000.
Figure 2.3: Value of 8(a) Contracts to Minority-Owned Businesses

Source: Bureau of the Census

Figure 2.4: Number of 8(a) Contracts to Minority-Owned Businesses

Source: Bureau of the Census

Data for 1975 and 1976 was unavailable.
Similar to the 8(a) program is the *Set-Aside* program. In the *Set-Aside* program, representatives from SBA's procurement center identify those services and supplies to be purchased by other government agencies from small business enterprises. These same representatives also evaluate the procurement operations of those same agencies to ensure a fair and reasonable price to the government. After having obtained SBA authorization, the government agencies themselves contract directly with the appropriate small business enterprises for their goods and services. Once contracts have been awarded, SBA officials offer assistance to the small firms in fulfilling their contractual obligations. Those agencies making the largest purchases from minority business enterprises through *Set-Aside* contracts include: the Department of Housing and Urban Development; the Department of the Interior; the Department of Health, Education and Welfare and; the Department of Transportation.

In 1978, the Senate Committee on Small Business conducted a study of the 8(a) and *Set-Aside* programs and their participants. They reported an unhealthy dependency of the participants on government assistance. The committee concluded: (1) the SBA's goals failed to foster business development; and (2) the participating minority business enterprises would not be able to compete in the private sector without ongoing assistance. As a result, Public Law 95-507 was passed that same year. Effecting significant changes within the Small Business Act, it redefined the mission of SBA's business programs by shifting their focus from that of contract assistance to that of
business development.

A similar study ten years later yielded Public Law 100-656, otherwise known as the Business Opportunity Development Act of 1988. It further amended the Small Business Act so as to offer more administrative and financial support to the 8(a) program. This law also allowed for growth through diversification of participating minority business enterprises.

The Minority Small Business and Capital Ownership Development Program (MSB&COD) is the third program authorized by Sections 8(a) and 7(j) of the Small Business Act, as amended by Public Laws 100-656 and 101-37. It's intent is to: (1) increase fairness in the distribution of taxpayer financed federal procurement contracts; and (2) enable minority owned businesses to overcome their historical disadvantages in order to compete successfully in the nation's free enterprise economy. To qualify for the MSB&COD program participation, the following criteria must be satisfied:

Ownership - 51% unconditional ownership by a U. S. citizen, Indian Tribe, Alaskan native corporation or Hawaiian organization determined to be socially and/or economically disadvantaged;

Social Disadvantage - membership within a group that has been subjected to racial or ethnic prejudice or cultural bias without regard to individual merit;

Economic Disadvantage - diminished capital and credit opportunity, compared to
others in the same business as a result of social disadvantage;

**Control and Management** - involvement in the daily management and operation of the business, commensurate with previous experience directly related to the business;

**Size Standard** - Classification as a small business as defined in Section 121 of the SBA Rules and Regulations;

**Potential for Success** - Evidence of business activity for two years;

**Business Type** - exclusion of brokers, packagers and franchisers; and,

**Term of Program Participation** - elaboration of a business plan for transcendence into the mainstream within nine years.

Qualified applicants are eligible to receive the following assistance:

- Sole source and competitive 8(a) contract support;
- Financial assistance (8(a) Loan Program);
- Exemptions from the requirements of the Walsh-Healy Act;
- Exemptions from the requirements of the Miller Act;
- Financial assistance in skills training or upgrading for employees or potential employees;
- Technology or surplus property via grant, license, or sale;
- Training in the development of business principles and strategies;
- Assistance in forming joint ventures to the applicant's equal advantage; and
• Training and technical assistance in transition into the open market.

Although government programs under SBA auspices have achieved only limited results, they have provided the best sources of support to black entrepreneurs entering the business world. The success of Set Aside Programs within the construction industry has been unmistakably obvious, enabling minority contractors to enter their industry in record number. Black entrepreneurs in other industries, unsupported by SBA programs, have failed to develop and maintain competitive positions in the face of discriminatory practices. In a study by Thomas Boston, Associate professor of economics at the Georgia Institute of Technology, 75 percent of the black owned businesses surveyed reported having encountered discrimination in attempts at bank financing.

To the dismay of black entrepreneurs, the 1989 Supreme Court’s Croson decision, which struck down the 30 percent set-aside program in Richmond, Virginia, has jeopardized the status of many SBA programs and their participants. In that decision, the court ruled that race- and gender-based Set Aside programs established by ordinance violate the Equal Protection Clause of the Constitution. Justice O’Conner wrote in her opinion:

A general assertion that there has been past discrimination

in the construction industry cannot justify the use if
unyielding racial quotas, since it provides no guidance for the city's legislative body to determine the precise scope of the injury it seeks to remedy and would allow race- and gender-based decision making essentially limitless in scope and duration. The city's argument that it is attempting to remedy various forms of past societal discrimination that are alleged to be responsible for the small number of minority entrepreneurs in the local contracting industry fails, since the city also list a host of non-racial factors which would seem to face a member of any racial group seeking to establish a new business enterprise, such as deficiencies in working capital, inability to meet bonding requirements, unfamiliarity with bidding procedures, and disability caused by inadequate track record.

That opinion and subsequent legislative reactions to it on both state and national levels will profoundly affect more than 95,000 American companies with 27 million workers, vying for federal contracts worth $184 billion.
2.4 The Construction Industry

On the one hand, construction's importance to those who study it is determined by its proportion of the gross national product (GNP). On the other, its importance to providers of goods and services is determined by the function of its products. No matter how one determines its importance to the economy, the fact that, in 1991, the value of new construction put in place was $415 billion, approximately 7.3% of the GNP, makes construction one of the most important elements of the U.S. economy.

Not only its importance, but also its nature, is in dispute. Economists and practitioners refer to construction as an industry, while private and public policy makers directly affected by its performance call it a "mess". John T. Dunlop, Lamont University Professor at Harvard, suggests that construction is most accurately described as a sector of the economy, much like manufacturing, transportation, and professional services, consisting not as a single activity, but rather as a group of activities loosely related to one another by the nature of their products, technologies, and institutional settings. "Were construction viewed as an industry, it would be one of the largest in the economy," Dunlop explains. "As a sector of the economy," he emphasizes, "it is one of the smallest, whether measured in terms of the value of output, or the number of persons in its activities."

For purposes of this study, construction will be examined as an industry, both fragmented and specialized, but far from a mess. In fact, I shall agree with Professor
Dunlop who contends:

The popularly held premise that construction is inefficient, backward, and susceptible to widespread and easy reform needs scrutiny... An alternative premise that emerges here is that given the instability in construction demand, the diversity and nonstandardization of construction products, the geographic diversity and isolation of sites, and the peculiarities of construction purchasers, the construction industry (with its specialized firms and labor force) is a highly efficient response to these conditions.

Construction currently employs roughly five percent of the nation's labor force. In 1991, it involved 4.9 million people, not counting the more than 1.4 million self employed proprietors and working partners. Of course, work in construction is seasonal, with the size of its labor force higher in spring and summer than in fall and winter. Moreover, its proportion of total employment is less than its proportion (as noted above) within the GNP, because the latter measurement is based on a final value of products, not intermediary costs.

Despite its volume in sales and receipts, construction is a small-business
dominated industry.\textsuperscript{3} The most recent federal census of construction firms has reported 538,647 contractors with payrolls (and 1,061,463 proprietorships and partnerships without). An average firm, which employs 9.5 persons and relies on floating labor, grosses $961,165 in total sales and receipts, despite stiff competition in the industry.

Profit margins within the construction industry range between only 3 and 6 percent. Lean returns and the cyclical demand for their services force small contractors to keep overhead low and obstruct their vertical integration within the industry. Hence, most small contractors specialize in a particular form of work\textsuperscript{4}, such as residential or highway construction, and operate in a particular locality or region. Only those who undertake the massive construction projects, such as dams and power plants, maintain national scope.

Four distinctive features account for the dominance of small businesses within the construction industry. (1) Fabrication is on-site. As in manufacturing, a physical product results from a value adding process. However, unlike manufacturing, construction produces a product at a site selected by the purchaser, rather than at a plant from which it is shipped to the customer. (2) Products are not standardized. In general,

\textsuperscript{3}The \textit{Handbook of Small Business Data} published by the U.S. SBA - Office of Advocacy defines a small business dominated industry as one in which a minimum of 60 percent of the employees or sales is in firms with fewer than 500 employees.

\textsuperscript{4}The Bureau of the Census defines specialization as having half of the firm's receipts from a given construction type.
each facility is designed to order, on a custom-made basis, with a high degree of product specificity that requires detailed plans and specifications for each unit produced. (3) Prices are not pre-set. The actual price of a product cannot be calculated prior to fabrication. Instead, a unique price must be determined for each project by its contractor, based upon technological requirements and degree of complexity. (4) Services are contracted. Rather than buy a finished product, each customer contracts with a construction firm for a service — i.e., the actual construction of his/her project for a fixed price on a cost-incurred basis. Because of these features, large firms lack the advantages they would enjoy within other industries.

2.5 Black Activity within the Construction Industry

Tables 2.4 and 2.5 summarize black activity within the construction industry for the 15 year period from 1972 to 1987. They indicate that black contractors have, during that decade, steadily increased in number in each category of work as follows. In general building construction, their number more than doubled. In heavy construction, it increased by 30 percent. In special trade construction, it again almost doubled. In subdivision and development, it grew by almost four fold. Sales and receipts for the same categories rose as follows. In general building construction, volume increased almost three times; in heavy construction, almost five fold; in special trade construction, more than three fold; and in subdivision and development, more than 30 times.
2 Background

### Table 2.4: Number of Black Contractors in the Construction Industry

<table>
<thead>
<tr>
<th></th>
<th>1972</th>
<th>1977</th>
<th>1982</th>
<th>1987</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>General building</td>
<td>2,957</td>
<td>3,415</td>
<td>3,989</td>
<td>6,285</td>
<td>113%</td>
</tr>
<tr>
<td>Heavy construction</td>
<td>491</td>
<td>495</td>
<td>591</td>
<td>638</td>
<td>30</td>
</tr>
<tr>
<td>Special trade</td>
<td>15,616</td>
<td>17,126</td>
<td>18,399</td>
<td>29,631</td>
<td>90</td>
</tr>
<tr>
<td>Developers</td>
<td>56</td>
<td>65</td>
<td>82</td>
<td>209</td>
<td>273</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>19,120</td>
<td>21,101</td>
<td>23,061</td>
<td>36,763</td>
<td>92</td>
</tr>
</tbody>
</table>

Source: Bureau of the Census

### Table 2.5: Sales and Receipts

(\textit{in thousands})

<table>
<thead>
<tr>
<th></th>
<th>1972</th>
<th>1977</th>
<th>1982</th>
<th>1987</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>General building</td>
<td>171,931</td>
<td>214,616</td>
<td>275,804</td>
<td>635,702</td>
<td>270%</td>
</tr>
<tr>
<td>Heavy construction</td>
<td>32,939</td>
<td>35,474</td>
<td>122,518</td>
<td>155,949</td>
<td>373</td>
</tr>
<tr>
<td>Special trade</td>
<td>419,285</td>
<td>496,693</td>
<td>578,211</td>
<td>1,313,819</td>
<td>213</td>
</tr>
<tr>
<td>Developers</td>
<td>2,871</td>
<td>10,908</td>
<td>18,283</td>
<td>68,929</td>
<td>2,301</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>627,026</td>
<td>757,691</td>
<td>994,816</td>
<td>2,174,399</td>
<td>247</td>
</tr>
</tbody>
</table>

Source: Bureau of the Census

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\(^5\) Percent change calculated over the fifteen year period from 1972 to 1987.
2.6 Entrepreneurial Prospects within the Construction Industry

Although establishing a construction firm is relatively simple, because few barriers block entry, the rate of business failure in this industry is high, especially among smaller subcontractors who require less capitalization. Consequently, the total number for construction firms has remained about the same through the years, with the ratio of new and discontinued businesses to operating businesses considerably greater for construction than for most other industries. For both the aforementioned reasons -- the dominance of small businesses within the construction industry and the ease of establishing a construction firm -- construction presents an attractive portal to the black entrepreneur seeking access to the arena of mainstream business activity.

Figures 2.5 and 2.6 illustrate statistics for birth, death, and net growth rates for all construction firms within the U.S. for the ten year period from 1978 to 1988. Number of new firms being established has been on the rise since 1984, and the rate of business failure has been on the decrease since 1982. Net growth rate has shown a constant increase as follows: from 1980 to 1982, net growth was -0.7 percent; from 1982 to 1984, 0.3 percent; from 1984 - 1986, 0.9 percent; from 1986 - 1988, 1.5 percent.
2 Background

Figure 2.5: Construction - Small Business Birth, Death Rates, 1978 to 1988

Source: Bureau of the Census

Figure 2.6: Construction - Small Business Net Growth Rates, 1978 to 1988

Source: Bureau of the Census

6 Business births represent the number of establishments formed during a specified period relative to the number in the initial year. Business deaths represent the disappearance of an establishment or enterprise from the SBDB for financial or nonfinancial reasons relative to the initial year.

7 Net growth rate is the birth rate less the death rate.
2.6 Summary

The range and scope of public works projects, conceived and administered by government, renders them a rich source of income for firms within the construction industry. Moreover, because of government's commitment to strengthening black business interests, public works projects present a logical choice for contract bids by new black contractors. This thesis will, therefore, develop a business plan for pursuit of public works projects within the construction industry.
Chapter 3

Minority Contractor Profile

3.1 Introduction

In 1987, the last year for which official statistics are available, there were 1.6 million firms within the construction industry. Only 36,763 were black owned, just over 2 percent of the total.\(^1\) Given the history of black enterprise within the mainstream economy and the competitive nature of the construction industry, one need not be surprised to find black participation so limited. Rather, one might inquire what factors

\(^1\) Source: Brimmer & Company, Washington, D.C., 1992
have accounted for the success of those black entrepreneurs who have succeeded within this field.

3.1.1 Objectives and Methodology for Contractor Survey

To shed light on the aforementioned question as to the success of black contractors, an inquiry was conducted. Its objective was to develop a profile for the minority contractor as a step toward identifying comparative and/or competitive advantages he/she may have found within the construction industry. This indirect strategy of profile development was chosen over a straightforward request for enumeration of advantages, because informal discussions with contractors had indicated that their proprietary concerns dissuaded them from disclosing advantages they subsumed under the rubric of trade secrets.

As a first step toward profile development, an information search began at the M.I.T. libraries, where numerous books, newspapers, journals, and government publications with titles and subject descriptions containing the key words, "minority contractors," were found. Review of this literature indicated that minority contractors were generally mentioned only in discussion of other subjects, such as contract quotas, not as a topic unto themselves. A profile of the minority contractor could, therefore, not be developed, based upon a search of the literature. Although kind, SBA personnel at the Office of Minority Business Development & Capital Ownership could also offer little
Out of necessity, a survey of heavy-construction general contractors was conducted. Two hundred firms, randomly selected from the 1990 National Directory of Minority-Owned Business Firms, were mailed a questionnaire, which appears in Appendix A.1. That questionnaire, which was modelled after the one used by the National Association of Home Builders when polling its members, was designed to:

1. show the current structure of the industry,
2. assess the impact of the economic recession,
3. distinguish comparative advantages from competitive ones,
4. identify any resources that may be under-utilized or misemployed, and
5. provide data for comparison with other findings.

The specific questionnaire items pertained to:

1. organizational type and composition,
2. business activity during 1991,
3. demographic factors,
4. construction/permanent financing,
5. construction methods,
6. construction problems,
7. resource allocation, and

3.1.2 Survey Response

As in all surveys, a substantial number of questionnaires were not returned. Of the 54 that were, only 16 were usable, based upon completeness as a criterion. Names and addresses were deleted from each questionnaire used in order to ensure the anonymity of each participant. To determine how subjects who did not respond may have differed from those who did, a sample of delinquent and disqualified firms was selected for follow-up by telephone interview. Phone calls confirmed that these contracting firms were no longer in operation. One may, therefore, conclude that more than one half of the 200 firms, randomly selected for this inquiry, were out of business.

3.2 Minority Contractor Profile

Before any attempt to present a profile for the successful black contractor, a certain basic methodological difficulty in profile construction should be acknowledged. Profiles make sense only when the characteristics of interest are either normally distributed or universally possessed within a population. One can meaningfully talk about a typical black graduate student as being 28 years old, for example, within a
population of graduate students whose ages are normally distributed around a mean of 28. One might additionally describe her meaningfully as female, were 75% or more of her fellow black students of like gender. By contrast, one cannot sensibly characterize a typical participant in a government assistance program intended exclusively for pre-school children and senior citizens as being as old as the average of their ages. These difficulties notwithstanding, one may invoke a rudimentary profile as a convenient way to summarize preliminary findings about a population, as long as that profile is regarded as a first-order approximation, necessarily requiring further elaboration and refinement. With that caveat in place, the results of this survey may be summarized by the following profile. The typical minority contractor:

1. Exists as a corporation;
2. Maintains highway construction as its primary activity; and Miscellaneous public construction as secondary;
3. Has no other construction activities;
4. Does not participate in Joint Ventures;
5. Acts as a General Contractor, as opposed to a subcontractor;
6. Does $592,664 Volume of business;
7. Bids primarily on state jobs;
8. Maintains the following bonding limits:
3 Minority Contractor Profile

Single $973,750,
Aggregate $2,361,250;

9. Secures individual surety;

10. Has 2 major competitors;

11. Priorities as follows: quality, price, efficiency;

12. Has 14 years of business experience;

13. Operates within a radius less than 200 miles from its headquarters;

14. Has one principal owner;

15. Has an owner with some college education;

16. Secures construction financing and permanent financing from commercial banks;

17. Subcontracts out less than 25% of its work;

18. Employs on staff a project manager, a project engineer, a superintendent, and an estimator;

19. Has problems obtaining financing;

20. Faces pending action in matters of contract dispute;

21. Maintains throughout the year an average of 50 construction workers and 13 others;

22. Works with unions;

23. Owns 64% of its equipment;
24. Maintains eligibility for government assistance;
25. Participates in program 8(a) (at a 42% rate);
26. Receives sole source and competitive 8(a) contract support;
27. Generates 32% of its income through government program participation.

3.3 Discussion

A more detailed consideration of the data indicates the following:

- Firms varied significantly in regard to size. The largest firm employed 400 persons, the smallest, just one. Despite the size of each firm, 93 percent were incorporated. (Formation of a corporation brings into being for both legal and tax purposes an entity that is separate and apart from the owners of the corporation, whose liability as corporate shareholder's is normally limited to their investment in the corporation. By contrast, sole proprietors have unlimited liability for claims arising against their businesses.) Although ownership and management of a corporation may be separated, all respondents indicated they not only owned their firms but managed its day-to-day operations as well.

- Highway construction was the single most important category of operation for 57 percent of the respondents. (1) Housing and redevelopment, (2) conservation and development, and (3) water supplies were each of secondary
importance to a different 14 percent of the respondents. For the past 15 years the Department of Transportation, the Environmental Protection Agency and the Department of Defense have topped the list for construction appropriations. This may account for minority contractors targeting these areas for their operations. If the construction phenomenon holds true, these contractors should be positioned to ride out the recession since public works construction can be expected to rise.

**Figure 3.1: Most Important Operations**

- Water supply
- Sewer systems
- Conservation
- Military
- Highways
- Public buildings
- Hospital
- Educational
- Fed. Industrial
- Housing
- Misc. structures

- Median age of the firms surveyed was 14 years, with little deviation from this
number. Since government contract procurement assistance programs were overhauled in 1978, one may conclude that: few start-ups have been successful since that time; and program reforms following 1978 have had an adverse affect on minority business start-ups.

- Commercial banks provided the most common source of construction financing. They were used by 60 percent of the respondents. Private investors and undisclosed sources provided financing for another 30 percent. Savings and Loans associations were used by only 10 percent. Despite their reliance upon commercial banks, respondents did indicate difficulty in obtaining commercial financing. Frequently they were required to post collateral equal to 100% of the credit they requested as a prerequisite to loan approval.

![Figure 3.2: Source of Construction Financing](image)

- Other (20%)
- Private Investor (10%)
- Savings & Loan (10%)
- Commercial Bank (60%)
Contractors typically utilized more than one trade when working construction for public works projects, and one out of every three firms surveyed subcontracted more than 50 percent of its work. Because programs for contract procurement assistance require that participating firms themselves perform 50 percent or more of their work, one third of the survey participants were, therefore, ineligible to participate in governmental programs as general or prime contractors.

Figure 3.3: Work done as General Contractor/Subcontractor

- Contractors' use of specialists, such as architects, draftspersons, and civil engineers, was minimal. Architects were employed on fee basis by only 20 percent of the firms surveyed. Draftspersons were on staff for only 40
percent and were hired on fee basis by 20 percent more. Civil engineers were on staff for only 33 percent and were hired on fee basis by an additional 25 percent. Estimators and Project Engineers were on the staffs of 82 and 91 percent respectively. The core staff of each respondent firm consisted of project managers and superintendents.

Figure 3.4: Use of Specialists

- The most significant problem encountered by a majority of the respondents was construction financing. Only one fifth cited the state of their local
Minority Contractor Profile

Economy as their most significant worry. Labor costs/problems, environmental requirements, and delays due to government regulation were listed as still less significant. (Given that the three key production factors in construction are materials, labor, and cashflow, one may conclude that business and market climates have greater impact on the livelihood of a firm than the efficiency of internal operations within the present economy.)

**Figure 3.5: Three Most Significant Construction Problems**
- There were no pending actions against only 25 percent of the respondents. Thirty-eight percent faced contract disputes and 19 percent were battling creditors. (Although general contractors may, as a matter of standard practice, legitimately increase their total revenue above a winning bid price by negotiating change orders as work progresses, blacks complain that they can almost never do so. Owners, knowing that lawsuits consume valuable time and money, often force black contractors to absorb losses, rather than face protracted legal battles they cannot afford.)

**Figure 3.6: Pending Adverse Actions**

- **Lawsuits** (5.9%)
- **None** (24.8%)
- **Creditor Problems** (18.8%)
- **Other** (12.9%)
- **Contract Disputes** (37.6%)

- Each respondent, although classified as a public works contractor, indicated bidding on both public and private sector jobs. Public works bids broke down
as follows: 31 percent, federal; 51 percent, state; 7 percent, local. The average contractor bid on 8 federal, 18 state, 2 local and 2 private jobs per year. (Officials letting public contracts appear still to belong to a "good-old-boy" network. Blacks, still outsiders to this network, rarely get advance notice of upcoming public contracts. Only after a contract has already been awarded, will a white contractor with political connections subcontract a portion of his/her work to a black firm, just to satisfy affirmative-action and set-aside program requirements.)

Figure 3.7: Competitive Solicitations Responded to in 1991

- Less than half of the respondents reported participating in the 8(a) Program.

As cited earlier, their subcontracting practices disqualified one-third of the
respondents from participation. Moreover, based on the finding that only three of nine services offered by the program were utilized, one may assume that minority contractors find participation in 8(a) programs of limited value at this point in their development, unless they are interested in a particular project, financial assistance, specific technology, or surplus property.

Figure 3.8: 8(a) Program Assistance Requested
3.4 Summary

In summary, the survey appears to indicate the following:

- Black contractors who have survived in the construction industry have no comparative advantage over their white competitors other than their eligibility for SBA contract procurement assistance.

- However, black contractors have gained several competitive advantages in this industry. First, they possess expertise in pricing and performing public works construction, which industry analysts agree will increase. Second, they require minimal reliance upon subcontractors and specialists, without whose services they can lower overhead in order to maximize profits.

- At the same time, their comparative or natural advantage bears a competitive or created disadvantage. Discrimination still exists. While government programs have assisted blacks in overcoming obstacles to their advancement within the public sector, they have not reversed discriminatory trends within the private sector. Blacks still encounter persistent obstacles in their attempts to secure commercial financing.
Chapter 4

Strategic Planning

4.1 Introduction

In what remains an era of economic difficulty, minority firms, both new and established, are facing external obstacles that range from economic fluctuations, market shifts, and technical uncertainties, on the one hand, to governmental regulations and discriminatory lending practices, on the other. In the face of challenges so numerous and serious, "seat of the pants" management has necessarily become a thing of the past. In order to minimize exposure to risk and to maximize opportunity for success,
businesses must engage in a systematic and methodical planning process, which yields as its end product an indispensable business plan.

Williams and Manzo compare proceeding in business without a plan to beginning an extended automobile journey without a road map. Unless the route is well known, the driver is very likely to lose time or get lost. A business plan accomplishes numerous purposes. At the outset, it evaluates the viability of a venture. Then, it establishes specific goals and objectives. Next, it devises the policies that determine by which methods its goals and objectives may be achieved according to given time constraints. Finally, it attracts the necessary investment capital for either start-up of a new venture or expansion of an ongoing business.

The purpose of this chapter is to illustrate strategic planning for the minority contractor. Following the lead of John D. Macomber, this thesis will combine aspects of business planning according to Arnoldo C. Hax and Nicolas S. Majluf with aspects of strategy formulation according to Michael Porter. To illustrate the pragmatics of the strategy business planning process, a real example is being portrayed in this thesis, involving a small, black family-owned firm, called the Shelton Construction Company

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(SCC). That firm has been selected in accord with the prevailing reality of family ownership and operation for black start-up businesses within the construction industry.

The entrepreneurs in this example are a brother and sister team, Darryl Shelton and Pam Botman. Darryl Shelton is a 33 year old black male, newly graduated with a Master's Degree in Business Administration from the University of Michigan. Prior to that, he earned a bachelor's degree in mechanical engineering from Howard University, before working as an engineer with the Ford Motor Company. Pam Botman is a 28 year old black female, with a newly earned Master's Degree in Civil Engineering from the Massachusetts Institute of Technology. Prior to that, she received her bachelor's degree from the Georgia Institute of Technology in civil engineering, before working for the Florida Department of Transportation. Darryl's sound background in business management and Pam's technical mastery of the construction process qualify them as a team for competitive entry into the construction industry. Because their success will demand determination and confidence, as well as skill and expertise, they are returning to their hometown of Washington, D.C., where their knowledge of the environs and its resources and their determination to live can only benefit their efforts either to start a new business enterprise or purchase an existing one. Having selected a location for their enterprise, the first step for SCC's owner/entrepreneurs must, of course, be preparation of a comprehensive business plan.
4.2 Strategic Planning

Because they provide a framework for action, the initial steps of business planning determine prospects for success during later stages of planning and execution. The initial steps themselves involve the following: (1) definition of mission; (2) scan of environmental factors; (3) scrutiny of available resources; (4) formulation of strategies. Figure 4.1 summarizes these initial steps.

Figure 4.1: The Fundamental Elements of Strategic Business Planning
4.2.1 Mission Statement

The first step in the business planning process requires the definition of a firm's mission, i.e., an answer to the basic question: "Exactly what is the firm trying to achieve?". Answering that question compels entrepreneurs/owner-managers to clarify their goals and objectives. Once defined, those goals and objectives are woven into a short (not more than one paragraph), but informative, statement of mission that conveys the business' reason for existence.

While it strives for completeness, a mission statement must not be so broad as to be vague. "SCC will build anything" exhibits an admirable degree of zeal and confidence, but it lacks the direction and focus that suggests expertise and inspires trust. That lack would inevitably create difficulties during later steps within the planning process when time comes for a firm to explain exactly how it will accomplish its objectives. By contrast, too narrow a mission statement can limit a firm's options for growth and development in response to changes within markets, capital, or human resources. "SCC is in the business of erecting cast-in-place concrete bridges in Washington, D.C., for no less than 5 percent profit" excludes SCC from even considering certain projects that might, because of either scale or status, lead to substantial gains. Examples of such type projects are: a steel, pre-cast or post tensioned concrete bridge that might allow SCC to broaden its experience; or a bridge to be built for 1.0 percent profit that would, by virtue of its size, location, and political significance,
enhance SCC's reputation. Taking into account the necessity to balance comprehensiveness against focus, SCC might adopt the following as a working version for its mission statement: "SCC is in the business of performing -- for profit -- infrastructure construction, maintenance, and rehabilitation for government agencies serving Washington, D.C., Maryland and Virginia." (Of course, no mission statement is ever absolutely finalized in form. Not only do clarifications in thinking during later stages of planning necessarily generate their own substantive revisions. Unexpected changes in industry realities that periodically occur during the life of any ongoing business concern demand modifications to its mission statement, as well.)

4.2.2 Environmental Scan

The second step in the business planning process involves a careful scan of environmental factors. An environmental scan is intended to diagnose the general health of the environment within which a firm must operate. It concentrates on the overall factors -- economic, political, technological, and social -- that affect a business. It begins with an historical perspective of the industry that determines how successful firms have mobilized their resources to meet external challenges, and it concludes with a futuristic perspective that forecasts upcoming environmental trends toward which internal resources may be directed.

SCC's environmental scan begins with an historical look at the construction
industry as a whole at the national level.

Construction industry activity for 1991 may be summarized as follows. The constant-dollar value for all U.S. construction put in place declined 6 percent. Increases from public works were offset by substantial declines in private construction. Construction costs increased 1.5 percent\(^4\), less than half the average annual rate as measured by the composite construction index, much less still than the rate of increase for the consumer price index. Building materials prices rose 1.5 percent on average. Land prices, which rose dramatically in many construction markets during the 1980’s, stabilized in some areas and dipped in others. Insurance and bonding costs rose, even though insurance was more readily available. Labor costs remained relatively steady; average hourly earnings for construction workers increased only 2 percent. Interest rates dropped to 10-year lows. Credit standards for construction loans were much tighter than they had been for years.

Based upon performance factors such as these for the construction industry as a whole during 1991, the U.S. Commerce Department has offered the following forecast to industry watchers for 1992.

1. Interest rates will decrease slightly.

2. Weak asset prices and lender wariness will continue to discourage real estate investment.

\(^4\) Census Bureau’s Composite construction cost index measurement.
3. Growth in the economy will be moderate.

4. Plant and equipment expenditures will both increase, but investment in buildings will lag behind investment in equipment.

5. Total government investment in structures will remain at 1991 levels.

6. Vacancy rates for apartments and commercial buildings will remain high, depressing the demand for new construction.

7. Demographic factors will increase construction for schools and hospitals, but lessen the same for apartments and offices.

Having noted that the Commerce Department's forecast for the construction industry as a whole augurs slow, but steady, growth, the environmental scan for SCC proceeds to an examination of appropriations for public works construction, SCC's own area of special interest. Construction of public works has increased substantially over the past ten years, through both the recession of 1982 and the build out of 1986. Table 4.2 summarizes construction expenditures, both actual and projected, from 1988 to 1996 by type of structure and ownership. Table 4.1 shows the percentage distribution of the value of new construction put in place in 1991 by ownership. Several points are worth noting:

- The relative role of public versus private ownership varies greatly among types of construction.

- The government's role as owner is larger than that of the private sector,
consisting in 1991 of 24.5 percent of all construction expenditures.

- Although no one of the thousands of government agencies and hundreds of thousands of private organizations in the U.S. constitutes a large factor in the purchase of construction, the federal government, accounting for 10.0 percent of all purchases, was the largest single buyer of construction in 1991.

- The distribution of construction activity among types of structures does not remain constant over time.

### Table 4.1: Distribution of Total Value of Construction by Ownership, 1990

<table>
<thead>
<tr>
<th>Type</th>
<th>Federal</th>
<th>State &amp; Local</th>
<th>Total Public</th>
<th>Total Private</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>0.1</td>
<td>0.3</td>
<td>0.4</td>
<td>28.3</td>
<td>28.7</td>
</tr>
<tr>
<td>Nonresidential&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1.1</td>
<td>8.8</td>
<td>10.3</td>
<td>26.4</td>
<td>36.7</td>
</tr>
<tr>
<td>Public Works&lt;sup&gt;2&lt;/sup&gt;</td>
<td>8.8</td>
<td>5.4</td>
<td>14.2</td>
<td>8.1</td>
<td>22.3</td>
</tr>
<tr>
<td>Other&lt;sup&gt;3&lt;/sup&gt;</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>12.2</td>
<td>12.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>10.0</td>
<td>14.5</td>
<td>24.5</td>
<td>75.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<sup>1</sup>Industrial, educational, hospital, and commercial facilities and other buildings.

<sup>2</sup>PUBLIC: Highways and streets, military facilities, conservation and development, sewer systems, water supply facilities and miscellaneous buildings.

<sup>3</sup>PRIVATE: Telephone and telegraph, railroad, electric light and power, petroleum pipeline.

<sup>3</sup>Home improvement.
4 Strategic Planning

Table 4.2: Construction Expenditures by Type of Structure
(in billions of 1987 dollars except as noted)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total New Construction</td>
<td>415.0</td>
<td>409.8</td>
<td>402.8</td>
<td>380.4</td>
<td>381.1</td>
<td>403.8</td>
<td>1</td>
</tr>
<tr>
<td>New Construction</td>
<td>271.5</td>
<td>270.8</td>
<td>263.2</td>
<td>239.7</td>
<td>239.0</td>
<td>247.5</td>
<td>0</td>
</tr>
<tr>
<td>New housing units</td>
<td>133.5</td>
<td>128.4</td>
<td>115.4</td>
<td>101.6</td>
<td>109.1</td>
<td>118.4</td>
<td>3</td>
</tr>
<tr>
<td>Private nonresidential</td>
<td>103.0</td>
<td>105.7</td>
<td>106.4</td>
<td>93.8</td>
<td>85.9</td>
<td>83.2</td>
<td>-2</td>
</tr>
<tr>
<td>Publicly owned</td>
<td>35.0</td>
<td>36.7</td>
<td>41.3</td>
<td>44.3</td>
<td>44.0</td>
<td>46.0</td>
<td>1</td>
</tr>
<tr>
<td>Other New Structures</td>
<td>86.8</td>
<td>86.1</td>
<td>90.2</td>
<td>89.2</td>
<td>89.0</td>
<td>96.6</td>
<td>1</td>
</tr>
<tr>
<td>Private nonresidential</td>
<td>31.1</td>
<td>31.7</td>
<td>32.8</td>
<td>33.3</td>
<td>33.0</td>
<td>36.0</td>
<td>2</td>
</tr>
<tr>
<td>Publicly owned</td>
<td>55.7</td>
<td>54.4</td>
<td>57.4</td>
<td>55.9</td>
<td>56.0</td>
<td>59.7</td>
<td>1</td>
</tr>
<tr>
<td>Home Improvements</td>
<td>56.8</td>
<td>52.9</td>
<td>49.5</td>
<td>51.5</td>
<td>53.0</td>
<td>60.6</td>
<td>3</td>
</tr>
<tr>
<td>Selected Maintenance &amp; Repair: 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>39.4</td>
<td>39.8</td>
<td>41.0</td>
<td>42.2</td>
<td>43.1</td>
<td>46.6</td>
<td>2</td>
</tr>
<tr>
<td>Nonresidential buildings^4,5</td>
<td>31.7</td>
<td>32.9</td>
<td>34.5</td>
<td>36.2</td>
<td>37.3</td>
<td>40.0</td>
<td>2</td>
</tr>
<tr>
<td>Highway^4</td>
<td>19.6</td>
<td>20.1</td>
<td>20.7</td>
<td>21.3</td>
<td>22.0</td>
<td>24.7</td>
<td>3</td>
</tr>
<tr>
<td>Utility^4</td>
<td>22.2</td>
<td>23.1</td>
<td>25.2</td>
<td>26.2</td>
<td>27.5</td>
<td>31.9</td>
<td>4</td>
</tr>
<tr>
<td>Nonresidential building improvements^6,7</td>
<td>55.3</td>
<td>57.0</td>
<td>59.9</td>
<td>62.9</td>
<td>66.0</td>
<td>69.4</td>
<td>2</td>
</tr>
</tbody>
</table>

1 Estimate
2 Forecast
3 Average annual rate of growth
4 Estimates in constant 1987 dollars were derived by ITA, using current-dollar data developed by the Bureau of the Census, and the Census Fixed-Weight Composite Construction Cost Index as the deflator.
5 Excludes industrial and agricultural buildings, as well as buildings owned by the Federal Government or private utilities. Also excludes buildings of 1,000 square feet or less.
6 About half of all the nonresidential building improvements are included in the value of new construction.
7 Home improvements are included in the value of new construction put in place, but nonresidential building improvements are not included.

Tables 4.1 and 4.2 provide evidence for the relationship between private and public works, known as the construction industry's cyclical phenomenon. That principle posits that economic recovery during recessionary times is spurred by building in legislated markets. It states: When private construction declines, public works are increased through legislative mandate. In accord with this principle, each of the following four federally passed bills substantially contributed to increases in appropriations for public works construction during the 1980's. The Water Resources Act of 1986 authorized construction of 181 new water resources projects. The Clean Water Act of 1987 provided $3 billion annually for sewer system construction. The Surface Transportation Acts of 1987 and 1991 have together extended the Federal Aid Highway program through 1997. The latter constitutes a $151 billion authorization package, $119.5 billion of which is targeted for highways over the next 5 years at an average of 40 per cent higher per year than was appropriated on average from 1987 to 1991. It also ensures a National Highway System of 155,000 or more miles to be furnished at $38 billion. Sixty-two and one-half per cent of these funds is estimated for urban areas with populations greater than 200,000. Seventeen billion dollars is designated for maintenance of the interstate. The federal-nonfederal matching ratio has been set at 80-20 for all highway projects, except for Interstate work that adds no new lanes, whose ratio will be 90-10. Table 4.3 summaries the distribution of funds according to the Surface Transportation Act of 1991. Table 4.4 summaries totals for

Table 4.3: Surface Transformation Act Funds Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Billions of Dollars</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Highway System</td>
<td>38</td>
<td>25</td>
</tr>
<tr>
<td>Bridges</td>
<td>16.1</td>
<td>11</td>
</tr>
<tr>
<td>Interstate Construction and Substitution</td>
<td>8.2</td>
<td>5</td>
</tr>
<tr>
<td>Projects</td>
<td>6.5</td>
<td>4</td>
</tr>
<tr>
<td>Mass Transit</td>
<td>31.5</td>
<td>21</td>
</tr>
<tr>
<td>Flexible (Highway or Transit)</td>
<td>23.9</td>
<td>16</td>
</tr>
<tr>
<td>Other Highway</td>
<td>20.8</td>
<td>14</td>
</tr>
<tr>
<td>Congestion and Air Quality</td>
<td>6</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: ENR/December 9, 1991
Table 4.4: Construction Appropriations

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 1991</th>
<th>FY 1992</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highways</td>
<td>15.675</td>
<td>17.925</td>
<td>14</td>
</tr>
<tr>
<td>Airport grant limit</td>
<td>1.800</td>
<td>1.900</td>
<td>6</td>
</tr>
<tr>
<td>EPA wastewater</td>
<td>2.100</td>
<td>2.400</td>
<td>14</td>
</tr>
<tr>
<td>Superfund</td>
<td>1.616</td>
<td>1.616</td>
<td>0</td>
</tr>
<tr>
<td>Military housing</td>
<td>3.290</td>
<td>3.560</td>
<td>8</td>
</tr>
<tr>
<td>Other military</td>
<td>4.069</td>
<td>4.159</td>
<td>2</td>
</tr>
<tr>
<td>GSA</td>
<td>1.461</td>
<td>0.548</td>
<td>-62</td>
</tr>
<tr>
<td>VA major projects</td>
<td>0.580</td>
<td>0.414</td>
<td>-29</td>
</tr>
<tr>
<td>Prisons</td>
<td>0.374</td>
<td>0.289</td>
<td>-23</td>
</tr>
<tr>
<td>State Dept. embassies</td>
<td>0.038</td>
<td>0.225</td>
<td>.492</td>
</tr>
<tr>
<td>Space station</td>
<td>1.900</td>
<td>2.028</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: ENR/November 11, 1991

While efforts to reduce the Federal budget prevented the government from undertaking further massive infrastructure renewal initiatives during 1991, total value for public works construction put in place still reached about $108 billion during the same year. Such public expenditures underscore a commitment by taxpayers to reverse the decline in U.S. infrastructure conditions. Given that such a commitment is consistent with the modest economic growth and fairly stable interest rates forecasted by the Commerce Department, the owners/entrepreneurs of SCC are optimistic that new public
works construction will continue to grow steadily, but modestly, over the next five years.

Meanwhile, the aging of interstate systems has driven highway and maintenance repair expenditures up. The current-dollar cost of highway maintenance and repair reached some $23 billion in 1991, compared with $30 billion for new highway put into place during the same year. Although some maintenance was routine, for purposes like grass mowing and street cleaning, much repair consisted in typical construction activity, such as repaving roads and painting bridges. With funds for new initiatives limited and current structures aging, SCC's owners/entrepreneurs have predicted that highway maintenance and repair expenditures will grow more rapidly than new construction during the next decade.

Table 4.5 summarizes totals for heavy/highway construction for fiscal years 1991 and 1992.
Table 4.5: Heavy Construction

<table>
<thead>
<tr>
<th></th>
<th>1991&lt;sup&gt;5&lt;/sup&gt;</th>
<th>1992&lt;sup&gt;6&lt;/sup&gt;</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highways &amp; streets</td>
<td>30.2</td>
<td>32.9</td>
<td>8.9</td>
</tr>
<tr>
<td>Water supply</td>
<td>5.1</td>
<td>5.4</td>
<td>5.9</td>
</tr>
<tr>
<td>Sewer work</td>
<td>9.9</td>
<td>10.9</td>
<td>10.1</td>
</tr>
<tr>
<td>Conservation/Development</td>
<td>5.3</td>
<td>6.0</td>
<td>13.2</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>9.3</td>
<td>9.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Residential site preparation</td>
<td>14.5</td>
<td>17.5</td>
<td>20.7</td>
</tr>
<tr>
<td>Utilities &amp; private misc.</td>
<td>28.5</td>
<td>31.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Public Miscellaneous</td>
<td>8.3</td>
<td>8.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Total</td>
<td>111.1</td>
<td>122.0</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Source: Highway & Heavy Construction, December 1991

Next, SCC's environmental scan turns to factors affecting public works construction at the local level, where events in Maryland and Virginia, must be considered, as well as those for Washington, D.C., itself. Over the 20 year period from 1967 to 1987, volume of sales in heavy/highway construction rose steadily in both Maryland and Virginia, despite fluctuations in Washington, D.C. Increases in the number of contractors in the same locales have been less consistent. Tables 4.6 and 4.7

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<sup>5</sup> Data source: U.S. Commerce Department

<sup>6</sup> Forecast: Cahners Economics

Table 4.6: Number of Heavy/Highway Construction Contractors in the Washington, D.C. Area

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington, D.C.</td>
<td>36</td>
<td>25</td>
<td>34</td>
<td>13</td>
<td>25</td>
<td>-30.6%</td>
</tr>
<tr>
<td>Maryland</td>
<td>509</td>
<td>435</td>
<td>516</td>
<td>419</td>
<td>593</td>
<td>16.5</td>
</tr>
<tr>
<td>Virginia</td>
<td>678</td>
<td>592</td>
<td>827</td>
<td>640</td>
<td>1,020</td>
<td>50.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>1,223</td>
<td>1,052</td>
<td>1,377</td>
<td>1,072</td>
<td>1,638</td>
<td>33.9</td>
</tr>
</tbody>
</table>

Source: Bureau of the Census

Table 4.7: Sales and Receipts
(in millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington, D.C.</td>
<td>33.5</td>
<td>97.7</td>
<td>140.5</td>
<td>46.3</td>
<td>withheld</td>
<td>-----</td>
</tr>
<tr>
<td>Maryland</td>
<td>427.7</td>
<td>928.4</td>
<td>1,212.0</td>
<td>1,737.6</td>
<td>1,993.1</td>
<td>366%</td>
</tr>
<tr>
<td>Virginia</td>
<td>429.0</td>
<td>598.4</td>
<td>873.3</td>
<td>1,050.4</td>
<td>2,314.0</td>
<td>439</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>890.2</td>
<td>1,624.5</td>
<td>2,225.8</td>
<td>2,834.3</td>
<td>--------</td>
<td>-----</td>
</tr>
</tbody>
</table>

Source: Bureau of the Census

---

7 Percent change calculated over the twenty year period from 1967 to 1987.
On the political level, Maryland's Governor, William Donald Schaefer, has announced that he will accelerate the start of 142 planned construction projects by as much as a year in an effort to push his state out of recession. New construction worth $271 million is called for under the governor's plan, including a new $57 million connector between Interstate 95 and the Baltimore-Washington Parkway, on hold until now because of lack of funds. This project, whose bids are due in January of 1993, should mobilize some 700 construction workers by April of the same year, according to Rebecca Reid, spokesperson for the Transportation Secretary, James O. Lighthizer.

By contrast, just across the state line in Virginia, Governor L. Douglas Wilder recently warned his state Department of Transportation (DOT) to prepare for trimming some $50 million from its budget over the next year. Previous action by the DOT, involving delays for some 150 projects valued at $154 million, reductions in staff totalling nearly 1,000 through early retirement, and decreases in maintenance and snow removal budgets, has failed to satisfy the governor, who staunchly opposes any new taxes, despite both the recession and the threat of new layoffs within the construction industry. Given the governor's demands for fiscal restraint, questions remain as to what extent Maryland will avail itself of opportunities for federal funding through the Surface Transportation Act of 1991.

Moreover, Maryland was named the most hospitable state in the nation to black
businesses in an April report by the Wall Street Journal. The following U.S. Census Bureau statistics from 1987 were cited in evidence:

- Although Maryland is only 10th ranked in black population (1.2 million in 1990), nearly one in every 11 Maryland firms is black owned. (The national average is one out of 32.)

- Of all states, Maryland has the largest number of black companies per capita for total population, nearly 5 per 1,000 people.

- From 1982 to 1987, the number of black owned firms in Maryland rose by 57 percent. (The national growth rate was 38 percent for the same period.)

Table 4.8 summarizes business activity for the 10 cities in which black firms are most prominent.
Table 4.8: City Census, 1987

<table>
<thead>
<tr>
<th>City</th>
<th>Number of Firms</th>
<th>Total Annual Revenue (in thousands)</th>
<th>Avg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>28,063</td>
<td>$1,234,910</td>
<td>$44</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>23,932</td>
<td>1,300,336</td>
<td>54</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>23,046</td>
<td>951,945</td>
<td>41</td>
</tr>
<tr>
<td>Chicago</td>
<td>15,374</td>
<td>908,500</td>
<td>59</td>
</tr>
<tr>
<td>Houston</td>
<td>12,989</td>
<td>372,256</td>
<td>29</td>
</tr>
<tr>
<td>Atlanta</td>
<td>11,804</td>
<td>747,367</td>
<td>63</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>10,249</td>
<td>612,995</td>
<td>60</td>
</tr>
<tr>
<td>Detroit</td>
<td>9,852</td>
<td>514,324</td>
<td>52</td>
</tr>
<tr>
<td>Baltimore</td>
<td>8,593</td>
<td>331,493</td>
<td>39</td>
</tr>
<tr>
<td>Dallas</td>
<td>7,857</td>
<td>234,823</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Bureau of the Census

Reasons for these statistics are clear. Maryland not only steers contracts to black firms, it provides working capital, as well. Maryland's Small Business Development Financing Authority (MSBDFA) has offered contract financing, loan and bond guarantees, and equity investments to black firms, which persist in a credit rating, remarkably strong by anyone's account. (According to Stanley Tucker, executive director of the MSBDFA, for $8.5 million in long-term loan guarantees to minority firms in the 1980s, defaults occurred at a rate lower than 7 percent.)
In summary, SCC’s owners/entrepreneurs note a confluence of encouraging factors at both national and local levels, which recommend the start-up of a black firm for public works construction within the Washington, D.C., area. First of all, predictions by the U.S. Department of Commerce are virtually guaranteed to come true by the Surface Transportation Act of 1991, which ensures that the public sector of the construction industry will grow over the next five years. Cost of operation appears unlikely to exceed inflation. Locally, Maryland, which lies within the range of operations for SCC, promises both contracting and financing opportunities to black-owned and operated construction firms, more than enough to compensate for seemingly limited business opportunities in nearby Virginia, not to mention opportunities expected to originate within the nation's capital itself, (labelled by Eugene Carson as "the greatest cookie jar when it comes to providing federal government contracts to minority entrepreneurs"). Overall, the present climate for development for a black start-up firm, like SCC, within public sector construction, appears extremely favorable in the vicinity of our nation's capital.

4.2.3 Internal Scrutiny

The third step of the business planning process involves a careful scrutiny of a firm’s own needs and resources. Such a step in the process evaluates: (1) capital, equipment, licensing, physical space, labor, and management requirements for operation
within a particular section of the industry and (2) available resources for fulfilling those requirements in order to achieve and sustain a competitive advantage. The internal scrutiny begins with an historical perspective that determines how similar firms have mobilized in the face external challenges, and it concludes with a futuristic perspective that both forecasts future needs and considers how best to utilize and direct a firm's own resources toward their fulfillment.

Requirements and resources

Capital requirements for construction contracting are modest, compared with other areas of business. While amount of capitalization for any project is necessarily determined by the size of its anticipated contracts, only one-tenth to one third of the value of a contract is generally sufficient to carry a contractor until first payments begin and a cash flow is established. The Shelton Construction Company will initially bid on jobs within the $350,000 to $500,000 range. Conservative calculation suggests that approximately $120,000 will provide sufficient capital to start-up the firm. Because the Shelton team has only $20,000 cash on hand for investment in their company, SCC must secure one or more of the following forms of financing in order to make up the difference: commercial bank loans, savings and loan association loans, private investments or government aid.

In order to avoid large initial expenditures, SCC will, whenever possible, rent,
rather than buy, equipment that cannot be put to steady use. Massive equipment will be purchased only when volume of business warrants. Table 4.9 summarizes SCC's major equipment needs based upon anticipated heavy construction contracts, totalling $300,000 in value. An air compressor, portable light generator, submersible pump, and diesel fuel trailer are also needed. (Skilled craftspersons to be hired for the jobs will, of course, provide their own tools.)

Table 4.9: Typical Equipment Requirements

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Manufacturer/Make</th>
<th>Monthly Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backhoe</td>
<td>Case 680, Case 580</td>
<td>$2,400</td>
</tr>
<tr>
<td>Vibratory Roller</td>
<td>Ingersoll Rand SP-54</td>
<td>4,300</td>
</tr>
<tr>
<td>Loader</td>
<td>Caterpillar 980</td>
<td>2,000</td>
</tr>
<tr>
<td>Sweeper</td>
<td>Elgin</td>
<td>10,540</td>
</tr>
<tr>
<td>Rotary Trench Excavator</td>
<td>Vermeer</td>
<td>3,350</td>
</tr>
<tr>
<td>Gradall</td>
<td>Model G880</td>
<td>8,500</td>
</tr>
<tr>
<td>Excavator</td>
<td>Caterpillar 225, Koehring 6644</td>
<td>5,200</td>
</tr>
<tr>
<td>Dozer</td>
<td>Flett TD-8E</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Because each state has different laws to regulate business under its jurisdiction, SCC's owners/entrepreneurs must acquaint themselves with the regulations that will govern their conduct of business in Maryland and Washington, D.C., especially, their
anticipated sites of construction. For example, Maryland's requirement, that all prime contractors perform at least 50 percent of the value of the work with their own forces in order to qualify for public construction bids will affect not only SCC's operations, but also its structure and organization. Washington, D.C.'s 10 percent corporate tax rate, significantly greater than the 6 percent rate for either Maryland or Virginia, will discourage SCC from basing its operations within the nation's capital. Table 4.9 summaries the regulations and laws effecting general and subcontractors in Maryland, Virginia and Washington, D.C., the three potential localities for SCC's operational base.
Table 4.10: State Regulations and Laws

<table>
<thead>
<tr>
<th></th>
<th>Maryland</th>
<th>Virginia</th>
<th>Washington, D.C.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prequalification</strong></td>
<td>• All proposals submitted to the Highway Administration must be accompanied by a Bid Bond equal to 5% of the amount of the bid   &lt;br&gt; • Prior the award of the contract, contractors must submit &quot;Experience and Equipment Certification&quot; &lt;br&gt; • Prime contractors must perform at least 50% of the value of the work with own forces</td>
<td>• To bid, contractors must submit &quot;Confidential Contractor's Financial Statement&quot; and &quot;Application and Experience Questionnaire&quot; or Application for Minimum Prequalification  &lt;br&gt; • Not required</td>
<td></td>
</tr>
<tr>
<td><strong>Licensing</strong></td>
<td>• No license to bid   &lt;br&gt; • Person, firm, or corporation accepting contracts must be licensed; annual fee $30.      &lt;br&gt; • Non-resident contractor's license, $50.</td>
<td>• Class A: jobs over $40,000 in a single contract or $300,000 for all jobs within a 12 month period; $125 fee; $90 to renew &lt;br&gt; • Class B: job less than $40,000; $125 fee; $20 renewal &lt;br&gt; • $25 for contractor's recovery fund with initial application</td>
<td>• Not required</td>
</tr>
<tr>
<td><strong>Taxes and fees</strong></td>
<td>• Filing fee: $50. &lt;br&gt; • Annual report fee: $40.</td>
<td>• Filing fee: $10 &lt;br&gt; • Annual fee: $50</td>
<td>• None</td>
</tr>
<tr>
<td><strong>Income tax</strong></td>
<td>• Corporation rate: 6%</td>
<td>• Corporate rate: 6%</td>
<td>• Corporate rate: 10%   &lt;br&gt; • 2 1/2% surtax</td>
</tr>
<tr>
<td><strong>Sales &amp; use tax</strong></td>
<td>• Sales &amp; use tax rate: 5% &lt;br&gt; • 3 1/2% state &lt;br&gt; • 1% local per city/county</td>
<td>• 3 1/2% state &lt;br&gt; • 1% local per city/county</td>
<td>• Sales and use tax: 6% on the sale price or rental value</td>
</tr>
<tr>
<td><strong>Fuel tax</strong></td>
<td>• 18.5¢ per gallon on gasoline</td>
<td>• 17 1/2¢ per gallon on gasoline &lt;br&gt; • 16 per gallon diesel</td>
<td>• 18¢ per gallon</td>
</tr>
</tbody>
</table>

Source: American Insurance Association, 1990
Contracting within the $350,000 to $500,000 range across a 60 mile operating radius requires physical space for administrative duties, as well as equipment and supplies storage. Because the lion's share of its contracts is anticipated to come from Maryland, the Shelton Construction Company will lease or purchase a commercial/industrial parcel in that state, accessible to the major thoroughfares. Figure 4.2 identifies potential locations for SCC's office/warehouse.

Figure 4.2: Business Area Map

Source: Bureau of the Census
General contracting, which involves primarily management of resources and coordination of services, requires more business, than technical skill. Nevertheless, technical competence is also vital to the success of a construction firm. It is the general contractor's responsibility to ensure that subcontractors are performing as specified by contract, in addition to overseeing the work of his/her own forces. Technical expertise in estimating, of course, wanes in importance as their volume of subcontracted work rises, because general contractors can legally bind their subcontractors to their estimates. Scheduling, on the other hand, always remains a major responsibility for the contractor, who must stick to a time table if he/she is to complete a job at its predetermined contractual cost. Delays caused by any one of numerous subcontractors, suppliers, regulating agencies, or others with whom the contractor coordinates, can force major reorganizations within a job schedule in order to prevent substantial losses in either time or money. While the brother and sister team that head SCC are knowledgeable in project administration activities, such as estimating and scheduling, contract specifications, plan reading, quantity take-off preparation, and word processing and software applications, they lack experience in subcontracting and craftsmanship. They must, therefore, invest in an experienced superintendent, who will negotiate and resolve problems in the field for SCC.

Knowing that SBA assistance can prove invaluable to a start-up black firm, SCC's owners/entrepreneurs hope to demonstrate their legitimate qualification for procurement
assistance. Of the eight criteria for MSB&COD program eligibility, SCC clearly satisfies seven. SCC will, however, as a new venture without previous history, be unable to document two years of successful prior operation. In lieu of such documentation, SCC will forecast three years of operation through pro forma statements within its business plan. After having qualified, SCC hopes to avail itself of SBA options for contract support, financial assistance, surplus property sales, and aid in formation of joint ventures.

4.2.4 Business Strategies

The fourth step in the business planning process is strategy formulation. Strategy formulation addresses the crucial question: "How does a firm achieve its goals and objectives, as identified within its mission statement?". It consists in carefully formulated plans for a response, based upon strengths and weaknesses identified through internal scrutiny, to both opportunities and threats within the environment, as identified through environmental scan. In other words, it determines the precise allocation of resources that optimize chances for exploiting market opportunities and neutralizing environmental threats, taking into account both strengths and weaknesses, relative to the competition.

In Michael Porter's terms, strategy formulation involves positioning a firm for maximum profit within an attractive industry. Porter defines the attractiveness of an
industry as its ability to produce, on average, rates of return on investment in excess of the cost of capital. Porter defines position within an industry as standing, relative to competitors. It determines whether a firm's profitability is above or below average. To advance one's position within an industry, Porter has formulated three generic strategies. They are: cost leadership, differentiation, and focus. Cost leadership, perhaps the easiest to comprehend, refers to positioning as the low cost producer within an industry. (The greater a firm's breadth of operations, the greater its prospects for cutting costs at various levels of production in its pursuit of a cost advantage.) The second generic strategy, differentiation, relates to positioning through distinction within an industry along dimensions widely valued by buyers. The third generic strategy, focus, rests upon strategic narrowing in competitive scope. Practically speaking, focus applies to positioning so as to satisfy the specific needs of one or more segments inside an industry, toward which a firm tailors its operations and for whom exclusively it provides services. Each generic strategy depends upon distinctive skills for success. Cost leadership, for example, relies upon tight control systems, minimization of overhead, and dedication to a learning curve. Differentiation requires value engineering, construction innovation, and dedication to building tradition and reputation. Focus directs a combination of the aforementioned skills toward a particular market.

Given the intensity of competition and the adaptation to low profit margins that prevail within the construction industry, no start-up firm can survive without eliminating
entirely waste and extravagance. Because, however, only a portion of its overhead and expenses is under internal control, a new firm can reduce them only so much through skilled management. To the extent that it must resort to dealings with external business concerns, a new firm necessarily finds itself at a competitive disadvantage, relative to its more established rivals. Long-standing relationships with suppliers, tradespeople, and professionals, for whom they have generated years of large revenue, enable older firms to negotiate especially more favorable terms for goods and services than any new firm can hope ever to win with promises of future dealings.

Given its newness upon the Washington, D.C. scene, SCC will unquestionably find itself at an insurmountable disadvantage in competing to procure the cheapest possible goods and services. Its higher costs will have to be passed onto its clients. Therefore, pursuit of a position as low cost leader through adherence to a low-cost strategy must be ruled out for SCC as unrealistic from the start.

In addition, because standardization of product does not exist within the public works construction industry, prospects for SCC's success through adherence to a differentiation strategy are limited. (Even in those rare instances where, for example, one elevated structure is planned to resemble another previously built or a pipeline is simply being replaced, fundamental differences in site, regulation, resources, and clientele will radically alter one construction process, compared to another.) To employ differentiation strategies effectively, SCC must, therefore, either develop proprietary
knowledge that renders its participation indispensable to certain projects or offer construction management services, above and beyond those provided by its competitors. SCC must also seek, through networking with designers, engineers, and larger contractors, to position itself for joint ventures requiring local expertise in infrastructure construction and/or minority participation.

Last of all, before considering focus as a viable strategy within the construction industry, one must recognize the industry's fragmented nature — i.e., that its spectrum of markets, products, and services is broader than any single firm can hope to cover, no matter how large, no matter how diversified. By default, every firm must limit itself to projects of specific types within specific localities in order to achieve expertise, profitability, and reputation. Targeting a market too small, however, involves an underutilization of resources that forecloses options for development. For SCC to implement a focus strategy effectively, its owners/entrepreneurs must enter a market, on the one hand, small enough to permit establishment of expertise and reputation and, on the other hand, large enough to permit growth. Heavy construction, as an attractive market for established firms, would almost certainly prove too ambitious an undertaking for any start-up firm with SCC's limited resources. Infrastructure maintenance and repair, by contrast, as a growing sector of the construction industry, with its smaller lure of contract values, would provide a better portal of entry for SCC.
4.3 Summary

Formulating a business plan, so absolutely crucial to the start-up process, began for the Shelton Construction Company with the draft of a mission statement that reads as follows: "SCC is in the business of performing -- for profit -- infrastructure construction, maintenance, and rehabilitation for government agencies serving Washington, D.C., Maryland and Virginia." Environmental scan, the second stage in the planning process, indicated that public works construction offered attractive opportunities for a start-up firm in both Maryland and Washington, D.C., while prospects for business in Virginia proved most discouraging. Environmental factors, such as they are, would necessitate a change in SCC's geographic concentration, restricting its domain of operations to Washington, D.C., and Maryland only. Internal scrutiny, the third stage in the planning process, found that SCC would have to raise approximately $140,000 cash in order to bid for jobs within its $350,000 to $500,000 targeted range. Moreover, after noting that SCC's primary expertise resides in project administration, rather than field management, internal scrutiny revealed that the firm's success would require employment of an experienced superintendent. Strategy formulation, the fourth step in the planning process, indicated that positioning through a low-cost strategy would be unrealistic for SCC, as a new firm without any pre-existing connections in local business. Of the options presented by differentiation strategies, either pursuit of joint ventures through association with more established firms or independent offers of more comprehensive management services
would show greater promise than development of proprietary knowledge. Finally, focus strategy considerations highlighted SCC's need to restrict its market from one as ambitious as heavy construction to one more modest, such as maintenance and repair. These findings would necessitate a change in SCC's mission statement as follows: "SCC is in the business of performing -- for profit -- infrastructure maintenance and rehabilitation for government agencies serving Washington, D.C., and Maryland. Where possible through joint venture, SCC will pursue infrastructure construction, as well."
Chapter 5

The Business Plan

5.1 Introduction

The business planning process, which guides the entrepreneur in his/her efforts to establish a viable enterprise in the face of competition, does not reach its culmination until its findings have been integrated into a formal business plan. That plan defines not only operational principles for the firm, but also the public persona with which it will win contracts and attract capital for purposes of either start-up or expansion.

The complete business plan, according to Williams and Manzo, contains the
The purpose of this chapter is to illustrate how a formal plan that contains these
following elements:

1. an introduction, consisting of several one paragraph statements that describe the nature of the business, the rationale for its development, and the proposal for its financing;
2. a summary of the industry and the venture, consisting of a discussion of the industry's main characteristics and the firm's primary features;
3. pro forma financial statements, including both an initial balance sheet and income and cash flow pro forma financial statements for the first six months to three years of operation;
4. a thorough analysis of the industry;
5. a description of the form and organizational structure of the firm;
6. a strategic plan that includes a clear missions statement, a concise definition of the business, and an elaboration of the firm's goals and strategies, both short and long term;
7. a comprehensive operating plan that includes components for marketing, production, expenses, operating income, cashflow and funds flow, balance sheets, and operating and financial ratios; and,
8. appendices, including pertinent contracts, technical data and supporting information.
numerous elements is actually generated for the Shelton Construction Company, drawing upon the preparatory analysis of Chapter 4.

5.2 The Business Plan

The Shelton Construction Company, Inc.

Contents

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Operating Plan ..................................... 108
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5.2.1 Overview

The Shelton Construction Company (SCC) is being established by two black entrepreneurs, Darryl Shelton And Pam Botman, to provide infrastructure construction services to the greater metropolitan Baltimore area. Although some 600 heavy construction firms already exist in the Maryland/Virginia/Washington, D.C. area, anticipated increases in public works construction, mandated both to reverse the decline in infrastructure conditions and to push state economies out of recession, should increase the demand for contractors specializing in infrastructure maintenance and repair during the next five years.

Construction is a small-business dominated industry, wherein most firms specialize in a particular form of work within a particular locality. Contractors provide the full panoply of services involved in on site fabrication and repair of structures that must meet predetermined specifications at costs that are negotiated, based on technological requirements.

To start operations for SCC, an initial investment of $160,000 is foreseen. Darryl Shelton and Pam Botman intend to raise $20,000 from their own funds, to borrow $40,000 from a local bank, and to solicit the $100,000 balance from government loan programs or from outside investors and venture capitalists who will receive, in exchange, as much as one quarter of corporation stock in SCC.
5.2.2 Summary of Industry and Venture

Most recent Department of Commerce data indicate that approximately 1.6 million construction firms exist in the United States. The majority of these are family owned and operated businesses that began and grew out of subcontracting ventures. Total expenditures on construction put-in-place this year was estimated to exceed $415 billion.

Government programs under the auspices of the SBA, designed to permit blacks equal opportunity for competition with whites in starting new companies, have, over the 15 year period from 1972 to 1985, promoted at the national level a 30 per cent increase in the number of black contractors and almost five fold growth in their volume of business.

Because construction is a fragmented industry, dominated by small businesses, wherein establishing a firm is relatively simple and within which black entrepreneurs have achieved success, it continues to offer an attractive portal of entry to blacks with relevant knowledge and experience, who seek access to the arena of mainstream business activity.

During the recessionary period of the past three years, private construction, both residential and non residential (excluding other structures), has declined from $236.5 billion in 1988 to $195.4 billion in 1991, and infrastructure conditions have seriously deteriorated. The U.S. Department of Transportation last reported approximately 40 per
cent of the nation's bridges alone to be structurally deficient or obsolete. During the same period, public works construction has increased from $35 billion to $44.3 billion. Despite government attempts to reduce budgets, continued increases in public works construction, mandated at both the federal and state levels, are anticipated as part of a coordinated effort to push local economies out of recession and to reverse damage to infrastructure. In general, a greater portion of these government appropriations will go toward maintenance and repair, rather than new construction. In Maryland, in particular, Governor W. D. Schaefer has announced his intention to accelerate plans for 142 construction projects, totalling $271 million. SCC will capitalize upon these favorable circumstances for starting up a black construction firm in the Maryland, Virginia, Washington, D.C. area. Furthermore, because Maryland is reputed to be the state most hospitable to black businesses and expected to provide SCC with a large share of its contracts, SCC will lease or purchase a commercial/industrial parcel in Maryland, accessible to major thoroughfares.

SCC will begin operations with its two black founders, Darryl Shelton and Pam Botman, and their field superintendent. Mr. Shelton holds a MBA from Michigan and a bachelor's in engineering from Howard University. Ms. Botman has a master's in civil engineering from MIT and a bachelor's in engineering from Georgia Tech. The superintendent to be hired will be an individual with at least 15 years of experience in heavy construction field operations.
Knowing that government programs can prove invaluable to a start-up black firm, SCC's entrepreneurs will demonstrate their legitimate qualification for SBA assistance in areas, such as contract support, financial assistance, surplus property sales, and aid in formation of joint ventures. In lieu of documentation for two years of successful prior operation, SCC will forecast three years of activity through pro forma statements.

The SCC, Inc., which plans to commence operations on or about January 1, 1993, will be a corporation chartered in the state of Maryland. To open SCC's doors, an initial investment of $160,000 is anticipated. Of this amount, $53,000 will be allotted for controllable expenses and $12,000 for fixed expenses. $96,000 will be retained as working capital.

The firm will be financed as follows:

- Subordinate debt: .................. $20,000
- Bank Loan ...................... $40,000
- Common Stock .................. $100,000

Darryl Shelton and Pam Botman intend to invest $20,000 from their own funds, to borrow $40,000 from a local bank, and to solicit the $100,000 balance from government loan programs or from outside investors and venture capitalists who will receive, in exchange, as much as one quarter of corporation stock in SCC.

SCC's anticipated financial condition as of December 31, 1992 is characterized
by the balance sheet in Table 5.1. This balance sheet assumes secured financing from 3 sources: (1) Equity Funds ($20,000); (2) Commercial Bank Loan ($40,000 at 9% interest), and; (3) SBA MSB&COD ($100,000 for 5 years at 2% interest).

### 5.2.3 Pro Forma Financial Statements

#### Table 5.1: Pro Forma Balance Sheet, December 31, 1992

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>Current Liabilities</td>
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<tr>
<td>Cash</td>
<td>Notes payable</td>
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<td>Receivables</td>
<td>Accounts payable</td>
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<td>Cost of jobs in progress</td>
<td>Misc. current liabilities</td>
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<td>Inventories (supplies/tools)</td>
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<tr>
<td>Total Current Assets</td>
<td>Total Current Liabilities</td>
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<tr>
<td>Fixed Assets</td>
<td>Equipment contracts</td>
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<tr>
<td>Other Assets</td>
<td>Owner's equity</td>
</tr>
<tr>
<td>TOTAL Assets</td>
<td>TOTAL Liabilities</td>
</tr>
</tbody>
</table>

Table 5.2 reflects awards of 3 construction contracts worth approximately $300,000 with schedules ranging from eighteen to twentyfour months.
Table 5.2: Pro Forma Income and Funds Flow, 1993  
(dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
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<tr>
<td>Expected Available Cash</td>
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<td>.6</td>
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<td>1.5</td>
<td>1.3</td>
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<tr>
<td>Insurance</td>
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<td>Overhead</td>
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<tr>
<td>Loan Repayments</td>
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<tr>
<td>TOTAL Cash Required</td>
<td>5.5</td>
<td>10</td>
<td>10</td>
<td>25</td>
<td>42</td>
<td>43.6</td>
<td>44.5</td>
<td>42.7</td>
<td>35.5</td>
<td>29.5</td>
<td>24.3</td>
<td>22</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>154.5</td>
<td>144.5</td>
<td>134.5</td>
<td>109.5</td>
<td>82.5</td>
<td>68.9</td>
<td>65.4</td>
<td>63.7</td>
<td>64.2</td>
<td>62.7</td>
<td>60.4</td>
<td>54.4</td>
</tr>
</tbody>
</table>
5.2.4 Form and Organizational Structure of the Company

At the time of incorporation, the Shelton Construction Company will be organized according to the structure shown in Figure 5.1. By 1995, SCC will be reorganized according to the structure shown in Figure 5.2.

Figure 5.1: SCC Organizational Chart, 1993
5.2.5 Industry Analysis

Construction is a small business dominated industry, wherein most firms specialize in a particular form of work within a particular locality. Contractors provide the full panoply of services involved in on-site fabrication and repair of structures that meet predetermined specifications at costs that are negotiated, based on technological requirements.

Most recent Department of Commerce data indicate that 1,638 heavy construction
firms exist in the Maryland/Virginia/Washington, D.C. area. The majority of these are family-owned and operated businesses that began in and grew out of subcontracting ventures. Total expenditures on construction put-in-place last year are estimated to have exceeded $4.3 billion.

Specialty trade construction has been one of the top ten industries for blacks over the past two decades. Minority heavy construction contractors have reported an average volume of business in the amount of $592,664, generated primarily by state jobs within 150 miles from headquarters.

Government programs under the auspices of the Small Business Administration, designed to permit blacks equal opportunity for competition with whites in starting new companies, promoted a rise in black business from 163,000 in 1967 to 424,000 in 1987, a gain of 160 per cent. During the same period, total sales for black business rose from $4.5 billion to $19.8 billion, a gain of 340 per cent. Within the construction industry, in particular, over the same 15 year period, black contractors increased their number by 30 per cent and their volume of business by almost five fold. Because construction remains an industry dominated by small businesses, wherein establishing a firm is relatively simple and within which black entrepreneurs have achieved success, it continues to offer an attractive portal of entry to blacks with relevant knowledge and experience, who seek access to the arena of mainstream business activity.

The construction industry's cyclical phenomenon, which posits that public works
are increased through legislative mandate when private construction declines, provides a principle according to which appropriations for public works construction can be forecast. During the recessionary period from 1988 to 1991, private construction consisting of new residential, nonresidential and other structures, declined from $267.1 billion in 1988 to $228.7 billion in 1991. Moreover, infrastructure conditions seriously deteriorated. During the same period, public works construction increased from $90.7 billion to $100.2 billion. Despite government attempts to reduce budgets, continued increases in public works construction, mandated at both the federal and state levels, are anticipated as part of a coordinated effort to push local and state economies out of the recession and to reverse the damage to the infrastructure. Heavy construction is expected to rise from $30.2 billion in 1991 to $32.9 billion in 1992, an increase of 8.9 per cent. The greater portion of those public appropriations for highways will go towards maintenance and repair, rather than new construction.

During the twenty year period from 1967 to 1987, the number of heavy/highway construction contractors rose 16.5 per cent in Maryland, where SCC plans to open its doors. Sales and receipts for contractors within the same area during the same period rose 366 per cent. During the same two decades in Virginia, heavy/highway contractors increased in number 50.4 per cent, while their sales and receipts soared 439 per cent. Maryland's Governor, W. D. Schaefer, has announced his intention to accelerate plans for 142 construction projects, totaling $272 million. In addition, Maryland has been
reported by the Wall Street Journal to be the most hospital state to blacks in the nation. The 1987 U. S. Census Bureau statistics reported one in every eleven Maryland firms to be black-owned. SCC will capitalize upon these favorable circumstances for starting up a black construction firm in the Maryland, Virginia, Washington, D. C. area.

5.2.6 Strategic Plan

Statement of the enterprise mission: To perform, for profit, infrastructure maintenance and rehabilitation for government agencies serving the metropolitan Baltimore and Washington, D. C. area.

Definition of the business: The Shelton Construction Company will be a heavy/highway construction firm contracting construction and management services to the various agencies in care of the infrastructure servicing the Maryland/Washington, D.C. area.

Enterprise goals:

1. To provide construction and management services of the highest quality;

2. To establish a reputation as a responsive, dependable and ethical firm;

3. To afford its proprietors personal satisfaction and financial independence;
4. To earn for investors a fair rate of return.

**Enterprise strategies:**

1. To provide professional services to clients within the Baltimore/Washington, D.C. area;
2. To provide services at a lower cost than offered by competitors;
3. To achieve, through profitable growth and development, a leadership position amongst local contractors;
4. To hire and train competent, conscientious, and creative workers, sharing in good character and high moral values;
5. To earn and maintain the good-will and trust of local communities;
6. To value and reward the contributions of employees so that good will prevails between management and labor.

**5.2.7 Operating Plan**

*Estimating and Bidding:* Estimating job costs is a complex operation that is crucial to successful contracting. Careful, realistic bidding not only insures against loss but aids in contract execution, which depends upon key job components, such as materials,
scheduling, financing, and subcontract costs.

*Cash Flow:* Prompt payment is crucial to a sound credit rating and a good reputation. Therefore, SCC will carefully plan cash balances and transactions so that all payments can be made on time. Cash flow will be reported in monthly statements as shown in Figure 5.3.
Figure 5.3: Monthly Cash Flow Statement, 1993

<table>
<thead>
<tr>
<th>Category</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
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<tbody>
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<td>Sales</td>
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<td>Cost of Sales</td>
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<td>Gross Profit</td>
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<td>Controllable expenses</td>
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<td>Outside labor</td>
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<td>Operating supplies</td>
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<td>Gross Wages</td>
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<td>Repairs &amp; maintenance</td>
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<td>Car &amp; delivery</td>
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<td>Rent, utilities &amp; storage</td>
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<td>Taxes &amp; licenses</td>
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<td>Depreciation</td>
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<td>Equipment contracts</td>
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<td><strong>TOTAL EXPENSES</strong></td>
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<td><strong>NET PROFIT (before income tax)</strong></td>
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</tbody>
</table>
Buying: To assure quick delivery of construction materials to SCC and favorable
discount and credit terms, good relations with suppliers will be pursued. For high-
volume, regular suppliers, SCC will negotiate 40-day, 15 percent discount terms for
purchase. With new suppliers or those from whom only small qualities will be ordered,
SCC will aim for 15-day, 10 percent discount terms, as opposed to cash-on-delivery
transactions. Special equipment will be rented or leased when needed.

Record Keeping and Cost Control: Good records help to provide a solid base for
estimation, supervision of jobs, elimination of material and labor wastage, and
computation for taxes and reserve accounts. SCC will invest in personal computers and
software to aid in record keeping and cost control. An initial investment of $12,000 will
provide for computer hardware and software. Minimal training is necessary for SCC
staff since both its owners have used these products during previous employment.

Hardware (disk drives, monitors and keyboards) . . $5,000
Software (Primavera, Word Perfect, LOTUS 1-2-3) $7,000

Bonding: All public construction, especially on larger jobs, requires that contractors be
bonded. General contractors in their turn, often require bonds of specialty
subcontractors. Since bonding companies will not bond contractors who cannot
demonstrate the experience, organization, and financial capacity to undertake and
satisfactorily complete the projects, new firms are at a distinct disadvantage, relative to their more established competitors. Government programs for small disadvantaged firms, however, alleviate the problem of bonding to some extent.

_Labor:_ Given that the availability of construction labor varies from skill to skill and from one geographic location to another, union labor offers distinct advantages. It (1) ensures a high level of proficiency, (2) provides its own training and, (3) relieves SCC of the need to guarantee year round employment. However, these advantages exact their cost in higher wages (nonunion wages are about 85 per cent of union wages) and risks for union strikes. In Maryland, where the construction force is not organized under unions, SCC will hire, train and maintain a core of capable workers for year round employment.
5 The Business Plan

5.2.8 Appendix

Resumes of Founders
DARRYL A. SHELTON
1504 McIntyre Drive
Ann Arbor, MI 48105
(313) 936-3725

EDUCATION
THE UNIVERSITY OF MICHIGAN
School of Business Administration
Master of Business Administration, May 1992
• Emphasis in General Business and Operations Management
• Ford Motor Company Advanced Education Fellow
• Consortium for Graduate Study in Management Fellow
• Student Council Treasurer
• Operations Management Club Member
• Black Business Students Association Member

HIS HOWARD UNIVERSITY
School of Engineering
Bachelor of Science in Mechanical Engineering, December 1985
• Concentration in Computer Aided Design and Manufacturing
• Howard Engineer Magazine Local Advertising Representative, 1980
• Omega Psi Phi Fraternity, Inc. Alpha Chapter, Vice Basileus, 1984

EXPERIENCE
FORD MOTOR COMPANY
Dearborn, MI
1988-1990
Body Engineering
Inflatable Restraints Engineering Department
Product Design Engineer
• Designed air bag cover with an integral horn switch, patent pending.
• Analyzed and developed cost estimate for 1995 luxury air bag cover design.
• Contributed to the Generic Air Bag Quality Functional Deployment (QFD) Assessment.
• Developed preliminary organizational reaction plan for supply contingency situation.

1985-1987
Ford College Graduate Management Training Program
Two year rotational assignment in several product development functions.
• Analyzed competitive vehicles and customer satisfaction reports to develop new product objectives.
• Organized, conducted and analyzed customer satisfaction surveys for continuing product improvements.
• Developed new quality improvement plan for interior trim components.
• Planned, organized, developed and assisted in presentation of Interior Trim Subsystem Review.
• Analyzed warranty claims and wrote warranty reports for management.
• Analyzed warranty reports to identify product improvements.
• Conducted finite element analysis of various automotive components to recommend cost/weight reductions and design improvements.
• Performed statistical evaluation of Hyge Sled Dummy Kinematics Performance for seat belt system development for small car import program.
• Redesigned steering column gap hider which eliminated field failures.
• Supervised laboratory technicians in seat belt component and systems testing.

PERSONAL
• Registered Engineer in Training, State of Michigan #172001308
• 1990 Big Brother/Big Sister Program, Cheney Elementary School
• Omega Psi Phi Fraternity, Sigma Rho Chapter - Executive Committee Member
• Active in cross training workouts
PAMELA L. SHELTON

Home Address
402 Green Hall
350 Memorial Drive
Cambridge, MA 02139
(617) 225-8368

Office Address
M.I.T. Room 1-041
77 Massachusetts Ave.
Cambridge, MA 02139
(617) 253-8321

Professional Objective
Project/Construction Management

Education
MASSACHUSETTS INSTITUTE OF TECHNOLOGY
Candidate for Master of Civil Engineering, June 1992.
Coursework under the Center of Construction Research & Education and the Harvard and Sloan Graduate Schools of Business Administration includes:
- Planning & Design of Structures
- Construction Finance
- Project Control
- Strategy in Engineering Management
- Construction Technology
- Project Delivery in the Public Sector

GEORGIA INSTITUTE OF TECHNOLOGY
Bachelor of Civil Engineering, 1986.

Experience
DRI/MCGRAW-HILL
Drafted proposals for the State Government Consulting Group. Worked with clients to plan and coordinate multiagency state strategies.

FLORIDA DEPARTMENT OF TRANSPORTATION
Designed, analyzed, & prepared plans & quantity estimates for simple bridges and related structures. Engineered roadway design, inspected construction and compiled daily reports. Conducted value engineering studies. Reviewed preliminary engineering and environmental reports. Trained others in the use of CADD. Conducted materials testing and research. Scheduled and supervised survey and maintenance crews.

SOUTHERN NATURAL GAS COMPANY
Summer of 1985. Assistant to the Chief Engineer.
Prepared project estimates, monitored ongoing pipeline and pumping station construction and created project costs databases.

GENERAL ELECTRIC
Summer of 1984. Summer Engineer.
Debugged prototype M1 Tank simulators.

GEORGIA INSTITUTE OF TECHNOLOGY
Jan 1984 - June 1985. Assistant to the Dean of the School of Engineering.
Tutored underclassmen in Calculus

Registration
Engineer Intern, State of Florida, 1087ET216

Honors
Outstanding Young Women of America, 1988; Private Industry Council, 1990

Activities
American Society of Civil Engineers, Associate Member
Black Graduate Student Association at M.I.T., Committee Chairperson
Delta Sigma Theta, Inc., Committee Chairperson
Greater Miami Chamber of Commerce, Leadership Miami
Private Industry Council, Mentor Program Participant
Aerobics Instructor
Chapter 6

Conclusion

6.1 Minority Contractor Survey

To overcome competitive disadvantages that blacks historically faced in their efforts to enter the economic mainstream, federal programs to promote black business interests emerged under the auspices of the Small Business Administration. These programs have offered assistance in numerous forms, including: training, technology, equipment, financing, and procurement contracts. While government programs have improved black entrepreneurial prospects for competition on a competitive footing they
are far from ensuring the success of black start-up businesses. Successful transcendence into the economic mainstream for blacks, no less then for whites, depends upon optimal positioning and operating efficiency within an attractive industry. In other words, if they are to succeed, black entrepreneurs must achieve their own competitive advantages before their comparative advantage currently available through SBA programs for minority businesses run out.

Within the construction industry, in particular, SBA programs unquestionably provided a long awaited portal of entry to management and ownership for blacks, who already had gained extensive experience within the construction industry through their field work capacities. However, the same programs that have promoted entry into the business pose a dangerous temptation to new black firms that would pursue SBA money too far and too long. Since set-aside contracts generally represent only 10 per cent of the total value for any public works project, participation in SBA programs necessarily restricts the volume of work for which participating firms may compete, and expanding, rather than limiting sales and receipts, is absolutely vital to business growth and company development in the highly competitive construction industry.

The survey of minority contractors conducted during the course of research for this thesis supports this conclusion, that new black firms in construction must wean themselves away from SBA assistance as soon as possible, if they are eventually to grow strong enough to succeed in open competition for the most lucrative contracts.
6 Conclusion

Respondents to the survey seem to have recognized the liabilities that go with dependence upon SBA contract programs. Respondents indicated that less than one-third of their income was generated through government programs, and less than half of their number reported any participation whatsoever in the 8(a) Program. Moreover, in their report of difficulties in obtaining private financing, they underscored the necessity for establishing a solid record of credit upon which one can capitalize for purposes of business expansion and company development.

6.2 Business Planning

For black entrepreneurs who enter the construction industry, no less than for their white rivals, achieving competitive advantage means enhancing their position and maximizing their operational efficiency. Achievement in business presupposes careful strategy formulation and business planning from the outset, beginning with a precise statement of mission. Without that statement, a business remains reactive to environment vicissitudes—i.e., at risk for inconsistency and reversal as it scurries to meet unexpected opportunities that may suddenly appear too good to pass up. Such inconsistency and reversal is a sure formula for disadvantage, if not failure, relative to other businesses, previously positioned through careful planning to meet the same opportunities. After a mission statement has been formulated, environmental scan ensures that one's choice of industry is attractive. No amount of enthusiasm and hard work can create business
opportunity within a market that is cornered by an established competitor or an economy that is severely depressed. After environmental scan has rated an industry as attractive, internal scrutiny highlights a firm's strengths and weaknesses. Without knowing the former, a firm cannot adequately market itself. Without knowing the latter, it cannot avoid difficulties that could cause considerable losses in time and money.

Strategy formulation, as the fourth stage in the planning process outlined in this thesis, is last but not least in importance. Having clear goals within an attractive industry, knowledge of one's competition, and awareness of one's own strengths and weaknesses does not, in itself, guarantee the competitive feasibility of plans for a start-up business. An entrepreneur must know with which strategies he/she will beat his/her competition. Only after formulating business strategies can entrepreneurs actually formulate their plans. If strategy formulation can be compared to outlining one's route on a map before registering for a rally race, actually preparing a business plan can be compared to resolving how one will actually drive against the competition during the race itself. However, the planning process is never absolutely complete. After every major project, and/or at least once a year, a business must -- if it is to sustain a competitive advantage -- review its performance record and reevaluate both itself and its environment. Only by devising better business plans and formulating more effective business strategies can black entrepreneurs hope to achieve competitive advantages before their comparative advantage under current government programs expire.
President
Company
Address
City, State Zip

Dear Sir or Madam:

While gathering data on the Minority Small Business and Capital Ownership Development Program, I encountered reference to your company's pioneering work. Would you please allow me to benefit from your experience?

As a graduate student at M.I.T. under the supervision of the Center for Construction Research and Education, I am writing my thesis on minority contractors in the public sector. Your answers to the enclosed questionnaire would help me complete my analysis (March 13th deadline). All answers will be strictly confidential and used only in combination with other returns.

This information will be compiled and reported impartially to shape a true profile of the minority contractor. Moreover, your candid responses will be used to reinforce the facts and dissolve the myths pertaining to the objectives and effectiveness of the SBA 8 (a) Program.

Thank you in advance for your assistance. I look forward to receiving your valuable input. If you would like to receive an executive summary of my research, please indicate so in your response.

Yours very truly,

Pamela L. Shelton
M.I.T. Fellow

Enclosure
**U.S. Construction Industry**  
**Business Enterprise Profile Survey**

### Type and Composition of Organization

1. Please identify how your firm is organized.

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>How many partners</th>
<th>How many incorporators</th>
<th>What kind of firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole proprietorship</td>
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<tr>
<td>Partnership</td>
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<td>Corporation</td>
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<tr>
<td>Subsidiary of another firm</td>
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<tr>
<td>Other</td>
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</table>

2. Please rank in order of importance, the firm’s two most important operations (1-most important, 2-second most important)

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<thead>
<tr>
<th>Operation</th>
<th>Code</th>
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<tbody>
<tr>
<td>Housing &amp; Redevelopment</td>
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<tr>
<td>Federal Industrial</td>
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<tr>
<td>Educational</td>
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<tr>
<td>Hospital</td>
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<td>Other public buildings</td>
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<td>Highways</td>
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<tr>
<td>Military facilities</td>
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<tr>
<td>Conservation &amp; development</td>
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<tr>
<td>Sewer systems</td>
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<tr>
<td>Water supplies</td>
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<tr>
<td>Misc. public structures</td>
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</tbody>
</table>

3. Primary 3 Digit Standard Industry Code (SIC)

4. Was your firm engaged in other activities besides public works construction?

<table>
<thead>
<tr>
<th>Construction Related</th>
<th>Other Services</th>
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<tbody>
<tr>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

If yes, indicate activity:

- **Residential**
  - Single-family
  - Multifamily
  - Home Improvement

- **Private Nonresidential**
  - Manufacturing facilities
  - Office
  - Hotels & Motels
  - Other commercial
  - Religious
  - Educational
  - Hospital & Institutional
  - Misc. buildings
  - Telecommunications
  - Railroads
  - Electric utilities
  - Gas utilities
  - Petroleum pipelines
  - Farm structures
  - Misc. structures

- **Real Estate**
- **Attorney**
- **Engineer**
- **Wholesaler**
- **Retailer**
- **Bank or Lender**
- **Accountant**
5. Please indicate if your firm has joint ventured in public construction.

   ___ Other contractors
   ___ Construction management and other service companies
   ___ Both contractors and the above
   ___ None

**Business Activity**

6. Based on dollar volume, please indicate the percentage of total construction work done by your firm in each of the following categories:

   General contractor   %
   Subcontractor        %
   Other                %
   Total                100 %

7. What is the approximate total dollar volume of work your firm performed in 1991?

   $ ____, ____, ____

8. How many competitive solicitations did you respond to in 1991?

   ___ Federal
   ___ State
   ___ Local

9. What is your current bonding limit?

   Single Job $ __________
   Aggregate $ __________

   ___ Corporate Treasury
   ___ Listed Surety
   ___ Individual Surety

**Competition**

10. Please list your major competitors

    __________________________________________________________
    __________________________________________________________
    __________________________________________________________

11. Please rank in order of significance the competitive strategies used to build our firm’s reputation.

   ___ Quality
   ___ Efficiency
   ___ Price

**Demographics**

12. In what year was your firm established? ____________________________

    Where is your headquarters located? ____________________________

    City ____________________________ State ____________________________
13. Please indicate your firm's maximum operating radius:

- 25 miles
- 50 miles
- 75 miles
- 100 miles
- 150 miles
- >150 miles

Data on Head of the Construction Firm

14. Is the operating head of the construction firm a salaried executive or owner?

- Principal owner
- Sole owner
- Salaried executive only (not a principal or sole owner)
- Other

Specify

15. Please indicate highest level of formal education completed:

- High School
- College

Degree/Major

Source of Construction and Permanent Financing

16. Please indicate the principal source of your firm's construction (C) and permanent (P) financing.

<table>
<thead>
<tr>
<th></th>
<th>C</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Commercial Bank</td>
<td>Savings &amp; Loan Association</td>
</tr>
<tr>
<td></td>
<td>Private Investor</td>
<td>Other</td>
</tr>
</tbody>
</table>

Specify

Construction Methods

17. What percentage of your total construction costs was subcontracted out?

- None
- 1-24%
- 25-49%
- 50-74%
- 75-99%
- 100%

18. Indicate this firm's use of the following specialists.

<table>
<thead>
<tr>
<th>Specialty</th>
<th>Own Staff Only</th>
<th>Fee Basis Only</th>
<th>Combination Own Staff &amp; Fee Basis</th>
<th>Do not use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Architect</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draftsperson</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planner/Estimator</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil Engineer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Engineer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superintendent</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Specify
**Construction Problems**

19. In the first column, please check all the significant problems you faced during 1991. Then, in the third column, rank only the three most significant (1=most significant, 2=second most significant, and 3=third most significant).

<table>
<thead>
<tr>
<th>Significant Problems</th>
<th>3 Most Significant Problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor costs and Labor Problems</td>
<td></td>
</tr>
<tr>
<td>Materials Costs</td>
<td></td>
</tr>
<tr>
<td>Construction Financing</td>
<td></td>
</tr>
<tr>
<td>Lack of Skilled Labor</td>
<td></td>
</tr>
<tr>
<td>Business Management</td>
<td></td>
</tr>
<tr>
<td>Lack of Materials</td>
<td></td>
</tr>
<tr>
<td>Building Codes</td>
<td></td>
</tr>
<tr>
<td>Environmental Requirements</td>
<td></td>
</tr>
<tr>
<td>Required Documentation (Paperwork)</td>
<td></td>
</tr>
<tr>
<td>Delays due to Government Regulation</td>
<td></td>
</tr>
<tr>
<td>State of the Local Economy</td>
<td></td>
</tr>
<tr>
<td>Good Subcontractors</td>
<td></td>
</tr>
<tr>
<td>Seasonability of the Work</td>
<td></td>
</tr>
<tr>
<td>SBA Program Participation</td>
<td></td>
</tr>
</tbody>
</table>

20. Please indicate if there are any pending adverse actions which may effect your operations.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawsuits</td>
<td>Contract disputes</td>
<td></td>
</tr>
<tr>
<td>Delinquent taxes</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Creditor problems</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Resource Utilization**

21. Please indicate the number of full time employees on this firm's payroll for the June 30 and December 31, 1991.

<table>
<thead>
<tr>
<th></th>
<th>June 30</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction workers¹</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All other employees²</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 - Construction workers includes all workers (up through foreman level) directly engaged in the construction operations. This category includes on site record keepers and watchmen.

2 - All other employees includes executives, professional, technical, field management and routine office employees. Also includes supervisory employees above the foreman level.

22. Are any of your firm's employees unionized? (Employees on your payroll only)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>
22. cont. If yes, check those that are unionized.

___ All
___ Laborers

Subcontract Trades such as:
___ Plasterers
___ Carpenters
___ Masons
___ Bricklayers
___ Roofers
___ Painters
___ Electricians
___ Plumbers
___ Other __________
___ Other __________

23. Assuming your work force will supply their own hand tools, what percentage of equipment does your firm own/rent?

___ % Own
___ % Rent

Government Programs

24. Please identify your basis of eligibility for participation in the SBA's government contract procurement programs.

___ Small Business Enterprise
___ Women-owned Business Enterprise
___ Minority Business Enterprise
___ Local Business Enterprise

25. The socially and economically disadvantaged individuals in your firm:

___ Own the business
___ Control the business
___ Manage the business
___ Do not own the business
___ Do not control the business
___ Do not manage the business

26. Please complete the following.

SBA program certification date ________________________________
Program term expires ________________________________
Stage of participation ________________________________

Approved 8(a) Support Level $ ________________________________

27. Please check the assistance you have requested as a program participant since 8(a) certification

___ Sole source & competitive 8(a) contract support
___ Financial assistance (8(a) Loan Program)
___ Exemptions from the requirements of the Walsh-Healy Act
___ Exemptions from the requirements of the Miller Act
___ Financial assistance for skills training or upgrading for employees or potential employees
___ Technology or surplus property via grant, licence, or sale
___ Training sessions in the development of business principles and strategies
___ Assistance in forming joint ventures, leader-follower arrangement, and teaming agreements
___ Training and technical assistance in business planning for transition into the open market
28. Please indicate the total 8(a) assistance received since certification:

<table>
<thead>
<tr>
<th>8 (a) Contracts</th>
<th>#</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance Payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Development Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct or Guaranty Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 (f) Program Assistance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please describe any further assistance:

- Special Emphasis Programs
- SCORE, SBI, SBDC, etc.
- Other

29. What percentage of your total revenue for 1991 can be attributed to your participation in this program.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>#</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10%</td>
<td></td>
</tr>
<tr>
<td>11-20%</td>
<td></td>
</tr>
<tr>
<td>21-30%</td>
<td></td>
</tr>
<tr>
<td>31-40%</td>
<td></td>
</tr>
<tr>
<td>41-50%</td>
<td></td>
</tr>
<tr>
<td>51-60%</td>
<td></td>
</tr>
<tr>
<td>61-70%</td>
<td></td>
</tr>
<tr>
<td>71-80%</td>
<td></td>
</tr>
<tr>
<td>81-90%</td>
<td></td>
</tr>
<tr>
<td>91-100%</td>
<td></td>
</tr>
</tbody>
</table>

General

30. Any special comment you would like to make about the construction industry or the survey?
Bibliography


Kopac, Peter A. "How to Conduct Questionnaire Surveys." *Public Roads* Volume 82, No. 1 (June 1991):


Lee, Roy F. *The SETTING for BLACK BUSINESS DEVELOPMENT: A Study in


"SBA Modifies 8(a) Program." Engineering New Record Volume 211 No. 1 (July 2, 1981): 70.


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