

# **THE SECRETS OF AN EFFECTIVE Sober Living Home Business Plan**

by Wendell Montney



**“Discover The Answers To Everything You  
Need To Know About Writing a Business  
Plan For a Sober Living Home.”**

# **THE SECRETS OF AN EFFECTIVE Sober Living Home Business Plan**

Written by: *Wendell Montney, Ph.D, CAAC, CCS-M*

©2011 Wendell Montney, Bridgeport, MI. All Rights Reserved.

## Table Of Contents

pg 1...	What Makes A Great Business Plan?
pg 4...	Sober Living Homes Business Plan
pg 5...	Executive Summary Executive Summary Company Analysis Industry Analysis
pg 6...	Customer Analysis
pg 7...	Competitive Analysis
pg 8...	Marketing Plan
pg 10...	Operations Plan
pg 12...	Management Plan
pg 14...	Financial Plan
pg 15...	Special Considerations
pg 17...	Appendix
pg 18...	Resources

## What Makes A Great Business Plan?

Here are several things you MUST pay attention to for an effective business plan. It has been said there are three things you must have to succeed in business: Knowledge (expertise), capitalization (adequate funding or CASH) and good bookkeeping (Financial Management). If anyone of these is weak your organization is at risk of not being successful. If all three are strong your organization has a promising future.

Here are things you need to pay attention in your ongoing business plan.

### **Know your business and your competition.**

You will need to do research to write your business plan. This provides you an opportunity to gather facts (not just your experiential knowledge). When lenders or investors are able to gather facts independently that are consistent with your business plan they are more inclined to trust your information.

For example, if you were to state, “There are many people coming out of residential treatment centers in your service area and you will be providing an opportunity for them to live in a clean and sober environment.” It would be much more powerful to have something like this, “ The statistics from (source) indicate there are 550 people who complete residential treatment in our service area, of those there are approximately 40% who do not have a sober living arrangement for their continued recovery (give source of %). The Sober Living Home will provide access to 12 residents staying up to 2 years.”

You will notice when you make a claim you back it up with a resource they can check to verify your statement.

This research takes time. It is one of the most crucial elements in the development of your plan.

It is important on an ongoing basis to continue to monitor the status of your market niche. Is it changing, if funding changing, are there new opportunities. When you learn to do the research task, work with it to master it. Your ongoing business plan will be markedly affected by how well you do this function.

## **Management Expertise**

When we are looking at management expertise the consideration here is whether you can provide a verifiable track record of experience the lenders or investors can trust to accomplish the plan.

It is preferable if you or one of the partners have management experience. If you do not personally have the expertise, you can hire the expertise. You need commitments and the ability to provide how this management will continue if this person leaves.

More than anything else the way you handle the management in your plan tells lenders about the character of your organization.

It is important to document items such as degrees, experience and related background for all of the principle partners of the plan. These details lend credibility to your organization and begin the process of establishing trust.

The lender is more likely to fund your organization if you have managed a treatment facility before or if you have operated a sober living home in the past.

In the management section you are detailing how the organization will be

operated. What the expectations will be for daily operations, how people will come to your facility, and what the expected course of residency will be; how residents will exit the sober home.

## **Think your Marketing plan through and make it realistic**

The marketing plan needs to be thoughtful and realistic. If you cannot reasonably conclude what you are expecting from your marketing then neither will the lender or loan officer.

Marketing needs to be strategic, cost effective, and something you can do with a result you can count on. If you can secure letters of agreement from residential treatment centers you have a much stronger plan than if you just indicate you will market to the treatment facilities with flyers and personal visits.

Competition is a factor you need to consider in your marketing plan. If you are making a claim there are no other organizations doing what you do, and the lender can think of two or three who do similar work, your credibility is shot.

Do the research. Find out who your competition. Where are they located in relationship to you? Why would people use your organization instead of the competition? Is it price, quality, location or staffing? If you have a big appeal here is where you make it shine.

## **Projecting Finances is Essential, be Realistic**

Your sober living home business plan will not work unless your financial projections are reasonable. The components you need to research are your projected income statement, balance sheet and cash flow sheet. The projections

must be realistic and again based on solid research

These projections need to extend for 24 to 36 months. They should reflect the capital you are putting into the company and funds you intend to raise. These can be generated by doing a comparison with a similar organization, modified to reflect your start up.

The assumptions you are making must be clearly noted and justified. If you assume certain capital, why do you expect to have that capital? Are you mortgaging your home to secure the funding? Is your father-in-law a silent partner?

This is a tool for you to use over the course of the first three years (and beyond). It helps you to track if you are making the projections and if there are adjustment necessary to sustain the business. Here are the *10 critical sections* to include in your business plan, which investors and lenders will want to see before funding your business:

## **Sober Living Homes Business Plan**

There are 10 elements necessary to develop a business plan. Investors and lenders want to see this information before they will consider your organization for funding.

### **The components are as follows:**

- Executive Summary
- Company Analysis
- Industry Analysis
- Customer Analysis

- Competitive Analysis
- Marketing Plan
- Operations Plan
- Management Plan
- Financial Plan and Appendix.

## **Executive Summary Executive Summary**

The Executive Summary provides a succinct synopsis of the business plan, and highlights the key points raised within. The Executive Summary must communicate to the prospective investor the size and scope of the market opportunity, the venture's business and profitability model, and how the resources/skills/strategic positioning of the Company's management team make it uniquely qualified to execute the plan. The Executive Summary must be compelling, easy-to-read, and no longer than 2-4 pages.

## **Company Analysis**

This section provides a strategic overview of the company and describes how the company is organized, what products and services it offers/will offer, and goes into further detail on the company's unique qualifications in serving its target markets.

## **Industry Analysis**

This section evaluates the playing field in which the company will be competing, and includes well-structured answers to key market research questions such as the following:



What are the sizes of the target market segments?

What are the trends for the industry as a whole?

Investors and bankers want to know if there is enough business in the market niche for you to enter in and have a reasonable opportunity to succeed. The more you are able to help them understand who you are targeting as customers. How they are currently being served or underserved will give them an understanding of how you fit into the picture.

Remember, you may be doing this out of the goodness of your heart but the bankers and investors want a return on their money and not just a return OF their money. You have to assure them of both.

## **Customer Analysis**

The Customer Analysis section assesses the customer segment(s) that the company serves. In this section, the company must convey the needs of its target customers. It must then show how its products and services satisfy these needs to an extent that the customer will pay for them

The more you provide evidence you understand your customers the more likely your plan will succeed. It is important to be able to understand the trends within your industry. Is the demand for what you are doing going up or down or is it simply staying flat.

This is important because you are trying to show how you will fit into the market and attract customers to your services. If it is an increasing market you will get in on the emerging upward trend. If it is staying steady you will need to attract them because of better services, better cost or better value. If the analysis suggests

there is an overall decline in consumers you need to show an aggressive plan to attract those who are their. If you have signed commitments from many providers around who will refer to your program it may be possible to overcome a declining customer base.

## **Competitive Analysis**

This section defines the competitive landscape of your business. It identifies who the direct and indirect competitors are, assesses their strengths and weaknesses and delineates your company's competitive advantages.

This is where you show competency in being able to declare who your competition is within your service area. Be sure to identify larger and smaller organizations who are in some way competition. Do not forget those who have your customers and are not doing exactly what you are doing. You will later show how your specialty services will attract these customers to you instead of where they are currently being served.

Be realistic about the strengths and weakness of your competition. Do they have more capital, better facilities, competent staff or other attributes to attract consumers?

All organizations have weaknesses. Has the larger organization become insensitive to the immediate needs of the consumer? Is the priority of the larger organization focused on other things besides the needs of the consumer you intend to serve?

Take time to know who your competition because this information will assist you in funding your plan as well as becoming competitive in the market. The more you

know about the weaknesses of your competition the more you know how you can make a place for your organization in the niche.

## **Marketing Plan**

How will you market your Sober Home? Do you already have contacts who are requesting a sober home? It is one thing to have people suggest how wonderful it would be to have a sober living home in the area. It is totally another thing to have them make a commitment to support it with regular referrals. If you have such supports get it in writing. A letter of intent to use the services of your program is a meaningful way of connecting your new referral source and provides supportive documentation for bankers and investors.

There are many ways to market your services. These are a few areas and you need to understand the expense associated with each method. Your investors will want to know how you plan to market, what methods and how you plan to finance your marketing strategies.

- Developing referral sources
- Direct Marketing
- Radio and Television
- Word of Mouth

### **Developing Referral Sources**

There are often times organizations where people in your industry mingle, meet for continuing education or conferences. These are very good places to begin to develop referral sources.

Meeting with people who provide some type of service to the customers you intend to serve is a major part of establishing referral sources. You can develop a reciprocal referral arrangement document that both you and the agency CEO sign. It becomes a document verifying your intent to know and understand each others organization with the plan to utilize services provided by each other.

These documents are valuable in the appendix as proof of your marketing strategy. With these signed documents it become clear you are more than just floating an idea across their desk.

### **Direct Marketing**

This is where you will make a direct appeal to individuals or groups. Your strategy may be to a mailing list or today it could be a e-mail list. The response rates are typically low and may not be as targeted as you may want.

### **Radio and Television**

There are opportunities to reach certain demographics according to who you want to reach through radio and television advertising. The downside to these methods is the cost of producing the 'spot' for the media you select. These cost will vary according to who you have produce the ad.

The spots you select will have a cost associated with how many people or households you reach. Radio and television give you instant visibility but may not target your advertising directly to the population you desire.

There are benefits to this media. Credibility is generally associated with ads viewed on television or heard on radio. This helps you establish an impression on the community. Even if you cannot or chose not to do a lot of this media it is reasonable to consider including in your marketing strategy.

### **Word of Mouth**

Without any question the best form of advertising is word of mouth. There is nothing like it in any other media. When you have someone who has benefited from your services tells others of your services you have a high likelihood of succeeding with the referral.

People need to trust your services. This trust is earned. When you have people telling others how great your program is and how they can make use of the services you have established credibility. Trust is likely to follow.

Work toward developing a strong pattern toward word of mouth. Having exit interviews or testimonials of how well people do in your sober living home would be a great plan to promote this type of marketing.

## **Operations Plan**

How will the Sober Home be operated? Who will be in charge of day to day operations? What are the policies you intend to use for the home? What are the procedures?

There is a distinction between policy and procedure. The policy statement is the

minimum standards the organization will live by in the performance of their duties. Procedures are the 'how' will you do what policy allows you to do. If you state in policy all direct care staff will have CPR and First Aid training before they start working. Your procedures must have a plan for them to get the training and how you will verify the training is complete. You will not include your policy and procedures in the business plan, but you will want to have them completed so they can be reviewed if requested. The more thorough you have completed the policies and procedures the better you will be able to communicate your plans for operations.

**Include in this section:**

- Example of a routine day including all activity categories
- Staffing requirements
- Answering phones
- Documentation required
- Who will be responsible for accounts payable, receivable and payroll
- Who is responsible for customers coming into the facility
- Who makes decisions about when consumers leave the facility
- Emergency/Crisis management
  - Injury to customers or staff
  - Fire, severe weather/tornado and bomb or terrorist threat
- Who is in charge of maintaining facilities

When you develop this section be thorough and think about the various aspects of daily operations. When you show expertise in this area you bolster the confidence of investors that you will know how to run the shop once it is opened.

## Management Plan

How will the organization be managed? Management is a little different than operations. This has to do with the Board of Directors. How will the business be organized?

You need to decide what type of legal entity to use for the organization. There are several options.

- Sole Proprietorship
- Corporation (C Corp)
- S Corporation
- Limited Licensed Partnership
- Non Profit (501c3)

Each of these organizational structures have advantages and disadvantages.

### Sole Proprietorship

**Advantage:** You are the boss. There is no board of directors to answer to for day to day operations.

**Disadvantage:** You are personally responsible for taxes and liability from the business should anything go wrong. Trust me, they will go wrong. This is not a recommended organizational structure.

## Corporation

**Advantage:** Personal liability is shifted to the Corporation. Personal liability is limited.

**Disadvantage:** A C Corporation is taxed as an entity and then you get taxed again when profits are distributed.

## S Corporation

**Advantage:** Elimination of double taxation that occurs with C corporations while limiting personal liability.

**Disadvantage:** The amount and type of shareholders is restricted.

## Limited Liability Corporation, (LLC)

**Advantage:** An LLC with only one person is taxed as though it were a personal tax return. When the LLC has two or more partners taxes are distributed to each according to their share of the partnership.

**Disadvantage:** Partnerships have much liability limited but somewhat dependent on actions of other partners.

## Non-Profit (501c3)

**Advantage:** Tax exempt from corporate taxes (if recognized as a charitable organization). Personal liability is limited. May be eligible for charitable donations and grants. Personal liability is shifted to the Corporation. Personal liability is limited.

**Disadvantage:** It will cost more in legal fees to secure non-profit



status. There is more public scrutiny. There is more paperwork involved. You will share control with an independent board of directors.

Once you have decided what type of organization you want to form it is important to get legal advice. A few dollars spent on an attorney at this point is VALUABLE and will save you many headaches down the road.

## **Financial Plan**

Proforma Budgets includes funding sources, revenue and expenses for at least 24 months preferably 36 months. This should be a document you update regularly to determine if you are on target or if you need adjustments to your business plan.

In your financial plan section you want to indicate your bookkeeping and audit plans. This means you want to have a system for accurately handling money into the organization and out of the organization.

The financial tools you use may speak volumes to investors and bankers. Let's say you decide to use an off the shelf computer bookkeeping tool. If the banker knows of the reliability of the system they will feel more secure about your recordkeeping.

When you add to the bookkeeping choices a plan for an annual audit by a CPA firm (maybe even one where the investors or bankers are well respected). You will be establishing a level of trust and accountability.

## Special Considerations

There are special considerations when considering a Sober Living Home.

### Business Location Restrictions:

- Buy or Lease
- Legal entity considerations
- Meet with neighbors/community support
- Policies and Procedures (rules and consequences)
- Meet with alcohol/drug treatment administrators to promote program
- Remodel facility
- Market to residents of residential treatment programs

It is important to create detailed responses to each of these considerations to show investors and loan officers you understand the nature of your business.

### Business Location Restrictions

Locate a residential property in your community that is zoned appropriately for a sober living home. Typically zoning for single [family](#) residences will not allow for the presence of a sober living or other type of group home. You can determine how a property is zoned by contacting the zoning or planning commission in your community. These offices can be accessed through city hall or the county courthouse (or administration) buildings.

### Buy or Lease

Make a decision as to whether you want to lease or purchase property. By leasing you will minimize your upfront expenses. Electing to purchase provides more flexibility over how the property is utilized.

### **Legal entity considerations**

Create a specific [legal](#) entity to own the sober living house. In most instances, the legal entity will be a [nonprofit](#) corporation. The secretary of state's office can provide you with standard form articles of incorporation for your use. Once completed, these forms are filed with the secretary of state for a nominal fee.

### **Meet with neighbors/community support**

Schedule a meeting with neighbors of the proposed sober living house to explain your plans and to obtain feedback from them. You will want to provide neighbors general information about establishing a residence for individuals who desire to maintain sobriety. Make certain that these neighbors understand that the residents will be held to strict standards of conduct. Ascertain what concerns or misconceptions the neighbors have and respond to these issues promptly.

### **Policies and Procedures (rules and consequences)**

Develop a set of rules for residents of the sober living house. The primary rule is that a resident must maintain sobriety to be able to reside in the house. Another fundamental component of the rules is the guidelines on how a person living in the house is removed for violation of these rules or other misconduct. Rules will also set forth what specific responsibilities a resident has in regard to the operation and maintenance of the residence.

### **Meet with alcohol/drug treatment administrators to promote program**

Meet with the directors or administrators of different addiction and alcohol treatment programs in the community to advise them of your

plans. The main purpose of these meetings is to develop a connection with the individuals for future referrals to the sober living house.

### **Remodel facility**

Remodel the residence you select to be suitable for a sober living house. The fundamental step to take in this regard is to maximize the [sleeping](#) space available in the residence while maintaining as much individual privacy as possible.

### **Market to residents of residential treatment programs.**

Market the sober living house to participants in recovery programs in the community in advance of opening the doors to the residence. Your [marketing](#) efforts can include the creation of a website. Also consider designing a brochure that can be distributed at treatment centers as well as at recovery and support programs in your community

## **Appendix**

The appendix is for documents used to support your arguments in the body of the business plan. This can include resumes of executives, letters of intent to use the program from treatment facilities, funding source commitment letters, reference letters.

## Resources

### **Policy and Procedure writing**

I found these helpful tips to make your task a little easier.

<http://smallbusiness.chron.com/write-policy-statement-business-3128.html>

### **External Scan**

What makes up a good external scan? This link will give you more ideas.

[http://en.wikipedia.org/wiki/Environmental\\_scanning](http://en.wikipedia.org/wiki/Environmental_scanning)

### **What makes a great manager?**

You will need to make sure your idea of a good manager matches what the investors and bankers think. This link will help you with formulating your ideas.

<http://www.scottberkun.com/blog/2009/top-ten-reasons-managers-become-great/>

### **Marketing Strategies**

There are many ideas about marketing. You will find this link very resourceful.

FAQ about Sober Living Homes

<http://www.anonymousone.com/faq174.htm>

### **Incorporate?**

More about what type of Corporate structure to form

<http://www.companiesinc.com/corporation/types.asp>

### **Chart of Accounts**

When setting up your bookkeeping you will need to establish a chart of accounts.

Off the shelf accounting packages for the computer generally will help you do this. If you do it the hard way, by hand you will need to establish a chart of

account. The link below is a great review for doing this.

<http://www.netmba.com/accounting/fin/accounts/chart/>

Budgets are necessary for planning and general operations of your business. This is how you can determine where the company is at along the way. Computer accounting software usually includes a budgeting tool to help you with this process. The link below will assist you with what is included in a budget.

<http://www.smallbusinessnotes.com/business-finances/budget-example.html>

### **Pro-Forma Budget**

Actually Microsoft Office Online has a tool to assist in making a pro-forma budget. Take the help to make it easier.

<http://office.microsoft.com/en-us/templates/startup-budget-TC101877332.aspx>