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Business Plan Guide

***WHY DO A BUSINESS PLAN?***

You’ve assessed your suitability for the life of a small business owner/operator. You’ve identified and evaluated several business ideas and decided which one is right for you. You’ve also completed your preliminary research and made some decisions on how your business will be structured and how it will operate. It’s time to clearly define and describe your planned business venture by completing a business plan.

***A business plan is a written document that describes all aspects of your business venture, including:***

1. who you are
2. where you are located
3. your basic product or service
4. how you will produce and market it
5. how you will finance the business

In short, it outlines comprehensively yet concisely what your business objectives are and how you will achieve them within a budget.

Developing a comprehensive business plan involves a lot of research and hard work, but the resulting benefits to you and your new business are well worth the effort. Your business plan is the most important business document you will ever prepare.

***A business plan:***

1. Helps you evaluate your business idea and make a final decision on whether or not to proceed with the business venture.
2. Helps you improve your chance of business success by setting out realistic goals and financial projections against which you can measure actual performance.
3. Helps you obtain financing. Investors and lenders will use it to assess the viability of your proposed business venture. Financial institutions generally require a detailed business plan before they will even consider lending you money.

While not all elements of the business plan will be applicable to all types of small business and to your particular situation, it is important that your business plan be as comprehensive as possible without being so lengthy that no one will read it.

***WHAT DOES A BUSINESS PLAN NEED TO CONTAIN?***

1. A projection of cash flows that clearly support the operation of the business. Ideally estimates should be for three years and be supported by facts and or quotes. The amount of money the owner plans to take from the business as salary or draw should be indicated.
2. A projected income statement and balance sheet, as well as any financial statements from previous operations.
3. Information gathered through market research that justifies the expected sales volumes, the prices to be charged, the type and number of potential customers and why they would buy the product or service.
4. Specific methods planned for marketing the product or service and what these would cost.
5. Evidence that the owner will be able to operate the business competently. This could mean having experience running a business, experience gained from working in the same type of business, or knowledge developed through a personal hobby or interest, combined with management experience.
6. A clear and detailed plan for operating the business, including a time line.
7. A description of the equity the owner plans to contribute to the business.
8. Proof of the value of assets being pledged for security.
9. A worst case scenario for the business and a contingency plan in case financial projections fall short of the estimates. The contingency plan should indicate how the owner will support themselves and repay debts.
10. A resume for each owner.
11. If there are partners or shareholders, there must be a written partnership or shareholder agreement.
12. If more than one company is operating, financial information should be presented for the individual companies, as well as summary information on all the companies combined.
13. If there is more than one company involved, a chart should be included that clearly indicates overall ownership and control.

***The above requirements are not exclusive. The client may be asked to present additional information to satisfy loan requirements.***

***STARTING YOUR OWN BUSINESS***

The Steps to Success:

Now, here are the key steps to take that will help put you on the road to your own profitable business.

1. **Establish Your Objectives:**

One of the most attractive features of running your own business is that it is more than just a way of making a living. For most owner-managers, it is an important way of fulfilling their own and professional goals.

When you are on your own, your biggest challenge is to make your business perform the way you want. That is how you will ensure that the business will help you meet your objectives.

Naturally, your primary business goal must be to make a profit. Many fledgling owner-managers lost sight of that goal. Some people feel uncomfortable with an objective of making money – they are the ones who definitely do not belong at the helm of a small business! As an owner-manger, you will face one unchangeable fact: If your business does not make money, it will not last long.

Although you will share that all-important profit-making objective with every other owner-manger, the rest of your objectives will be yours alone. They may include things like increasing your personal net worth, having the financial resources to purchase a dream home, finding time for neglected hobbies. All those things—and more—ultimately could be possible if your business thrives. In the short term, however, it just does not make sense to imagine that an owner-manger with his her financial future on the line could abandon a fledgling business to take a six-week holiday.

The key is to think realistically about the demands your business will place on you, and how running your business will affect your ability to lead the kind of life you want to have.

You may want to jot down your ideas about where you want to be in your business and personal life in say, six months, one year, two years, and five years. Then think seriously about whether and how your business will help you meet those goals. Perhaps you will discover that you must make personal sacrifices of time and money now to ensure that you can achieve your longer-term goals. Of course, only you can decide whether that trade-off is desirable.

1. **Your Spouse’s Support:**

Owning and operating your business often takes everything you have got-financially and emotionally. At times, you may be so involved with your business that you just do not seem to have any time or energy to family and friends.

That is why having the understanding and support of your spouse at every step of your business is absolutely key. Your spouse may not understand your business as well as you do and may have little or no active responsibility for it. Nevertheless, he or she will be affected by how well or poorly you do—and how much time you spend working at it.

From the beginning, it is important that your spouse understands how the business will help you meet your personal and financial goals and your mutual or family objectives. It is important that you and your spouse discuss what role, if any, he or she can play to ensure your business success. For example, your spouse may have complementary skills or experience that could be a real asset to your operation. You might think of bringing your spouse into the business part-time or full-time.

You have to be brutally honest with yourself and your spouse about how much time and money your business is likely to consume. Things like lavish family holidays, dining out, or spur-of-the-moment shopping sprees may have to be curtailed if you are devoting every spare moment and dime to the business. Consider what effect hat might have on the quality of your personal life. Are you—and your spouse—prepared to make personal concessions to see the business proper? Only the two of you can answer that question.

1. **Identify Your Weaknesses**

When you are starting a business, they may tempt you to emphasize your strengths and ignore your weaknesses. That is natural—but you do so at great risk to your business. After all, you probably will not have problems with things you have already done know well.

Typically, the weaknesses we fail to recognize—even worse, those we recognize but refuse to acknowledge- are at the root of most business problems. One key element of your planning process must be to identify your own business weaknesses and take steps to reduce or “underpin” these risks.

In fact, “underpinning” probably should become one slogan of your small business career. You will never eliminate all the risks associated with your new venture, but you can do a great deal to neutralize them. Remember: Whenever you underpin your risks, you automatically improve your chances of success.

Just what type of risks are you going to face? That probably depends on your own background and skills. Nevertheless, you might lack the skills of marketing, finance, and general management. On the other hand, you may be a promoter type. You could be great at raising money to get your business off the ground, but you might lose interest once the “new baby” has been born.

According to Canada’s venture capitalists—people who give financial backing to small, growing companies—most small firms face four basic areas of risk: management; sales and marketing; production or technology, purchasing and supply; and finance.

Nobody is an expert in each of those four areas—and nobody expects you to be. Your task is to decide your personal strengths, then figure out how you can best proceed to underpin your weaknesses. For example, if number crunching is your weakness, you might decide to enrol in a basic accounting or bookkeeping course at night school. If production is your weak spot, you might want to learn the ropes in somebody else’s business before you try it on your own, or you might consider contracting out some of your work to existing firms or individuals. Ultimately, the genius of a successful entrepreneur is putting things together – not doing everything yourself.

Inevitably, you will discover that there are an infinite number of ways to underpin any risks you will face. By deciding which ones are best for your business, you will give your new venture a far better chance to survive and grow.

1. **Test Your Plans:**

Playing your cards to your chest may be a good poker strategy, but it has serious disadvantages for you as an owner-manager.

Many would-be entrepreneurs make the mistake of keeping their business cloaked in mystery almost until they open their doors. A better pre start-up strategy is to bounce your ideas off as many people as possible—friends, business acquaintances, people who ran or are still running a similar business. Ask them for their opinions. Many problems that you are likely to face can be sniffed out in advance if you talk to enough knowledgeable people about what you have in mind.

If you really believe that you can succeed with the business you have in mind, you should not be afraid to put your ideas to the test. As we have said before, you can benefit tremendously by other people’s experiences-both good and bad. If you speak to people who really know something about your proposed type of business, you should get valuable information that can help you iron out some bugs from your own plans. Listen to their comments. Sift the opinions you get and react- even modify or change your plans before you get into business, rather than after, when it may be too late.

Among lawyers and accountants, this process of “asking the people who know—or should know” is called “due diligence.” Before you leap into your own business, conduct your own due diligence.

Suppose you intend to open a picture framing shop in a major Canadian city. You might visit two or three, and perhaps take a part-time job in one to learn the ropes. That is good as far as it goes, but you should not fool yourself into believing that you know all there is about the business from that brief experience.

If you really want to give your business its best chance for success, you should visit every picture framing shop in the city. Talk to the owners and employees. Find out as much as you can about the disadvantage as well as the positive features of the business.

Remember: There is not point in discussing your plans only with those people who are likely to rubber-stamp them. To increase your chances of success, you need to talk to people who will challenge your plans and help you to find their weaknesses. Then, before you have spent vast amounts of time or money, you can take the appropriate steps to underpin your weakness—prop up your Achilles heel.

1. **Be Prepared to Answer Questions:**

Once you have begun to talk about your business plans, you have to expect a variety of questions – and reactions – from other people. If you are speaking to your spouse, they might require you to explain, “What about our plans to rent that cottage for the summer?” If you are speaking to a would-be investor, you have to be ready to answer a barrage of technical, financial, and marketing questions with solidly prepared data. If you are speaking to competitors, you should expect at least a certain amount of wariness and a few attempts to dissuade you from starting your business.

From now on, answering questions, justifying your decisions, and explaining your results will be a regular part of your business life. If you resent highly personal questions from people who have a serious interest in whether your business succeeds, you probably should not start the business in the first place.

1. **Know Your Financial Limits:**

One of the sad facts of small-business life is that all too many new ventures fail because they were undercapitalized. Often, the owner-manger had enough money to get the doors open, but not enough to see the business through until it began to pay for itself. As a result, lines of credit from banks and other financial institutions are another fact of small business life.

Before you begin to make the rounds of local financial institutions, assess your own financial resources. Besides your savings, things such as your home or car can be used as collateral for loans—usually, your lender probably will ask you to pledge some of your assets against the loan. Providing such guarantees may seem a potentially high price to pay to take a chance on yourself, but you cannot expect an outsider to back you unless you can prove that you are fully committed to the venture – and that means financially.

**7. Get Introductions:**

Whenever you are looking to outsiders for advice, money, or any other form of assistance, try to get an introduction form a mutual fired or acquaintance. Professional salespeople know that the power of one introduction is worth three cold calls—and the same thing is true when it comes to finding start-up help. You will always be ahead of the game if you can open a conversation by saying, “Mr. X suggested I call you.”

If you’re looking for outside experts or advisers who can help you over some pre start-up hurdles, your accountant and lawyer are good places to start. Your professional advisers can help you draw up any formal plans or documents you will need. Typically, they have a wide network of contacts throughout the business community, and they can put you in touch with other people who can help you. You also might consult local chambers of commerce, trade publications, industry associations, and business schools for the names of potential resource people.

1. **Stick to An Affordable Scale:**

If you can finance your business without having to turn to outside sources, so much the better. It is often possible to do so by operating on a small scale or part-time basis at first and then expanding as your business begins to foot its own costs.

These days, more profitable new-ventures are born in the homes of their owner-mangers—and that is just where they stay, as least for a while.

If your business does not depend on street traffic for sales or if you do not require elaborate office space for staff or client meetings, you may be able to operate successfully from your own home. Naturally, this will help you keep your start-up overhead small, and it can often give you certain attractive tax breaks.

**9. Use Simple Financial Planning:**

Although your business may start small, financial planning is no less important for you than for the giants of the corporate world. Your plans need not be complicated, but they should meet three key criteria. They should be written, not simply kept in your head. They should be expressed in terms of dollars and cents and discuss set time periods.

Basically, the process is something like making predictions based on the best available information, then measuring how close to the mark your predictions were.

Preparing written plans has a twofold purpose. First, you are more likely to take the exercise seriously if you sit with pen and paper to do it. Second, you will be less able to ignore any unpleasant results when you compare them with actual black-and-white predictions, giving you the chance to take action early, before major problems crop up.

Your written plans should help you do things like determine your capital requirements, evaluate your financial risk compared with your return, and show when your business has reached its break-even point.

There are two vital planning tools to use to chart your course: the projected Profit-and Loss statements (or P & L) and the Cash Flow Budget. The P & L statement will help you put dollar values on your plans, and the Cash Flow budget will help you forecast your cash needs.

Your professional advisers can show you how to get started to collect and record the information for these two financial statements. Then you must be prepared to carry out the

financial planning and control process yourself. That is the only way you will really know where your business is going—and you knowledge truly is crucial.

You are also the one who must decide to cut off a customer, refuse to ship a product, ask the bank for a temporary “bulge.” In other words, take steps to get back “on track.” Remember, the reality is that cutting costs and overhead is easier—which you control—than to increase sales for which others are also competing.

1. **Conduct Simple Market Research:**

If you cannot sell your product or service, your business will not fly. You cannot know for sure that your new business idea is sound, but you should do all you can to find out how the market will respond before you make a full-fledge commitment to the venture.

Among the questions you should answer before launching your business, are the following:

What is my product/service?

What do I have to offer that my competitors/existing businesses do not?

Am I offering the right product/service at the right time?

Who are my customers and what is the size of the market?

How can I reach my target market?

Am I selling my product/service at the right price?

You can get the answers to some of these questions by paying close attention to what your competitors do and finding out what works for them. Then ask yourself “why”. What have they got that you do not? Could you get it and still be competitive? Alternatively, talk to people who have failed at similar businesses and learn all you can from their mistakes.

Remember, many small businesses flourish and grow by supplying a product or service that larger companies, often because of their size, cannot supply. It is called “a market niche” – finding the spot that others are not filling.

To round out your research, be sure to consult local business and trade associations, financial periodicals, business school libraries, and government publications for relevant market data on the line of business you intend to enter.

Finally, try to get even a few small trail orders. They will make a great difference when talking to other customers, or your banker.

**11. Know Your Sources of Supply:**

Knowing how you will sell your product or service is important. Nevertheless, it is equally important to plan how you will obtain the product or any support services for your own business. For example, will you manufacture your own product? Will you buy if from others and distribute? Do you require equipment to provide your service? If so, where will you find it

The answers to these questions are vitally important since having solid, dependable suppliers affects your ability to serve your own customers. If you find yourself running out of stock, receiving complaints about late delivery or shabby merchandise, or having trouble purchasing stock at a stable price, your customers probably will not stay with you very long.

Clearly, planning your production, purchasing, and/or supply activities are just as important as charting your financial or marketing operations. You have to think about whether you can make or buy a good-quality product at a price that will allow you to make a profit when you sell to your customers.

If you have a new product, service, or technology, can you protect it by patents or copyrights? Could someone copy or imitate your product? How long would it take a competitor to catch up with you? Can you develop new products or services to keep ahead of the game?

Before you launch your business, also give some thoughts to the following questions: Do I have the knowledge to manufacture my product or provide my service? If not, can I contract out some work to other people? Do I know what my costs of production or providing the service will be? In light of my selling prices, can I make a profit? Can I supply a good quality product or service in sufficient quantity to satisfy my customers?

If you are unsure about your answers to any of these questions, you probably should take more time to get the information you need before you start your business.

**12. Pull It All Together**

If you have properly followed the first 11 start-up tips, you have probably amassed quite a bit of information, made a wealth of notes, and perhaps even prepared some preliminary budgets. One of the smartest things you can do is collect all this information in a formal business plan.

Your business plan is your selling document to outsiders who need to know about your business – for example, bankers, would-be investors, or your professional advisers. Your business plan should tell other people all there is to know about your business, including the backgrounds of you and your key people, what product or service you provide, how you do it, what your track record has been, and what you plan to do in the future.

In many ways, your business plan will become your calling card. If you prepare your forecasts thoroughly and precisely, that will tell outsiders a great deal about the type of business person you are.

There are almost as many types of business plans as there are businesses, but here are some broad hints to keep in mind as you shape your own plan.

1. **Use Numbers**

Try to use numbers rather than words wherever possible. Outsiders will be most interested in your past performance and future projections, including a range of high and low possibilities. The best way to tell these stories is using numbers.

1. **Cover It All**

Devote a balanced portion of your plan to each aspect of your operation. If your strength is marketing, for example, it is tempting to highlight your strong sales projections. As a result, you should try to present a balanced picture, including your financial information and other plans and activities.

1. **Keep your Plan Concise**

Typically, your plan should be no more than 20 pages, including background material such as product literature, financial statements, research surveys, resumes of you and other key players, and the like.

1. **Update and Change Your Plan**

You should treat your plan as an evolving creature—it has to change as your business does. As you learn more about your intended business, you can update your plan to reflect any steps you take to underpin your risks. Once you launch the business, your business plan will provide a yardstick against which to measure performance.

***Glossary***

**Asset:**  What the business (or individual) owns.

**Balance Sheet:** A statement of what a business owns and owes at a particular point in time.

**Bankruptcy:** The forced liquidation of a business’s assets to satisfy creditors as administered by an impartial third party.

**Budget:** The amount of money that is available for, required for, or assigned to a particular purpose.

**Business Financing Plan:** An outline of business goals, the purposes of the loan(s) and the benefit to the business resulting form the loans. It can also include summaries of historical, market and other data.

**Cash Surplus:** The figure resulting from adding back to “after tax net profit,” non-cash items (those expenses that do not involve actual a cash outlay, i.e., depreciation, amortization). Also referred to as available funds.

**Financial Statements:** Formal reports prepared from accounting records describing the financial position and performance of the business.

**Fixed Assets:** Property or equipment of a tangible nature owned by a business for use in its operations (not for sale) which it is expected to have a useful life of several fiscal periods.

**Forecasts:** An estimate or prediction of a future happening (e.g., sales, expenditures, profits, etc.).

**Lease:** A legal contract covering the use of property between the owner (lessor) and another (Lessee) at a given rent, for a stated length of time.

**Leasehold Improvement:** Renovations and other improvements done to the leased property at the expense of the lessor.

**Liability:** An amount owned to another, not necessarily due to be paid immediately. An obligation to remit money or services at a future date.