

BUSINESS PLAN GUIDE

Community
Futures 
Lloydminster and Region



WHY HAVE 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:

- who you are
- where you are located
- your basic product or service
- how you will produce and market it
- 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:

- **Helps you evaluate your business idea** and make a final decision on whether or not to proceed with the business venture. It will make you think through the entire business planning process so that you do not open blindly or lack vital information in opening and maintaining your business.
- **Helps you improve your chance of business success** by setting out realistic goals and financial projections against which you can measure actual performance. It also requires you to analyze your competition, the market, and both your business and personal financials.
- **Sets up benchmarks** to keep your business under control and on the road to success.
- **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 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?

- 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.
- A projected income statement and balance sheet, as well as any financial statements from previous operations.
- 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.
- Specific methods planned for marketing the product/service and what these would cost.
- 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.
- A clear and detailed plan for operating the business, including a timeline.
- A description of the equity the owner plans to contribute to the business.
- Proof of the value of assets being pledged for security.
- 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.
- A resume for each owner.
- If there are partners or shareholders, there must be a written partnership or shareholder agreement.
- 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.
- 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 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 do not belong at the helm of a small business! As an owner-manager, 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-manager, 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-manager with their 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.

2. 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 devote 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 that might have on the quality of your personal life. Are you—and your spouse—prepared to make personal concessions to see the business prosper? Only the two of you can answer that question.

3. 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 or 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 five basic areas of risk: management; sales and marketing; production or technology, purchasing and supply; and finance.

Nobody is an expert in each of those five 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.

4. 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 disadvantages as well as the positive features of the business.

Remember: There is no 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.



5. 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.

6. 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 from a mutual friend 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.

8. 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, at 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 act 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 your 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.



10. 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? Also 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 trial 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 it 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? Considering 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 businessperson 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.

13. 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.

14. 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.

15. 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.



16. 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.

ELEMENTS OF A BUSINESS PLAN

A. EXECUTIVE SUMMARY

- Write this section last. It should be two pages or less in length. This section summarizes your business plan.
- Explain the fundamentals of the proposed business. What is your product or service? Who are your customers? What is your competitive advantage in the marketplace? Who are the owners? What do you think the future holds for your business and your industry?
- What are the projected start-up costs? If applying for a loan, state clearly how much you are requesting for financing, what that financing will be used for, the name(s) of the financial institution(s) and your personal equity contribution amount.
- What are your sales and net income projections for the first year? How much of an increase in sales and net income do you foresee in years 2 and 3?
- After reading this section, the reader should have a clear understanding of your business.

B. BUSINESS DESCRIPTION

- Describe your business. What will your business do?
- What is the legal and business structure (sole proprietorship, partnership, or corporation)?
- Where is the business located? Is it a home-based business or does it have a commercial location? What is the physical address of the business?
- What is the anticipated start date?
- Include any relevant background information.

C. VISION, MISSION, & GOALS

→ Vision and Mission

- The vision is a statement about the business's growth and potential. What is your vision for the future of your business?
- The mission statement is a concise way to define your business strategy. It should be developed from the customer's perspective. Mission statements are action items and you may have more than one. What is your mission?
- The mission statement section should answer three fundamental questions:
 - What do we do?
 - How do we do it?
 - Who do we do it for?
- The vision and mission(s) should align to create your business's future in an actionable way.

→ Goals and Objectives

- The vision and mission statements will drive your goals and objectives, both short-term and long-term.
- Goals are destinations—where you want your business to be. Objectives are specific steps taken to reach your goals. The SMART goal-setting method is often used to ensure the goal is Specific, Measurable, Achievable, Realistic and Timely.

→ Keys to Success

- These are the key factors that must be in place for your business to succeed. They can vary from business to business. What are the key things that, if you do them well, will ensure your success as a business? For example: sell each unit at a profit; continue to reduce overhead costs; or develop new products while maintaining the high quality of existing products.

D. MARKET RESEARCH & ANALYSIS

There are two kinds of market research: primary and secondary.

- **Primary research** is conducted on your own from direct sources, such as focus groups, interviews with potential customers, observations of the competition, and surveys.
- **Secondary research** is data that has already been collected by other sources, such as Industry Canada, neighborhood profiles, specific industry sources, and suppliers.

NAICS codes are known as the North American Industry Classification System. You may search Industry Canada's website for the NAICS code specifically for your business which enables you to find detailed information and benchmarking statistics.

In the marketing plan section, specify the sources of your research and include statistics, numbers, and factual information. The marketing plan will be the basis of the all-important sales projections.

→ Industry and Business Environment

- **Describe your industry:** How does your business fit into your industry? Is it a growth industry? What changes do you foresee in the industry, short term and long term? How will your company be poised to take advantage of them? What are the current and future trends in your industry? IBISWorld Reports can help with this research.
- **Laws and Rules Applying to Your Industry:** Describe how your business could be affected by the following factors (note each industry is different and not all examples provided below may be applicable to your industry):
 - Political Factors (i.e. Government Policy, Changes in Government, Foreign Trade Policy, Tax Policy, Trade Restrictions)
 - Economic Factors (i.e. Economic Growth, Exchange Rates, Interest Rates, Disposable Income, Unemployment Rates, Commodity Prices)
 - Social Factors (i.e. Population Growth Rate, Age Distribution, Lifestyle Changes, Cultural Barriers)
 - Technological Factors (i.e. How would your industry be affected by innovations in technology?)
 - Environmental Factors (i.e. Weather, Environmental Policies, Sustainability Initiatives)
 - Legal Factors (i.e. Employment Laws, Consumer Protection Laws, Copyright and Patent Laws, Health and Safety Laws)



- **Barriers to Entry:** Is it hard to enter this industry? High barriers to entry can prevent new competitors from easily entering your industry. You will also need to overcome these barriers. Some typical barriers are:
 - High capital costs
 - High production costs
 - High marketing costs
 - Consumer acceptance and brand recognition
 - Training and skills
 - Unique technology and patents
 - Shipping costs, tariff barriers and quotas
- **Competitors:** Who are your direct competitors? Direct competitors offer the same products and services as your business. Who are your indirect competitors? Indirect competitors offer different products and services that fulfill similar needs. Other factors could include selection, reliability, stability, expertise, reputation, location, appearance, sales methods, credit policy, advertising, market share, and image. What factors are most important to your industry?
- **SWOT Analysis:** The SWOT analysis identifies the strengths, weaknesses, opportunities, and threats of your business. Analyze your competitors and your own business using a SWOT Analysis by answering these questions.
 - **Strengths:** What are the strengths of your business? What advantages do you have? What will you do better than anyone else?
 - **Weaknesses:** What are the shortcomings of your business? What are people in your market likely to see as a weakness? What factors will lose you sales?
 - **Opportunities:** Where do you see an opportunity for you to fill a customer need? What is the competition not offering that you could? What are weaknesses of your competitors? Be specific. What trends are there?
 - **Threats:** What might the competition do to make it difficult for your business? What might happen in the industry that will affect your business? What are the strengths of your competitors?

Now, write a short paragraph stating your competitive advantages and disadvantages. Are there potential niche opportunities or gaps in the market for your business?

→ Target Market

- **Segmenting:** Your product or service will appeal to certain markets. Market segments are broad groups of potential customers defined by certain variables. For example, if you have a women's jewelry store, your segments might include middle or high-income women aged 25-40, women aged 40-55, women aged 55+, men aged 40-55 looking to purchase a gift, etc.

Market Variables for consumers:

- **Demographics:** Age, gender, income, education, nationality, occupation.
- **Lifestyle and Psychographics:** Hobbies, interests, what they value most, leisure activities, what they like to buy.
- **Behavior:** What will "trigger" your customers to buy your product or service? What common behavior patterns do your customers share? Where do your customers live/ work? What is the geographic scope you want to cover?

Market Variables for businesses:

- Industry, size of firm, location

What are your market segments?

- **Targeting:** Then, decide which market segments you'll target with the intention of promoting your product or service specifically to these groups. You can't be everything to everyone. By identifying your target markets, you can develop an effective marketing strategy that appeals to your target market(s). Who will want or need your product? Who is most likely to buy your product? What segments are the largest or most attractive? Why? For example, you may decide that your target markets are high-income women aged 40-55 and 55+.

What are your target markets?

- **Customer Profiles:** now, create a couple customer profiles who fit within your target market(s). You may have more than one type of customer. Your customer could be an individual known as a consumer or another business (business to business). Include a specific age instead of an age range or a customer living in a certain radius of your business or a customer earning a specific income. What are your customers' buying habits?

→ Market Potential and Market Share

- Identify your market area (local, provincial, national or international). What is the size of the geographical area and total population? What is the population of your target market? Is the market area expanding, decreasing or static? Assess the potential demand and estimate the potential sales in a one-year period. For example, if you own a coffee shop and you are targeting nearby students: Total number of students x \$ cups of coffee consumed per day x number school days = total available market.
- Market potential is the entire size of the market for a specific product for a specific time. Market potential is measured in sales volume or sales value. For example, the market potential for all coffee shops in Saskatoon may be \$10,000,000. This information can often be found in the CanEx Expenditures Summary. Market share is the percentage of sales in a given market for a business.
- After you've completed your sales projections in the following Marketing Strategy section, calculate what percentage of the market you will have. For example, if you know that your market potential is \$10,000,000 and your sales projections are \$100,000/year, then your market share would be 1%. Include an estimate of total market size, your market share and identification of your major competitor(s) and an estimate of their market share(s).



E. MARKETING STRATEGY

→ Positioning and Brand

- Positioning identifies ways in which your business differs from the competitors, what your brand is, and how you'll appeal to your target market. How might your business position itself based upon your marketing characteristics? What makes your product or service unique? What is your competitive advantage? Will you be the fastest? The cheapest? The most exclusive? How does the position relate back to your target customer?
- Brand is the complete set of associations you have when you hear and see the company name and product. Branding reflects who you are as a company, the personality and values, in daily actions. When someone sees or hears your business name, what is the first thing you want them to think? That's your brand!

→ Marketing Mix – the 4 P's

Products and Services

- Describe your product or service. Do the products and/or services provide a competitive advantage over your competitors? How does it fit with your customer's needs? What makes your product/service unique?

Pricing

- What prices are you charging for your product or service? Do you have both a wholesale price (business to business) and a retail price (business to consumer)? What is your markup in each case?
- What is the breakeven point? How many products will you have to sell in the first year to cover all of your expenses? How many products will you have to sell per day and/or per hour?
- How often will each customer purchase products from you?
- How did you determine your pricing? Please explain. There are two key types of pricing strategies: cost-based and market-based.
- Cost-based pricing strategy takes into consideration production costs and a firm's desire to make a profit. This pricing strategy considers the cost of the product and adds a "markup" to arrive at a final cost. $\text{Selling price} = \text{Seller's costs} + \text{Profit}$. What are the costs to make and/or buy the product or service?
- Competitive pricing sets a price based on what the competition charges. How does the price compare with your competitors? If it is different than your competitors, why and what will the consequences be? What is the customer willing to pay?



Place

- What makes the selected business location suitable for your business? For example, proximity to markets, suppliers, transportation, and labour should be considered.
- Are your premises owned or leased? Will renovations be required? If yes, what is the cost? Include cost estimate quotes in the appendix.

- An accepted offer to lease should be included in the appendix. The offer should be subject to the conditions you need to include and should be reviewed and approved by your lawyer.
- If a building is to be constructed or purchased, what will be the total cost of construction or purchase? Attach a plot plan, layout, building diagram and/or blueprints and the contractor's estimates if applicable.
- If you're selling a product, where will your product be sold and where and how will it be displayed in store?
- What are your distribution channels?

Promotion

- Identify the sales methods to acquire new business and grow existing business. Will you use direct sales such as personal selling and tradeshow? Will you use indirect sales methods such as email newsletters and social media? Will you be offering discounts, seasonal sales and how will it affect your profit?
- What after-sale services will you provide? Some examples are delivery, warranty, service contracts, support and refund policy. These are often considered the value-added component of your product or service which sets your business apart from your competitors.
- Define your customer service strategy, standards and procedures. Consider different types of advertising and promotion, costs, timing, target market, and desired results.
- How far out from your launch date will you begin promoting your business?

→ Advertising

- What form of advertising will your customers respond to? How will you advertise? What are the costs, pros and cons of the various forms of advertising available to you?

→ Public Relations

- Is your business a good fit for social entrepreneurship activities? Are there opportunities for your business to create a 'presence' in your community and with industry organizations? Do you have a strategy in place to capitalize on this type of activity?

→ Personal Sales

- How much of your revenue will or can be generated through personal sales? Do you have sales training plans in place for yourself and staff? What is the cost?

→ Website and Online Strategy

- What are your plans for on-line or social media marketing? Will you have a website? How much will it cost? What about the other forms of social media such as Facebook, Twitter, Pinterest and LinkedIn? Ensure the costs are included in both the start-up costs and monthly expenses.

→ Sales Projections

- Explain your sales projections. What assumptions will you be using to compute your monthly sales forecast? Your market research and analysis should provide the rationale for your underlying assumptions. You must have a fairly good idea of what your sales will be for you to know if you can cover your expenses.
- What is forecasting? It is actually "good guessing" based on concrete data gathered in your market research. There are two methods of forecasting – **Bottom Up**, and **Top Down**. See Appendix A for a step-by-step guide.

- It is recommended that you utilize both methods. Once the values are determined by each method, compare the results. The accuracy of your projections is reflected in the closeness of the two values. If there is a large difference between the values, rework your calculations for each method and rethink your assumptions. If values are still way off, go back and re-evaluate your market research data and your analysis of it. Do your assumptions make sense based on the data found?
- You should develop a marketing plan for an entire calendar year to address seasonality, budget, different types of media and the expected results.

F. OPERATIONS PLAN

This section will cover your Systems, Processes, Equipment, Materials, Supplies, Legal and Risk Management.

→ Hours of Operation

- What are the hours of operation for the business? Consider the seasonality of the business and how it will affect sales on a monthly basis.

→ Capacity

- What is your maximum capacity? For example, how many classes can you teach per day, how many products can you produce per day, or how many products can you sell per day, considering time and space constraints.

→ Bookkeeping

- How will you manage your record keeping? Will you be hiring a bookkeeper or are you experienced yourself? Who will set up the Chart of Accounts? What bookkeeping software package will be used in the business?

→ Payroll

- If the business requires employees, then payroll must be completed. How will the payroll function be managed?

→ Credit Policies

- Do you plan to sell on credit? Do you really need to sell on credit? Is it customary in your industry and expected by your clientele? If yes, what policies will you have about who gets credit and how much? How will you check the creditworthiness of new applicants? What terms will you offer your customers; that is, how much credit and when is payment due? Will you offer prompt payment discounts? (Hint: Do this only if it is usual and customary in your industry.) How will you collect overdue accounts? If you extend credit, be sure to budget for bad debts in your financial projections.

→ Accounts Receivable/Payable

- If you extend credit, you should do an aging of your accounts receivable at least monthly to track how much of your money is tied up in credit and to alert you to slow payment problems.
- You should also age your accounts payable—what you owe to your suppliers. This helps you plan whom to pay and when. Paying too early depletes your cash but paying late can cost you valuable discounts and can damage your credit. (Hint: If you know you will be late making a payment, call the creditor before the due



date.) What are your suppliers' credit policies? Will they extend credit and for how long?

- Is there a gap between when you need to pay your suppliers and when your customers will pay you? If so, how much cash will you need on hand to cover this gap? Be sure to budget for your cash-on-hand requirements in your financial projections.

→ **Equipment, Materials and Supplies**

- What equipment is required for your business? Include a list of equipment and prices.
- Do you need a point-of-sale system for your business? What type of system and what is the cost?
- Who are your suppliers? Why did you choose these suppliers?
- Identify key suppliers and include Names and addresses; Type and amount of inventory furnished; Credit and delivery policies; History and reliability
- Do you have alternate suppliers arranged? Should you have more than one supplier for critical items (as a backup)? Do you expect shortages or short-term delivery problems?
- Are supply costs steady or fluctuating? If fluctuating, how would you deal with changing costs?

→ **Inventory Control and Management**

- What kind of inventory will you keep: raw materials, supplies, finished goods? What will be your average value in stock at a given time (i.e., what is your inventory investment)? What is your rate of turnover and how does this compare to the industry average? How will you manage seasonality (if applicable)? Will you need seasonal buildups? What lead-time do you need for ordering? Where will you store your inventory?

→ **Cost of Goods Sold**

- Cost of Goods Sold (COGS) includes all costs directly attributable to the production of your goods or services. This includes the cost of materials for products or services. This does not include indirect expenses such as lease expense or marketing. You may have a different COGS for different products or service lines.

→ **Legal**

- Describe the licenses, permits and bonding requirements needed in the business.
- Does the business require contracts for services?
- What special health, workplace and environmental regulations must your business comply with? Are there special regulations required for your industry or profession?
- Are there zoning or building code requirements? What type of insurance coverages are needed?
- Does the business require trademarks, copyrights, or patents? Are they pending, existing or purchased?

→ **Risk Management**

- Identify risks associated with the business that may arise. What is the action plan to mitigate the risks identified? Address your plans for the 'what if's'. If you are unable to personally and financially operate your business on a daily basis, what are the backup plans?
- Identify your exit strategy. When do you plan on selling your business? Do you foresee a family member taking over the business?

G. HUMAN RESOURCES

- Will you have employees? If yes, then specify the number of employees and their individual employment status, rate of pay and number of hours worked. You will need to develop recruitment and retention plans, salary levels, job duties and responsibilities for each position.
- Who will each employee report to? Create or describe your organizational chart/hierarchy.
- Include a detailed staffing schedule to show the coverage of labour. As well, you will need to create an employee policy manual.
- Do the employees require training? How will you ensure the employees are properly trained?
- You also need to be aware of the documents required for a personnel file for each employee. Do you have the skills and/or resources to create these? If not, where will you find assistance?
- Do you understand and know the employer's obligation to fulfill the Labour Standards Act?
- Will you pay yourself a wage? When will you be able to start paying yourself?



H. OWNERSHIP & MANAGEMENT

- Briefly outline the experience and expertise of your management team with special emphasis on managerial and/or industry knowledge and experience. Include education and training relevant to the industry. Explain the duties and responsibilities of the owners and management.
- List your professional and/or advisory supports (ie. lawyer, consultant, banker, board of directors, accountant, mentors, insurance agent etc).
- A good idea to include resumes in your appendix for your principle owners and key management team members.

I. FINANCIAL PLAN

- Consider all the possible start-up costs you will face.
- Identify your funding sources (loans, banks, investments, savings, assets you are contributing etc) and amounts with repayment terms (if applicable).
- Attach projected financial statements for a minimum of three years.
- Include detailed information about assumptions and explanations to support the financial plan here.

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 from 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 Improvements:	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.

APPENDIX A

Bottom-Up Method of Sales Forecasting

For example,

1.	Number of people passing the location per day. (Observe the people passing by to obtain this info. Try different times of the day to determine an average.) Number of “Views”	
2.	Number of people who enter the business/ Number of “Clicks”	
3.	Estimated percentage of those people entering the business who make a purchase	
4.	Multiply Line 2 by Line 3 to find: Potential Buyers Per Day	
5.	Average purchase per visit. (Ask in a customer survey or find out from competitors.)	
6.	Multiply Line 4 by Line 5 to determine: Average Daily Sales	
7.	How many days per year will you be open?	
8.	Multiply Line 6 by Line 7 to determine: Projected Total Annual Sales	

Top-Down Method

For example,

1.	Estimate the number of people or families in your market area.	
2.	Identify the percentage of market survey respondents who indicated they do or would use a business such as yours. Or use your market research to estimate.	
3.	Multiply Line 1 by Line 2 to find: Estimated Market	
4.	Number of times per year the respondents say they would use this type of business. Or use your market research to estimate.	
5.	Multiply Line 3 by Line 4 to find the: Number of Potential Sales per Year	
6.	Amount per average sale. (Ask in a survey or find out from competitors.)	
7.	Multiply Line 5 by Line 6 to find: Potential Total Market (in dollars)	
8.	The number of existing competitors plus one (you).	
9.	Divide Line 7 by Line 8 to find: One Full Market Share	
10.	What percentage of One Full Market Share do you expect to gain in your first year?	
11.	Multiply Line 9 by Line 10 to find: Projected Annual Sales	

Below are additional factors to consider when determining your sales projections.

Internal Factors:

- Production capability/capacity
- Personnel
- Marketing
- Working capital
- Pricing strategies
- Inventory Management

External Factors:

- Competition
- Market Demand, Seasonality
- Economy
- Emerging Trends
- Developing Issues
- Possible Opportunities and Threats