

WHAT IS A BUSINESS PLAN?

The ***Business Plan*** is a statement in words and numbers that explains what you want to do, how you intend to accomplish your objectives and details the resources you will need in order to do so. It is a written report of the proposed company's finances, management, employees, products and marketing strategy. The ***Business Plan*** is an essential planning and tracking tool for both new and existing businesses. While the ***Business Plan*** is a minimum requirement to obtain financing, it is also an important step to improving your chance of success.

Acting as a basic road map, your ***Business Plan*** is essential for:

- ✓ Starting a new business
- ✓ Purchasing an existing business (or franchise)
- ✓ Planning for the future
- ✓ Planning for expansion
- ✓ Restructuring or overcoming obstacles

WHAT DOES A BUSINESS PLAN ADDRESS?

In general terms a ***Business Plan*** answers six basic questions:

- ✓ **Who** you are. – What management capability do you bring to this venture?
- ✓ **What** are you proposing to do, build, create, sell or provide?
- ✓ **Why** you are presenting the business plan to the reader, **why** you believe that your future customers will buy from you rather than someone else and **why** they will be willing to pay the price that you propose to sell at?
- ✓ **Where** do you propose to operate your business, sell your product or service your clients?
- ✓ **When** will this success or activity happen? Your business plan should include a time line or detailed critical path. As the author of this document anticipate and answer the question the reader is going to ask, “When will I see results?”
- ✓ **How** you propose to finance the project. Include all sources of capital.

WHY WASTE MY TIME MAKING A BUSINESS PLAN?

- ✓ To determine whether the business is feasible and/or potentially profitable:
The primary user of the business plan is the owner(s) of the business.
- ✓ To raise money for your company:
Once you've satisfied yourself that you can make money, you want to **share your opportunity** with others. You also want to clearly demonstrate through the quality of your research that you have taken reasonable and prudent steps to **minimize any risks**.

Debt Financing

Potential Financiers:
Bankers, Suppliers,
Mortgagees or Leasees

Equity Financing

Potential Investors:
Shareholders,
Partners

- ✓ To create and convey a professional image.
- ✓ To set objectives that are both obtainable and measurable.
- ✓ Necessary first step in applying for financing. A good *business plan* does not guarantee your approval for financing. However, the absence of one will almost certainly lessen your opportunities at acquiring either debt or equity financing.
- ✓ To help you maintain sight of your direction, objectives and goals rather than straying from the actual plan.
- ✓ To provide a “bench mark” against which you can make and compare your start-up decisions versus day-to-day operating decisions.

THE MAIN SECTIONS IN A BUSINESS PLAN

A Business Plan generally includes the following identifiable sections:

TITLE PAGE:

TABLE OF CONTENTS:

EXECUTIVE SUMMARY:

(This is the last Section to be prepared and should be two pages or less in length.)

COMPANY PROFILE:

INDUSTRY PROFILE:

SALES AND MARKETING:

OPERATING PLAN

FINANCIAL PLAN:

APPENDICES:

Some Tips before you start:

- Each section should be clearly identified and separated from the any other section.
- Always start each section at the top of a new page.
- Use a type style and font size that will make the document as easy to read as possible.
- If using Appendices for ancillary support or illustration, clearly number the appendices and reference them by number in the text body.
- Approach writing your business plan with an attempt to answer any question before it is asked by the reader. Strive for Clarity, clarity, clarity...
- If the business venture is highly technical in nature or requires the use of unique or industry-specific language, you may wish to include a glossary or footnotes to ease the reader's task. The Business Plan is not meant to impress the readers. It's there to assist them in coming to a decision. Make their job easier, not harder.
- If you are going use some kind of presentation binding, be sure to increase the left margins to allow the text to appear as though it is centred in the available space.
- You are presenting thoughts and research in support of a proposed business entity. Therefore, **do not** write in the first person singular. **Do not** write in the past or current tense when you are describing an anticipated occurrence or future activities.

SECTIONS OF A BUSINESS PLAN DETAILED

The following overview is provided to act as a guideline only. The length of a Business Plan will be dependent upon the business. However, a comprehensive plan will be required to obtain any type of financing. Try to anticipate and answer any question that may arise from someone looking at your business. Remember that you are doing this firstly to convince yourself of the financial viability of your proposed project. More importantly, you are using this document to convince and induce independent third parties of the merits of both you and your business. Good luck!

- After you prepare your business plan; use the checklist at the end of this section to ensure that you have addressed all the necessary elements of a good Business Plan.
- Upon completion, bring it to the Business Self Help Office. The staff would be pleased to review it for you and give you feedback.

COVER SHEET:

A cover sheet should include as many of the following elements as possible:

- Name of Business
- Name of principal(s)
- Full address
- Telephone number of business and contact person
- Other contact information if applicable: facsimile number or e-mail address.

EXECUTIVE SUMMARY:

The purpose of an Executive Summary is to provide a *brief* overview of your business. As a summary of the business, it should be written last but appear first in the *Business Plan*. Remember that this is a summary. Therefore, it should never exceed two pages in length. The Executive Summary should highlight the following about the business:

- Type of business or industry
- Objectives of the business
- Form of business structure
- Products and services offered
- Key product or service features
- Assessment of competition
- Members of the management team plus detail their training, specialty and experience
- Projected financial information
- Funds invested as well as the funds required.

COMPANY PROFILE

- 1.) **Structures** – There are three basic business structures:
- ❑ Sole Proprietor – owned by one person
 - ❑ Partnership – owned by two or more individuals
 - ❑ Corporation – is a distinct legal entity that gives owners limited liability

Factors to consider when choosing a business structure:

- ✓ Taxes – can be a very complex topic and should be discussed with an accountant
 - ✓ Risk of Loss - can vary or is minimized dependant on your one's choice of structure.
- 2.) **Statutory or operational requirements** - Demonstrate your knowledge to the reader regarding what, if any, statutory or operation requirements will have to be met. Some examples are Business Name Registration, Ministry of Finance Vendor's Permit, CCRA's Business Number, WSIB and/or trade/professional tickets/designations.
- 3.) **Business Advisors** – detail the professional(s) who you are going to rely upon for starting and running your business (always include their individual contact information.)
- ✓ Lawyer
 - ✓ Accountant
 - ✓ Bookkeeper, if you are not going to perform this function internally.
 - ✓ Banker
 - ✓ Commercial Insurance Broker
 - ✓ Safety Association Representative or Private Safety Consultant
 - ✓ Mentor or consultant – i.e. Business Self-Help Office

Reasons for selecting trusted and capable advisors:

- ✓ Get sound business
- ✓ Help to avoid costly mistakes
- ✓ Keeping your advisors up-to-date allows them to help you get where you want to go.

- 4.) **Business Objectives** – Knowing the purpose and objectives of your business is important in determining where you will fit in the marketplace and who your intended market will be. To help you state your business objectives in a clear, concise and useful manner, follow the **S.M.A.R.T.** steps.

Specific
Measurable
Attainable
Realistic
Time Limited

INDUSTRY PROFILE

MARKET ANALYSIS:

Issues to address

- How will I be gathering information about my business?
- What is the size and characteristics of the market?

1.) **Gathering Information**

Market Research

- ✓ Talk to suppliers, other entrepreneurs, the competition & potential customers
- ✓ Read trade magazines, Industry Association literature, phone books and other industry directories
- ✓ Use statistics and literature prepared by organizations including Ministry of Economic Development, Industry Canada, Statistics Canada and HRDC

Market Surveys – To determine if there is a need for your product or service, get first hand information from potential customers or competition by conducting a survey.

Local Resources – The “Local Resources” section contains a listing of free resource areas that you can use to research your business idea. They can include published material, how-to books & videos, computers & Internet access and other statistical data. **(Always give credit to the author or source for their original works.)**

2.) **Analyzing the Information**

Market Size and Trends

- ✓ Overall size of market i.e. area, population, industry revenues
- ✓ Demographics and Psychographics of customers, competition, etc.
- ✓ What areas do you intend to target? - Local, regional, national, international. What is your time line for growth if you are considering a market greater than the local market?
- ✓ Average customer expenditure on your product or service? What affect does a “close substitute” have on your market?
- ✓ Trends, seasonality, buying cycle, growing or declining market?

CUSTOMERS

Issues to address:

- What research have I done?
- What are my potential customers like and what makes them potential customers?
- How do I market to my customers?
- Do different groups buy for different reasons? Which group will be most important?

1.) Market Research: Research is the only way to find out what potential customers are like. Research may include door-to-door, telephone or mail surveys, discussions with suppliers or competitors, or statistical data.
What market research have you conducted?

2.) Customer Profile

- | | |
|-------------------------------------|--|
| ✓ Who are they? | ✓ What are the needs of your customer? |
| ✓ Why they would buy your product? | ✓ How can you fulfill those needs? |
| ✓ What is important to them? | ✓ How to get them to buy from you? |
| ✓ How large is the customer base? | ✓ What do they buy? |
| ✓ How to reach your target customer | ✓ Frequency of purchases |

Geographics: Location or service area(s)

Demographics: a. Individual: Age, Gender, Income, Education, and their Occupation
b. Business: Location, size, product/service, # of employees and trends

Psychographics: Lifestyle, values, interests, preferences, motivations and buying habits

3.) Marketing to Your Customer: One key to success is understanding what your customer wants. How do you tell them you have what they want. What forms of advertising would be most effective in reaching them?

COMPETITION AND SUPPLIERS

Issues to address:

- How do I analyze my competition?
- How can I use this information to my advantage?
- Who are my potential suppliers?

1.) **Analyzing your Competition:** Compile a list of all direct and indirect competitors. Select up to ten direct competitors and learn everything you can about them:

- | | | |
|----------------------|-----------------------|------------------------|
| ✓ Product & services | ✓ Customer service | ✓ Target customers |
| ✓ Location and size | ✓ Estimated sales | ✓ Strengths/weaknesses |
| ✓ Price | ✓ Number of employees | ✓ Brand names |
| ✓ Quality | | |

Completing a *Competitive Analysis* with the information just learned will help you identify how to create or what competitive advantage you have. A **SWOT** Analysis is a tool used to assess the **S**trengths, **W**eaknesses, **O**pportunities, & **T**hreats of competitors and yourself.

Note: The purpose of analyzing your competition is *not* to establish that your competitor is bad or stupid and that you're good or clever. Do not try to prove that you're better than your competitor. You just might not be! What you are trying to reveal and consider are the gaps or opportunities in the marketplace that have been missed by your competitors that you can potentially exploit, hopefully at a profit.

- 2.) **Locating Suppliers:** Identify and analyze potential suppliers to determine who will be right for your business. Some sources to help locate suppliers are:
- ✓ Yellow Pages, Trade associations, or Directories of Associations
 - ✓ Trade Shows – Annual Directory of Shows and Exhibits or International Trade Fairs and Conferences
 - ✓ External Affairs Canada, US Trade and Tourism Development Division
 - ✓ Directories: Chamber of Commerce, Fraser's, Scott's Vernon's, City's Industrial Directories, Business Opportunities Sourcing System, Strategis, COBSC
- (In choosing a supplier, you will want to consider variables such as price/quality, breadth of stock, delivery speed, financing terms, etc.)

SALES AND MARKETING

Price and Costs

Issues to address

- What does it cost to offer my product/service?
- What do I plan to charge for my product/service?
- If and when will I make money?

1.) Costs: Whether you manufacture or sell a product or service you have three major costs; material, labour and overhead. Provide a complete breakdown of these costs.

2.) Pricing: What price will you be charging for your product or service?

Factors to consider:

- ✓ Your costs – Material, labour and overhead to breakeven, plus a return on investment
- ✓ Your Competitor's Price – influences your pricing but you do not have to charge less
- ✓ Customer's Demand – You must have an awareness of the product or service demand and your customers' sensitivity to price.
- ✓ Other Factors – hours of operation, location, service, quality, image, safety training, and reputation all add *value* and should be factored into the price.

ADVERTISING AND PROMOTIONS

Issue to Address

- How will I create a business image?
 - What business image will I create?
 - How will I attract customers and build awareness?
 - What advertising strategy will I use to attract and inform customers?
- 1.) Marketing Communications Material: To create a well recognized business image, the colour scheme, typeface, and layout of all your business material needs to be consistent. Your business image can be represented through a logo, letterhead, business cards, flyers, brochures, printed materials and web-site. Detail what *Marketing Communications Material* you will be using and why.
 - 2.) Advertising: When choosing to advertise you must consider the frequency, location, media and cost to be effective and then budget how much you plan to spend. Detail what, where and the costs in your business plan.
 - 3.) Marketing Strategy (**use the 4 P's of Marketing**)
 - PRODUCT-** Customers do not buy products or services, they buy benefits they receive from a product or service.
 - PRICE-** Is your product “price-sensitive” meaning the higher it is the more likely your customer will go elsewhere, or does higher price mean perceived higher value? Customers don't buy for price. They buy for perceived value. It is better to create more value than to reduce the cost.
 - PLACE-** How will you distribute your product or service? Identify what benefits your location offers customers and suppliers and describe your location in terms of traffic, visibility, hours of operation, square footage, bought versus leased versus home-occupation.

PROMOTION- What promotion will you use? You have a choice of referrals, joining associations, sponsorship, volunteering, news letters, networking, press releases, public speaking, or trade shows and conventions in addition to paid advertising.

Describe these aspects fully in your Business Plan.

OPERATING PLAN (Management and Operations)

Issues to address:

- What are the major business decisions or hurdles that I will face?
- What do I need to know about the management team?
- What do I need to know about employees?
- What legal issues will I face?

- 1.) Management: Describe your role in the company as Manager. **Leave no question in the reader's mind why you are qualified to fill this role.** What is the vision that management has developed for the business?
- 2.) Employees: Identify key employees and the professional services that you will need employ to assist the business from time to time, where you will acquire them and when you intend to hire them. Calculate the number of employees your business will need to employ at start-up and periodically thereafter. What skills/positions are or will be required? Identify whether or not academic, trade or safety training will be provided. You must state how much it will cost and who will be providing it.
- 3.) Legal Issues: Determine what licenses, patents, government regulations, inspections, and liabilities will potentially affect either your industry or your business. Research government regulations, changes in the economy, and/or changes in trends that may affect the industry or your business now or in the near future. Clearly identify and list these requirements and state if you have addressed them or alternatively, if you have not complied, state specifically when you will.

Detail the results of your research fully in your business plan.

FINANCIAL PLAN

Issues to address:

- What financial statements do I need for external users?
- What financial statements do I need for internal use?
- How can these financial statements help me make decisions?
- How will I finance my business?

1.) **External Financial Statements** are prepared for external users such as creditors, bankers and shareholders. They generally include a Balance Sheet, a Statement of Income and a Statement of Changes in Financial Position.

2.) **Internal Financial Statements** help make decisions and therefore management will regularly require up-to-date financial data and reports such as:

- ✓ Cashflow
- ✓ Accounts Receivable
- ✓ Accounts Payable
- ✓ Payroll
- ✓ Inventory levels
- ✓ Production schedules

3.) **Internally accurate records** help answer the following questions:

- ✓ How can you plan for the company's growth or decline?
- ✓ How quickly can we expand if the business is better than expected?
- ✓ Which customers buy more and more often than others do?
- ✓ What is the cost to operate our business monthly?
- ✓ Are we prepared for seasonal fluctuations in cash flow?
- ✓ What expenses are increasing or decreasing?

4.) **Types of Financing** – There are two main types of financing that a business can use:

Debt Financing		Equity Financing
✓ Long-term debt		✓ Common Share Capital
✓ Demand Loans		✓ Special Share Capital
✓ Line of credit/credit cards		✓ Retained Earnings
✓ Leasing		✓ Owners Investment

Lenders often require collateral to secure their loan. In addition to relying on your good credit history, they will also consider your character and capacity.

The singularly most important part of the Financial Plan is the document creation based on your research. You will be required to prepare each of the following documents to support the financial viability of all the assertions made so far in your Business plan:

- ✓ **Projected Cashflow Statement**
- ✓ **Projected Income Statement**
- ✓ **Projected Balance Sheet**

It is **recommended in the strongest terms** that you provide a ratio analysis of your projected statements. Ratio analysis illustrates that the “*cornerstones*” of finance are each appropriately present in your business, namely; *Liquidity, Leverage, Activity, Growth and Profitability*.

After reading your Executive Summary, the very next thing a financier will do is a ratio analysis of your projected statements. They will compare the ratios of your projected statements against the comparable actual ratios of your industry to see how your company “stacks up” against your competitors. It is a very valuable tool.

See appendix “A” for assistance
and explanation of financial ratios

Back to the Business Self-Help Office

The staff at the Business Self-Help Office is more than happy to assist you by evaluating your Business Plan before you go to your investors or financiers.

Come and see us often if the need arises.

Appendix A – Financial Ratios

Financial Ratios are calculated by creating a mathematical relationship between two areas of your financial statements that have an association with each other. Although there are six types of financial ratios which are used as tools in evaluating established larger firms, the four most useful for new and small business are detailed below:

The result of these calculations can be compared against industry figures. It can be very quickly determined your “comparative” viability to your industry. In each category your statements tell your financiers whether your firm is better than the industry, average with the industry or much worse than the industry. “Ratio Analysis” is an extremely powerful and accurate tool in determining the financial health of a business. Be assured that one of the first things that your banker or financier does before considering loaning you money is a ratio analysis of your statements (whether actual or projected.)

Liquidity Ratios

measure the firm’s ability to meet its maturing short-term obligations.

$$\text{Current Ratio} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

$$\text{Quick Ratio} = \frac{\text{CURRENT ASSETS} - \text{INVENTORY}}{\text{CURRENT LIABILITIES}}$$

(also called Acid Test)

Leverage Ratios

measure the extent to which the firm has been financed by debt.

$$\text{Debt Ratio} = \frac{\text{TOTAL DEBT}}{\text{TOTAL ASSETS}}$$

$$\text{Debt to Equity Ratio} = \frac{\text{TOTAL DEBT}}{\text{TOTAL EQUITY}}$$

$$\text{Times Interest Earned Ratio} = \frac{\text{EARNINGS BEFORE INTEREST \& TAXES}}{\text{INTEREST CHARGES}}$$

or

$$\frac{\text{PRETAX PROFIT} + \text{INTEREST CHARGES}}{\text{INTEREST CHARGES}}$$

$$\text{Fixed Charge Coverage Ratio} = \frac{\text{PROFIT BEFORE TAX} + \text{INTEREST CHARGES} + \text{LEASE OBLIGATIONS}}{\text{INTEREST CHGS} + \text{LEASE OBLIGATIONS}}$$

Appendix A – Financial Ratios cont'd.

Activity Ratios **measure how effectively the firm is using its resources.**

Inventory Turnover = $\frac{\text{COST OF SALES}}{\text{INVENTORY}}$

Average Collection Period = $\frac{\text{RECEIVABLES}}{\text{AVG. SALES PER DAY}}$

Fixed Asset Turnover Ratio = $\frac{\text{SALES}}{\text{NET FIXED ASSETS}}$

Total Assets Turnover Ratio = $\frac{\text{SALES}}{\text{TOTAL ASSETS}}$

Profitability Ratios **measure management's overall effectiveness as shown by the returns generated on sales and investment.**

Profit Margin on Sales Ratio = $\frac{\text{NET INCOME AFTER TAXES}}{\text{SALES}}$

Return on Total Assets Ratio = $\frac{\text{NET INCOME AFTER TAXES}}{\text{TOTAL ASSETS}}$

Return On Net Worth Ratio = $\frac{\text{NET INCOME AFTER TAXES}}{\text{NET WORTH (or EQUITY)}}$

Note: Use of Financial Performance Indicators from Statistics Canada are available at the Business Self-Help Office.