

**business  
plan  
guide**

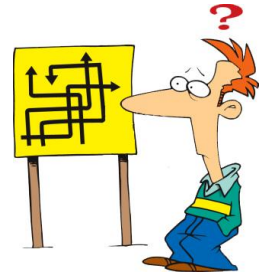
**“Failing to plan  
is planning  
to fail.”**

*-Benjamin Franklin-*



## INTRODUCTION

After deciding to start your business, it is crucial you take time to formulate a realistic path for yourself. One of the most certain ways to be successful in business is to adequately plan where you want to go with your ideas. People who enter a business venture without properly mapping their road to success often find themselves in serious administrative and financial trouble several months later, when they realize they have failed to prepare properly.



### What is a business plan?

A business plan is a recognized management tool used by successful and/or prospective businesses of all sizes to document business objectives and to propose how these objectives will be attained within a specific period of time. It is a written document which describes:

- Who you are?
- What you plan to achieve?
- Where your business will be located?
- When you expect to get underway?
- How you will overcome the risks involved?
- What are the anticipated returns?

### Why do you need a business plan? What's in it for me?

A business plan will provide information of your proposed venture to lenders, investors, and suppliers to demonstrate how you plan to use their money, and to establish a basis for credibility of your project. You should do a business plan for a number of important reasons. Some of these reasons include:

- Your own thinking process is solidified through the planning process. The planning outline leads you through a series of questions and issues that you may have forgotten about when just thinking about your business idea. Remember that you are an investor in your own business. You are the first person who must be convinced of the validity of your business concept.

- Your bank will need to be convinced of the viability of your business, or your business expansion. The business plan is a communications tool. Inform and influence the reader towards some action – providing a loan, extending credit or investing in your business.
- Your business plan provides some guideposts in running your business. You will set goals and then, once you are in business, you can measure those goals against the actual performance.

### **When should a business plan be prepared?**

The sooner you develop your business plan, the better. You will find that the final copy of your business plan may differ from the original draft, as you will be updating, revising and refining it as you go. It is important that you examine all the relevant factors now. Therefore, you will be able to anticipate any surprises after your business has opened the doors.

### **Who should prepare your business plan?**

Your business plan should be prepared by those persons who will be implementing it.

Outside assistance from consultants, accountants, bookkeepers and experienced business people can definitely help, but YOU must draft the initial plan. After all, you are the one that is going to run the business once it is open.

### **Here's the bad news...**



Creating a business plan for your new company will be one of the toughest jobs you've ever tackled. You will ruthlessly question every aspect of your business operations and every assumption about your product or service and your market. You'll rigorously evaluate the strengths and shortcomings of your management team, the capabilities of your competition and your ability to forecast external events that could cause your company to stumble or soar. Not much fun right?

## **Now, here's the good news...**

A good business plan is your company's roadmap to the future. It describes, in detail, the company you will be running, and identifies every important step you must take to build that company. It even gives you advance warning of the dangers you may encounter along the way.

## **THE BUSINESS PLAN OUTLINE**

### 1) EXECUTIVE SUMMARY

### 2) BUSINESS OVERVIEW

- Description of the business
- Description of products and services
- Mission, vision, goals and objectives
- Human resources
- Operations

### 3) MARKET RESEARCH

- Industry analysis
- Market analysis/research
- Target market
- Competitive analysis
- S.W.O.T. analysis

### 4) MARKETING PLAN

- First "P" of marketing : Product or Service
- Second "P" of marketing : Price
- Third "P" of marketing : Place
- Fourth "P" of marketing : Promotion

### 5) FINANCIAL PLAN

- Start-up budget
- Projected income statement
- Cash flow
- Balance sheet



## **Hint:**

Although the executive summary generally appears first, it should be written last. You cannot summarize things that haven't been written yet!

Also, your executive summary should be catered to the reader. It serves to grab the reader's attention and compel him/her to learn more about your business.

# 1. EXECUTIVE SUMMARY

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*The purpose of the Executive Summary is to get the reader's attention by summarizing the key elements of the business plan. It must be short, to the point and very well written. It is your business plan in a nutshell!*



The Executive Summary of the business plan provides your readers with an overview of the business plan. Think of it as an introduction to your business. Therefore, your business plan's executive summary will include summaries of:

- a description of your company, including your products and/or services
- your business's management
- the market and your customer
- marketing and sales
- your competition
- your business's operations
- financial projections and plans

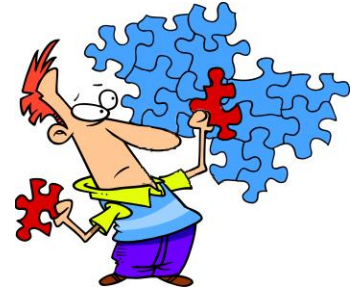
The executive summary will end with a summary statement, a "last kick at the can" sentence or two designed to persuade the readers of your business plan that your business is a winner.



## 2. BUSINESS OVERVIEW

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*The Business Overview section is where you can elaborate on the details of your business. The who, what, where, when, and why of the business should fall into place and readers should have a clear understanding of how the company will function. In this section, consider covering the Description of the Business, the Description of Products and Services, the Human Resource requirements and the Operations.*



### **Hint:**

*Description is defined as a picture in words. Take the time to paint that picture in a way that someone who has never been exposed to your business idea can visualize it and understand it.*

### **DESCRIPTION OF THE BUSINESS**

The Description of the Business section should outline your basic business concept. You should detail exactly what your business does for the customer and what makes these offerings desirable to the customer.

When describing your business, you should explain:

- Describe what your business does in general terms.
- Describe what differentiates your business from others.
- Briefly describe your business history if applicable.
- Business Structure: is it a new independent business, a purchase of an existing business, an expansion, a franchise?
- Business type: retail, manufacturing or service.
- Legalities - business form: sole proprietorship, partnership or corporation. The licenses or permits you will need.
- Business information: What you have learned about your kind of business from outside sources (trade suppliers, bankers, other franchise owners, franchisor, publications).
- Profitability: Why your business will be profitable. What are the growth opportunities?
- Provide any other information that will excite the reader about your business.

Emphasize any special benefits that you feel will appeal to customers and explain how and why these benefits are appealing. Identify your mission, goals and objectives. Your business description should clarify why you are, or why you want to be, in business.



## **DESCRIPTION OF PRODUCTS AND SERVICES**

The purpose of the Product and Services section is to detail exactly what your business does for the customer and what makes these offerings desirable to the customer.



### **Key Products (Goods Business)**

- Describe each product you sell. This is your product mix.
- If you cannot list each product, break the business down into logical categories.
- Describe the key product features, and how your products are different from those of your competition. (Functionality, durability, ease of use etc.)
- Describe product protection such as patents, copyrights and trademarks. (if applicable)

### **Key Services (Service Business)**

- Describe each type of service you offer. (Be specific)
- Describe the service features in terms important to the customer.
- Describe any service protection such as copyrights or trademarks. (if applicable)

### ***Hint:***

*For information on patents, copyrights and trademarks visit the Canadian Intellectual Property Office website : [www.cipo.ic.gc.ca](http://www.cipo.ic.gc.ca)*



## **MISSION, VISION, GOALS AND OBJECTIVES**

A **mission** is a statement which specifies what the business' broad program of activities shall be. It establishes the parameters upon which objectives are set, strategies are developed and tactics are implemented. The mission is a statement of core organizational values and is referred to as the "Invisible hand" which guides employees to work independently and yet collectively towards the organization prime objectives. Be clear and to the point and make it obvious what your business is attempting to do.



Examples :

### 1. Canadian Tire

To be the first choice for Canadians in Automotive, Sports and Leisure, and Home products, providing total customer value through customer-driven service, focused assortments and competitive operations.

### 2. Telus

To be recognized as the premier Communications Company in the world. To help people communicate effortlessly.

## **Vision**

A vision involves thinking or planning about the future of the business. It is planning for the future based on the mission statement specified at the inception of the business.

## **Goals and objectives**

Goals and objectives refer to something that is wished for (a purpose or a target). They are things that a person or a business pursues or desires to achieve.

Goals and objectives may include but are not limited to:

- Achieve x% market share by end of the first year
- Increase sales 5% each year
- Reduce customer complaints to 10% of all sales
- Ensure profit margin of 2% by the second year
- Generate sales of \$100,000 by end of the second year



## **Hint:**

*Resumes and job descriptions can be very useful appendices.*

## **HUMAN RESOURCES**

The purpose of the Human Resources section is to provide the reader with a thorough understanding of the people who will contribute to running the business.



Managing a business requires more than just the desire to be your own boss. It demands dedication, persistence, the ability to make decisions and the ability to manage both employees and finances.

It's imperative that you know what skills you possess and those you lack, since you might have to hire personnel or retain a professional advisor to complement your skill set.

### **Management summary**

- How does your background/business experience help you in this business?
- What are your weaknesses and how can you compensate for them?
- How will your management structure impact your business in the day-to-day operations?
- Who will be on the management team?
- What are the technical qualifications of each principle in this enterprise?
- What are their strengths/weaknesses?
- Are their duties clearly defined?
- Provide a fact sheet with contact information such as name, address, telephone, e-mail etc.

### **Key personnel (if applicable)**

- What are your current personnel needs?
- What are your plans for hiring and training personnel? What are their duties?
- What salary, benefits, vacations and holidays will you offer? If a franchise, are these issues covered in the management package the franchisor will provide?



## **OPERATIONS**

The purpose of the Operations section is to summarize how you plan to operate the business. (ie. Location, capacity?)

Consider these questions when addressing this section of your business plan:

- What are your location requirements?
- What kind of space will you need?
- Why is the area desirable? The building desirable?
- Is it easily accessible? Is public transportation available? Is street lighting adequate?



### **Location (For retail, restaurant and location dependant businesses)**

- Neighbourhood Location (use map). Traffic counts and supporting information such as population radius is helpful.
- Site Location – place in mall or centre, or city block. Is parking available? Will it affect your business?
- Facility Location – including a diagram of the business layout.
- Signage both inside and outside the business.
- Check for location risks. A median placed in the middle of your road will cut off access to your business. Check with your city-planning department before signing a lease.

### **Planning considerations**

- What are the hours of operation? Will that best serve your clients?
- What are the requirements for the facilities and equipment? What are the costs? (one-time or ongoing costs)
- What are the plant overhead costs going to be? Will you be able to afford what is required?
- What are the purchasing requirements?
- What is the best manufacturing process? Cost effective?
- What licensing is required for your venture?

### ***Hint:***

*Visit the following website and answer a short series of questions about your current or proposed business to create a customized list of the permits and licenses you may need from all levels of government.*  
[www.greatersudbury.ca/bizpal/](http://www.greatersudbury.ca/bizpal/)

## ***Hint:***

*For a free directory of suppliers visit*

[www.esourcecanada.com](http://www.esourcecanada.com)

*Or*

[www.investinontario.com/siteselector/bd\\_100.asp](http://www.investinontario.com/siteselector/bd_100.asp)

## **Production Plan**

The production plan demonstrates your ability to produce products. This section may not apply in service businesses.

- Provide a flow chart / process diagram showing the entire production process from start to finish.
- List and budget production equipment required for the business.
- Procurement (Businesses that manufacture or sell products)
- Sources of supply and order lead time
- Terms & Conditions of sale
- Alternate sources of supply (this addresses procurement risk)
- Inventory control systems
- Physical space requirements (Unless covered in location sections)

## **Service**

- What area of the city do you plan to service?
- Will you complete a job entirely, or will you be hiring contractors?
- How many jobs can you complete in a day?
- Who are your suppliers? What do they charge? Do you have alternative sources of supply?





## **Hint:**

Often a good place to start is to determine the demand for your product or service.

## **Hint:**

The following links can provide you with useful information for your industry and market research:

[www.ic.gc.ca](http://www.ic.gc.ca)

[www.statcan.gc.ca](http://www.statcan.gc.ca)

[www.canada411.ca](http://www.canada411.ca)

[www.greatersudbury.ca/keyfacts](http://www.greatersudbury.ca/keyfacts)

## **3. MARKET RESEARCH**

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*The purpose of the Market Research section is to prove that the market is large enough, in your area, given the competition to support the survival and growth of your business.*



### **INDUSTRY ANALYSIS**

Here is where you get to assess the environment in which you are planning on entering. What external factors are influencing your industry? This analysis will ensure you understand the needs of your own industry and educate the reader.

Considerations:

- What has been happening in the industry?
- What are the trends? Growing, steady, declining?
- Who are the major players (i.e.: suppliers, distributors, clients) in your industry? What is their influence or impact on it?
- Are there specific government regulations influencing your industry?

### **Industry Research**

- Describe your industry. The less well known the industry, the more description necessary. (An industry analysis looks at the big picture – what is going on in the industry beyond your city?)
- Describe the state of the industry. Is it a new industry, growth industry, competitive industry, or a stable mature industry?
- Document industry trends on a world or national size. Sales, number of customers, number of units sold, trends in related industries are all good industry indicators.
- Describe the key customers for your specific industry.
- Provide other national / international economic indicators that encourage the health of your industry.
- Examine risks to the entire industry caused by legislation, technological change or any threat to the industry as a whole.



## MARKET ANALYSIS/RESEARCH



### **Why do market research?**

Just because your friends and family love the way you take pictures, doesn't necessarily mean that your wedding photography business will be an overwhelming success. Also, innovative ideas and gut feelings aren't enough when it comes to predicting success for a product or service. Although *you* think that your idea is great, it's simply impossible to sell people what they don't want. Market research is essential in helping you find out what people want and who wants it.

### **Types of Market Research: Primary Research**

Primary research is the gathering of information that does not already exist. It is data that you have to collect on your own or hire research specialists to do. The survey is, without a doubt, the most popular method of gathering primary data. In general, there are 3 types of surveys: the telephone survey, the postal or mail survey, and the personal interview or 'mall' survey.

### **Building a questionnaire for your survey**

A questionnaire is an information gathering tool which can be used to tabulate, analyse and discuss your research. In many situations a questionnaire serves as the major source of primary information. Writing questions and constructing a questionnaire takes time and attention. Before you begin, it is essential to know what kind of information you need to obtain and how the information will be used. Each questionnaire must be custom-built to the specifications of your business. Here are some guidelines:

- Make a list of what you need to know. What do you want to achieve with the questionnaire.
- Does the information you need already exist? *Always check for secondary information.*
- Don't ask a question unless it has a purpose.
- Eliminate confusing questions.
- What is the purpose of each piece of information? How will you analyse each piece of information?

- As you write questions, try to view them through the respondents' eyes. Will the respondents be able and willing to answer the question?
- Pay attention to where you place questions. In general, a funnel approach is advised. Broad and general questions at the beginning of the questionnaire, followed by more specific questions, and closing with more general questions like demographics.
- Avoid loaded or leading words and questions. Could and should, might sound almost the same, but may produce a 20% difference in agreement to a question. Leading questions may influence respondents to answer in a socially desirable way.
- At the end of your survey, provide a place for respondents to add comments and thank them for their assistance.

### **Formatting the questionnaire**

The following guidelines offer some tips to help you put the questionnaire together.

1. Begin with an introduction that includes the questionnaire's purpose, identifies its source, explains how information obtained will be used, and assures respondents' of confidentiality.
2. The first questions should be easy, avoiding controversial topics. Write interesting questions that are clearly related to the questionnaire's purpose. Don't use open-ended or long questions with lengthy answer choices in the beginning of the questionnaire.
3. Address important topics early, rather than late, in the questionnaire.
4. Arrange questions so they flow naturally. Keep questions on one subject grouped together. Start with general questions then move to those that are specific.
5. Try to use the same type of questions and response throughout a series of questions on a particular topic.
6. Place demographic questions at the end of the questionnaire.
7. Print it in easy-to-read typeface.
8. A numbered response should mean the same thing throughout the questionnaire.
9. Avoid making respondents turn a page in the middle of a question or between a question and answer.

10. Be sure that the question is distinguishable from the instructions and the answers. You could put the instructions in boldface or italics.
11. Questions and answers are easiest to read if they flow vertically.
12. Give direction about how to answer. Include directions in parentheses immediately following questions. It is better to repeat directions too often than not often enough. Here are some examples of specific instructions you might use: *Circle the number of your choice; circle only one or check all that apply; please fill in the blank.*
13. Make sure to use the KISS rule, **Keep It Short and Simple**.

**Survey Bias:**

Remember, there will always be survey bias (margin of error) which you must take into account. The industry average is 20% and it is used to eliminate respondents that have not been truthful or honest.

## SAMPLE SURVEY

Hello, my name is \_\_\_\_\_. I'm conducting a survey to determine the potential for a butcher store in the south end of Sudbury. Do you have a moment to answer a few questions?

1. Have you shopped at a butcher store in this past year?  
Yes \_\_\_\_\_ No \_\_\_\_\_

If no, why not? Is it the:

Price \_\_\_\_\_ Lack of convenience \_\_\_\_\_ Quality \_\_\_\_\_  
Selection \_\_\_\_\_ Availability \_\_\_\_\_ Other \_\_\_\_\_

If no, go to question 6.

2. If yes: Which one do you shop at?

Paquette's \_\_\_\_\_

Tarini's \_\_\_\_\_

V&R \_\_\_\_\_

Lagrandeur \_\_\_\_\_

Other: (Please specify) \_\_\_\_\_

3. Are you satisfied with this (these) store(s)?

Yes \_\_\_\_\_ No \_\_\_\_\_

If no, why not? Is it the:

Price \_\_\_\_\_ Selection \_\_\_\_\_ Inconvenience \_\_\_\_\_

Availability \_\_\_\_\_ Other \_\_\_\_\_

4. On average, how much do you spend at a butcher store in a month?

\$5-\$25 \_\_\_\_\_ \$26-\$50 \_\_\_\_\_ \$51-\$75 \_\_\_\_\_ \$76-

\$100 \_\_\_\_\_ 100+ \_\_\_\_\_

5. How often per month do you visit a butcher store?

1-3 \_\_\_\_\_ 4-6 \_\_\_\_\_ 6-8 \_\_\_\_\_ Over 9 \_\_\_\_\_

Other \_\_\_\_\_

6. Would you support the establishment of a new butcher store in the south end?

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, can I record your name and address, so when I open the store, I can let you know?

Yes \_\_\_\_\_ No \_\_\_\_\_

Name \_\_\_\_\_ Address \_\_\_\_\_

7. If yes: Under what conditions would you consider supporting a new butcher store?

Quality \_\_\_\_\_ Price \_\_\_\_\_ Location \_\_\_\_\_

Selection \_\_\_\_\_

Availability \_\_\_\_\_ Service \_\_\_\_\_ Cleanliness \_\_\_\_\_

Other \_\_\_\_\_

**The following questions are for statistical purposes only.**

1. What age category do you fall into? Are you:

Under 19 \_\_\_\_\_ 20-29 \_\_\_\_\_ 30-39 \_\_\_\_\_

40-49 \_\_\_\_\_ 50-59 \_\_\_\_\_ 60-69 \_\_\_\_\_

70+ \_\_\_\_\_

2. Do you have any children living at home?

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, how many?

1 \_\_\_\_\_ 2 \_\_\_\_\_ 3 \_\_\_\_\_ 4 \_\_\_\_\_

5+ \_\_\_\_\_

3. Are you?

Male \_\_\_\_\_ Female \_\_\_\_\_

4. In which area of the city do you live in?

South end \_\_\_\_\_ Downtown \_\_\_\_\_ Flower Mill \_\_\_\_\_

Gatchel \_\_\_\_\_ New Sudbury \_\_\_\_\_

Donovan \_\_\_\_\_ Other \_\_\_\_\_

**Thank you for your time and cooperation!**

### **Types of Market Research: Secondary Research**

Secondary research represents information that has already been gathered and published. It is a tremendously important source of data for any marketing researcher.

Secondary research is crucial and the quantity of data available is tremendous. A huge amount of secondary research information is available at little or no cost. The ideal places to access this type of information are:

- The Regional Business Centre
- Canada-Ontario Business Service Centre
- Scott's Directory of Canadian Manufacturers and Suppliers
- Ontario Business Directory
- Financial Post Canadian Markets
- Canadian Almanac Directory
- The Franchise Annual
- Family Expenditures in Canada
- Government Offices (Federal, Provincial, Municipal)
- Statistics Canada
- Self Counsel Press
- Trade Journals
- Internet (Stats Can, Strategis, Government Sites)
- Public Library

### **The Pros and Cons of Secondary Research**

Compared to primary research, secondary research offers two considerable advantages:

1. The information is usually less expensive to gather.
2. The information can be gathered in a shorter period of time.

Unfortunately, the researcher must realize that, in the long run, there are two factors that limit the effectiveness of secondary research: the information can be deceiving and it can be organized or presented in a manner which can hamper the research project at hand.





## **Hint:**

*You can do your own market research. Get on the phone, go door to door...do not be afraid to take a long, hard look at the people you intend to sell to.*

## **TARGET MARKET**

The Target Market is the groupings of consumers or businesses most likely to purchase your products or services. The first group you plan to target is your Primary Target Market; the second is your Secondary Target Market. It is very important that you understand your target market – after all these are the customers you need to keep happy!



Your business plan should include answers to the following questions:

- Who are your customers? Who is most likely going to buy your product/service? Define your target market(s).
- What are the market trends? Are they growing? steady? declining?
- Is the market share growing? steady? declining?
- How is the market segmented? (age, sex, income, family, industry, etc)
- Are the markets large enough to expand?

Note: If you are using indirect distribution, it may be necessary to describe both your customer as a target market, and the end user as a target market.

- Provide the results of any customer survey work you have done
- Provide the sources of information for any of the above



## **Hint:**

*Competition is good for business! Knowing your competition is the only way to stay one step ahead. You should know who they are, where they are, how they operate and what they are capable of.*

## **COMPETITIVE ANALYSIS**

The purpose of the Competitive Analysis section is to thoroughly analyze the competition that will exist for your business. Part of developing a successful business involves being aware of possible competitors and their products. Competitors are any business which can sell a product/service that accomplishes a similar type of result as yours; therefore, the features and benefits of a competitor's product can also appeal to your target market. There is ALWAYS competition!



Ask yourself:

- Who are your direct competitors (exactly what you offer)? Who are your indirect competitors (offer substitutes)?
- How long have they been in business? How are their businesses: Steady? Increasing? Decreasing?
- What have you learned from their operations? From their advertising?
- What are their strengths and weaknesses? Ensure you are being unbiased.
- Are there any opportunities and threats that your competition may present?
- How does their product or service differ from yours? What is your competitive advantage?
- List the direct competitors in your local market. These are firms who offer exactly what you offer. List the current number and the number in existence for the past three-year period.
- List the indirect competitors in your local market. These are firms who offer substitute products.
- Analyze any competitors who have gone out of business in the past and if possible why.
- Explain how your firm will compete with these competitors to prove how you can survive in their markets.
- Examine risks that could occur when you enter the market. For example what if your key competitor cuts their price when you open your business.



## **Hint:**

**S – Strengths:** what this business does best.

**W – Weaknesses:** areas that this business needs to improve.

**O – Opportunities:** what conditions in the industry or the community might the business use to improve its position?

**T – Threats:** what conditions in the industry or community might undermine the success of the business operation?

## **S.W.O.T. ANALYSIS**

A tool that identifies the **Strengths**, **Weaknesses**, **Opportunities** and **Threats** of an organization. Specifically, SWOT is a basic, straightforward model that assesses what an organization can and cannot do as well as its potential opportunities and threats. The method of SWOT analysis is to take the information from an environmental analysis and separate it into internal (strengths and weaknesses) and external issues (opportunities and threats). Once this is completed, SWOT analysis determines what may assist the firm in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve desired results.

When using SWOT analysis, be realistic about the strengths and weaknesses of your organization. Distinguish between where your organization is today, and where it could be in the future. Also remember to be specific by avoiding gray areas and always analyze in relation to the competition (i.e. are you better or worse than competition?).

Finally, keep your SWOT analysis short and simple, and avoid complexity and over-analysis since much of the information is subjective. Thus, use it as a guide and not a prescription.



## SWOT Analysis Template

*(This particular example is for a new business opportunity. Identify criteria appropriate to your own SWOT situation.)*

<p><b>criteria examples</b></p> <p>Advantages of proposition?          Capabilities?          Competitive advantages?          USP's (unique selling points)?          Resources, Assets, People?          Experience, knowledge, data?          Financial reserves, likely returns?          Marketing - reach, distribution, awareness?          Innovative aspects?          Location and geographical?          Price, value, quality?          Accreditations, qualifications, certifications?          Processes, systems, IT, communications?          Cultural, attitudinal, behavioural?          Management cover, succession?          Philosophy and values?</p>	<h3 style="color: red;">Strengths</h3>	<h3 style="color: red;">Weaknesses</h3>	<p><b>CRITERIA EXAMPLES</b></p> <p>Disadvantages of proposition?          Gaps in capabilities?          Lack of competitive strength?          Reputation, presence and reach?          Financials?          Own known vulnerabilities?          Timescales, deadlines and pressures?          Cashflow, start-up cash-drain?          Continuity, supply chain robustness?          Effects on core activities, distraction?          Reliability of data, plan predictability?          Morale, commitment, leadership?          Accreditations, etc?          Processes and systems, etc?          Management cover, succession?</p>
<p><b>CRITERIA EXAMPLES</b></p> <p>Market developments?          Competitors' vulnerabilities?          Industry or lifestyle trends?          Technology development and innovation?          Global influences?          New markets, vertical, horizontal?          Niche target markets?          Geographical, export, import?          New USP's?          Tactics: eg, surprise, major contracts?          Business and product development?          Information and research?          Partnerships, agencies, distribution?          Volumes, production, economies?          Seasonal, weather, fashion influences?</p>	<h3 style="color: red;">Opportunities</h3>	<h3 style="color: red;">Threats</h3>	<p><b>CRITERIA EXAMPLES</b></p> <p>Political effects?          Legislative effects?          Environmental effects?          IT developments?          Competitor intentions - various?          Market demand?          New technologies, services, ideas?          Vital contracts and partners?          Sustaining internal capabilities?          Obstacles faced?          Insurmountable weaknesses?          Loss of key staff?          Sustainable financial backing?          Economy - home, abroad?          Seasonality, weather effects?</p>





## 4. MARKETING PLAN

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The marketing plan is developed based on careful planning. This ensures that the company uses its limited resources wisely and effectively. The marketing plan is the master plan in a company's effort to satisfy the needs of a particular market segment (portion of the population). This is achieved by coordinating all the elements of the marketing mix (4 P's: product, price, place/distribution, promotion).

### ***Hint:***

To identify your product or services' benefits, try to consider the customer's point of view.

### **FIRST "P" OF MARKETING : PRODUCT OR SERVICE**

Unlike the Business Overview section, in which you listed and described the products or services offered, in this section it is important to describe your products and services in terms of their features and benefits. Features are product characteristics such as size, color, horsepower, functionality, design, hours of business, fabric content, and so forth. Benefits answer the customer's question: Why would I want to own it? The key features and benefits you identify should help you determine the focus of your marketing plan. Some of the features and characteristics you should discuss are, but are not limited, to :

- Functionality
- Styling
- Quality
- Safety
- Repairs and Support
- Warranty
- Accessories and services
- Etc...





## **Hint:**

*The lowest price doesn't always win. Consider your price with quality and service. "No price is right if you don't like the quality."*

## **SECOND "P" OF MARKETING : PRICE**

Setting the right price involves taking three important factors into account:

1. What it costs you to produce or purchase a product or service.
2. What your competitors are charging.
3. What the customer is willing to pay.



There are many ways in which the price of a product or service can be determined. The following are some of the pricing strategies:

- retail cost and pricing
- competitive position
- pricing below competition
- pricing above competition
- service costs and pricing (for service businesses only)
- service components
- material costs
- labor costs
- overhead costs

Consider addressing the following questions in this section of your business plan:

- What are your prices for different products and services?
- How did you arrive at those prices? (Charge going rate, industry standard mark-up etc.)
- Do you have any "price packages"?
- What is your price image? (Bargain, middle of the road, high end) Is this consistent with your target market?
- How do your prices compare with your competition?
- What are your profit margins?

Once you have determined your price, it is important to conduct a Break Even Analysis.

## Break Even Analysis

The Break Even Point in your business is the point at which your sales revenue is equal to your total expenses. At that point you neither make money, nor do you lose any. This point is where your business has sold enough products or services to pay for all costs.

The break-even can also be used to evaluate a business expansion or any other business expenditure. You are simply asking how much additional revenue will be required to cover the additional cost. There are some key definitions necessary to determine the break-even for the business.

They are:

- Fixed Costs (Overhead) are costs that do not vary directly with sales. Utilities, salaries, advertising, office supplies and telephone are just a few examples. They do not have to be the same every month. What is important is that you pay them regardless of sales made.
- Variable Costs (Cost of Goods) are the actual costs of making the product or providing the service. They can include materials, shipping and contract labour.
- Capacity governs your output. It can be measured in units of production, billable hours, or sales volume.

Now we will display how to calculate the break-even point.

$$\text{Break-Even Point} = \frac{\text{Fixed Expenses}}{\text{Gross Margin}}$$

For example:

Total Sales:	\$10,000
Fixed Expenses:	<u>\$ 5,000</u>
Variable Expenses:	<u>\$ 3,000</u>

Gross margin (difference between total revenues and cost of goods sold, expressed as a percentage) =  $\frac{\text{Total Sales} - \text{Variable Expenses}}{\text{Total Sales}} = \frac{\$10,000 - \$3,000}{\$10,000} = \frac{\$7,000}{\$10,000} = 70\%$

$$\text{Breakeven Point} = \frac{\text{Fixed Expenses}}{\text{Gross Margin}} = \frac{\$5,000}{0.70} = \$7,142.86$$

This demonstrates that you need **\$ 7,142.86** in sales in order to break-even.





### ***Hint:***

Your distribution channel can greatly affect your costs and therefore can affect your pricing strategy.

## **THIRD “P” OF MARKETING : PLACE (DISTRIBUTION)**

A good location means more than just your chosen physical business address. Location also has meaning in your distribution strategy. The characteristics of the product can play a determining role in the choice of distribution channel. Perishable items, like fruits and vegetables, must be distributed quickly by using direct channels. The producer may ship the goods directly to the retailer or even to the consumer. Whereas, mass consumption items such as canned foods have a long distribution channel: from manufacturer, to wholesaler, to retailer, to the consumer.



- What channels will you use to get your product(s) to the customer?
- Consider the benefits to the customer: time, accessibility and possession.
- Having the products on location when the customers wish to purchase them can save precious time.
- Having the products accessible to the customer where they want to purchase them is favorable.
- Possession is realized when the goods pass from the manufacturer or the retailer to the end consumer.



## **FOURTH “P” OF MARKETING : PROMOTION**

The promotion section of the marketing plan is also known as the communication strategy. It serves to inform the consumers, to persuade them to buy and influence their purchasing decision. The appropriate communication strategy will be a combination of all the promotional factors (advertising, promotion, public relations and personal sales) acting hand-in-hand to transmit your business' message.



### ***Hint :***

*If you have written any ads, brochures, press releases or any type of advertising material, include them as appendices to the business plan.*

- Provide a list of the media you plan to use. You may include newspapers, magazines, radio, television, direct mail, Internet advertising, etc.
- Develop a monthly advertising schedule with planned budgeted amounts.
- Personal selling or service plan? (Personal one-on-one contact with your target customers. It is the one personal and direct link between your business and your target market.)
- Describe how you will prospect and find new customers.
- If you have letters of agreement, contracts or other sales tools, it is sometimes advisable to include them as appendices to the business plan.

### **Examples of advertising ideas:**

- Point of sales promotion (POP)
- Promotional items
- Samples
- Coupons/ discounts
- Contests
- Trade fairs
- Newspapers ads
- Television ads
- Radio ads
- Public relations
- Postal or mail advertisements
- And so much more!



## Hint:

This key component in your business plan will determine whether or not your business idea is viable. Be realistic!

## 5. FINANCIAL PLAN

The financial plan is critical to the success of your business plan, especially if it is for the purpose of getting a bank loan. Sound financial management is one of the best ways for your business to remain profitable. As a business owner, you will need to identify and implement policies that will lead to and ensure that you will meet your financial obligations. Your financial plan should include the following 4 sections:



- 1) Start-up budget
- 2) Projected income statement
- 3) Cash flow
- 4) Balance sheet

### THE START-UP BUDGET

The start-up budget is generated by creating a list of all the items you must buy and services you must pay for to open your business.



Name of Business Start-up Budget		
Description	Payment Date	Amount
Accounting fees		\$ -
Professional fees		\$ -
Advertising		\$ -
Equipment (specify)		\$ -
Office supplies/furniture		\$ -
Insurance		\$ -
Inventory/material		\$ -
Legal fees		\$ -
Licenses/registrations		\$ -
Rent		\$ -
Other (specify)		\$ -



## THE PROJECTED INCOME STATEMENT

The purpose of the Projected Income Statement is to summarize the operating activities of a business over a specific period of time. All projected income statements are prepared in a standardized style. This statement is valuable as both a planning tool and a key management tool to help control business operations. It enables the owner/manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.



The following is an example of a Projected Income Statement for a typical small business.

Name of the Business		
Projected Income Statement		
for the 12 months ending		
31-Dec-98		
	\$\$\$	%
<b>Sales (Revenue)</b>	\$ -	100%
<b>Cost of Sale</b>	\$ -	%
<b>Gross Profit</b>	\$ -	%
<b>Variable Expenses</b>		
Wages	\$ -	%
Payroll Expenses	\$ -	%
Outside Services	\$ -	%
Supplies	\$ -	%
Repair/Maintenance	\$ -	%
Advertising	\$ -	%
Travel	\$ -	%
Professional fees	\$ -	%
	\$ -	%
<b>Fixed Expenses</b>		
Rent	\$ -	%
Depreciation	\$ -	%
Utilities	\$ -	%
Insurance	\$ -	%
Interest Paid	\$ -	%
Misc.	\$ -	%
	\$ -	%
<b>Total Operating Expenses</b>	\$ -	%
<b>Net Profit / (Loss)</b> (before taxes)	\$ -	%
<b>Taxes</b>	\$ -	%
<b>Net Profit (Loss)</b> (after taxes)	\$ -	%

### **Hint:**

It is good management practice to express all expenses in percentage relative to total sales figures.

## Instructions to the Projected Income Statement

### Total Net Sales (Revenues):

Determine the total number of units of products or services you realistically expect to sell each month in each department at the prices you expect to get. Use this step to create the projections to review your pricing practices.

- What returns, allowances and markdowns can be expected?
- Exclude any revenue that is not strictly related to the business.

### Cost of Sales:

The key to calculating your cost of sales is that you do not overlook any costs that you have incurred. Calculate cost of sales of all products and services used to determine total net sales. Where inventory is involved, do not overlook transportation costs. Also include any direct labour.

### Gross Profit:

Subtract the total cost of sales from the total net sales to obtain gross profit.

### Gross Profit Margin:

The gross profit is expressed as a percentage of total sales (revenues). It is calculated by dividing the Gross Profit figure by the Total Sales.

### Variable Expenses (examples):

**Wages:** Base pay plus overtime.

**Payroll expenses:** Include paid vacations, sick leave, health insurance, unemployment insurance and CPP.

**Outside services:** Include costs of subcontracts, overflow work and special or one-time services.

**Supplies:** Services and items purchased for use in the business.

**Repair and maintenance:** Regular maintenance and repair, including periodic large expenditures such as painting.

**Advertising:** Include desired sales volume and classified directory advertising expenses.

**Travel:** Include charges if personal car is used in business, including parking, tools, buying trips, etc.

**Professional fees:** Outside professional services.

Fixed Expenses (examples):

**Rent:** List only real estate used in business.

**Depreciation:** Amortization of capital assets.

**Utilities:** Water, heat, light, etc.

**Insurance:** Fire or liability on property or products. Include workers' compensation.

**Loan repayments:** Interest on outstanding loans.

**Miscellaneous:** Unspecified small expenditures without separate accounts.

Net Profit or Loss (before taxes): Subtract total expenses from gross profit.

Taxes: Include inventory and sales tax, excise tax, real estate tax, etc.

Net Profit or Loss (after taxes): Subtract taxes from net profit (before taxes).



## **Hint:**

Visit the tools page on [www.regionalbusiness.ca](http://www.regionalbusiness.ca) for a ready to use cash flow statement template.

## **THE MONTHLY CASH FLOW STATEMENT**

### ***What is a Cash Flow Statement?***

One of THE most important tools for any business, the cash flow statement often appears more intimidating to prepare, than it actually is. The cash flow statement, on a month-by-month basis, summarizes cash coming in and cash going out of the business. It displays how much cash a business will have at the end of each month.



A cash flow statement can be based upon actual amounts or on forecasted figures. Both forms of cash flows ARE valuable financial tools.

### ***Why should I prepare a cash flow forecast?***

- To determine if your business idea, after costs, will make money.
- To highlight months where there is not enough cash to cover expenditures. This step will allow time to consider other sources of cash, for example, a line of credit.
- To assist in securing money from lending institutions as it outlines the viability of a business venture.
- To highlight months where it might be possible to take drawings from the business.
- To outline cash that may be available for additional expenditures, for example, hiring new staff, purchasing equipment or increasing marketing budget.

### ***How Do I Prepare a Cash Flow Forecast?***

A cash flow forecast comprises of the following 5 parts:

- 1) Estimated Sales
- 2) Cash Receipts (Cash in)
- 3) Cash Payments (Cash out)
- 4) Cash Summary
- 5) Notes to a Cash Flow

It is a good idea to commence with the "Estimated sales" section.

## **Hint:**

*Estimated sales for your business are based on your assessment of:*

- 1) The advantages of your products/services*
- 2) Your customers*
- 3) The size of your market*
- 4) Your competition*

### **1) Estimated Sales**

Estimated sales are both cash and credit sales that your business expects to make in the first year. Begin by projecting your yearly sales figure.



#### **Step 1: Project your yearly sales figure**

If you distributed a survey, the results can help you project your yearly sales figure. From your completed survey, extract what age group and what gender gave the strongest positive approval for your business idea. This group is your primary target group. For example, you may believe your target group is men between the ages of 30-39 years.

Next, obtain demographic information relating to the area you surveyed. The demographic information for the area surveyed will tell you how many of your target group lives there. For example, if you conducted a survey in Garson, you would look for the demographical information available for the Garson area.

Your completed survey will also tell you:

- on average how much people spend per visit and
- the frequency of the visit.

From all this information, you can generate an estimated yearly sales figure.

#### ***Confused?***

Let's take a look at the survey Wilma conducted to determine if there was a demand for a craft store in Garson.

Wilma conducted a survey in Garson and received 200 responses. Of the 200 responses, 81 people said they would support the opening of a new craft store in Garson.

From the survey results, Wilma was able to summarize the 81 "yes votes" into the following age and gender splits.

## Hint:

Your estimated sales numbers will be crucial to other financial documents included in your plan. (i.e. cash flow and income statement)

<u>Female</u>		<u>Male</u>	
Age	Yes Vote	Age	Yes Vote
> 19	5	> 19	0
20-29	7	20-29	1
30-39	11	30-39	0
<b>40-49</b>	<b>32</b>	40-49	2
50-59	17	50-59	0
60+	<u>6</u>	60+	<u>0</u>
<b>Total</b>	<b>78</b>	<b>Total</b>	<b>3</b>

Wilma believes her primary target market to be females between the ages of 40-49 living in Garson. From the demographical information Wilma found, there are 4,223 females living in Garson. Next, determine the percentage of females with respect to the total population of Garson:

$$\frac{\text{Total females in Garson}}{\text{Total population of Garson}} = \frac{4,223}{8,207} = 0.51 \text{ (51\%)}$$

Next, determine what percentage of the Garson population is aged 40-49:

$$\text{Age 40-44} = 8.3\%$$

$$\text{Age 45-49} = 7.1\%$$

$$\text{Total} = 8.3 + 7.1 = 15.4\%$$

$$15.4\% \times 8,207 \text{ (total population of Garson)} = 1264 \text{ people}$$

Finally, determine how many women are aged 40-49 in Garson:

$$51\% \text{ (percentage of females in Garson)} \times 1264 \text{ people} = 645 \text{ females in Garson}$$

In addition, the survey revealed that:

- the average purchase from a craft store = \$45
- the average visit = every 2 months or 6 times a year

*With the above information, an estimated yearly sales figure can be generated.*

1) Begin by determining your potential target market:

The demand for Wilma's product is:

$$81 \text{ (total yes votes)} / 200 \text{ (total votes)} = 40.5\%$$

2) The potential market is:

$$645 \text{ (female population in Garson)} \times 40.5\% = 261 \text{ potential customers}$$

## Hint:

Remember, the survey is not a precise measuring tool. That's why you should consider a 20% survey bias or margin of error.

- 3) Allow for a 20% survey bias  
 $261 \times 0.8 = 209$  potential customers
- 4) Estimate of total yearly sales  
 $209$  (potential customers)  $\times$   $\$45$  (average purchases amount)  $\times$   $6$  (purchase frequency/year)  
 $= \$56,430$  for 12 months

### Step 2: Allocate the yearly estimate of sales to each month

The yearly sales figure of \$56,430 must be allocated to each month of your first year. Consider a variety of different factors:

- What are similar businesses generating in sales revenue? Investigate industry trend information.
- Is your business seasonal or affected by special events, for example, Christmas?
- Is your estimate reasonable in terms of the value of the products you sell? For example, if the maximum value of your product is \$10, is it reasonable to assume you will sell \$20,000 in a month? This amount would equate to 100 items a day.
- What did your survey results suggest? For example, what on average did the survey participants say they would spend and how often?
- What is your promotional plan? Will this increase your sales for any particular month?
- What are your competitors doing? For example, are they having a major promotion? Will this affect your sales?

### **Let's return to Wilma's results.**

<b>Month</b>	<b>Season</b>	<b>Activity</b>	<b># Customers</b>	<b>Average Purchase</b>	<b>Estimated Sales</b>
January	Winter	Busy	180	\$45	\$8,100
February	Winter	Busy	95	\$45	\$4,275
March	Spring	Quiet	80	\$45	\$3,600
April	Spring	Quiet	50	\$45	\$2,250
May	Spring	Very Quiet	43	\$45	\$1,935
June	Summer	Very Quiet	43	\$45	\$1,935
July	Summer	Very Quiet	25	\$45	\$1,125
August	Summer	Very Quiet	44	\$45	\$1,980
September	Autumn	Moderate	105	\$45	\$4,725
October	Autumn	Moderate	99	\$45	\$4,455
November	Autumn	Very Busy	240	\$45	\$10,800
December	Winter	Very Busy	250	\$45	\$11,250
<b>Total</b>			<b>1,254</b>		<b>\$56,430</b>

Therefore, in one year approximately 1254 (209 x 6) people will visit the store and on every visit, they will spend \$45. From research it is apparent the craft industry booms around Christmas and in the winter months. However, for summer and spring, the industry is quiet.

Wilma believes that the \$56,430 should be allocated to each month based upon her expected number of customers each month.

Step 3: Estimated sales figures are inserted on the first line of your cash flow work sheet

*Refer to page 68 to view Wilma's Forecasted Cash Flow*

## 2) Cash Receipts

### Step 1: Decide how much of your sales will be credit or cash

Your business may only make sales on a cash basis. If this is the case, the numbers you inserted in your "Estimated Sales" row, will be the same numbers you insert in the row "Cash from Sales" under the Cash Receipts section.



However, if some or all of your sales will be a mixture of cash and credit, you must estimate when your credit customers will pay for the goods they bought off you on credit.

Be realistic in estimating when your creditors will pay! Larger corporations may delay payment for up to 90 days. A cash flow will only be a useful tool to your business if you are realistic in your assumptions and expectations of cash collection!

Wilma will grant 30 days credit on craft sales, but only for her major customers who regularly shop with her. Wilma has researched these customers and they are prompt payers with good credit histories. These customers, in the survey, estimated they would spend the following:

		***
January	\$3,500	←
February	\$2,200	
March	\$650	
April	\$670	
May	\$500	
June	\$500	
July	\$500	
August	\$500	
September	\$700	
October	\$900	
November	\$5,000	
December	\$4,500	

\*\*\* Therefore, the \$3,500 of purchases in January won't be received, by Wilma, until February.

Wilma estimated her sales for January to be \$8,100. As \$3,500 of it will be sales made on credit, Wilma will only receive \$4,600 ( $8,100 - 3,500$ ) in cash for January.

For January, the cash flow worksheet will show \$4,600 in the "Cash from Sales" row and \$0 in the "Account Receivable Collected" rows.

In February the "Cash from Sales" row will show \$2,075 [\$4,275 (estimated sales) - \$2,200 (credit sales)]. Accounts Receivable Collected records collection of prior credit sales. For February, this will be \$3,500. (Credit sales made in January).

Step 2: Insert the amount you expect to borrow

On the "Small Business Loan" row, of your cash flow forecast, insert the money in the month you will receive it. This amount can be revised later.

Wilma wants to borrow \$15,000 and will receive it in January.

Step 3: Insert your Contribution

In the row "Owner's Equity Contribution", insert the amount of money that you, the business owner, will be investing in the business.

Wilma will contribute \$5,000 in January, from her personal savings.

Refer to Wilma's cashflow on page 68.

### 3) Cash payments

#### Steps 1: Initial Start up Costs

List all the items you must buy and services you must pay for to open your business. Completing this step will help you decide how much money you may need to borrow. (This was done on page 47)



To open her craft store, Wilma has the following start up costs.

Advertising	\$200
Business name search and registration	\$68
Business License	\$50
Equipment: Cash Register	\$50
Equipment: Adding Machine	\$40
Equipment: Computer and Printer	\$3,000
Fixtures: Shelving	\$2,000
Furniture: Chairs	\$500
Furniture: Coffee Table	\$200
Furniture: Counter	\$400
Insurance (1 <sup>st</sup> months)	\$200
Inventory	\$15,000
Legal expenses (signing of lease)	\$200
Office Stationery	\$200
Plastic Bags	\$200
Rent (first and last months)	\$1,400
Security Alarm	\$500
Telephone (Connection and rental)	\$150
<b>Total</b>	<b><u>\$24,358</u></b>

#### Step 2: What recurring expenses can you expect?

After deciding what it will cost to commence your business, it is now necessary to determine what it will cost to stay in business.

Your expenses may be either fixed or variable. Fixed costs, such as rent, are not affected by how much the business sells. Fixed costs will stay the same month to month. Variable costs will change depending upon the volume of sales. Variable costs include wages, advertising, heat and hydro. Begin by listing all the expenses that your business is likely to incur, in the

first 12 months of operation. Note if they are a fixed or variable expenditure and when they will have to be paid.

To run the craft store, Wilma thinks she will incur the following expenditures.

<b>Expenses</b>	<b>Fixed/Variable</b>	<b>Payment Date</b>
Advertising	Variable	Bimonthly
Bank Fees	Variable	Monthly
Insurance	Fixed	Monthly
Inventory	Variable	Monthly
Loan Payment	Fixed	Monthly
Office stationary	Variable	Bimonthly
Owners drawings	Variable	Monthly
Plastic Bags	Variable	1/2 yearly
Rent	Fixed	Monthly
Security Monitoring	Fixed	Monthly
Telephone	Fixed	Monthly
Heat and Hydro	Variable	Monthly

### Step 3: Record the cash payments you will make

Record the expenses in the month you will actually pay cash for it. For example, if you pay \$1,500 in January for insurance for 12 months, record the \$1,500 as an expense in January. DO NOT, divide the \$1,500 by 12 and record it as an expense each month.

For variable expenses, such as materials/inventory purchases, you will not know exactly the level of expenditure. You must estimate this figure based on your revenue figure. For example, if you estimate that the sale of your products will increase in December, you would expect your materials/inventory expenses to increase in December.

NEVER "flat line" expenses! Not every month will incur the same level of expenditures. Research your expenditures to make them as accurate as possible.

Refer to page 68 to view Wilma's cash flow. Remember in the first month, of your cash flow, you will have start-up and recurrent costs.

#### 4) Cash Summary

##### Step 1: Calculate Net Cash

For each month, take Total Receipts and subtract Total Payments to end with a Net Cash figure.



For Wilma, January's net cash will be -\$413 (\$24,600 - \$25,013).

##### Step 2: Complete the Cash Summary section

Insert your opening cash balance; this will normally be zero for the first month. Add the Net Cash figure to your Opening Cash Balance, the total is the Closing Cash Balance. This balance then becomes the Opening Cash Balance for the next month and so on.

The Closing Cash Balance amount is the amount of cash that the business has at the end of the month. This is NOT a profit figure. The profit figure comes from the Income Statement.

Refer to Wilma's cash flow. At the end of January,

Total Receipts	\$24,600
Total Payments	(\$25,013)
Net Cash	<u>-\$ 413</u>
Opening Cash	0
Net Cash Movement	-\$413
Closing Cash	<u>-\$413</u>

For February, -\$413 will be the opening cash balance.

## 5) Notes to the Cash Flow

Make sure you include notes to explain your cash flow. Below are the notes Wilma inserted to explain her craft shop expenses.



### **Estimated Sales**

Based upon Wilma's prior industry knowledge and her survey results, she has estimated her sales as per the table below.

Month	Season	Activity	# Customers	Average Purchase	Estimated Sales
January	Winter	Busy	180	\$45	\$8,100
February	Winter	Busy	95	\$45	\$4,275
March	Spring	Quiet	80	\$45	\$3,600
April	Spring	Quiet	50	\$45	\$2,250
May	Spring	Very Quiet	43	\$45	\$1,935
June	Summer	Very Quiet	43	\$45	\$1,935
July	Summer	Very Quiet	25	\$45	\$1,125
August	Summer	Very Quiet	44	\$45	\$1,980
September	Autumn	Moderate	105	\$45	\$4,725
October	Autumn	Moderate	99	\$45	\$4,455
November	Autumn	Very Busy	240	\$45	\$10,800
December	Winter	Very Busy	250	\$45	\$11,250
<b>Total</b>			<b>1,254</b>		<b>\$56,430</b>

At the peak of her business, Wilma has estimated 250 customers for the month of December. In December, she plans to be open for 25 days. This calculation would average to 10 customers per day. She will trade for 9 hours per day; therefore, she would be serving 1.1 customers per hour. She believes this number to be a reasonable estimate.

### **Cash Receipts**

#### Cash from Sales and Accounts Receivable

Wilma will only grant credit to major customers. She has researched their credit histories and checked their references. There were no "black" marks, they have good credit histories and usually pay within 30 days.

From the survey, these customers indicated they would spend the following:

January	\$3,500
February	\$2,200
March	\$650
April	\$670
May	\$500
June	\$500
July	\$500
August	\$500
September	\$700
October	\$900
November	\$5,000
December	\$4,500

#### Small Business Loan

Wilma will borrow \$15,000 from her bank in January and \$10,000 in September.

#### Owner's Equity

She will invest \$5,000 from her personal savings in January and \$5,000 in September.

#### **Cash Payments**

##### > **Bank Fees**

Standard monthly charge	\$20
Cheque Book	\$50

(This entitles Wilma to 200 cheques. Every 3 months, she will need another book.)

##### > **Advertising**

Wilma plans to advertise promotions and competitions in the slower months (May - August) to boost sales.

On-going advertisement in local paper	\$50 per month
Quarter page promotion	\$500 May
Flier insert in local paper	\$150/mth (June-Aug)
Coupon insert in local paper	\$150 December

➤ **Insurance**

Yearly quote payable monthly \$2,400 (\$200/mth)

➤ **Inventory**

Wilma's opening inventory will be \$15,000. In September, she plans to buy another \$15,000 in stock.

➤ **Line of Credit Repayment**

Wilma will need a \$2,000 line of credit in May. She is required to pay 2% of the outstanding balance each month. The interest rate is 10%. Her monthly payment is \$44.

In September, she will draw another \$5,000 on her line of credit. She will owe \$7,000 and her monthly payment will be \$154.

➤ **Loan Repayment**

Wilma will initially borrow \$15,000 from the bank in January at 10% repayable over 5 years. Her monthly payment is \$325.

In September, she will borrow another \$10,000 on the same terms. Her monthly payment will increase to \$543.

➤ **Office Stationary**

Initial supply should easily last 2 months. Wilma then plans to order every 2 months spending \$100 per order.

➤ **Owners Drawings**

In order to live, Wilma must withdraw \$1,400 from the business each month, commencing in February.

➤ **Plastic Bags**

Wilma initially bought 1,000 for \$200, which should last 6 months. Her next purchase will be in June.

➤ **Rent**

Rent is \$700 per month.

➤ **Security Monitoring**

This expense is a set rate at \$30 per month.

➤ **Telephone**

This expense is a flat fee of \$50 per month

Long distance would be minimal. Expect it to be \$10/mth

➤ **Heat and Hydro**

Based upon the prior tenant's bills, winter hydro peaked at \$170/mth, while summer hydro peaked at \$80/mth.

## LIST OF LIKELY EXPENSES

- Accounting Fees
- Advertising
- Bank Fees
- Business Taxes
- Conferences
- Equipment Purchases
- Insurance
- Inventory
- Legal Fees
- Licenses
- Loan Repayment
- Office Expenses
- Owners Drawings
- Professional Development
- Promotion Expenses
- Rent
- Research Expenses
- Salary
- Shipping
- Source Deductions
- Tax Remittance
- Telephone
- Trade Shows
- Training
- Travel Expenses
- Utilities
- Vehicle Operating Costs
- Wages

**SAMPLE- Wilma's - CASH FLOW FORECAST FOR THE FIRST 12 MONTHS OF OPERATION**

	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec	TOTAL
<b>Estimated Sales</b>	\$8,100	\$4,275	\$3,600	\$2,250	\$1,935	\$1,935	\$1,125	\$1,980	\$4,725	\$4,455	\$10,800	\$11,250	\$56,430
<b>Cash Receipts</b>													
Cash From Sales	\$4,600	\$2,075	\$2,950	\$1,580	\$1,435	\$1,435	\$625	\$1,480	\$4,025	\$3,555	\$5,800	\$6,750	\$36,310
Accounts Receivable Collected	\$0	\$3,500	\$2,200	\$650	\$670	\$500	\$500	\$500	\$500	\$700	\$900	\$5,000	\$15,620
Small Business Loan	\$15,000								\$10,000				\$25,000
Owners Equity Contribution	\$5,000								\$5,000				\$10,000
Other: Line of Credit					\$2,000				\$5,000				\$7,000
<b>Total Receipts (A)</b>	<b>\$24,600</b>	<b>\$5,575</b>	<b>\$5,150</b>	<b>\$2,230</b>	<b>\$4,105</b>	<b>\$1,935</b>	<b>\$1,125</b>	<b>\$1,980</b>	<b>\$24,525</b>	<b>\$4,255</b>	<b>\$6,700</b>	<b>\$11,750</b>	<b>\$93,930</b>
<b>Cash Payments</b>													
Advertising Expense	\$200	\$50	\$50	\$50	\$550	\$200	\$200	\$200	\$50	\$50	\$50	\$200	\$1,850
Business Name Registration	\$68												\$68
Business Licence	\$50												\$50
Bank Charges / Account Fees	\$70	\$20	\$20	\$70	\$20	\$20	\$70	\$20	\$20	\$70	\$20	\$20	\$440
Equipment Purchases (Cash Register, Adding Machine, Computer and Printer)	\$3,090												\$3,090
Furniture and Fittings	\$3,100												\$3,100
Heat and Hydro	\$170	\$170	\$170	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$170	\$1,320
Insurance Expense	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$2,400
Legal Fees	\$200												\$200
Line of Credit Repayment					\$44	\$44	\$44	\$44	\$154	\$154	\$154	\$154	\$792
Loan Repayment	\$325	\$325	\$325	\$325	\$325	\$325	\$325	\$325	\$543	\$543	\$543	\$543	\$4,772
Materials / Inventory Expense	\$15,000								\$15,000				\$30,000
Office Stationary	\$200		\$100		\$100		\$100		\$100		\$100		\$700
Personal Drawings		\$1,400	\$1,400	\$1,400	\$1,400	\$1,400	\$1,400	\$1,400	\$1,400	\$1,400	\$1,400	\$1,400	\$15,400
Plastic Bags	\$200					\$200							\$400
Rental Expense	\$1,400	\$700	\$700	\$700	\$700	\$700	\$700	\$700	\$700	\$700	\$700	\$700	\$9,100
Security Alarm	\$500												\$500
Security Monitoring	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$30	\$360
Telephone Expense	\$210	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$870
Other :													\$0
<b>Total Payments (B)</b>	<b>\$25,013</b>	<b>\$2,955</b>	<b>\$3,055</b>	<b>\$2,915</b>	<b>\$3,509</b>	<b>\$3,259</b>	<b>\$3,209</b>	<b>\$3,059</b>	<b>\$18,337</b>	<b>\$3,287</b>	<b>\$3,337</b>	<b>\$3,477</b>	<b>\$75,412</b>
<b>Net Cash (A)-(B)=(C)</b>	<b>-\$413</b>	<b>\$2,620</b>	<b>\$2,095</b>	<b>-\$685</b>	<b>\$596</b>	<b>-\$1,324</b>	<b>-\$2,084</b>	<b>-\$1,079</b>	<b>\$6,188</b>	<b>\$968</b>	<b>\$3,363</b>	<b>\$8,273</b>	<b>\$18,518</b>
<b>CASH SUMMARY</b>													
<b>Opening Cash Balance</b>	\$0	-\$413	\$2,207	\$4,302	\$3,617	\$4,213	\$2,889	\$805	-\$274	\$5,914	\$6,882	\$10,245	
<b>Net Cash Movement (C)</b>	-\$413	\$2,620	\$2,095	-\$685	\$596	-\$1,324	-\$2,084	-\$1,079	\$6,188	\$968	\$3,363	\$8,273	
<b>Closing Cash Balance</b>	-\$413	\$2,207	\$4,302	\$3,617	\$4,213	\$2,889	\$805	-\$274	\$5,914	\$6,882	\$10,245	\$18,518	





## Hint:

$$A = L + OE$$

*A = Liabilities +  
Owners Equity  
The balance sheet  
must always  
balance!*

## THE BALANCE SHEET

The Balance Sheet is designed to show how much is owned (assets) by the business, how much is owed (liabilities) by the business and net worth (share capital) of a business at a given point in time.



Name of the business	
Opening Balance Sheet	
As at (insert date)	
<b>Assets</b>	<b>Liabilities</b>
<i>Current Assets</i>	<i>Current Liabilities</i>
Cash	Bank Overdraft
Petty Cash	Taxes Payable
Accounts Receivable	Accounts Payable
Inventory	Interest Payable
Short-Term Investments	Payroll accrual
Prepaid Expenses	
Long-term Investments	<b>Total Current</b>
<b>Total Current</b>	<i>Long Term</i>
<i>Fixed Assets</i>	Mortgage Loan
Land	Equipment Loan
Buildings	Notes payable
Improvements	<b>Total Long Term</b>
Equipment	<b>Total Liabilities</b>
Furniture	
Vehicles	<b>Net Worth</b>
	Share Capital
Less: Accum. Depreciation	Retained Earnings
<b>Total Fixed</b>	<b>Total Net Worth</b>
	<b>Total Liabilities and</b>
<b>Total Assets</b>	<b>Net Worth</b>

## **Instruction to the Balance Sheet**

At the top of the balance sheet, fill in the legal name of the business, the type of statement (in this case it would be 'Balance Sheet') and the day, month and year.

### **Assets**

List anything of value that is owned or legally due to the business. Total assets include all net values. These are the amounts derived when you subtract depreciation and amortization from the original costs of acquiring the assets.

#### **Current Assets:**

**Cash:** List cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operation). Include money on hand and demand deposits in the bank, e.g., chequing accounts and regular savings accounts.

**Petty cash:** If your business has a fund for small miscellaneous expenditures, include the total here.

**Accounts receivable:** The amounts due from customers in payment for merchandise or services.

**Inventory:** Includes raw materials on hand, work-in-progress and all finished goods, either manufactured or purchased for resale.

**Short-term investments:** Also called temporary investments or marketable securities, these include interest- or dividend-yielding holdings that are expected to be converted into cash within a year. List stocks and bonds, certificates of deposit and time-deposit savings accounts at either their cost or market value, whichever is less.

**Prepaid expenses:** Goods, benefits or services a business buys or rents in advance. Examples are office supplies, insurance protection and floor space.

**Long-term investments:** Also called long-term assets, these are holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.

### Fixed Assets:

Also called plant and equipment. Includes all resources a business owns or acquires for use in operations and not intended for resale. Fixed assets may be leased. Depending on the leasing arrangements, both the value and the liability of the leased property may need to be listed on the balance sheet.

- **Land:** List original purchase price without allowances for market value.
- **Buildings**
- **Improvements**
- **Equipment**
- **Furniture**
- **Automobile/vehicles**

### Liabilities

#### Current Liabilities:

List all debts, monetary obligations and claims payable within 12 months or within one cycle of operation. Typically they include the following:

**Accounts payable:** Amounts owed to suppliers for goods and services purchased in connection with business operations.

**Notes payable:** The balance of principal due to pay off short-term debt for borrowed funds. Also includes the current amount due of total balance on notes whose terms exceed 12 months.

**Interest payable:** Any accrued fees due for use of both short- and long-term borrowed capital and credit extended to the business.

**Taxes payable:** Amounts estimated by an accountant to have been incurred during the accounting period.

**Payroll accrual:** Salaries and wages currently owed.

Long-term Liabilities:

**Notes payable:** List notes, contract payments, mortgage payments due over a period exceeding 12 months or one cycle of operation. They are listed by outstanding balance

**Net worth:** Also called owner's equity, net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals.

**Total Liabilities and Net Worth:**

The sum of these two amounts must always equal the amount for Total Assets.







# Thank you to our partners Merci à nos partenaires

