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Components of a Business Plan

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The Business Plan

You've got a great idea. You feel you have what it takes to start a business.
What should you do now?

Introduction

Informed decision-making, good judgement, business skills and hard work are often listed as factors contributing to the success of a business. However, behind all of these is the real key to success - proper planning.

First, you need to sit down and make a step-by-step plan of action. Part of your plan of action will involve developing a business plan. A business plan is a written summary of what you hope to accomplish by being in business and how you intend to organize your resources to meet your goals.

The process of developing a business plan helps you take an objective, unemotional look at your idea. A business plan takes you through the process of gathering information about your business, making decisions with the information, setting goals for your business, and finally translating all those steps into actually starting your business.

A business plan is often compared to a road map that, with careful and detailed preparation, will lead you to your destination.
Like any traveller consulting a map before the trip, a business plan gives you the opportunity to review all aspects of your business. You can determine your best options on paper rather than experiencing costly mistakes once in business.

A business plan is a valuable tool to inform others about your idea. If you need money to start your business, potential investors will want to see your business plan. Friends, relatives, banks and/or government agencies will want to know the degree of risk the business is exposed to and whether money invested will be secure. Suppliers, service providers, and clients often use a business plan to decide whether they wish to do business and on what terms. They can get most of the information they need from your business plan.

Use of the business plan does not end when you start your business. The business plan acts as a guideline for the business to measure its ongoing progress and determine whether it is still on track.

In general, business plans are 20 to 30 pages long written in a clear, concise and straightforward manner. The size may vary from industry to industry. All documents should be realistic with conservative estimates of sales, profits, costs, etc.

Headings and sub-headings in your business plan make the plan easier for the reader to follow. Be sure to list the headings in your table of contents. The length of sections may vary from one paragraph to pages depending on the nature of your business. For topics that have little information, try grouping several topics together in one paragraph. In this instance only the main heading is required. Sub-headings would be unnecessary.

Have someone read your business plan for spelling, grammar and typing errors as well as for understanding. Anyone should be able to read your business plan and know exactly what it is you intend to do. Be sure to leave lots of white space on the pages of your plan. By allowing for some blank space between texts, your document will be clutter free making it easier to read and leaving a good impression.

This business plan guide is a general one intended to be suitable for most types of start-up businesses. When using this guide, remember some of the information requested may not be applicable to your business. For this reason, you may want to omit some sections of this business plan guide to customize your business plan document.

Since there are a number of "How-To" business plan books available in bookstores and libraries, you may want to supplement this guide with one which is more specific to your business. These other guides may also be helpful in providing additional information to answer questions found in this business plan guide.

The Centre for Women in Business is committed to providing assistance and support to women entrepreneurs. We are pleased to provide this business plan guide as a tool to developing your business idea. We hope that you find this guide helpful and welcome any inquiries you may have.

The following pages present an outline of the main sections of a business plan with some helpful hints on how to complete each section as well as necessary questions that need to be answered.

Structuring Your Plan

Title Page

Includes:

- Legal name of the business and logo (if you have one)

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- Name of the document - "Business Plan"

- Your business name, street and mailing address, and contact numbers (phone, fax, cellular, and E-mail)

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- Preparation date of the business plan or most recent date of any changes (optional)

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- Name, address, and phone number of person or business who prepared the plan. (If not the business owner) Similarly, acknowledge any significant assistance you received to complete the plan.

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- Name of the person to whom you are presenting the business plan (if you know it at the time - optional)

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- A notice advising the reader that the plan is confidential. See example that follows:

  Notice to Reader
  "This business plan has been submitted on a confidential basis for the benefit of selected, highly qualified investors or lending agencies and is not for any other persons, nor may it be reproduced. By accepting delivery of this plan, the recipient agrees to return this copy to the business at the above address."

Table of Contents

- List all headings and sub-headings of the business plan with a corresponding page number. An accurate table of contents assists readers of the business plan to find a specific section or review the plan in a different order than presented.

- An appendix at the end of the business plan should be used for any detailed information that you refer to in your business plan. The following items could be included:
  - management resumes
  - pictures of assets needed and costs
  - letters of reference
  - major contracts
  - detailed market research
  - list of leasehold improvements and costs
  - suppliers

The name of the appendix should be included in the table of contents for easy reference. Anytime the information is cited, refer the reader to the appropriate appendix name, letter or number for more details. Make sure the appendix title page has a page number.

Executive Summary

The Executive Summary is placed after the title page. It should be no longer than two pages with one page the preference. It does not get listed in the table of contents.

The executive summary must convince the reader to continue reading the remainder of the business plan. Therefore, it should capture all the strengths of the business idea and address all the primary concerns:

- Indicate how much money is needed, how the funds will be used, and how you will repay loans.
- Explain briefly what personal drawings you will be taking from the business and what personal financial strategies you will use to offset personal drawings.

The Executive Summary should summarize your business plan by highlighting the main points. It should include a summary of the following:

- Industry trends
- Description of the business
- Target market and sales projections
- Market share
- Your competitive advantage over your competition
- Product/service
- Pricing policies
- The expertise of yourself and other management to run the business
- Key points from your financial plan

Now that you have completed your business plan, remember to review it regularly and make changes as opportunities arise and market conditions change.

Business Description

The industry is the big picture. Now you need to give the reader a close-up of your business. In this section describe your business and the product/service(s) offered.

- What is the name and address of your business?

- What type of business do you intend to open? (retail, wholesale, home-based, manufacturing, or service)

- Describe the product/service with the features and benefits that meet your customers' wants and needs.

- Is your business local, provincial, regional or national?

- Is your company a sole proprietorship, partnership or corporation?

- For a partnership list the names of all partners. Indicate whether there is a written partnership agreement.

- Where is your business located?

- What is the start-up date of your business?

- Describe any laws or regulations (municipal, provincial and federal) that will have an impact on your business. Commercial zoning is a consideration for most businesses.

- Have you obtained the necessary permits? Are you aware of all the rules and regulations your business must abide by?

- Special consideration for some businesses include the following: patent of an invention, copyright of written material, registration of a logo for use as a trademark or specific terms of a franchise agreement.

- If your business has developed a mission statement, include it in this section. A mission statement is one or two sentences stating what your business does and how it is set apart from other similar businesses. These statements are philosophical in nature and provide the framework around which the company operates.

Information Sources
Good sources of information are:
- Federal, provincial and municipal government offices
- Trade and small business magazines
- Business advisory sessions provided by the Centre for Women in Business
- Canada/Nova Scotia Business Service Centre
- Access Nova Scotia at 1-800-225-8227 or www.accessns.ca

Industry

Where does your business fit with other similar businesses?

Researching the industry that your business idea belongs to will give you the 'big picture' about similar companies. You may learn valuable information about what is considered average performance for your type of business. This research may provide you benchmarks by which you can build reasonable projections of your company's performance. These may include the following: average wage cost as a percentage of sales, average overhead costs as a percentage of sales, or the average gross margin. Gross margin is the profit from sales once costs for materials, labour and manufacturing facilities have been subtracted. Gross margin is expressed as a percentage of sales. A gross margin of 50% means that half of the money earned by sales is required to cover the direct costs of the product or service you are selling. The remaining half is available to cover selling and administrative costs. A business earns profit if the remaining 50% is greater than the total of the selling and administrative costs.

To begin your research, a literature search of magazines, newspapers, Internet and trade association publications can provide you with a vast quantity of information. Almost all industries have some kind of trade journal that provides information of particular interest to that trade or industry. Look for information on how they conduct business, how they advertise, who their customers are, new application of technology and professional development opportunities.

A good rule of thumb at the beginning of your research is to **read all you can**. Planning your business becomes easier with the more information you know about it. Much can be learned from other businesses that have experienced problems and pitfalls. Why not gain from their experience? Sometimes the industry is small and informal and information is not readily available in the traditional forums. In that case, you need to be more direct in your research methods. Start by asking people about your competitors and investigate how they operate. Suppliers to your competitors are often useful and willing sources of information. The information you acquire after investigating your competitors can be used to describe your industry. It is important to quote the sources of specific information by indicating titles of publications or methods used.

You should be continually aware of your industry. Watch for trends such as expansions, reductions, start-ups or closures. Sometimes it is equally important to track the impact of related industries on your business and industry.

Trends

- What industry are you in and what are you selling? (For example, the food industry, electronics, children's clothing, catering, medical services, accounting, etc.).
- What are the trends in this industry? Are sales for your industry stable, increasing or decreasing? If sales are decreasing then the potential for success with your business idea may be limited. Similarly, increasing sales potential would suggest better potential for success.
- Are there any other general trends that support or threaten your business idea? These could include the following: environmental regulations, government policies, aging population, changes in buying habits or introduction of competing products.
- Evaluate your industry on an international, national, provincial and local basis. Be sure to note all sources of information.
- Interview industry leaders in your market for their opinions and knowledge of trends.
- What is the future for your industry?

Information Sources
Good Sources of information are:

- Trade, industry and business publications
- Trade associations, Statistics Canada and the Canada/Nova Scotia Business Service Centre

Size

How big is the industry? This can be described both in number of companies and volume of sales. National and provincial estimates are usually available. Local estimates may not always be available. To determine the size of the local markets simply multiply the number of businesses by average sales. Remember to state what method was used to determine this number.

- Has the total industry sales increased over time? State the percentage increase for a specific period of time to demonstrate the demand for your product/ service.

Information Sources
Good sources of information are:

- Trade, industry and business publications
- Trade associations, Statistics Canada and the Canada/Nova Scotia Business Service Centre

Market Description

Careful research of market information is vital in order to predict the success of your business. The results of your market research will assist you in developing a marketing plan. If you know who your customers are then you can develop a strategy to effectively promote your product/service to those customers most likely to buy the product/service. In addition, your market research information is used to complete your financial statements including sales estimates.

You can do this research by compiling primary (original) or secondary data. Primary data about your target market (customers) can be collected by conducting a phone survey, personal interview or mail survey. Secondary data is information collected by someone else. Statistics Canada, government agencies or private marketing firms may have a significant amount of general information on your target market. Market research for a new business usually requires a combination of both primary and secondary data in order to provide complete and accurate information.

Target Market

- Who are your customers? Are they individuals or other companies?

- What are the demographics of the individuals or the companies? Individual demographics include the following: age, gender, ethnic group, income, occupation, education level, number of children and homeowner or renter. Company demographics include the following: location, number of years in business, size, structure and title of decision-maker. Include any other information you have that helps to define your customer.

- What are the purchasing habits of your customers? What are the factors in their lifestyle that affect the decision to purchase the product/service?

- What are the wants and needs of your customers? Your product/service must satisfy a want or need perceived by your customers. Successful promotional campaigns should identify how your product/service will satisfy the wants and needs of your customers.

- Customers with similar demographics can be grouped together. A business may have to cater to several groups of customers known as. The characteristics or demographics of each segment should be described. A different marketing plan for each segment may be required.

- By knowing who your target market is you are able to satisfy a group of customers with similar needs. Market research determines whether the target market is large enough to support a business. If market research indicates the target market is not sufficient, then further research will be required to determine if other target markets exist.

Information Sources
Good sources of information are:
- Traffic and sales statistics compiled by shopping malls, municipal government offices, Statistics Canada and Chambers of Commerce
- References listed in the "Financial Post" Market Research section, Canadian Markets, Handbook of Canadian Consumer Markets, Survey of Buying Power: Part I, Canadian Market Research Handbook, and Look Before You Leap - Market Research Made Easy, a Self Counsel Press book

Market Size

Market size refers to how many potential customers there are for a product/service. Market share refers to what portion (percentage) of the total market will buy your product/service.

- How many potential customers are there in your selling or **trading area** (the area where your customers live and you do business)?
  - Potential customers must be both willing and inclined to buy the product. How big is your trading area? List the geographical boundaries.

The following example outlines how to determine your potential market:

10,000 people live in your trading area. You conduct primary research in the form of a telephone survey choosing, at random, people from your trading area.

40% of those surveyed said they would purchase your product/service. Therefore, 40% of 10,000 or 4,000 potential customers exist in your trading area. The assumption made here is that those surveyed are representative of all who live in the trading area. Secondary research shows that $100 is the average annual purchase.

4,000 potential customers x $100 annual purchase **=** $400,000 potential sales in the trading area.

The $400,000 represents the potential sales for all businesses competing in the trading area or **market size**. Some customers will prefer to do business with your company because of your competitive advantages and bundle of services. Similarly, your competitors will attract customers for other reasons.

Market share is the percentage of the total potential market that your business will capture. Market share is an estimate based on a variety of factors including the business's capacity, market promotions and sales strategies. For this example, 10% market share is used based on the previous factors list.

10% market share translates to $40,000 in annual sales.

Knowing Information about the industry and competition helps with making reasonable projections of your business's potential sales for a 2-3 year period. Keep in mind that sales will be slow in the first months of operation until customers have had time to become aware of your business and what product/service you offer.

Exercise: Calculate Market Size for your Business
How many customers do you expect will buy from you in the first year?

- Indicate the number of products/services you plan to sell.
- Multiply the number of sales times the selling price to get your sales estimate for the first year of operation.

This should be repeated for each year of your financial projections.

Information Sources
Good sources of information are:

- Traffic and sales statistics compiled by shopping malls, municipal government offices, Statistics Canada and Chambers of Commerce
- References listed in the "Financial Post" Market Research section, Canadian Markets, Handbook of Canadian Consumer Markets, Survey of Buying Power: Part I, Canadian Market Research Handbook, and Look Before You Leap - Market Research Made Easy, a Self Counsel Press book

Marketing Plan

How do you get customers to buy your product/service?

Marketing is the process of creating and delivering desired products/services to customers. It involves all the activities associated with winning and retaining loyal customers. These activities include strategies focused on the four P's of marketing: product, price, place and promotion. A marketing plan is an action plan detailing all marketing strategies that will be used. It is based on the findings of your market research. The marketing plan details both strategies and evaluation methods the business will use to measure its success in reaching sales objectives and other business goals.

Your market research has identified the needs and wants of your customers. By this time you have researched the industry you are entering and know exactly who your competitors will be. Effective marketing decisions means creating competitive advantages by providing the right product at the right price, in the right place, with the right amount of promotion. Your customers and their needs will play a key role in defining "right".

Objectives

The first step in any marketing plan is to determine your marketing objective(s). Objectives are usually stated in realistic and measurable terms with a specified time period. A measurable action and a specific time frame allows for easier monitoring and evaluation. You know exactly what results you are looking for and can take action if the expected results do not materialize.

Examples of Marketing Objectives:

- A carpet cleaning company may decide that they want to capture 3% of the potential market by the end of their first year of operation.
- A hairdressing salon wants to establish a customer base of 100 patrons in 6 months.
- A consulting firm has a sales target of $56,000 for 2007.

Marketing Objectives Exercise:
Following the examples above, write a marketing objective for your business. Remember it should be a measurable action and a specific time frame.

Marketing objectives will not be realized unless an outline of methods to reach marketing objectives is identified. This outline is called a marketing strategy. It starts with market research of the consumers= needs and competitors= product/ service and continues through to advertising, promotion, distribution, customer service, packaging and sales.

Marketing Strategy Examples:

- Low cost, High volume, limited selection/variety
- High price exclusive, specialty product service
- Customize products/service

Marketing Strategy Exercise:
Following the examples above give a detailed description, based on your market research of customers' needs, market place opportunities/niche and competitor positioning.

Marketing Mix

Once you have defined your marketing objectives and chosen your market strategy, you need to adapt the four P's (product, price, place and promotion) to meet your objectives. This is referred to as marketing mix. An effective marketing mix should not only assist with reaching objectives but also reinforce the desired image of your business.

Product/ Service

- Describe your product/service in detail.

- What needs of the customers does your product/service satisfy

- Is your product/service unique? Does it have characteristics or features that will entice customers to buy from you and not your competition? (This could be your competitive advantage)

Price

Most businesses have a common objective to earn profit. Profit is the amount of money left once costs have been subtracted from sales. A business can increase sales and/or decrease costs to increase their profits.

Price plays two functions in earning a profit. The selling price should be set at a level sufficient to cover costs and produce profit. In addition, price can be set at a level that will motivate customers to purchase the product/service. Finding the right price is an important decision made by every business owner.

Pricing follows some general rules of economics. A price is often described as being **elastic** or **inelastic**. The elasticity of a price refers to the relationship between changes in price and the effect on sales volumes. If you increase your price and the volume of sales decreases, then price is said to be elastic. If you increase the price of a product and customers continue to purchase the product at the same rate, then the price is said to be inelastic. Knowing whether your products price is elastic or inelastic is important before you set or change prices. Increasing prices on a product that has an elastic price will not necessarily lead to increased profit since sales volumes may fall significantly resulting in lower overall sales levels. A small business often has more success competing on elements other than price. Larger competitors often use price wars to eliminate smaller competitors.

First time entrepreneurs often make the mistake of pricing their product/service too low. Not only will this make it difficult for the business to earn a profit but also sometimes it will not bring the desired result of increased sales. Customers see a lower price and think that the product or service is inferior based on the adage "One gets what one pays for". A product/service has a psychological price range. People expect the product/service to sell between certain ranges. Pricing your product/service at the extremes of a range can be giving consumers wrong impressions. During your market research ask potential customers how much they are willing to pay for the product/service. This research should provide you with a price range for your product. You will need to evaluate your research findings against your costs to determine if your business can survive by selling at this price range.

- How did you determine your selling price? Did you consider your direct product/service costs, general overhead costs, and expected profit? Are you matching your competitors' price? Are you using consistent industry mark-ups?

- Do you have a price range that allows for seasonal variations, increased competition, promotions and sales?

- What are your fixed and variable costs for your product/service? Include all operating expenses and the costs of any items purchased for resale.

Variable Expenses	Monthly Amount
Fixed Expenses	Monthly Amount

- What are your competitors' prices and how do they compare to your prices?

Competitors Name	Product/Service	Price

- What is your gross profit margin? Is the gross profit margin large enough to cover your operating expenses and still provide a profit? (Financial ratios found during your market research could be used in this section)

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- If one of your competitive advantages is price, then describe the reasons in this section.

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Place

Place refers to where the product or service can be purchased by the final customer. How the product/service gets to the final customer is called the channel of distribution. An essential element in any business is having the product/service in the right place at the right time to maximize sales.

The usual channel of distribution for a product is from manufacturer to wholesaler to retail outlet. Channel of distributions will vary according to the type of business. Home-based businesses, mail order or office may replace the retail outlet in the previous example. Service based businesses may create and distribute from the same location, their office.

- Describe your distribution plan. How will you deliver your product/service to the customer?

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- If you are manufacturing a product, describe the process from manufacturer to final customer.

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- Location of a retail business is most important. Consider all factors including traffic flow, side of the street, parking, and ease of access. If you are opening a retail business describe it fully and give the reader a "feel" for the image and ambiance of the store. A store layout can be included in the appendix.

- The numbers of home-based businesses are increasing. Check with the many reference books available at libraries or bookstores for information on special considerations for running a business from your home. Describe the reasons and the advantages of your home-based business location/set-up.

- Are your facilities owned or leased? State the terms. Briefly describe your facilities. You may wish to include sketches or floor plans. Will renovations called **leasehold improvements** be required? At what cost? Include quotes from more than one contractor in the appendix.

- If one of your competitive advantages is your location or distribution process, then state why?

- What makes your location suitable? (Closeness to markets, suppliers, transportation, labour, image, side of the street, attraction for the customer or low overhead costs)

- Why will the customer come to your business instead of a competitor?

- What are your hours of operation?

- Is safely getting to and from your business a consideration for your customers?

Promotion

Promotions are tools used to inform and persuade customers to buy your product/ service. Promotion tools include advertising, sales promotion, personal selling and publicity/public relations. **Advertising** communicates the benefits of your product/ service to potential customers using various forms of media. **Sales promotions** are activities and devices, which support the efforts of salespeople and advertising campaigns. Common promotion items are calendars, point of purchase displays, calling cards, contests, and trade shows displays, and free samples.

Personal selling involves the art of persuasive sales on a one-to-one basis. **Publicity** is free exposure in the media. **Public relations** involve activities that a business does including donations, sponsoring events or speaking at meetings in an effort to make your business name known. Although advertising, sales promotions and publicity/ public relations cannot directly create demand for your product/service; they certainly promote awareness, which is a requirement for creating demand.

The three major forms of advertising are as follows:

- **Mass media** television, radio, magazines, and transit signs
- **Point-of-sale** display and signage at the place where the product/service is being sold
- **Word-of-mouth** the positive things that people tell their friends about a product/service

A good product/service coupled with great customer service and word-of-mouth advertising can be a most effective promotion strategy for a business. This strategy cannot be purchased but must be acquired over time. Getting your name known through promotion is the first step.

The success of any promotion depends on clearly identifying your target market. The form of advertising you choose should be most suited for the segment of the market you have identified. This will make the most effective use of your promotion investment. Some businesses evaluate their competitors' promotions and use similar methods that they have found to be effective. This strategy should be used with caution and only after careful evaluation.

A business should use more than one form of advertising. Research has shown that combining different forms of advertising greatly increases the effectiveness of the advertising. Advertising decisions must consider costs. This is usually quoted as the cost per target member reached using a specific advertising vehicle or medium. These figures may be hard to determine. Even an approximate is worthwhile in helping you decide between various advertising forms.

If advertising costs are $1,000 and you get 100 new clients. Then the cost is $10.00 per target member.

- How will you sell your product? (Mail order, personal selling, commission, salaried sales staff, agents or brokers)

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- What are your selling policies regarding discounts, returns and exchanges?

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- Will you have credit terms, lay-away or financing? What are your credit terms?

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- How will you advertise to promote your new business and its products/ services?

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- What sales promotions will you use, if any? How much will promotion cost and how often will you do it?

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- If one of your competitive advantages is promotion effort, then state why.

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Evaluation of Promotion

A promotional plan is crucial to your success. Taking the time to evaluate your promotional plan is crucial to getting the desired results. You don't want to spend promotion dollars in the wrong areas. Compare your objective(s) with your results.

If your objective was to reach a certain level of sales:

- how have your customers heard about you?
- What particular promotional efforts did customers react to the most?
- Did your promotional dollars work for you?
  - If not, then what changes do you need to make?
- How will you evaluate your promotional efforts to show which ones are working and which ones are not?

Remember evaluation is most effective if completed on an ongoing basis.

Monitoring & Evaluation

The last part of the marketing process is a safeguard to check that your action plan and marketing efforts are working. Monitoring and evaluation of your marketing results should be done at regular intervals to allow for quick correction of any problems.

Monitoring includes looking at the following measures:

- sales volume records
- customer traffic volume
- stock turnover
- cash flow

These measures should be incorporated into your bookkeeping system so that you have easy access to your results.

Evaluation is a more in-depth examination of your business health and marketing activities. It is based upon information obtained not only from the monitoring process but also from other sources including your sales staff and customer satisfaction forms. Evaluation requires an objective look at your marketing results compared to your initial objectives.

- Are the sales results close to my sales projections? Did my sales increase as projected?

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- Are customers' needs being met or have their needs changed?

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- Are the objectives, which I set out at the beginning of the period, being met?

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- Do the results of my evaluation indicate a need for some changes to the action plan?

Evaluation at regular intervals will allow you to make necessary changes to those parts of your business which require some type of adjustment. Look at your entire marketing plan including the marketing mix. Small adjustments are required continuously. A marketing plan is only a guideline so don't be afraid to change it. Sometimes there is a lag between implementing activities to make the sales and the actual sales resulting. Be careful to include enough time to pass before you evaluate your promotion.

Management

Lenders want you to demonstrate that you know all the functions you must perform to operate a successful business. It is not necessary to be able to perform all the functions yourself. It is more important that you recognize which functions you will have someone else do. This section is used to outline your expertise and the expertise of others.

- What is the organizational structure of your company? (This is only necessary if your business will have several staff members.)

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- Who are the key people in your business? List briefly their responsibilities, experience and qualifications. (More detailed resumes should be included in the appendix)

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- List the duties and responsibilities of each staff member. (If you do not have staff, list your duties and responsibilities) Be sure to cover all aspects involved in the management of your business including accounting, cash management, inventory control, marketing, operations, quality control and customer service.

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Human Resource Plan

Quality service provided by employees is not an advantage but a requirement for any successful business. The staff of any business must be motivated to excel in quality service. Therefore, your human resource plan should outline how you intend to create this excellence.

- What are your staffing requirements, both immediately and for the next two years?

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- List the compensation and benefits that will be provided for each employee's position. These include salaries, wages, overtime, staff discounts, bonuses, holidays and flexitime.

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- Include any personnel policies you intend to follow.

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- Describe any union involvement, if applicable.

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- Will staff need training? What are the training needs and how much will it cost?

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Information Source
Labour Standards, Workers' Compensation Board, and Revenue Canada are good sources of requirements. Small business books with a human resource management section can be found in libraries and bookstores.

Physical Resources & Operations Plan

This section outlines the equipment and materials you need to operate your business.

Inventory Control

- Do you have an inventory control system? Describe it. (Your inventory control may vary from a periodic physical count to an elaborate computer program)

- Inventory turnover ratio can be included in this section. Compare your turnover ratio to the industry standard.

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventories}}$$

Materials/ Supplies

- What materials/supplies do you need to operate your business and what are the costs, including shipping, brokerage fees, exchange rates, minimum orders and restocking? (Include supplier quotes to appendix)

Supplier Name	Material/Supplies	Costs

- How reliable are your suppliers and how long does it take to get your orders? Does shipment time vary throughout the year?

- How many suppliers do you have for your materials/supplies? Do you have back-ups?

- List your suppliers' names and addresses.

Suppliers' Name	Address

- Do you have adequate storage space for your materials/supplies?

Production

- Describe in general your production or manufacturing process. Remember the reader of your business plan may lack technical knowledge, so keep the description simple.

- Take the reader through each step of the process.

- If you have a service business, outline the process to provide customers with the service. This could include quotations, meetings, evaluations and follow-up.

Quality Control

The quality control process could be a sophisticated product testing, simple telephone call to customers for their feedback or a combination of methods.

- What quality control(s) will you have for your product/service?

- Define what "quality" means in your business. Outline how you will ensure this quality will be maintained.

Equipment

- List the equipment, machinery and major tools you will need to operate your business. This includes office, store and shop equipment.
  - List the model, supplier, cost, warranty, service requirements and arrangements for replacements for each major piece of equipment. (Brochures of equipment or supplier quotes could be included in the appendix)

Equipment	Suppliers' Name	Costs

- Is the equipment new or used, and purchased, leased or rented?

Timetable (optional)

A timetable is a practical plan of action to follow.

- List your major activities including frequency and priority.

Financial Plan

The financial plan describes your business and its activities in dollars and units. A financial plan consists of ratios, income statement, balance sheet, cash flow projection, start-up costs and break-even analysis.

Start-up Costs

The start-up costs of a business are all the expenditures a business will have prior to opening the doors for business.

Start-up costs need to be estimated so the entrepreneur is certain sufficient start-up capital (funds) has been secured to get the business into production and to the point of receiving income from sales. If a business begins to operate without sufficient funds, then it may get almost to the point of production and then find itself unable to continue to the point of realizing sales.

Examples of start-up costs are:

- research and development
- inventory
- licenses and taxes
- plant and equipment
- utility hook up costs and security deposits
- leasehold improvements
- materials
- promotion
- insurance
- etc.

List your start-up items with their associated costs. Also identify the source of funding that will be used to cover them. Sources include owner's investment, loan or a combination.

Start-up Item	Cost	Funding Source

Cash Flow Projection Statement

A business' profit position is not the same as a business' cash flow position. It is possible for a business during the same period to have an income statement showing a profit but a cash flow statement showing not enough cash on hand to pay bills. A cash flow projection statement details when a business will receive money and when it will need to pay out money.

A cash flow projection statement details month to month the inflow of cash from sales, payments on account, interest, loans and owner's contribution and the outflow of cash to purchase inventory, operating expenses, loan payments, capital expenditures and owner withdrawals. This is a valuable planning tool for any business.

Cash Formula

Beginning cash balance (ending cash balance from previous month)
+ Cash inflow (receipts)
- Cash outflows (disbursements)
= Ending cash balance

The ending cash balance becomes the next month's opening cash balance

Tips

- Consider the cash receipts and disbursements in the month that they are actually received or paid.
  - Payments on account will have to be estimated based on when you expect to receive payment.
- If your business' sales are seasonal a cash flow allows you to see when you need money to pay your bills and when you have excess cash to invest.
- Depreciation is a non-cash expense and for that reason is not included in cash flow.
- Any loans you anticipate on receiving should be listed as a source of income.
- DO NOT have negative balances.
  - If you don't have enough cash on hand you need to increase cash receipts or decrease cash disbursements. This could be done by either the owner investing more money into the business or by not taking a personal drawing.
- Cash flow projections are usually done for the first year on a monthly basis and the next year or two on a quarterly basis.
- A cash flow projection is never completely accurate since some assumptions have to be made.
  - Each month you should compare your estimates to actual receipts and disbursements and adjust your cash flow projections accordingly. Using a spreadsheet computer program makes this exercise easier.
- Start your cash flow in the month you open your business and start spending money. You may or may not have sales that month but you will be paying for start up and operating costs.

Cash Flow Projections Statement (sample)

The categories included in this sample are the more common categories for all business types. Add any categories that apply to your business.

MONTH/YEAR													**TOTAL**
OPENING BALANCE													
RECEIPTS													
SALES													
INVESTMENT													
LOAN PROCEEDS													
INTEREST													
TOTAL RECEIPTS													
DISBURSEMENTS													
RENT													
PROMOTION													
MATERIALS													
FEES													
TELEPHONE													
WAGES													
LOAN REPAYMENT													
OWNER DRAW													
TOTAL DISBURSEMENTS													
CLOSING BALANCE													

Income Statement

The income statement can be described as the financial results you would expect to see from your business after a year of operating. This includes your projected sales minus all your expenses to determine your net profit or loss. It is recommended to complete an income statement for the next two to three years.

Preparing an income statement for a new business is more difficult than preparing one for an existing business. An existing business can use past performance as a base to estimate their future income. A new business has no past performance but must rely on estimating performance based on market research and the company's capabilities.

Look at the sample income statement on the following page. Income statements can have several sub-headings but this is very simple format that can be modified if required. The letters A, B and C are for illustration purposes and do not get included in your income statement.

The heading of an income statement provides the name of the statement, the business or organization that the information pertains to and the period of time this information covers. For example you could state "12 months ending December 31, 200_"or "January 1, 200_ to December 31, 200_."

For businesses that produce or re-sell a product, a section called **cost of goods sold** should be included. It is placed between the income and expense sections. The amount for cost of goods sold includes all costs for supplies, materials, and labour to produce or purchase products. The cost of goods sold is subtracted from income leaving an amount called **gross profit**. The remainder of the income statement is the same as shown.

Notes

- Any negative numbers such as an operating loss are expressed in brackets.
- Taxes are not considered here.

Income Statement (sample)

Name of business: ____
For the period: ____________months ending________________, 200_

INCOME			
Sales	$______		
Other income	$______		
TOTAL INCOME		$______	***A**
COST OF GOODS SOLD			
Materials	$______		
Packaging	$______		
Freight	$______		
TOTAL COST OF GOODS SOLD	$______		
PAYROLL			
Wages	$______		
CPP, EI	$______		
TOTAL PAYROLL	$______		
ADMINISTRATIVE EXPENSES			
Advertising	$______		
Bank charges & interest	$______		
Business fees, licenses, dues	$______		
Insurance	$______		
Office supplies	$______		
Rent	$______		
Repairs & Maintenance	$______		
Supplies	$______		
Telephone & Internet	$______		
Utilities	$______		
TOTAL ADMINISTRATIVE EXPENSES		$______	***B**
OPERATING PROFIT (LOSS) A – B = C		$______	***C**

* The letters A, B, C (as shown above) are included for illustration purposes and should not be included in your income statements.

Break-Even Point (BEP)

The break-even point determines at what volume of sales or production will total sales equal total costs.

- If sales are less than the break-even point the business will be in a loss situation.
- If sales are more than the break-even point then profits are generated.

The break-even point helps to determine if a business can be viable. If the level of sales at the break-even point is not attainable then the business in this format is not viable. Adjustments will be required.

The break-even point for a business where an hourly rate is charged for services is calculated by dividing the hourly rate into the total costs/expenses to run the business. This will tell how many hours of work are required to cover all costs.

To calculate the break-even point you must be able to distinguish between variable costs and fixed costs.

- Variable costs are costs that vary directly with the number of products produced, clients served, products sold, or any other output.
  - Typically, variable costs include the cost of goods sold or purchase price, direct labour costs to produce the product and sales commissions.
- Fixed costs are costs that do not vary with output. These costs/expenses are the same whether you produce one or 100 items.
  - Examples of fixed costs include rent, utilities, insurance, office supplies and administration salaries.

Please list your variable & fixed costs along with their monthly amounts

Variable Expenses	Monthly Amount

Fixed Expenses	Monthly Amount

- The formula to find the break-even point in sales is as follows:

$$\textbf{BEP} = \frac{\textbf{fixed expenses}}{\textbf{1- (variable expenses / sales)}}$$

The result is the amount of sales necessary to break-even.

- The formula to find the break-even point in quantity is as follows:

$$\textbf{BEQ} = \frac{\textbf{fixed expenses}}{\textbf{Price per unit sold - variable expenses per unit}}$$

The result is the number/quantity that you must sell in order to break-even. This applies for any type of output.

- The formula to determine the capacity of a service business is as follows:

$$\textbf{CAPACITY} = \frac{\textbf{Hourly rate}}{\textbf{Total Cost to run the business}}$$

Exercise: Calculate Break-even Point

- The amount of sales necessary to break-even:
  BEP =

- The break-even point in quantity is as follows:
  BEQ =

Information Sources
Accounting firms and bank publications as well as how-to books at a university, public library or bookstores are good sources of information on constructing break-even points.

Balance Sheet

The balance sheet is a statement declaring what a business owns and owes at a particular time. A balance sheet consists of three sections including assets (what the business owns), liabilities (what the business owes), and owner's equity (what is left over or the net worth of the company).

Your balance sheet will indicate how well your investment in the business is doing. Typically, investors and lenders examine the balance sheet to compare an individual business' ratios to those of the industry average. They may evaluate the assets to liabilities or how much you own compared to how much you owe to determine if your business is not overextended. Ratios do not tell the entire story about a business' financial performance but they highlight areas that need further investigation.

Create an opening balance sheet for the start of your business and balance sheets for the end of the first two years of operation. You will need to use information from your opening balance sheet, cash flow projections and income statements to complete these.

Look at the sample balance sheet on the following page.

- The term "Opening" is not required on any balance sheet other than the opening one.

- For any balance sheet other than opening there are two new categories in owner's equity **Personal or owner's drawings** is the amount of money an owner takes from the business earnings for personal use. **Retained earnings** are the net or operating profit from your income statement that you transfer to your balance sheet at year-end.

- Every balance sheet must maintain the following equation:
  Assets = Liabilities + Owner's Equity

- Some balance sheets have additional categories such as: fixed assets, long term debt, current assets and current liabilities. These are not included on this elementary balance sheet but an accountant could advise you on whether your business requires them.

Balance Sheet (sample)

Name of Business: ______________________________

As at: ____________________ (date)

ASSETS		
Current Assets		
Cash/Bank	$______	
Accounts Receivable	$______	
Inventory	$______	
Prepaid expenses	$______	
Total Current Assets		$______
Capital Assets		
Office Equipment	$______	
Computer	$______	
Total Capital Assets		$______
TOTAL ASSETS		$______
LIABILITIES		
Current Liabilities		
Accounts Payable	$______	
Source Deductions/HST	$______	
Total Current Liabilities		$______
Long Term Liabilities		
Bank Loan	$______	
Total Long Term Liabilities		$______
TOTAL LIABILITIES		$______
OWNER EQUITY		
Owner Contributions	$______	
Owner withdrawals	$______	
Retained Earnings	$______	
TOTAL OWNER EQUITY		$______
TOTAL LIABILITIES & OWNER EQUITY		$______

Ratios

Financial Ratios for the Industry you are operating in and their sources would have been uncovered in your secondary market research information. They are tools used to evaluate the strengths, weaknesses, and future prospects of a business.

By comparing the ratios of your business to the ratios of the industry as a whole, you will be better able to determine the health of your business and uncover potential problem areas. The ratios of an individual business can be compared over time to determine trends or changes in the performance of the business. Ratios of the industry can be used to help with estimating expenses of your business including: salaries and wages, inventory costs and marketing costs.
These ratios are often stated as a percentage of total sales.

Financial ratios assist with the analysis of your projected income statement and balance sheet. They can answer the following questions:

- Is the business going to be profitable?
    - Will it be as profitable as others in the industry?
- Will I have sufficient cash to pay my bills when they are due?
- Do I owe too much money?
- How quickly will I sell my inventory?
- How quickly should I collect payment from customers?
- Am I getting a reasonable return on my investment?

Industry Ratios

Name	Calculations	Ratio	Source
Gross Profit Margin	= Sales-Cost of Goods Sold / Sales		
Inventory Turnover	= Cost of Goods Sold / Average Inventories		
Return on Investment	= Net profit after taxes / Total assets		
Return on Equity	= Net profit after taxes / Stockholders' equity		
Operating Expenses	= Operating Expense / Sales		
Liquidity Ratio	= Current Assets / Current Liability		

- Ratios will be used to compare the financial estimates for your business to those of similar businesses currently in operation.

Information Sources
RMA Annual Statement Studies, Dunn & Bradstreet reports, industry analysis publications, Statistics Canada Small Business Profiles, Canada/Nova Scotia Business Service Centre, university or public libraries and trade associations are all good sources.

Summary

Complete a summary of the information given in your financial statements. This could include the income statement (show if and when you will make a profit); opening balance sheet (sources of funds); cash flow projections statement (justification that you can pay back any loans); start-up costs (uses of funds); and, break-even point (the point at which you will start making a profit.)

This information should also be included in your executive summary.
Be sure to mention any assumptions you have made to create your financial statements including number of sales per month, percentage of increase in sales each year, and percentage increase in expenses each year.

Risk Assessment

What are the potential risks associated with starting your business? This section shows that you are aware of concerns and issues in your business environment. It is important to outline the risks and state what methods you will use to address these risks. This does not mean you have solutions to every problem that may arise. It does mean that you recognize that you will have to deal with difficulties that will arise both within and outside your business.

- How will the competition react when you start your business?

  ____
  ____
  ____
  ____

- Will your business be at risk because of supply problems, union negotiations, reliance on a few major customers, expense of new technology, business interruptions due to weather, other competitors starting, changing customer demand, shortfall in sales, a partner's illness or loss of key employees?

  ____
  ____
  ____
  ____

- Outline a strategy to overcome each risk you identified for your business.

  ____
  ____
  ____
  ____

Note: This strategy may include a solution but not necessarily. The strategy may be a method to create a solution at the time the risk arises.

Optional Appendices

Marketing - Analysis of the Competition

Using the data collected below, you can identify your market differential.

Marketing Mix		Your business	Your competition	
			#1	#2
Product/Service				
Features/benefits				
Price				
Fixed				
Discounts				
Member/Non-				
Place/ Location				
Storefront				
Home-based				
Website				
Promotion				
Logo				
Promo Channels				
	Club Cards			
	Pamphlets			
	Guest Speaker			
	Columnist			

Additional Resources

Useful Websites/ Links

Centre for Women in Business
http://www.msvu.ca/cwb/links.asp

Canada Nova Scotia Business Service Centre
www.cbsc.org/ns

Access Nova Scotia
www.accessns.ca/business

Target Nova Scotia
www.TargetNovaScotia.com

The Small Business Briefcase
www.smallbusinessbriefcase.com

Seed Connexion – Look under "survival guide" tab
http://seedconnexion.ca

Halifax Public Libraries, Spring Garden Branch Small Business Start-up Service
www.halifaxpubliclibraries.ca

FINANCING

CEED Financing Program
ACOA Seed Capital Program

Canadian Youth Business Foundation-CYBF

Students in Business Loan Program

http://www.ceed.info/programs/pro_ceed_finance.php

Business Development Bank of Canada
http://www.bdc.ca

iNova Credit Union
http://www.nspostalcreditunion.com

Canada Revenue Agency
CCRA issues employee numbers, HST numbers, corporate income tax numbers and import/export numbers
www.ccra-adrc.gc.ca

Canada Food Inspection Agency
www.inspection.gc.ca

Halifax Regional Municipality – Assessment Services
www.region.halifax.ns.ca/revenue/tax/taxmain.html

Insurance Bureau of Canada
www.ibc.ca

Intellectual Property
This office is responsible for patents, trademarks and copyrights
1-800-668-1010

Strategis
Provides online access to business information and business management tools
www.strategis.ic.gc.ca

Workers Compensation
Businesses with 3 or more employees have to participate in the Workers' Compensation Insurance Program
www.wcb.ns.ca

Statistics Canada
www.statcan.ca

Nova Scotia Department of Finance
This department has statistics that may be helpful for business planning
www.gov.ns.ca/finance/statisti/INDEX.asp

Notes: