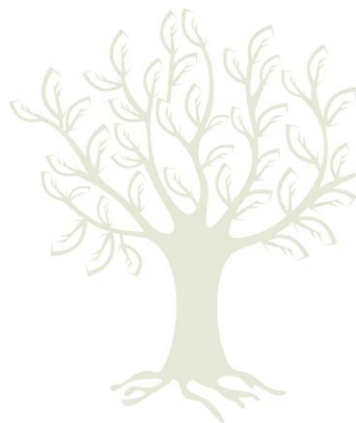

Business Plan Workbook



Growing communities one idea at a time.



Western Economic
Diversification Canada

Diversification de l'économie
de l'Ouest Canada

Canada

This initiative is supported by Western Economic Diversification Canada

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1.0 OVERVIEW

WHY WRITE A BUSINESS PLAN

There are many reasons why a business plan should be prepared. Regardless of the specific reason, the underlying goal of preparing a business plan is to ensure the success of the business. Here are the main reasons why a business plan should be prepared.

1. It provides you with the road map that you need in order to run your business. It allows you to make detours, change directions and alter the pace that you set in starting or running the business.
2. It assists in financing. Whether you are starting up a small business or are an established entrepreneur, banks and other financial institutions want to see that you know where you are, where you are going and how you are going to get there.
3. The plan will tell you how much money you need, when you will need it and how you are going to get it; in other words, how you will do your financing.
4. It helps you clearly think through what type of business you are starting and allows you to consider every aspect of that business.
5. It raises the questions that you need to have answered in order to succeed in your business.
6. It establishes a system of checks and balances for your business so that you avoid mistakes.
7. It sets up benchmarks to keep your business under control.
8. It helps you develop the competitive spirit to make you keenly prepared and ready to operate.
9. It makes you think through the entire business process so that you do not open the business blindly or lack vital information in opening and maintaining your business.
10. It forces you to analyze competition.
11. It will give you a “GO” or “NO GO” answers about starting the business.

PREPARING A PLAN STEP BY STEP

A business plan consists of certain basic elements which are outlined in this section. These elements include:

- The products or services offered by the business.
- A description of the company's industry, including competition.
- A marketing plan which outlines how your target market will be reached.
- A production plan or how your products or services will be produced or obtained.
- How the company will be or is organized.
- A financial plan which describes not only the sources of money to finance the business, but also projected financial statements.
- Information on key personnel.

In preparing the plan, you must first review the outline and determine what information you need to gather. As this information is gathered, it is then sorted into each of the sections contained in the outline. Certain questions will arise and will have to be answered. Obtaining the answers to these questions will require a certain amount of planning. To do this planning, you can make use of a Planning Worksheet.

PLANNING WORKSHEET

A planning worksheet simply sets forth a goal and lists the objectives required to reach that goal. For example, a person going into a new sporting goods store may have as a goal, **'TO SELL 50 TENNIS RACKETS DURING THE GRAND OPENING'**.

In order to do this, certain "actions" or "tasks" will be required. These could include one or more of the following:

1. Prepare the grand opening advertisement.
2. Arrange with a tennis racket supplier to participate in the promotion.
3. Set an attractive grand opening sale price.
4. Have a sufficient inventory of rackets.
5. Train store personnel on the selling features of the line of tennis rackets.

Each of these actions will need to be accomplished by a certain date. One person within the firm must be assigned the responsibility to see to it that it is accomplished. With the assignment of that

responsibility, that same person must be given the authority to get the job done. Finally, a priority must be assigned to each of the required “actions” or “tasks”.

To ensure proper planning, it is suggested that you use a simple form which lists each of the necessary “actions” together with their priority, due date, the person responsible and the results. A sample of this form is found on the following page.

2.0 DESCRIPTION OF THE BUSINESS

Name of Business: _____

Description of the business

2.1 *What is the business and what product(s) or service will you offer?*

2.2 *When do you plan to start, purchase, or expand your business?*

2.3 *Where is the business located and why? Is it accessible (near customers, visible, parking, ease of access, etc.)?*

2.4 *Hours of the day your business will operate:*

2.5 *If doing contract work, comment on contracts you have secured to date or are working on obtaining:*

2.6 *Will your business will be seasonal or year round? If seasonal, specify the period during the year your business will operate:*

2.7 Describe working relationships with other businesses relevant to your business (other businesses that will support you):

2.8 If purchasing an existing business, explain why the owner is selling it, how long it has been in operation, how you arrived at a purchase price, what the trend of sales has been, and if the business is failing how you plan to turn it around. If the business is not failing how do you plan to maintain or improve the level of success?

2.9 What are some of the potential risks and problems associated with your type of business? How do you intend to resolve or minimize these?

2.10 What key factors will you focus on to make your business a success?

2.11 Other relevant information that describes your business and its product or service:

3.0 OWNERSHIP & MANAGEMENT

OWNERSHIP BUSINESS FORM:

Incorporated Partnership Sole Proprietorship
Joint-venture Other _____

Name of Owner	% of ownership	Youth? (Under 35 years) Date of Birth (D/M/Y)
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

MANAGEMENT

3.1 What experience do you have in this type of business? ...in any type of business?

3.2 Who will manage the business and how will the bookkeeping be maintained?

Management: _____

Bookkeeping: _____

3.3 What are the strengths **AND** weaknesses of each owner? (Areas where relevant training has been obtained or is needed; qualifications or the lack of qualifications, etc.)

Strengths: _____

Weaknesses: _____

3.4 What training or support network do you have available that could assist in eliminating the weaknesses identified above?

4.0 MARKET & INDUSTRY OVERVIEW

MARKET

The more you understand your customers, the better your chances of success!

4.1 Who will be your typical customer? (i.e. youth, computer literate, 40+ age group, males, females, geographical location, etc.)

4.2 *What characteristics do your customers display? (i.e.; social class, lifestyle, buying habits, income, etc.)*

4.3 *How many customers will you have? (Many customers that buy few, or a few customers that buy many?)*

4.4 *How do you meet your customers' needs?*

4.5 *Have you done any research to see if people are interested in purchasing your product/service?*

4.6 *How much are they willing to pay for your product/service? Is your price within this range?*

INDUSTRY & COMPETITION

4.7 *What factors are influencing growth or decline in your industry? (i.e.; income levels, environment or health conditions, technology breakthroughs, etc.)*

4.8 *What are the barriers to entry? (What costs will be incurred to compete in the industry? i.e.; copyrights & patents, high R&D/marketing/production costs, etc.)*

4.9 *What government regulations (i.e.; zoning, permits, licenses, etc.) exist that you must consider?*

Direct competition: Companies serving the same customers and providing similar benefits i.e.; Seattle's Best Coffee Co. directly competes with Starbucks Coffee Co.

Indirect competition: Other companies in the product category and other products satisfying the same needs i.e.; other beverage companies (like Orange Julius) are indirect competition to coffee companies.

4.10 *List the names of your competitors and where they are located in proximity to your operation. Comment on their strengths and weaknesses, how their business is doing, the similarities with your business and what you learned from watching their operations.*

4.11 Describe the advantage you have over your competitors (what makes your product/service better?). How do you plan to obtain a share of the market?

5.0 MARKETING PLAN & STRATEGY

MARKETING

1. Type of advertising you will use:

<i>Type</i>	<i>Cost</i>	<i>Month it will be used</i>
Business Cards	_____	_____
Direct Mail	_____	_____
Flyers	_____	_____
Magazine	_____	_____
Newspaper	_____	_____
Packaging	_____	_____
Radio	_____	_____
Sign	_____	_____
Website (Internet)	_____	_____
Yellow Pages	_____	_____
Other	_____	_____

2. List any advertising that you have already completed for your business.

3. Describe *how you will attract and keep your market?* How can you expand your market?

4. Identify and explain any professional help you need to market your business.

6.0 PRICING

There are various ways to decide on a pricing strategy. The most common mistake is setting a selling price that is too low. This mistake occurs through either failing to see all the costs associated with the product, or attempting to undercut the competition.

Here is some information on costing, mark-up and break-even that may help in determining your pricing strategy.

Variable Costs: Expenses that vary directly with sales; those costs that are incurred only if sales are made. (i.e. materials, commissions, shipping, etc.)

Fixed Costs: Expenses that do **not** vary with sales; they occur whether or not any sales are made. (i.e. Salaries, rent, insurance, utilities, depreciation, etc.)

Break-even Sales: This is the amount of sales needed to cover all of your expenses (Revenues = Expenses).

1. We will use the following information to demonstrate break-even sales. (You will need to calculate these figures for your business.)

a) Annual Fixed Costs\$100,000

b) Product Selling Price.....\$4.00

c) Variable Costs per item\$3.00

2. Next, calculate your Variable Costs per item (**c**) as a percent of your Product Selling Price (**b**). In this case our “Variable Cost percentage” is:

$$\frac{\text{c) Variable Cost per item } \$3.00}{\text{b) Product Selling Price } \$4.00} = 0.75 = 75\%$$

What does this mean? Well, for every \$1.00 of sales, 75 cents goes to variable costs. That leaves 25 cents (\$1.00 - \$.75 = 25 cents) to cover fixed costs.

3. So now we have to answer the question, “how many 25-cents do we need to cover \$100,000 of fixed costs?” The answer is \$400,000 (\$100,000 ÷ .25 = \$400,000). This means that you need sales of at least \$400,000 to break-even, or you need to sell \$400,000 of your product to cover all of your costs.

******Can you meet this sales level? If not, you will need to raise your price or reduce your costs******

We will use the following sample numbers to illustrate **Gross Profit Margin** and Mark-Up.

Item selling price:	\$1.50
Item cost:	– <u>\$1.00</u>
Gross Profit	\$.50

To demonstrate Gross Profit Margin, we will assume we only sold one item.

$$\text{Gross Profit Margin (GPM)} = \frac{\text{Total Gross Profit}}{\text{Total Sales}} = \frac{\$.50}{\$1.50} = .33 = 33\%$$

$$\text{Total Sales} \quad \$1.50$$

For every \$1 of sales, the company produces 33 cents of Gross Profit.

$$\text{Mark-up} = \frac{\text{Item Selling Price} - \text{Item Cost}}{\text{Item Cost}} = \frac{\$1.50 - \$1.00}{\$1.00} = 50\%$$

$$\text{Item Cost} \quad \$1.00$$

******Therefore, it requires a 50% mark-up to produce a 33% gross profit margin******

PRICING STRATEGY

1. *How did you calculate the price for your product or service?*

2. Are you offering a competitive price and will it cover all costs?

3. What price are your competitors charging for their product or service?

7.0 PROJECT COST & FINANCIAL PROJECTIONS

PROJECT COSTS

APPLICANT EQUITY

Identify what you are investing in the business:

Cash	\$ _____
Contributed Assets (computer, vehicle, office equipment)	\$ _____
Other	\$ _____
*Total Applicant Equity:	\$ _____

Pre-operating costs:

Legal	\$ _____
Insurance	\$ _____
Advertising	\$ _____
Other	\$ _____
*Total Pre-op cost	\$ _____

Sources of Funds:

***Applicant's Equity** \$ _____
CFCD Financing \$ _____
Other \$ _____
 \$ _____

TOTAL SOURCES

OF FUNDS: \$ _____

Use of Funds (costs):

Land \$ _____
Building \$ _____
Equipment \$ _____
Operating Capital \$ _____
****Pre-op. Costs** \$ _____
Training \$ _____
Other \$ _____
 \$ _____

TOTAL USE

OF FUNDS: \$ _____

Note: *Total Sources of Funds = Total Use of Funds (Project Costs)*

REVENUE/SALES PROJECTIONS

What are your anticipated annual sales per year (allowing for seasonal fluctuations)? Use the table below as a guideline to assist you with your calculations. A sample has been provided.

REVENUE PROJECTION

SAMPLE: Manufacturing Business with 2 products (Jackets & Sweaters)

Seasonal Trends	# of Months (A)	# of sales/month (B)	Price \$ (C)	Revenue \$ (A) X (B) X (C)
Peak	2			
Jackets		80	100	8000
Sweaters		20	50	600
			Season Total 1	\$ 8600
Moderate - High	4			
Jackets		50	100	3000
Sweaters		10	50	300
			Season Total 2	\$ 3300
Moderate - Low	4			
Jackets		25	100	2500
Sweaters		10	50	300
			Season Total 3	\$ 2800
Low	2			
Jackets		15	100	1500
Sweaters		8	50	240
			Season Total 4	\$ 1740
Total Number of Months	12		Total Revenue (1+2+3+4)	\$ 16,440

This company usually sells 80 jackets and 20 sweaters in their peak season

This company has a 2-month peak season. (2 months where the sales are the highest)

This company has a 2-month low season. (2 months where the sales are the lowest)

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REVENUE PROJECTION

Seasonal Trends	Months (A)	# of sales/month (B)	Price \$ (C)	Revenue \$ (A) X (B) X (C)
Peak				
			Season Total 1	\$
Moderate - High				
			Season Total 2	\$
Moderate - Low				
			Season Total 3	\$
Low				
			Season Total 4	\$
			Total Revenue	
			(1+2+3+4)	\$

ANNUAL SALES

If the above formula does not apply to your business, describe the estimated projected annual sales. Also include how you came up with these assumptions and projections.

INCOME STATEMENT PROJECTIONS

Complete the following income statement or provide us with prepared financial statements. This table is a guideline and may not be completely compatible with your business. Feel free to change/add/delete to suit your business. Annual expenses can be calculated at estimated monthly cost X 12.

INCOME STATEMENT PROJECTIONS

	Year 1	Year 2	Year 3
Revenues			
Product Sales			
Services			
Other Revenue			
Miscellaneous			
Total Revenue (A)			

<u>Expenses (variable or direct costs)</u>			
Fuel			
Materials			
Commissions			
Purchases			
Subtotal Direct Costs (B)			
<u>Expenses (Fixed costs)</u>			
Accounting & legal			
Bank Charges			
Advertising			
Loan interest			
Office and general			
Depreciation / Amortization			
Licenses and fees			
Repairs & Maintenance			
Insurance			
Freight			
Utilities			
Telephone			
Rent			
Management Wages			
Wages and benefits			
Subtotal Adm. & General (C)			
Net Income before taxes:			
(Revenue–Expenses = A – (B + C))			

For an existing business, please provide financial statements for the last 3 years.

8.0 SUPPORTING DOCUMENTS

The following documents (if applicable) should be provided to your Account Manager:

- Letters of Support
- Resumes for Owners and Key Personnel
- Certificate of Incorporation
- Historical Financial Statements (3 years preferably)
- List of Equipment to be purchased and price
- Estimates or Quotations for purchase of Equipment
- Applicable Purchase Agreements
- Insurance Quote
- Rental or Lease Agreement of Location
- Permission from Landlord to operate home-based business
- Report/Evaluation of Used Assets Contributed
- Relevant Photos or maps

9.0 CASH FLOW SUMMARY & TERMINOLOGY

WORKSHEET INSTRUCTIONS

When completing your cash flow projections you must realize that any bank deposits you make to your business account should be considered as your sales income for the month and any cheques you write each month will be entered under expenses. The following descriptions should clarify what amount you should be entering for each section. **Remember, these are only financial projections based on your knowledge of the business you are looking at starting.**

REVENUE – Cash Receipts

Cash Sales Receipts: This figure should include your cash sales and any accounts receivable you receive on a monthly basis. **A cash sales and accounts receivable worksheet has been included for you to determine this amount.**

Accounts Receivable: This amount should be a total of all accounts receivable that were actually collected for that particular month.

Other Cash Receipts: This figure should include all other cash receipts not included under cash sales receipts, and accounts receivable.

Total Cash Receipts: This should be the total amount of cash sales receipts, accounts receivable and all other cash receipts.

Less Cost of Goods Sold: If your business is in the retail or manufacturing industry this figure represents all of the direct costs related to the product you are selling or manufacturing. This can be calculated as a percentage of your sales, or if you have a purchasing pattern you should enter the amount in the month the actual expense occurs. **Generally for other business operations completion of this line may not be required.**

Net Revenue: This figure is the Total Cash Receipts figure minus the Cost of Goods Sold.

EXPENSES – Cash Disbursements

Rental/Lease Expenses: This is the amount of money that you must pay each month to rent or lease the premises to carry on your business. It can be a storefront, warehouse or a personal residence.

Salary/Wage Expenses: This is the amount of wages and benefits paid to all employees per month and should include holiday pay, EI premiums, CPP premiums, group insurance etc. as applicable.

Owner’s Salary: This is the amount of money that will be taken out of the business by the owner including management salary, and drawings etc.

Loan/Mortgage Payments: This figure should include any loans or mortgages associated with the start-up and operation of the business and should include the principal as well as the interest paid on a month by month basis.

Telephone Expenses: This figure should include any expenses associated with telephone, cell phone, pager, fax and Internet costs for the month.

Utilities: This amount should include all expenses relating to heat, light and power costs.

Professional Fees: This is any money that you pay for professional services such as bookkeeping/accounting fees and lawyer expenses.

Advertising/Promotion Expenses: This figure should include any print or media advertising expenses incurred for the month such as for newspaper ads, radio, television, yellow page ads, and any other promotional expenses such as tradeshows, promotional lunches, and promotional freebee items.

Lease/Rental Payments: This figure should include all lease or rent payments related to the cost of leasing or renting any equipment or vehicles utilized in your business.

Business Taxes, Fees, & Licenses: This figure relates to any expenses incurred for business licensing and fees including municipal business license, federal or provincial licensing and any other association licenses. Fees should include charges for memberships, loan and service fees. Business taxes should include the amount of business taxes paid, and should be accounted for in the month they actually occur.

Insurance: This amount should include any business or personal insurance including fire insurance, liability insurance, life insurance, loan insurance etc.

Bank Charges: Should include all banking charges including service charges, overdraft charges, Visa/MasterCard/Interact commissions, etc. This amount should not include bank loan interest, which is already covered under loan payments.

Transportation & Travel: This will include all expenses relating to the use of vehicles to carry on your business including, fuel, oil, repairs, and insurance. It should also include any costs associated with travel for purposes relating to the business, such as meals and accommodation.

Office/Shop Supplies: All supplies purchased for business purposes including stationary, janitorial supplies, paper supplies, clothing etc., and excluding the product you sell.

Property Taxes: This amount should be the relevant property taxes paid relating to business usage and should be allocated to the appropriate time frame it is deducted in.

Purchase of Fixed Assets: This category should reflect any purchases of fixed assets relating to the business such as computer equipment, furniture etc.

Freight Expenses: This amount relates to any costs associated with shipping or receiving supplies or products for use in the business.

All Other Operating Expenses: This relates to all other expenses that are not already categorized and would include such things as security alarm charges and postage.

Contingencies 10%: This section is reserved for unplanned expenses. No matter how hard you try to plan for everything there is always something that you don't count on or miss. The way to account for this expense is to add together all expenses listed above this item and take ten percent of that total.

Total Expenses: This is the total amount of all cash paid out.

Surplus/Deficit: This is the Net Revenue minus Total Expenses. This number will indicate how much you have made or lost before taxes during the current month.