THE BUSINESS ENTERPRISE CENTRE
LE CENTRE DES ENTREPRISES

GUIDE TO
# WRITING YOUR BUSINESS PLAN

2022

CDE Timmins EDC

Ontario

# CONTENTS

# PREFACE

A business plan is a practical document that all business owners and entrepreneurs should develop no matter the business industry, sector, or stage of development. The process of writing a business plan forces business owners and entrepreneurs to thoroughly think through their business idea, gain a deep understanding of their market, identify challenges, and set benchmarks against which they can measure progress. Essentially, it can be used as a blueprint for starting and operating your business. The final document that is produced is essential to acquiring financing and can be valuable in recruiting talent and guiding business decisions. It is a living document that should be continually updated as you proceed with your business.

This guide is designed to help you write a business plan. It does not have to be a stressful or complicated activity. This document provides section-by-section guidance on what information should be included in your business plan, and how to find that information. The **bold blue words** found throughout the guide are key terms with definitions located in the Glossary, page 47, for easy reference. You can also read the definitions by hovering over the words with your cursor in a digital copy of this document.

While the guide is directed at new start-up businesses, it is written to be useful for all types of businesses, regardless of industry or stage of development. Therefore, there are likely some parts of the guide that won't apply to all business types. Use your best judgment and talk with your Business Development Consultant to determine what to include.

To review sample business plans, visit The Business Enterprise Centre website at www.northeastbec.com (templates section).

The Business Enterprise Centre offers a wide range of free services and resources for entrepreneurs interested in starting, buying, or expanding their business. Contact us today to learn how we can help you.

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# SECTION 1: COVER PAGE, TABLE OF CONTENTS, & EXECUTIVE SUMMARY

In this section you learn about the opening pages of your business plan.

### Cover Page

State the business' name, address, telephone number, fax number, email address, and the names of the business owners. Include the date the plan was finalized (e.g. April 2014). While visuals like pictures and diagrams can be attractive, they can also be distracting and make your document look cluttered. Ensure that any visuals you use add value to your document.

### Table of Contents

If your business plan is more than six to eight pages, use a table of contents. This is a single page that lists your section headings with corresponding page numbers. A table of contents facilitates easy access to specific sections of your plan.

### Executive Summary

The **executive summary** directly follows the table of contents (if included) or cover page. It is a one to two page summary and a high level picture of all the key aspects of your business plan.

Since business plans can be long and time consuming to read, many people will read the Executive Summary in order to decide whether they are interested in reading your entire business plan. It is therefore important to make your summary interesting and convincing.

> **TIP: The executive summary is a summary, so this section should be the last piece of the business plan that you write.**

To write your executive summary, imagine being challenged to verbally summarize your entire business plan in two minutes. What would you include? What would you exclude? This should help you identify your key points.

Also, remember to tailor your executive summary for your audience — a bank loans officer is interested in different aspects of your plan than a marketing consultant.

Ensure that your executive summary includes, *at least*, the following items:

- Type of business
- Type of **legal form**
- Products or services being offered
- **Unique selling proposition**
- Key management profile – briefly, who are you?

- **Target market(s)** and geographic service area
- **Competitive advantage**
- Financing details:
    - What is required and how it will be used
    - What you are contributing to the business (**cash equity** and existing **assets**)
    - What is your **break-even point**
    - What is your financial position at the end of one year and three years

Finally, remember to clearly tell the reader what you want. Are you seeking a loan? Appealing to an investor? Recruiting a partner? Telling the reader specifically what you want from them is a key aspect of your executive summary.

# SECTION 2: BUSINESS PROFILE

This section of your business plan describes you and your business idea.

## 2.1. Company Overview

### Unique Selling Proposition

The company overview should begin with your **unique selling proposition** or **value proposition**. This is a few sentence sales pitch that describes how your product or service is different from, and better than, your competitors.

Think of it as the introduction to your business — if you had a few sentences to tell a potential customer about your product or service, what would you say?

### Business Description

The business description provides a clear explanation of what you intend to do. Depending on the complexity of your business, this section may be a paragraph or a couple of pages.

> **TIP: Your business description is generally written in paragraph form and introduces your reader to the business.**

The business description should include the topics listed below.

*Product/Service:* describe what you are selling and whether you offer any product or services that complement or are related to the main product or service (**product or service segment**). For example, a men's clothing store may also offer accessories.

*Industry:* categorize your business by sector (primary, secondary, etc.) or by activity (retail, service, manufacturing, etc.). What **industry** will your business belong to? This is described in more detail later on in the *Market Analysis* section, page 16.

*Target Market:* this is the group(s) of customers to whom you have decided to sell your products/ services and on whom you focus your marketing efforts. For the business description, you only need to identify your **target market(s)**. It is described in more detail later on in the *Market Analysis* section, page 19.

*Location and Geographic Service Area:* state where your business is located (e.g. Timmins), whether you have business premises, where your premises are located, and what area you are servicing (e.g. northeastern Ontario; Timmins, Matheson, and Iroquois Falls; etc.).

*Distribution Channels:* this is the chain of businesses or intermediaries through which your product or service passes until it reaches the end consumer. Basically, how are your customers getting their hands on your product or service? Do you have a storefront, or are you taking your service to them? Can customers purchase online? For the business description, you only need to briefly describe your core **distribution channels** — this is described in more detail later on in the *Operations Management* section, page 32.

*Stage of Development:* state whether the business is new, or already established. Also include a timeline indicating your projected start-up or expansion progress.

*Background:* describe how the business got to where it is today. Some items to mention are when the business was founded, its key milestones, sales records, and its former financing arrangements. If it is an acquired business, describe the former owners and why they sold the business. If this is a completely new business venture, you may not have to include a background description.

*Legal Form:* your business may take one of many **legal forms**. Common legal forms are:

- **Sole Proprietorship**: a business owned and operated by a single individual, with no formal business structure is established and no legal distinction between the owner and the business. A sole proprietorship has unlimited **liability** – the owner is personally responsible for all the debts of the business.

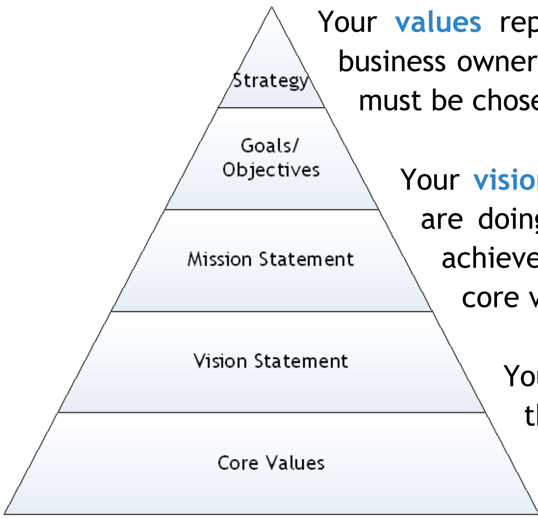
- **Corporation**: a form of business organization which is chartered by a state and given legal rights as an entity separate from its owners. Corporations have limited **liability** – owners' liability is limited to the amount invested in the business, and personal assets are protected unless a personal guarantee was given when accepting a loan.

- **General Partnership**: an agreement between two or more people who share responsibility and liability. A general partnership has unlimited **liability** – both partners are fully responsible for any business debt. If you are pursuing a general partnership legal form, it is recommended that you and your partner(s) create and sign into a partnership agreement. Templates of these legal partnership agreements can be found online (for example, from Entrepreneur.com and MaRS (www.marsdd.com); once you have developed a solid draft, bring it to a lawyer to be reviewed. Include this agreement in the appendices of your business plan.

Other legal forms of businesses include **limited partnerships**, **joint ventures**, and **co-operatives**. If you are unsure about the legal form your business will take, do some research and discuss with your Business Development Consultant. You can review some of the advantages and disadvantages of the common forms in ***The Business Enterprise Centre's Guide to Business Start Up.***

## Values, Vision, Mission

The identification of your values, vision statement, and mission statement demonstrate your business motivations and priorities. These elements build upon each other. The pyramid below illustrates how the lower-level elements give purpose and context to the higher-level elements.




Your **values** represent what is important to your company. Generally business owners select between three and six core values. These values must be chosen carefully because they guide your business decisions.

Your **vision statement** is a single sentence that explains why you are doing what you are doing and ultimately what you want to achieve through your success. It should be consistent with your core values.

Your **mission statement** is a single sentence that defines the purpose of your company and the approach you follow in order to achieve your goals. Think of your mission as the route you will follow to achieve your vision.

Hilton Worldwide (owner of the Hilton Hotel chain, amongst others) provides a strong example. Notice how they relate back to the specific service they provide.

*Hilton Worldwide says:*

**Our Vision:** To fill the earth with the light and warmth of hospitality.

**Our Mission:** To be the preeminent global hospitality company — the first choice of guests, team members, and owners alike.

**Our Values:**

| | |
|---|---|
| **H**ospitality | We're passionate about delivering exceptional guest experiences. |
| **I**ntegrity | We do the right thing, all the time. |
| **L**eadership | We're leaders in our industry and in our communities. |
| **T**eamwork | We're team players in everything we do. |
| **O**wnership | We're the owners of our actions and decisions. |
| **N**ow | We operate with a sense of urgency and discipline. |

More examples can be found online – check the websites of your favourite businesses for inspiration. More guidance on how to write mission and vision statements can be found in the MaRS Library at www.marsdd.com/mars-library.

### Goals

Your **goals** identify what you want to accomplish with your business, and how you will measure your success.

Try to identify short, medium, and long-term goals. What will you achieve in the next year? In the next three years? In the next ten years? Short-term goals should be very specific, while long-term goals can be more general. List your goals in order of importance (if there is an order).

> **TIP: Short-term goals can relate to business operations or be about getting your business up and running.**

There is no limit on the number of goals you may have, as long as they follow the SMART criteria:

| Criteria | Application |
|---|---|
| **S**pecific | Target a specific area for improvement; include specific details |
| **M**easureable | Quantify or suggest progress indicators |
| **A**ssignable | Identify who is responsible for achieving this goal |
| **R**ealistic | Ensure your goal is achievable given current state and resources |
| **T**ime-related | Establish time-related milestones for when progress should be measured and when the goal should be achieved |

Some common goal areas include:

- Growth targets (e.g. sales, production, capacity to produce, **market share**)
- Product or service quality
- Research, development, and adoption of the production and marketing methods
- Comparative profitability (i.e. return to owners or investors, profit/ investment)

So, your goals may look something like this:

- The Marketing Manager will increase website visits by 20% in the next six months through increased radio advertising.
- The Owner will negotiate new supply rates upon the conclusion of the supplier contract in the fourth quarter.
- The Sales Manager will host three customer focus groups to gauge customer satisfaction and identify up to 10 actionable areas for improvement by May 2016.

## 2.2. Key Management Profile

### Management Biographies

This section introduces the management team. The biographies should include the owner(s) and any business employees who are influential in developing and steering the business. The biographies should include who you are, what your experiences and qualifications are, why you are passionate about this business, and what your duties and responsibilities are.

This section should not be a copy of your resume; instead, the biographies should be tailored for the business plan. Resumes may be attached as supporting documents in the appendix.

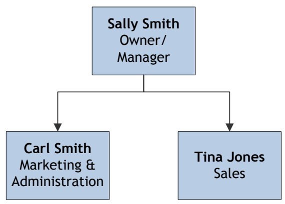
### Management Skills Development (optional)

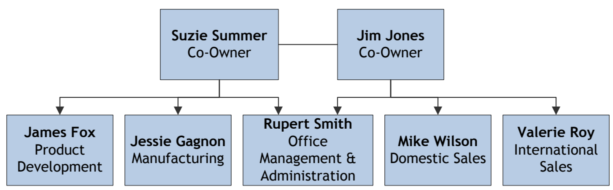
If some skills are missing amongst the members of the management team, provide a plan for how to fill these gaps. This plan may involve training of key management members, hiring new team members or consultants, or contracting out some work. Whatever plan you suggest, ensure that it is realistic, affordable, and will meet your needs.

### Organizational Structure

This section illustrates how your business is organized and the management hierarchy. The most simple and effective way to illustrate this is through a flowchart. If you are the only person employed by your business, you do not need to include this section.

The type of flowchart depends on the complexity of your business. It may be a simple family-run sole proprietorship, or more complex. Your organizational structure does not need to list every employee, but it should provide a clear indication of who is in charge of what.




### Board Members/ Investors/ Mentors (as applicable)

If you have board members, investors who are not shareholders, or mentors involved in your business, they should be described in this section. Identify who is involved, what their role is, and what they have contributed or will be contributing to the business. If possible, include letters of support outlining their contributions in your business plan appendices.

# SECTION 3: MARKET ANALYSIS

This section analyzes the market your business is entering, the market you are selling to, and what sets your business apart.

**It is common for new business owners to underestimate the value of market research and analysis, believing that they fully understand the industry and market that they are entering. They are often wrong, which increases the chances of failure.**

Analyzing your market allows you to make more educated decisions about your business. It also provides evidence to investors or suppliers that your business is primed for success. **Therefore, this is the most critical part of your business plan.**

Market analysis relies on a lot of data. Data can be collected via **primary research** (research that you do yourself) or **secondary research** (findings from research somebody else did). It is feasible for you to do some research yourself; for example, surveying potential customers or analyzing a competitor's product line. If you are planning to conduct primary data, you are encouraged to read about best practices (check out www.mymarketresearchmethods.com) and discuss your plan with your Business Development Consultant to ensure your methods are effective. It is easier to retrieve more broad data (e.g. Timmins residents' Internet usage; cinema revenues nationwide) via secondary data.

The box below identifies free secondary data sources that will help you with your market analysis.

**Canadian Data Sources**

- Canada Business Network: provides secondary market data upon request, such as information about business associations, manufacturers, suppliers and competitors; articles about consumer, business and industry trends; Canadian consumer spending statistics and demographic data; sample business plans; and international trade data.

- Canadian Industry Statistics: hosts free data on economic indicators associated with a wide variety of industries, including national averages for sector-specific Financial Performance Data.

- Statistics Canada: offers a very wide variety of data sets, including demographics, consumption patterns, industry, and business. Specific sources of data include the Canadian Census, the National Household Survey, the Labour Force Survey, and Canadian Business Patterns (Business Register). Much of the data is free; some specific data and cross-tabulations require a fee.

- Timmins Economic Development Corporation: has access to a vast array of data pertaining specifically to communities in northeastern Ontario, particularly demographic data, and will provide data for free upon request.

For more specific or niche data sets, or for American or other international data sources, discuss with your Business Development Consultant.

**Industry Characteristics**

In this section, demonstrate that you fully understand the industry that you are entering. This means providing a specific and accurate description of the industry, as it currently is and as it is projected to develop in the future. Canadian Industry Statistics is a useful resource to find this information. This section should include the following information.

*Size:* industry size can be measured in a number of ways. You could find estimates of total aggregate sales of other businesses in this industry, the number of individuals employed in the industry, or the number of businesses associated with the industry. Basically, identify whether the industry is large and found across Canada and worldwide, or small and niche.

*Composition:* the industry composition looks at the number and size of companies operating within your market area. Is it dominated by a few very large companies, fragmented by many small companies, or is there a mix of large and small companies? Are the companies located in their geographic service area, or are they selling online or internationally?

*History:* what has happened in the past with this industry? Is it cutting-edge (e.g. software development, new technologies) or is it a well-established industry (e.g. legal services, a brewery, an office supply store)? How has this industry been affected by local and global events (e.g. 2008 recession, changes in policies and regulations, etc.)?

*Barriers to market entry*: these are obstacles that make it difficult to enter a given market. **Barriers to market entry** are unique to each industry, but examples include government regulation and patents, licensing requirements, monopolies, distributor agreements, high cost of entry (capital requirements), and intellectual property.

> **TIP: Barriers can be advantageous to start-ups - the more barriers, the less likelihood of new competitors entering the market. If you identify barriers, you should also be planning how you will overcome them.**

*Trends and threats*: trends emerge from studying the industry's history and current state — locally, regionally, nationally, and internationally. What patterns have been identified? Are they expected to continue in the future? Common trends include growth or decline patterns or cycles, shifts in consumption patterns or consumer characteristics, and shifts in **supply chain** or **distribution channel** characteristics.

Unfavourable trends are called threats. Threats identify what is going on in the market area and even worldwide that may impede the success of your industry. Trends and threats tend to fall into six categories, described in the table below.

| Category | Description |
|---|---|

| | |
|---|---|
| **Demographic** | An increase or decrease over time in the number of people (or businesses, for business-to-business offerings), in various demographic groups (age, **income**, gender, education, ethnicity, etc.). |
| Sociocultural | An increase or decrease over time in the number of people (or business) engaged in lifestyle or other activities based on social or cultural trends. |
| Economic | Changes in income levels; household and discretionary spending patterns; economic growth; interest rates; credit, loan, or mortgage rates or criteria; cost of living and consumer price index; or other economic indicators. |
| Technological | Developments in information and communication technologies, biotechnologies, entertainment technologies, etc. |
| Regulatory | Changes in laws, by-laws, regulations, and government policies that affect your industry and/ or business. |
| Natural | Developments or events such as global warming, natural resource depletion, natural disasters, etc. |

*Financial performance data:* the government of Canada maintains a database of **financial performance data** for small- and medium-sized enterprise (SME) benchmarking. You can use this data to identify patterns for your industry and then compare your projected performance to the Canadian norm.

The types of data available include **profit margin** range, expenses as a percentage of revenue, **financial ratios**, the percentage of profitable businesses, etc. The relevance of this data depends on your interpretation – it is not enough to include the numbers, you have to also tell your reader what the numbers mean for your business.

You can access this data on the Industry Canada website or by searching Financial Performance Data.

**TIP: Ensure to base all of your statements on reliable data and provide sources of information. This demonstrates that you have done your research and are knowledgeable about the business market. When citing, ensure to use a consistent citation format. A common format used is the Chicago Manual of Style (www.chicagomanualofstyle.org) but you can also use footnotes, endnotes, or in-text citations.**

**Operational Environment and Geographic Service Area**

In this section, describe the environment in which you operate and the area that you service, and identify how their characteristics will affect your business. Note that your business' operational environment and your geographic service area may not be the same. For example, a business may operate out of Timmins, but provide services in the Hudson Bay Lowlands.

Some things to keep in mind when describing your operational environment are listed below.

- Location, accessibility, connectivity: How does your location affect your business (e.g. inventory must be shipped from Toronto to Matheson)? Does your business have appropriate access to transportation routes, connectivity infrastructure (i.e. Internet)?
- **Demographics** and labour force: Who resides in your operational environment? What are their characteristics? Are they also your customers, or could they be? Are they your employees? If yes, are the skill sets required for your employees present?
- Economy: Is the economy growing, stable, or declining? Is the economy dependent on a few key sectors, or diverse? How will this economic atmosphere affect your business?

**TIP: It can be easy to get carried away with your analysis. Ensure that all the information you are including is relevant to your business.**

**Competitors**

Every business has competitors, whether they are providing the same product or service (a **direct competitor**) or a different product or service that satisfies the same needs (an **indirect competitor**).

For example, if your business idea is to open an arcade in Timmins, you may have no direct competitors, as there are no other arcades. However, the cinema offers arcade-style games, as do some restaurants. Other businesses, such as bowling or mini-putt, may provide alternatives for your target market(s) to spend their money on recreation. Therefore, those businesses would be your indirect competitors.

Depending on your business idea, your competitors may be limited to your geographic service area, or may be worldwide. In this section, identify:

- How many competitors do you have?
- Who are they?
- What is their **market share**? There are a few different techniques to predict this. Check out this article for guidance: www.refresher.com/how-to-calculate-market-shares
- What is their **competitive advantage** — why do their customers go to them?

**TIP: It can be tempting to focus on the negatives about your competitors, but that is not productive in your business plan. By placing an equal emphasis on positives and negatives, you can learn from what they do right *and* wrong.**

A good way to analyze and compare your business to the competition is to conduct a **SWOT analysis** on your key competitors. Instructions for why and how to perform a SWOT analysis are provided later on, in the *SWOT Analysis* section, located on page 24.

## 3.2. Target Market Profile

As part of your *Market Analysis*, you must identify your **target market(s)**. This is the group of customers towards whom a business has decided to aim its **positioning** efforts. While almost anybody *could* be your customer, these are the people that you particularly want. 'Adults' are not a target market, but 'Men aged 19 to 29' are. Businesses that sell products or services to people usually define their target markets by a combination of the following characteristics:

- Age
- Location
- Gender
- Language
- Income level
- Education level
- Marital or family status
- Occupation
- Ethnic background
- Personality
- Attitudes
- Values
- Interests/ hobbies
- Behaviours

Businesses that sell products or services to other businesses, organizations, or institutions usually definite their target markets by a combination of these characteristics:

- Industry
- Size (# of employees)
- Size (revenue)
- Business type
- Geography
- Language
- Product or service line
- Values
- Security
- Power
- Esteem

The characteristics with which you define your target market(s) depend on each individual business. When working to identify your target market(s), you may consider reviewing your current customer base and your competitors' customer bases and the benefits of your product or service and who would want those benefits the most.

Once you have identified a possible target market(s), evaluate it. Ask yourself:

- Are there enough people that fit my criteria?
- Will my target market(s) benefit from my product/service? Will they see a need for it?
- Do I understand what drives my target market(s) to make decisions?
- Can they afford my product/service?
- Can I reach them with my message? Are they accessible?

The challenge for a business owner is to avoid getting too specific with the target market(s) and thus not have enough people to support your business. On the other hand, if you are too broad you cannot target the individuals well with marketing messages.

**TIP: You can identify multiple target markets, but it is recommended not to go beyond two or three.**

In your business plan, include a thorough description of the target market(s) you have identified. This description should include, but is not limited to, the following characteristics:

- **Demographics**: statistical data relating to the population and groups within it
  - Income (average and disposable)
  - Population size and growth prospects
- **Lifestyle**: the interests, opinions, and behaviours of groups of people
- **Purchase motivations**: the customer need that is fulfilled by the product or service. Why is your target market motivated to buy your product/ service?

## 3.3. Pricing Strategy and Sales

### Pricing Model

In this section, identify what prices you will be charging for your products or services, and why. Also identify what the cost of producing your product or providing your service will be (cost of goods sold). The difference between your cost of goods sold and your overhead, and the price you are selling at is called your profit margin. This is the amount you actually make per sale, after covering all your costs. So, if it costs a bakery $1 to produce a cupcake, and the bakery sells the cupcake for $1.50, their profit margin is $0.50.

When deciding upon the price you will charge, consider a number of different factors: your costs, product demand, desired profit margin, competitor prices, and the price the market will bear. Because costs tend to be underestimated, you must calculate them very carefully. Consider not only raw material and distribution costs, but also costs related to the day-to-day running of the business. These may include:

- Utilities
- Labour
- Marketing
- Bad debts
- Quality control expenses
- Equipment leases
- Taxes
- Loan payments
- Employee benefits
- Insurance
- Inventory
- Other overhead costs

Calculating these costs properly is particularly important because it is much more difficult to raise your prices (if you underestimate your costs) than to lower them (if you overestimate your costs).

To help you calculate your price, there are five basic rules to keep in mind:

1. All prices must cover your costs.

2. The best and most effective way of lowering your sales prices is to lower your costs.

3. Your prices must reflect the dynamics of cost, demand, and changes in the market, and respond to your competition.

4. Prices must be established to assure sales. Do not set your prices based on your competitor — rather, price to sell.

5. Product utility, longevity, maintenance, and end use must be judged continually, and target prices adjusted accordingly.

There are multiple methods of establishing your price:

- **Cost-plus pricing** or **mark-up pricing**: this method takes the costs (fixed and variable) per product and adds the desired profit percentage. It is used mainly by manufacturers. You can read more about this method at: www.accountingtools.com/cost-plus-pricing

- **Demand pricing**: this method offers differing prices based on demand; it is often used by companies that sell their product through a variety of sources. This is also called '**dynamic pricing**'. Read more at: www.accountingtools.com/dynamic-pricing

- **Competitive pricing**: a method that undercuts the competition by a small percentage; used when entering a market where there is already an established price and it is difficult to differentiate one product from another. This is also called '**penetration pricing**'. Read more at: www.accountingtools.com/penetration-pricing

- **Value-based pricing**: also called value optimized pricing, this strategy sets prices primarily, but not exclusively, on the estimated or perceived value of the product/service to the customer, rather than on the cost of the product or historical prices. Where it is successfully used, it improves profitability due to the higher prices without impacting greatly on **sales volumes**. However, it can be very challenging to accurately measure estimated or perceived value. You can read more about this method at: www.accountingtools.com/value-based-pricing

**Price Comparison**

Another pricing concern that should be included in your business plan is how your prices compare to your key competitors' prices. This section should explain why your pricing is competitive.

This can be done through a simple table, with a brief statement explaining the results. Remember that your prices do not *need* to be lower than your competition; however, you must be able to rationalize why a customer would want to purchase your product or service rather than your competitors'.

### Discounts or Rebates

If you are planning to offer any discounts or rebates as part of your pricing strategy, describe them in your business plan. State what type of discount or rebate you plan to offer, how often it will be offered, and what the criteria/ eligibility for them are.

Common types of discounts or rebates include sales promotions, volume discounts, coupons, product bundling, online promotion codes, customer loyalty programs, and referral rewards.

Discounts and rebates can be especially effective when introducing a new product to the market, or when trying to convince your competitor's current customers to try your product. However, over-use of these strategies may make some customers reluctant to purchase your product at its regular price.

Remember that to offer discounts or rebates, you must have some flexibility within your pricing model. If your **profit margins** are too low, it is very difficult to offer these incentives.

### Payment Policy

In this section, simply state whether customers must pay immediately for the product or service, what types of payment you will accept (cash, cheque, debit or credit card, online payment), if you plan to run a credit-based business (e.g. no money down for 30 days), or some combination. When establishing your payment policy, consider what option is most commonly used in your industry and what you can afford. Remember that there are bank charges and set-up fees associated with debit and credit card sales.

Remember that customer payment terms are especially important for start-up businesses, as cash outflow can be very high in the first few years. Cash received must *at least* equal cash outflow in order for the business to operate. For this reason, your business will want to develop a payment policy that ensures that cash is continually coming in.

Also keep in mind that many businesses that offer credit have a certain amount of credit which is never paid — this is called **bad debt**. Offering credit increases the amount of risk involved for the business.

## 3.4. SWOT Analysis and Competitive Advantage

### SWOT Analysis

A SWOT analysis is very valuable in your business plan and provides a clear understanding and analysis of your business. This type of analysis is used to identify the strengths, weaknesses, opportunities, and threats associated with the business start-up, expansion, or purchase.

The strengths and weaknesses are internal factors the business has control over. The opportunities and threats identified address external factors that are beyond the business' control.

A SWOT analysis is commonly arranged in a grid, with simple bullet points as text. Below is an example of a SWOT analysis. You can also find many examples of SWOT analyses online.

A SWOT analysis for your business is a valuable positioning tool. When you identifying your strengths, you also identify things you can market and promote. By identifying your weaknesses, you identify what you need to work on to make your business stronger. By identifying opportunities, you recognize areas that you can work towards to increase your business' success. And finally, by identifying your threats, you can make plans to avoid, mitigate, or adapt to their impact.

| S Strengths | W Weaknesses |
| --- | --- |
| • High quality products<br>• Well-known brand<br>• Sophisticated customer database<br>• Core group of loyal customers<br>• Effective after-sales support system<br>• Experienced management team<br>• Well-motivated sales team | • Dependence on a few large customers<br>• Unprofitable small customers<br>• Too few new customers<br>• Old production machinery<br>• Low profit margins<br>• Little new product development<br>• Not enough marketing research |
| **O Opportunities** | **T Threats** |
| • Take over main competitor<br>• Begin exporting<br>• Take sub-contract work<br>• Loyalty bonuses for customers<br>• Ageing baby boomers increases target market | • Main customer moving to competitor<br>• Bad publicity about products<br>• Competitors have more modern production technology<br>• Interest rate rises<br>• Cheap imports<br>• Price war |

Your SWOT Analysis should provide a summary of all the factors affecting your business that were identified in your market analysis.

### Competitive Advantage

The competitive advantage section is a form of conclusion for the entire Market Analysis. In this section, describe what advantage your business idea will have over its competitors. Common competitive advantages include greater sales generation, greater profit margins, or high customer retention. Your competitive advantage considers everything you have learned through your Market Analysis and uses it to identify why your business will be profitable.

# SECTION 4: MARKETING STRATEGY

This section describes how you plan to market your business. Note that if your business will rely heavily on marketing you are recommended to develop a separate marketing plan. MaRS provides guidance on developing a simple or comprehensive marketing plan.

**Marketing** encompasses all business activity you conduct to promote and sell your products or services, including market research, **advertising**, networking, and **branding**. Keep in mind that marketing is much more than simply spending money on advertising. It involves a significant portion of the business owner's time and energy. Marketing is about the on-going engagement of the target market(s), making them feel like they are part of the business, and having the products, services, and ultimately the brand mean something to them.

### 4.1. Marketing to Date (if applicable)

If any other marketing has been conducted for your business, briefly describe it in this section. If your business is a new start-up with no marketing history, then you do not need to include this section.

### 4.2. 5Ps Positioning

When developing your marketing strategy, you are encouraged to identify your '**5Ps**' which demonstrate your business' **positioning**. Positioning is what establishes your product or service's identity in the eyes of your customer. The 5Ps to identify are:

- **P**roduct: what are you selling, and what are the key features or benefits that your customers need?
- **P**rice: what is the price associated with your product or service, and how does this affect your customers?
- **P**lace: where are your products/ services seen, made, sold, or distributed? How does this affect your customer's ability to access your product?
- **P**romotion: what promotional activities (aka marketing tactics) are you using to market your product or service?
- **P**eople: who is your target market? Who are they interacting with when they contact your business (sales person, receptionist, anonymous email)? What do your customers expect when they contact you?

In your business plan, briefly identify your '5Ps'. Most have already been addressed in your business plan, so use this as an opportunity to summarize all of this information into your 'big picture' positioning.

### 4.3. Objectives

One of the first items to outline in your marketing strategy is your marketing objectives. What do you want to accomplish with your marketing strategy? These objectives help you determine the appropriate marketing tactics to pursue.

Like your business plan goals, these can be short, medium, and long-term. They can also relate to start-up activities (e.g. launch a website) or day-to-day operations (e.g. host quarterly sales promotions). These objectives should also follow the SMART criteria described in the *Goals* section on page 12.

Examples of some marketing objectives are:

- Hire a web developer to design and launch a website by the third quarter of 2016.
- Increase walk-in business by 20% by September 2016.
- Double the number of prospective clients on our mailing list for the summer promotion.

### 4.4. Branding

Your brand is your promise to your customer. It tells them what they can expect from your products and services, and it differentiates your offering from your competitors'. It should tie in directly with your unique selling proposition, values, mission, and vision.

Branding can include many different visual and audio aspects, including but not limited to:

- Logo
- Colour palette
- Slogan
- Jingle
- Font
- Mascot

It also includes many intangible aspects, such as what you do to differentiate yourself. Are you innovative? Reliable? Known for great customer service? Other intangibles that form your brand are your vision and values — these are elements for which you want to be known.

This section should provide a description of your brand (the tangibles and intangibles) and how you plan to apply it.

You may choose to design your own branding, or hire a professional to help you. Whichever way you choose to do it, remember that your branding must appeal to your target market(s). Consider the characteristics of your target market(s): Are they professional? Bilingual? Youthful? Determine what would be most attractive to them. Also ensure that your branding is memorable, easy to understand, and timeless.

A couple examples of branding are described in the box below.

**The Porter Airlines Raccoon:** Porter Airlines has branded their business with Mr. Porter, a jet-setting cartoon raccoon mascot. The graphic is one part of a larger branding identity created to evoke the carefree feeling of retro air travel. Now, Mr. Porter is inseparable from the brand, showing up on the company's brochures, water bottle labels and in-flight meal boxes. "Raccoons are intelligent, adaptable creatures that succeed in a variety of environments and unfavorable conditions, so our mascot choice was no accident," said Porter founder and CEO Robert Deluce.

**Siva's Family Restaurant:** no one in Timmins can think of Siva's Family Restaurant without picturing the smiling face of Siva himself. His constant presence in the restaurant and the use of his image in advertising on the restaurant website, billboards, and catering trucks provides a consistent image of the restaurant. The restaurant's reputation as 'family-friendly' is supported through community involvement and a friendly staff.

### 4.5. Marketing Tactics

Once you have chosen your objectives, identify what tactics will help you achieve them.

For example, if your objective is to increase walk-in business by 20% by September 2016, you may choose to use radio advertisements, a mail-out flyer with a coupon promotion, or put a sandwich board outside your premise to advertise that you welcome walk-ins.

There are multiple considerations to keep in mind when selecting your tactics. Ask yourself:

- Will this tactic reach my target market(s)?
- Will this catch my target market(s)'s attention?
- Will this tactic contribute towards achieving my objective(s)?
- Can I afford to use this tactic?
- Is there a simpler or more cost-effective way to do this?
- Is this tactic consistent with my brand?
- Is this the best way to communicate this message?

For your business plan, you need to describe what tactics you will use, how you will use them, and outline why they are good ideas. For example, if you are opening a law office, perhaps one of your tactics would be to develop your own brand. In your business plan, you would describe how you are going to hire a graphic designer to develop your office stationary (letterheads, envelopes, business cards), which will help clients have visual recognition of your business.

> **TIP: Focus on doing a few tactics very well rather than doing many tactics poorly.**

There are many different types of marketing tactics utilized, such as:

- Packaging
- Search engine optimization (SEO)
- Web presence/ website
- Social media outreach
- Television
- Radio
- Newsprint
- Sponsorships
- Flyers
- Tradeshows
- Special events

Many businesses rely heavily on word-of-mouth to promote their business. Word-of-mouth can be a great promoter as it is free and easy. Of course, if customers are unsatisfied with your product or service, word-of-mouth can quickly turn against you. Word-of-mouth is not a marketing tactic. It is not something you do, but rather something that happens to you.

If your tactics involve producing marketing materials (websites, brochures, poster advertisements, flyers, billboards, etc.), ensure to describe what they are, what message they will convey, who is designing them, and how they will be distributed/ communicated/ accessed by your target market(s).

### 4.6. Metrics

Metrics must be associated with your marketing objectives and tactics. Metrics measure the performance of an effort. In this section describe how you will know if you have achieved your objectives and whether your tactics were effective. Before employing any marketing tactic, you should decide what would have to happen for you to consider it a success.

If your objective was to grow your clientele base by 15 new clients in 2016, your associated metric would be "Number of new clients in 2016", with a target goal of 15. If the main tactic you used to pursue this objective was a wine-and-cheese networking function, then the metrics associated with the function may be "Number of Attendees", "Press Coverage of the Event", and "Event Expenses". Remember that with each metric you should identify a target. For example, you may be aiming for 50 event attendees, one mention of the event in the newspaper, and be striving to stay within a pre-determined event budget.

These metrics demonstrate that you have thoroughly thought through your marketing strategy and what you plan to achieve with it.

# SECTION 5: OPERATIONS MANAGEMENT

The purpose of this section is to discuss how your business will operate on a day-to-day basis, and what you are doing to ensure it will continue operating.

## 5.1. Operations

### Importing and Exporting

If your supply chain or distribution channels involve international imports or exports, this activity should be described in your business plan. Are you working with a customs broker? How is your product being shipped? What are the duties and other expenses associated with this? What timelines are associated with your importing/ exporting activities? You must ensure to register for an import-export program account with the Canadian government, which will facilitate timely customs processing.

### Supply Chain

In this section, you describe all the steps that are required to deliver your product or service to your target market(s).

Generally, the first step of this process is your supply chain. A **supply chain** is the network of companies involved in producing, handling, and/ or distributing a specific product. More specifically, the supply chain encompasses the steps it takes to get a good or service from the supplier to the consumer. Managing your supply chain can be a crucial way to keep your costs low. Your business plan should include the following:

- List the major suppliers from which you are purchasing supplies and products for your business, associated costs, and identify which you are considering. Their location is also important due to shipping costs and delivery time.

- Briefly describe how long the suppliers have been in business, what their shipment turnaround time is, and their return policy, to attest to whether they are efficient and reliable. Also describe their credit terms.

- Letters of intent show commitment on the part of suppliers to provide your business with raw materials or products. If possible, include these letters in your business plan appendices.

- When evaluating suppliers you should also identify an alternate supplier, just in case. Having too few suppliers leaves your business vulnerable to delivery delays, stops in production, and loss of productivity.

Supply chains vary depending on your business. A farmer opening a market stall may have a very short supply chain for the majority of his/ her products. A clothing store may have a very long supply chain, involving multiple intermediaries between the store and the original clothing producers. Either way, describing where you get your product or supplies from demonstrates that you are knowledgeable about your business.

**Goods Production or Service Delivery**

In this section, describe the production and delivery process. This may be a simple description or very complex, depending on your business model. Basically, what process do you follow to produce your goods or deliver your service? Here are two examples:

- Carl owns a bakery. He produces fresh-baked breads daily, starting his baking at 5am and usually finishing around 7 am. On Tuesday and Friday mornings, he also produces desserts: cupcakes, brownies, and assorted pastries. He bakes and decorates custom cakes demand, with a minimum 24 hours advanced notice. This work is done in mornings when possible, or during slow afternoons.

- Suzanne does custom brickwork. She specializes in driveways, chimneys, and fireplaces. Suzanne's process is to visit the site to discuss customer needs and take measurements. Within two days she provides a free quote which remains valid for up to 30 days. If Suzanne has not heard back from the customer within 14 days, she calls to follow-up and answer additional questions. Once Suzanne has been hired, she works with the customer to schedule the work, usually within a month during spring or fall, but sometimes longer during the busy summer season. During the work, Suzanne updates the customer daily on her progress to ensure the customer is pleased with the work. Six months after the completion of the work, Suzanne follows-up with the customer to ensure the brick is settling properly and to request a testimonial.

**Distribution Channels**

So far you have described how your product or service gets to you, the business owner, and what you do with it. Your **distribution channel(s)** describe how your product or service gets to the end user. A distribution channel can include wholesalers, retailers, and the internet, depending on your business model. For your business plan, describe the following:

- How your product or service will get to your customer — this may involve retail outlets, direct sales (mobile sales force or service providers), facilities, online sales, brokers (local, custom, and export), catalogue marketing, transport companies, manufacturing agents, or any combination of these.

- Discuss any advantages and disadvantages associated with your business location. These may include labour availability, proximity to customers, suppliers, distribution channels, utilities, zoning, etc. Also describe whether the land will be leased or owned; if leased, include the lease contract in your business plan appendices.

- If your business involves shipping products and covers some or all shipping costs, you must factor in the expense to your pricing strategy. It is suggested that you determine what the standard practice is in your industry and make your decision from there.

## Operating Facilities

All businesses have facilities from which they are operated. For example, a hair salon would have premises with a number of styling chairs, a deli would have a store location, or a landscaping company many have an office and equipment garage. In this section, describe your facilities — size, layout, features, etc. Some businesses may not require facilities; for example, a physiotherapist who only does house calls. In this case, this section would describe the premises from which the physiotherapist operates, such as a home-based office.

## Personnel

In this section, describe your staffing requirements.

If you are the only employee that your business will have, then state that clearly here.

If you plan to hire staff or already have, describe how many staff you need, what their role(s) will be, what qualifications are required for those roles, and how they will be compensated.

Include other details pertaining to your personnel, such as employment characteristics (seasonal, part-time, temporary, contract), whether it will be a unionized work environment, wages/ **salaries**, **benefits**, **incentive bonuses**, etc. Ensure to include your own compensation.

You must also identify your mandatory employment-related costs. These may include:

- Canada Pension Plan (CPP): you are required to make payments to CPP on behalf of yourself and any employees
- Employment Insurance (EI): you are required to make payments to EI on behalf of any employees
- Employer Health Tax (EHT): you are likely required to pay into EHT if you have a gross annual payroll of greater than $450,000
- Workplace Safety Insurance Board (WSIB): you are required to make payments to WSIB on behalf of any employees

## Hours of Operations

Simple information that is often forgotten in a business plan is the business' hours of operation. What will your weekly schedule be like? Do your customers need access to you during evenings, on weekends, or early mornings? Is there a set schedule or does it change?

### Seasonality

Most businesses are affected by seasonal changes as customer demand ebbs and flows. Retail stores experience Christmas rushes, while lawyers tend to find November and December to be slow periods. Accountants are most busy during tax season, general contractors are usually busiest during the summer months, and office supply stores tend to be fairly stable year round. What seasonal trends are likely to affect your business, and how?

### Capacity

In this section, describe your business' **capacity**. This refers to the maximum amount of products or services you can produce or deliver based on the number of sales people or service providers on staff, the size of your premises, the amount of equipment you own, the capacity of your equipment, seasonal influences, etc. Capacity is very important when projecting your revenue in your cash flow projection.

### Capital Requirements

The purpose of this section is to provide a brief description of the investments you need to start your business. These goods may fall into the categories of **capital goods**, **inventory**, raw materials, supplies, building construction/ acquisition/ renovation, etc.

At Joe's Diner, capital goods may include tables and chairs, a cash register, industrial kitchen appliances, the catering van, the office computer, accounting software, dishware, flatware, glassware, etc. Joe's Diner's raw materials would include all food stocks that need to be processed (cooked, sliced, etc.) while his inventory would be all food items ready to be sold to customers, and supplies may include other consumables like paper napkins and cleaning products.

In the business plan, you should list all capital goods, inventory, raw materials, building construction/ acquisition/ renovation, etc. required to start your business. Identify what items you already own and what items you must acquire, as well as approximate prices.

### ICT Requirements

If your business has any special **ICT** requirements to operate, identify them here. This may include softwares, licences, hardware, connectivity, energy sources, data protection or encryption, or specific training requirements.

### Inventory Control Plan

If your business is selling materials goods (or relying on them to deliver your service), you should establish a plan to manage inventory levels. Generally, this plan should address the following questions:

- Who is responsible for monitoring stock levels, ordering, and matching shipments to orders?
- What are your re-order levels? Do these fluctuate seasonally? What lead times are required when re-ordering?
- What are your minimum acceptable quantities of stock?
- How and when will you dispose of obsolete inventory?

### Licenses and Permits

All businesses require some form of licensing or permitting, based on municipal, provincial, or federal regulations. In this section, list what licenses and permits you require, and whether you have already acquired them or are in the process of doing so.

For more details on how to identify the licenses and permits you need, see ***The Business Enterprise Centre's Guide to Business Start Up***.

### Insurance

All businesses require some form of insurance, and most require multiple forms. Insurance provides a financial buffer against hardship by transferring the cost of a potential loss to the insurance company, in exchange for a fee. In this section, list your business' insurance requirements, whether you already possess the insurance or are in the process of getting it, and the main details (i.e. liability coverage, deductibles).

Some types of insurance that business owners frequently need include:

- General liability insurance
- Property insurance
- Business interruption insurance
- Commercial auto insurance
- Worker's compensation
- Professional liability insurance
- Directors and officers insurance
- Data break policy
- Renter's insurance

**TIP: Some insurers offer business owner's policies which bundle multiple types of insurance.**

## 5.2. Risk Management

Every business operates with some level of **risk**. Strong business plans include risk management strategies, which identify, assess, and propose strategies to manage risk. To develop your risk management section, ask yourself: what could go wrong? These risks are often identified in the process of creating your SWOT analysis.

Once you have developed you list of possible risks, you must assess them. Most risk assessment tools evaluate risks based on their likelihood and impact. The matrix below demonstrates how these two factors can be used to rank risks as low, medium, or high.

| | | Probability | | |
|---|---|---|---|---|
| | | Low | Medium | High |
| Impact | Low | Low Risk | Low Risk | Low Risk |
| | Medium | Low Risk | Medium Risk | Medium Risk |
| | High | Low Risk | Medium Risk | High Risk |

For example, a pipe bursting and flooding your premises may be low probability but high impact. The risk of flooding would be ranked as 'low'. If you are opening a business with few barriers to market entry, a competitor opening in your community is very probably, so the risk's probability is high, but perhaps you have measured significant market demand for your product, so the impact is medium. The risk of a competitor opening would be ranked as 'medium'. It is your role as the business owner to try to accurately and consistently evaluate your risks.

Once you have evaluated your risks, you must develop your risk management strategies. You may choose to develop strategies for only your 'high' risks, or your 'high' and 'medium' risks, or all your risks. There are three main risk management strategies:

- **Elimination**: change your business plan to remove the risk completely. For example, a business may identify a high risk of shoplifters, so the owner locks all her wares into glass display cases. This strategy eliminates both the impact and the probability of the risk.

- **Mitigation**: change your business plan to reduce the risk. For example, a business may identify a high risk of shoplifters, so the owner installs a security camera and security tags on expensive items to deter potential thieves. This strategy reduces the impact and the probability of the risk.

- **Adaptation**: change your business plan to manage the consequences of the risk. For example, a business may identify a high risk of shoplifters, so the owner budgets for some **shrinkage** and includes this cost in her break-even projections and pricing strategy. This strategy reduces the impact of the risk, but does not affect its probability.

You may use one or a combination of these strategies to manage each identified risk.

In your business plan, identify your risks, their assessment, and your management strategy. Many entrepreneurs are hesitant to identify risks in their business plans. They worry that it makes their business seem less attractive to investors. The opposite is usually true: identifying, assessing, and strategizing to manage risk demonstrates that you thoroughly understand your business and are ready for the worst.

## 5.3. Succession Plan

All businesses benefit from the development of a succession plan. **Succession planning** involves identifying, developing, retaining, and replacing talent for key positions, including you. Basically, what will you do if people in key positions leave? If you are operating a partnership, what will happen if your partner decides to leave? When the time comes, how will you exit your business?

Early planning will give you the opportunity to consider all of your options, including strategies that may take time to implement. If you plan on passing your business on to your children once you are ready to retire, you'll need sufficient time to train them and integrate them into your business.

In your business plan, provide a brief summary of your succession plan — describe what you are going to do, with whom, and when.

# SECTION 6: FINANCIAL PROJECTIONS

This section provides the financial evidence that your business idea is feasible and profitable.

Financial projections demonstrate that you have a clear understanding of the profitability of the proposed new business or expansion.

As you develop your financial projections, ensure that they are accurate and based on **facts**. Unrealistic or unfounded financial claims do not help make your business appear more viable or strengthen your proposal to potential lenders — in fact this can jeopardize your chances of receiving financing. Unrealistic financial projections also set up false expectations for the business development and often lead to cash flow problems and other issues.

Please note that while this guide provides a description of what your financial statements should include, you are advised to work with a financial advisor when developing financial projections.

### 6.1. Financing Needs

Most entrepreneurs write business plans to help them secure funding, financing and other forms of investment. When considering your financing needs, there are two different types of capital to consider: **start-up costs** and **working capital**. Start-up costs are the expenses you have prior to your business opening (or prior to expansion, for an existing business). These may include equipment, furniture, inventory, marketing and promotion, legal fees, first and last month's rent, etc. What all start-up costs have in common is that they are incurred before the business opens.

Working capital is defined as the amount of a company's assets minus the amount of its liabilities. For a start-up business, working capital is money the business needs to continue operating until it is profitable. The amount of working capital a start-up needs varies depending on its operating cycle cash needs – how much cash does it take to run your business for a given period of time? Commonly, businesses calculate their working capital needs as six months of cash flow plus a 10 or 15 per cent cushion.

In this section, outline your financial needs for your start-up or expansion. Include the following details:

- Immediate and long-term requirements: how much money do you need up front (start-up or expansion costs), and in the long-term (further expansion, growth, working capital)?

- Intended use: how will you be using the money? Is it earmarked for start-up costs, working capital, capital expenditures, operating expenses?

- Source(s): where have you applied for financing/funding from? How much from each source and for what expenses?

- Terms: what are the terms of the financing? What is your forecasted **amortization** schedule?

- Timing: when do you anticipate financing/funding to be in place?

- Contingency plan in case you underestimated your need or are turned down for financing.

## 6.2. Past Financial Statements

If your business is already running, it is advisable to include the past three years' financial statements in your business plan to illustrate your past performance. Make sure to provide a few summary statements to tell readers what the financial statements show (i.e. amount of growth, profit, loss; sales trends; etc.).

## 6.3. Pro Forma Cash Flow Statement

A **cash flow statement** reports the outflow and inflow of cash during a specified time period. This statement demonstrates your cash flow strength to investors. A cash flow statement is the most common financial statement required for a business start-up seeking financing or funding.

The cash flow statement is particularly important for companies who use **accrual accounting**. The income statements they release each quarter may not necessarily reflect changes in their cash positions.

For example, if a company lands a major contract, this contract would be recognized as **revenue** (and therefore **income**), but the company may not yet actually receive the cash from the contract until a later date (it is an **account receivable**). While the company may be earning a profit in the eyes of accountants (and paying income taxes on it), the company may, during the quarter, actually end up with less cash than when it started the quarter.

For your business plan, it is suggested that you provide cash flow projections for the next three years. Ensure that any start-up costs are included in your cash flows. For help developing these projections see ***The Business Enterprise Centre's Financial Statements Template***.

A simple example of a cash flow projection is provided below.

## Bulbs 'n' Blossoms Flower Shop

**Consolidated Cash Flow Statement (projection)**

| | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| **Operations** | | | |
| Cash receipts: sales of products and services | $ 144,582 | $ 158,832 | $ 237,240 |
| Cash payments: (inventory) | $ (4,000) | $ (6,000) | $ (6,000) |
| Cash payments: (raw materials) | $ (55,000) | $ (60,000) | $ (72,000) |
| Cash payments: (employment-related expenses) | $ (9,031) | $ (12,907) | $ (18,655) |
| Cash payments: (general expenses) | $ (24,120) | $ (24,120) | $ (24,120) |
| Cash payments: (interest) | $ (903) | $ (566) | $ (205) |
| Cash payments: (income tax) | $ - | $ (14,742) | $ (43,983) |
| **Cash flows from/ for Operations** | **$ 51,529** | **$ 40,497** | **$ 72,277** |
| **Investments** | | | |
| Cash receipts: sale of assets | $ - | $ - | $ - |
| Cash payments: (purchase of assets) | $ (200) | $ (1,500) | $ (5,000) |
| **Cash flow from/ for Investments** | **$ (200)** | **$ (1,500)** | **$ (5,000)** |
| **Financing** | | | |
| Cash receipts: proceeds from borrowing | $ - | $ - | $ - |
| Cash receipts: owner's contribution | $ - | $ - | $ - |
| Cash payments: (principal payments on loans) | $ (4,655) | $ (4,992) | $ (5,353) |
| Cash payments: (owner's draw) | $ (16,500) | $ (39,500) | $ (45,000) |
| **Cash flow from/ for Financing** | **$ (21,155)** | **$ (44,492)** | **$ (50,353)** |
| Net cash increase/ decrease | $ 30,173 | $ (5,495) | $ 16,924 |
| Add: cash at beginning of year | $ - | $ 30,173 | $ 24,679 |
| **CASH AT END OF YEAR** | **$ 30,173** | **$ 24,679** | **$ 41,603** |

### 6.4. Pro Forma Income Statement

An **income statement** is a financial statement that measures a company's financial performance over a specific accounting period, typically over a fiscal quarter or year. Income statements help investors and creditors determine the past financial performance of the enterprise, predict future performance, and assess the capability of generating future cash flows through report of the income and expenses.

Most start-ups are not required to provide income statement projections. Existing businesses generally are expected to include them. ***The Business Enterprise Centre's Financial Statements Template*** guides you through the process of projecting a consolidated income statement for your first three years.

A simple example of an income statement projection is provided below.

**Bulbs 'n' Blossoms Flower Shop**

**Consolidated Income Statement (projection)**

| | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| **Gross Profit** | | | |
| Net Revenue or Sales | $ 144,582 | $ 158,832 | $ 237,240 |
| Cost of Goods Sold | $ 59,000 | $ 66,000 | $ 78,000 |
| **GROSS PROFIT** | **$ 85,582** | **$ 92,832** | **$ 159,240** |
| **Operating Expenses** | | | |
| Employment-Related Expenses | $ 9,031 | $ 12,907 | $ 18,655 |
| General Expenses | $ 24,120 | $ 24,120 | $ 24,120 |
| Depreciation Expense | $ 5,868 | $ 6,168 | $ 7,068 |
| **Total Operating Expenses** | **$ 39,019** | **$ 43,195** | **$ 49,844** |
| **OPERATING PROFIT** | **$ 46,563** | **$ 49,637** | **$ 109,396** |
| **Other Income and Expenses** | | | |
| Income/ Loss from Non-Recurring Items | | | |
| Gain/ Loss on Disposal of Assets | $ - | $ - | $ - |
| Interest Expense | $ 903 | $ 1,469 | $ 1,674 |
| **Net Other Income and Expenses** | **$ 903** | **$ 1,469** | **$ 1,674** |
| **INCOME BEFORE TAXES** | **$ 47,466** | **$ 51,105** | **$ 111,070** |
| Income Tax | | $ 14,742 | $ 43,983 |
| **NET INCOME** | **$ 47,466** | **$ 36,363** | **$ 67,087** |

### 6.5. Pro Forma Balance Sheet

While an income statement shows how a business is doing over a period of time, a **balance sheet** provides a snapshot of the business' financial condition at a given point in time. A balance sheet represents three aspects of your business: **assets**, **liabilities**, and **owner's equity**. It is called a balance sheet because assets minus liabilities (net assets) must equal the owner's equity (they must balance).

Again, most start-ups are not required to provide income statement projections. Existing businesses generally are expected to include them.

A simple example of a balance sheet projection is provided below.

**Bulbs 'n' Blossoms Flower Shop**

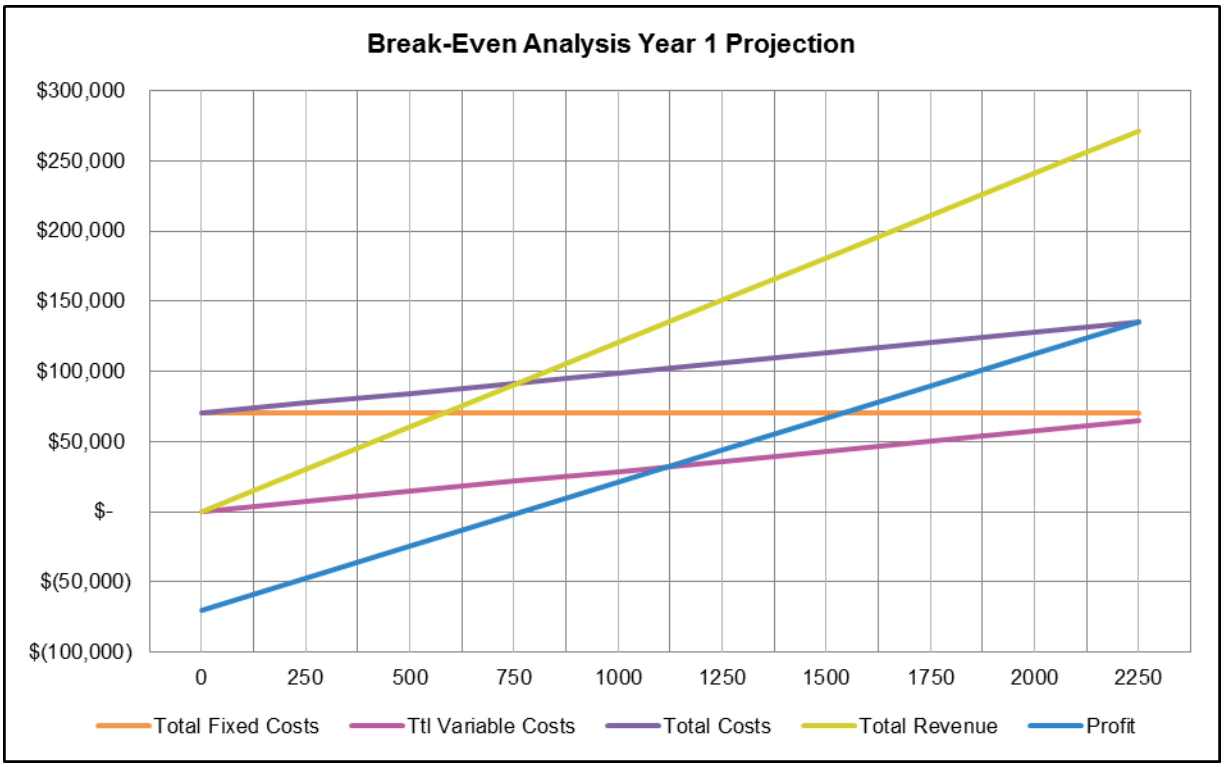
**Consolidated Balance Sheet (projection)**

| | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 31,931 | $ (28,749) | $ (160,338) |
| Inventory | $ 6,000 | $ 6,000 | $ 6,000 |
| Accounts receivable | | | |
| Prepaid expenses | | | |
| **Current Assets** | **$ 37,931** | **$ (22,749)** | **$ (154,338)** |
| Equipment | $ 200 | $ - | $ 5,000 |
| Furniture and fixtures | $ - | $ 1,500 | $ - |
| (Less accumulated depreciation) | $ (5,868) | $ (6,168) | $ (7,068) |
| **Net Fixed Assets** | **$ (5,668)** | **$ (4,668)** | **$ (2,068)** |
| **TOTAL ASSETS** | **$ 32,263** | **$ (27,417)** | **$ (156,406)** |
| **Liabilities** | | | |
| Accounts payable | | | |
| **Total Current Liabilities** | **$ -** | **$ -** | **$ -** |
| Long-term debt | $ 10,345 | $ 5,353 | $ (0) |
| **TOTAL LIABILITIES** | **$ 10,345** | **$ 5,353** | **$ (0)** |
| **Owner's Equity** | | | |
| Retained earnings (net income from previous year) | $ - | $ 47,466 | $ 36,363 |
| **TOTAL LIABILITIES AND EQUITY** | **$ 10,345** | **$ 52,818** | **$ 36,363** |

## 6.6. Break-Even Analysis

As a business owner, it is valuable for you to understand be able to explain what your business' break-even point is. This is the point at which your costs and expenses and revenues are equal. It can be measured in units sold or revenue earned. In your business plan, you should identify what your break-even point is, and when you forecast to achieve it.

Break-even is calculated by considering fixed expenses (those that do not change based on sales performance) and variable expenses (those that increase or decrease based on sales performance). Fixed expenses include costs such as rent, insurance, salaries, training, and depreciation. Variable expenses include inventory, raw materials, and direct labour (cost of goods sold) used to produce goods for sale. You can use ***The Business Enterprise Centre's Financial Statements Template*** to help you identify your break-even point and produce a graph displaying your break-even analysis like the one below.




For start-up businesses, calculating a break-even point is a simplified exercise, since expenses and revenues are being projected and are not actually known.

# SECTION 7: APPENDIX – SUPPORTING DOCUMENTS

The appendices of your business plan are where you would include supporting documents and evidence. These may include:

- Management resume(s)
- Copies of legal documents: leases, contracts, agreements, deeds, insurance policies/quotes, business licenses, patent information, etc.
- Letters of intent or contract from suppliers or customers
- Letters of support from mentors, board members, or investors
- Customer/ target market(s) study results
- Product mockups/ pictures
- Promotional material samples
- Store layouts

# GLOSSARY

**5Ps:** factors used to identify positioning, specifically **p**roduct, **p**rice, **p**lace, **p**romotion, and **p**eople.

**Accounts receivable:** a legally enforceable claim for payment from a business to its customer/clients for goods supplied and/or services rendered in execution of the customer's order.

**Accounts payable:** money owed by a business to its suppliers shown as a liability on a company's balance sheet.

**Accrual accounting:** an accounting method that records revenues and expenses when they are incurred, regardless of when cash is exchanged.

**Adaptation:** change to manage the consequences of risk.

**Advertising:** the act or practice of calling public attention to one's product, service.

**Amortization:** the spreading of payments for loans or intangible assets over multiple periods.

**Assets:** the resources that a business uses to operate its business such as cash, inventories, land and buildings, and equipment. Essentially, assets are any items of value owned or controlled by the business that contributes towards generating revenue. Assets are categorized as either current or non-current assets.

**Bad debt:** a debt that cannot be recovered, such as a credit which is never paid.

**Balance sheet:** a financial statement which demonstrates a business' state at a given point in time and provides a snapshot of the business' financial condition.

**Barriers to market entry:** obstacles that make it difficult to enter a given market.

**Benefits:** various types of non-wage compensation, including housing, group insurance (health, dental, life etc.), disability income protection, retirement benefits, daycare, sick leave, vacation, social security, education/ training funding, etc.

**Branding:** the process involved in creating a unique name and image for a product in the consumers' mind.

**Break-even point:** the point at which your costs and expenses and revenues are equal. It can be measured in units sold or revenue earned.

**Capacity:** the maximum amount of products or services you can offer based on your current business plan.

**Capital goods:** machines and tools used in the production of other goods (consumer goods).

**Cash flow statement:** reports the cash generated and used during a specified time period.

**Competitive advantage:** an advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition.

**Competitive pricing:** undercuts the competition by a small percentage; used when entering a market where there is already an established price and it is difficult to differentiate one product from another. Also called penetration pricing.

**Co-operative:** an organization owned by the members who use its services or are employed there. Co-ops and credit unions provide consumers with a distinct values-based and community-owned and controlled alternative. Co-operatives are democratically controlled and regulated by special provincial and federal legislation.

**Corporation:** a form of business organization which is chartered by a state and given many legal rights as an entity separate from its owners. A corporation is characterized by the limited liability of its owners and company ownership via shares.

**Cost-plus pricing:** takes the costs (fixed and variable) per product and adds the desired profit percentage. It is used mainly by manufacturers.

**Cost of goods sold (COGS):** the costs that go into creating the products that a company sells; therefore, the only costs included in the measure are those that are directly tied to the production of the products.

**Demand pricing:** offers differing prices based on demand; it is often used by companies that sell their product through a variety of sources. Also called dynamic pricing.

**Demographics:** statistical data relating to the population and groups within it

**Depreciation:** the allocation of an asset's costs among the periods that an asset is expected to be used; or, the decline in value of an asset over time.

**Direct competitor:** a company that produces a virtually identical good or service that is offered for sale within the same market as those produced by one or more other producers.

**Distribution channel:** The chain of businesses or intermediaries through which a good or service passes until it reaches the end consumer. A distribution channel can include wholesalers, retailers, distributors, and the internet. Channels are broken into direct and indirect forms, with a "direct" channel allowing the consumer to buy the good from the manufacturer and an "indirect" channel allowing the consumer to buy the good from a wholesaler. Direct channels are considered "shorter" than "indirect" ones.

**Dynamic pricing:** see 'demand pricing'.

**Elimination:** a change to remove risk.

**Executive summary:** a one to two page summary and a high level picture of all the key aspects of your business plan.

**Financial performance data:** a data used for small- and medium-sized enterprise (SME) performance benchmarking.

**Financial ratios:** measures of financial performance, such as a current ratio, debt ratio, and gross margin.

**Fixed expenses:** expenses that do not change based on sales performance.

**General partnership:** an agreement between two or more people who equally share responsibility and liability. This is simple and inexpensive to create and operate. The partners are personally liable for any business debts.

**Goals:** what you want to accomplish with your business and how you will measure your success.

**Incentive bonus:** a monetary payment awarded upon meeting or exceeding a pre-determined goal.

**Income:** all monies received, including but not limited to revenue, government funding, grants, loans, interests, etc.

**Indirect competitor:** a competitor who supplies a different type of product or service that satisfies the same needs.

**Industry:** the component of the economy to which your business belongs. It is commonly categorized by sector (primary, secondary, etc.) or by activity (retail, service, manufacturing, etc.).

**Inventory:** the merchandise or stock a company owns that are destined to be sold to the end-user.

**Joint venture:** A business activity shared by two or more business entities. The joint venture's activities must be finite in terms of either time or scope.

**Legal form:** the definition of a business entity according to the legal system, in order to shape and administer the commercial law and regulations governing the business entity.

**Liability:** the financial obligations or debts of the business and include claims that creditors have on the business's resources such as accounts payable, bank overdrafts, provision for employees' annual leave and long service leave, tax liabilities, and loans payable. Essentially, liabilities are amounts owed by the business to external parties. Liabilities are categorized as either current or non-current liabilities.

**Lifestyle:** the interests, opinions, and behaviours of groups of people.

**Limited partnership:** a form of partnership similar to a general partnership, except that in addition to one or more general partners, there are one or more limited partners. It is a partnership in which only one partner is required to be a general partner. Limited partners are usually investors. A limited partnership limits both the liability and the participation of the investor.

**Management hierarchy:** the organizational structure of a business in which people or groups are ranked according to authority.

**Marketing:** the action or business of promoting and selling products or services, including market research and advertising.

**Market potential:** the estimated maximum total sales revenue of all suppliers of a product in a market during a certain period.

**Market share:** the percentage of a total market (either units or revenue) that goes to an individual firm.

**Mark-up pricing:** takes the costs (fixed and variable) per product and adds the desired profit percentage. It is used mainly by manufacturers.

**Metrics:** measure the performance of an effort.

**Mission statement:** a single sentence that defines the purpose of your company and the effect you intend to have on the world around you. Your mission statement and your vision statement should be consistent.

**Mitigation:** a change to reduce risk.

**Owner's equity:** the residual interest in the assets of a business after liabilities are deducted. It is the net worth of a business and equals the difference between assets and liabilities. Equity represents the amount belonging to the owner once all financial obligations have been met.

**Penetration pricing:** see 'competitive pricing'.

**Positioning:** establishing your product or service's identity in the eyes of your customer, usually using the 5Ps.

**Primary research:** research that you did yourself, such as surveys, interviews, focus groups, and observations.

**Product or service segment:** a related off-shoot of the main product or service — for example, a menswear retail store may also offer hats and belts.

**Profit margin:** the amount you actually make per sale after covering all your costs.

**Purchase motivations:** the customer need that is fulfilled by the product or service.

**Revenue:** the total amount of money received by your company for goods sold or services provided during a certain time period. Note that all revenue is income, but not all income is revenue.

**Risk:** a situation involving exposure to danger, harm, or loss.

**Salary:** a periodic, formally agreed upon monetary payment.

**Sales volume:** the quantity of goods or services you will sell in a given period of time.

**Search Engine Optimization (SEO):** the process of affecting the visibility of a website or a web page in a search engine's "natural" or un-paid search results. In general, the earlier on the search results page, and more frequently a site appears in the search results list, the more visitors it will receive from the search engine's users.

**Shrinkage:** an allowance made for reduction in the earnings of a business due to wastage or theft.

**Sole proprietorship:** A business owned and operated by a single individual, with no formal business structure is established and no legal distinction between the owner and the business. This is simple and inexpensive to create and operate, with profits and losses reported on the owner's personal tax return. The owner is personally liable for any business debts.

**Start-up costs:** the expenses you have prior to your business opening (or prior to expansion, for an existing business). These may include equipment, furniture, inventory, marketing and promotion, legal fees, first and last month's rent, etc. What all start-up costs have in common is that they are incurred before the business opens.

**Succession planning:** identifying, developing, retaining, and replacing talent for key positions.

**Supply chain:** the network of companies involved in producing, handling, and/ or distributing a specific product. More specifically, the Supply Chain encompasses the steps it takes to get a good or service from the supplier to the consumer.

**SWOT analysis:** a structured planning method used to evaluate the **s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats involved in a project or in a business venture.

**Target market:** the group of customers to whom you have decided to aim your products/ services and marketing efforts. Note that this is a specific demographic group (e.g. men aged 19 to 29), not a broad sweep of the population (e.g. adults aged 18 to 65).

**Unique Selling Proposition (USP):** a one or two sentence sales pitch that describes how your product or service is different from and better than your competitors.

**Value-based pricing:** (also called value optimized pricing) pricing strategy that sets prices primarily, but not exclusively, on the estimated or perceived value of the product/ service to the customer, rather than on the cost of the product or historical prices. Where it is successfully used, it improves profitability due to the higher prices without impacting greatly on sales volumes. However, it can be very challenging to accurately measure estimated or perceived value.

**Value proposition:** a one or two sentence sales pitch that describes how your product or service is different from and better than your competitors.

**Values:** an element of your business strategy that identifies your company's principles and guide every business decision you make.

**Variable expenses:** expenses that increase or decrease based on sales performance.

**Vision statement:** a single sentence that demonstrates the impact you would like your company to have in the long-term. It should be consistent with your core Values.

**Working capital:** the amount of a company's assets minus the amount of its liabilities. For a start-up business, working capital is money the business needs to continue operating until it is profitable.

# RESOURCES

For more information regarding developing your business plan and general information on business planning and financing information, check out the following sites:

- The Business Enterprise Centre: www.northeastbec.com
- Canada Business Ontario: www.cbo-eco.ca
- MaRS Discovery District: www.marsdd.com
- Futurpreneur Canada (formerly Canadian Youth Business Foundation): www.futurpreneur.ca
- Northern Ontario Heritage Fund Corporation: www.nohfc.ca
- Business Development Bank of Canada: www.bdc.ca
- Industrial Research Assistance Program: www.nrc-cnrc.gc.ca/eng/irap
- The Government of Canada's Concierge Service: provides a single access point where small and medium-sized enterprises can find high-quality, timely advice to help them innovate and accelerate their growth: concierge.invovation.gc.ca
- Local municipal government, economic development officers, and Chambers of Commerce
- Bank websites: banks offer a variety of resources and tools for small business owners

Also, read ***The Business Enterprise Centre's Guide to Business Start Up*** for assistance with the practical challenges of starting a business, including legal form, naming your business, government requirements, and much more.