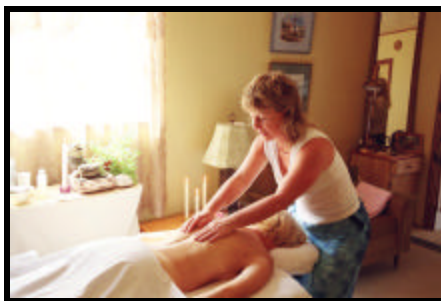


Self-Employment Program Business Plan Instructions



Government
of Canada

Gouvernement
du Canada

The Government of Canada has contributed funding to this initiative.

Canada

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Small Business is Big Business in BC

The small business sector is a critical contributor to our economy!

- ✍ In 2005, small businesses accounted for 98% of all business in British Columbia. Micro-businesses (with < five employees) constituted about 84% of small businesses.¹
- ✍ Small business employment in British Columbia grew 3.8% between 2004-2005, the highest rate of growth among the provinces and well above the national average of 0.9%.¹

What are the Advantages of being your own Boss?

- ✍ Hard work and long hours directly benefit you, rather than increasing profits for someone else.
- ✍ Earning and growth potential are far less limited.
- ✍ A new venture is exciting.
- ✍ Running a business will provide endless variety, challenge and opportunities to learn.

What are the Disadvantages of being your own Boss?

- ✍ High stress level.
- ✍ High failure rate.
- ✍ Undercapitalization.
- ✍ Managerial inexperience or incompetence.
- ✍ Inability to cope with growth.
- ✍ Difficult to find and keep good employees.

What are Your Goals?

Create a list of goals with a brief description of steps that need to be taken to achieve those goals. If your business is a start up, you will want to put more effort into your short-term goals. Often a new business concept must go through a period of research and development before the outcome can be accurately predicted for longer time frames.

Create two sets of goals:

1. **Short term:** range from six to 12 months.
2. **Long term:** can be two to five years.

Explain, as specifically as possible, what you want to achieve. Start with your personal goals. Then list your business goals. Answer these questions:

- ? As the owner of this business, what do you want to achieve?
- ? How large or small do you want this business to be?
- ? Do you want to include family in your business?
- ? Staff: do you desire to provide employment, or perhaps, do you have a strong opinion on not wanting to manage people.
- ? Is there some cause that you want the business to address?

¹ 2006 Small Business Profile

What are Your Goals? (continued)

- ? How would you describe your primary competitive advantage?
- ? How do you see the products or services making a difference in the lives of your customers?

Once you have these goals in place it will be easier to aim for your goal.

“If you do not know where you are going, every road will get you nowhere.” - Henry Kissinger

The Self-Employment Program

In the Regional District of Central Kootenay, Community Futures is the delivery agent for Service Canada's Self-Employment Program. The Self-Employment Program helps unemployed people who wish to create their own full-time employment through starting their own business or purchasing an existing business. The program offers income benefits for up to 52 weeks as well as business management training and counselling for new entrepreneurs.

Steps to Take

- 1) Meet with an Employment Advisory Service (EAS) to complete a Back to Work Action plan and discuss all options that are open to you. If Self-Employment is identified as a viable option, the Back to Work action plan will provide a referral to the Self-Employment Program.
- 2) Register for and attend the Self-Employment Program Orientation and Business Plan Workshops.
- 3) Determine if you would like to work on the business plan on your own time and speed or if you would like to apply for the Start Smart Business Plan Development Program. If applying for Start Smart, complete the Start Smart Program Application and return it to Community Futures prior to an intake deadline. (Call 352-1933 to get deadline dates.)
- 4) **Complete a written business plan and the required application forms.** Please note that your Business Plan is not only completing the set of forms. You are required to address each section outlined on Page 5 (i.e. marketing, operations, risk assessment, etc.) so filling in the forms only will not be sufficient. If clarification is needed, please call Community Futures at 352-1933, weekdays between 8:30 a.m. - 4:30 p.m.
- 5) After you have completed your business plan, bring **a copy** of the business plan and **copies** of all supporting documentation and application forms to Community Futures at 201 – 514 Vernon Street, Nelson, B.C. V1L 4E7. Staff will review the Business Plan Check List with you to verify that the required information is contained in the Business Plan. (They may provide you with a list of additional information that you still need to complete.)
- 6) **Do not include original documents in your application.**
- 7) Your business plan will be thoroughly reviewed by Self-Employment and/or Loans Program staff. Once they have prepared their critique they will contact you to set up an appointment to discuss your business plan. You have an opportunity to address any required changes or to supply additional information prior to the business plan being presented to the Self-Employment Committee for funding approval.

Preparing a Business Plan

The business plan is a written summary of what you hope to accomplish and how you intend to organize your resources to meet your goals. It is the road map for operating your business and measuring your progress along the way. It is a valuable tool in helping you assess the risk and commitment demanded by your potential business venture. The business plan will also provide great satisfaction to the entrepreneur once goals are being met.

A business plan is your “blueprint” or “recipe” for building your business. It will focus your thinking and research and will identify and resolve potential problems before you begin business operations. Developing your business plan will help you to think through your business concept, and will enable you to identify your priorities and the path you will follow.

A Cash Flow forecast will become your most important management tool once you begin business operations. Accordingly, you should spend considerable time and effort to identify your probable Cash Flow before you begin operations. Your ability to manage Cash Flow will be your most important daily responsibility. Failure to manage Cash Flow will undoubtedly cause wasted time and energy handling upset suppliers and your banker’s concerns, rather than conducting business.

Once your business plan and Cash Flow forecast have been developed, they should be reviewed and updated on a regular basis. In the preparation of your plan, you will address all the areas around the successful operation of your business. If followed properly, your business plan and Cash Flow forecast will prove to be invaluable management tools leading to your success.

Your business plan and Cash Flow forecast are the two most important tools you have at your disposal. If used properly, these tools will help you save thousands of dollars and endless hours of frustration. Resolve now to make planning a part of your management style. Three or four hours spent each month reviewing your plan will save you time and money in the long run and may even save your business.

Why Prepare a Business Plan?

- ☞ A Business Plan is a written outline of facts about your business - its structure, goals, marketing, operational and financial requirements.
- ☞ It is the road map to your success.
- ☞ It is an indicator whether your product or service is viable.
- ☞ It troubleshoots areas of concern, maybe even before they happen.
- ☞ If applying for financing, it improves your ability to secure financing.
- ☞ It encourages realism.
- ☞ It helps you to identify your customers, your market area, your pricing strategy and the competitive conditions under which you must operate to succeed. This process often leads to the discovery of a competitive advantage or a new opportunity as well as deficiencies in your plan.
- ☞ By committing your plans to paper, your overall ability to manage the business will improve. You will be able to concentrate your efforts and be able to deal with unplanned problems or issues that arise. You will also have time to look ahead and hopefully avoid problems before they arise.
- ☞ The business plan identifies the amount of financing or outside investment required and when it is needed.
- ☞ First impressions are important. A well-organized plan makes it much easier for a lender or investor to assess your financing proposal and to assess you as a business manager.

Before Starting Your Business

Your research needs to answer the following questions:

1. Is there a need for this service/product?
2. Who is likely to buy your service/product?
3. Are there enough of these people in your market area?
4. How are you going to find these customers?
5. Is a competitor meeting the need? If so, can you offer something they can't?
6. How much are your customers willing to pay?
7. Will finding customers cost more than the profit margin will allow?
8. Is there a profit margin?

This information is critical to anyone reading this business plan, i.e., financiers, investors, Self-Employment Committee, etc. More importantly, it is critical information for **you** to know before you attempt to start your business.

Tips for Writing a Winning Business Plan

- ✍ Your plan should be clear and to the point.
- ✍ Your plan should be typed, easy to read, without spelling or grammatical errors. Most financial institutions or organizations reviewing the business plan will need to make photocopies of the document. However, if you do not have access to a computer then a neatly written business plan is acceptable.
- ✍ Your plan should clearly state the opportunities for the business.
- ✍ Your plan should convey your strengths and your abilities to create a successful business.
- ✍ Don't make unrealistic assumptions or projections.
- ✍ Don't underestimate the difficulties in growing a business.
- ✍ Don't assume that the reader understands the business, industry or profession; be careful not to use jargon.

Business Plan Outline

Your business plan should follow the outline and the headings below:

- Introduction
- Management
- Description of Product or Service
- Market Research & Analysis
 - Summary of Market Research
 - Industry Overview
 - Market Survey Summary
 - Market Support Summary
 - Competitive Analysis
 - Target Market & Demographics
 - Market Area
 - Sales Method
 - Placement & Distribution
- Marketing & Promotional Plan
 - 12-Month Marketing & Promotional Strategy
- Business Operations
 - Location
 - Equipment
 - Office Requirements
 - Production Process/Capabilities
 - Suppliers
 - Staffing
 - Guarantees/Warranties
- Laws & Insurance
 - Form of Organization
 - Provincial Name Search & Declaration
 - Provincial Sales Tax
 - Goods & Services Tax
 - Worker's Compensation
 - Insurance
 - Municipal Licenses
 - Other Legal Requirements
- Financial Plan
 - Cost Analysis
 - Pricing Method
 - Projected Cash Flow Budget
 - Cash Flow Budget Assumptions
 - Projected Income Statement(s)
 - Break-Even Analysis
 - Projected Household Budget
 - Equity Statement
 - Personal Investment List
- Risk Assessment
- Appendices

Introduction

The introduction is the first selling tool of the business and its function is to bring the readers in, grab their attention, set the tone, and get investors excited. The structure of your plan's introduction can take many forms. In some plans it is simply a carefully-crafted cover sheet, complete with graphics and some catchy, attention-getting text that introduces the idea. For others, it is a page or so of text introducing the concept through a more literary or artistic means than the rest of the plan, a page to put forth the flavour of what you are about to propose in more technical words and numbers in the rest of the business plan.

It is not necessary (nor is it recommended) to get too detailed in the introduction. The details will be provided in the rest of the plan. The introduction is your first stab at advertising your idea, and in this advertisement you get to communicate your mission, your product(s) or service(s) and your market position with a quick brushstroke. Creating a catchy introduction page is one of your first marketing lessons.

Management

As the manager of the business, you hold the key to its success. You will need to give a brief statement of your background as it relates to the business. Indicate the interests, skills, knowledge, experience, and abilities that you have to contribute to the business.

List the Strengths and Weaknesses of Management

- ? Management Experience
- ? People Skills
- ? Accounting or Bookkeeping Skills
- ? Computer and Administrative Skills
- ? Knowledge of product or service

Be honest in your assessment of your strengths and weaknesses. It is far better to identify any areas where you may need assistance and get the help you need, than to try to do it all yourself. The Self-Employment program is considered a "training program" and there are workshops and counsellors available to help you fill in those gaps.

In addition to the above, you will need to include your resume as well as resumes for all partners or shareholders who are active in the business operations. **Include copies of educational certificates or diplomas and trades tickets if they are relevant to your business.** These items can all be attached to the business plan in the appendices.

If the business is a partnership or a limited company, name your partners or major shareholders, and include their background and their resume as well as the role & responsibilities each of you will assume in the business. It is a requirement of the Self-Employment program that the person applying for funding have a minimum of 51% controlling interest whether the business is a partnership or incorporated.

For partnership businesses, **a formal partnership agreement must be submitted with the business plan.** Sample partnership agreements can be found in our Business Resource Library as well as purchased from office supply stores, purchased online or provided through legal council.

For incorporated businesses, evidence of the share structure of the corporation must be provided showing that the person applying for the Self-Employment Program has a minimum 51% of the voting shares.

Description of Product or Service

- ✍ Clearly and thoroughly describe your product or service. For products – describe the physical characteristics such as colour, shape, size as well as the potential uses for the product. For services – describe the nature of the service, what is involved in delivering the service, etc.
- ✍ Will you offer more than one product or service? If so, then provide descriptions of each.
- ✍ Name the key features of your product or service.
- ✍ What benefits will the customer receive from your product or service?
- ✍ What will the customers want to know before buying?
- ✍ Is your product or service a necessity, convenience shopping or a luxury?
- ✍ What are the complimentary products or services available?
- ✍ What products or services could be substituted for your products or services?
- ✍ Why will customers buy?
- ✍ Assume the reader knows nothing!
 - Explain any technical talk (jargon)
- ✍ Include pictures, drawings, diagrams, samples, brochures etc., in appendices

Market Research & Analysis

What is Market Research?

Market research is an important factor in ensuring a business succeeds. In business, the customer dictates the market. Without customers there is no reason to produce a product or provide a service.

A successful business person knows who the potential customers are and strives to find out everything they can about them. In order to do this, they must do market research.

Market research is the organized, objective collection and analysis of data about your target market (customers), competition and/or environment, with the goal being increased understanding. Through the market research process you can take data and create useful information to guide your business decisions. Market research is not an activity conducted only once, it is an ongoing study (even after your business begins).

Market research must be done. Avoid friends and relatives! The market research section is the foundation on which the Business Plan is built. Insufficient effort in establishing market demand before starting a business places a disadvantage on the new venture right from the beginning.

Market research is finding out the answers to the following questions:

1. Is there a need for this service or product?
2. Who is likely to buy your service or product?
3. Are there enough customers in your market area?
4. How are you going to find these customers?
5. Is a competitor meeting the need? If so, can you offer something they can't?
6. How much are your customers willing to pay?
7. Will finding customers cost more than the profit margin will allow? (I.e., can you afford to advertise?)
8. Is there a profit margin?

Some ideas for conducting your research:

1. Talk to competitors
2. Talk to suppliers
3. Use surveys/questionnaires – (phone, in person, email, mail, etc.)
4. Hold focus groups
5. Use the Internet – competitor web sites, statistical web sites, small business help sites
6. Check out community or business libraries
7. Statistics Canada
8. Talk to similar businesses in other geographic locations
9. Trade directories, association directories, manufacturers directories
10. Business associations i.e., Chambers of Commerce, local business meetings
11. Periodicals and industry publications
12. Demographics & trends books i.e., Boom, Bust & Echo, or Clicking
13. Legislation, industry standards

REMEMBER - The sample size does not vary with the size of the total population. Instead, the actual number of surveys needed depends on the degree of accuracy desired.

In other words – the more people you talk to the more accurate your research becomes!

Summary of Market Research

State what research methods you have completed in order to determine the level of need and demand for your idea in the marketplace and a summary of the results. (I.e., “I searched the internet and found that this industry is experiencing a growth trend of” or “I spoke with 200 people and 90% have indicated that”) You should also summarize the findings that support your decision to proceed with this business plan. If there are some uncertain or unsupportive findings you should summarize how you intend to overcome these potential obstacles.

Industry Overview

Give a general description of how your industry works and what is happening in it. Such as:

1. Is this a growth or declining industry?
2. What are the current trends?
3. What are the current/future threats?
4. How does the global marketplace influence this industry?
5. Are there environmental concerns?
6. What are the legal or regulatory issues?
7. How will this industry be affected by demographic changes in our population?

Market Survey Summary

A sample group of potential customers (general public), say 25-250, should be approached and interviewed for their reactions to your product or service. Ask a few specific (3-6) questions to discover what they like or dislike and what price they are prepared to pay.

A written record should be kept of all interviews, for example a survey (by phone or in person). You should be able to outline an expected level of sales, from the information gathered, that will help to support your sales projections.

Provide a written summary of the results from your surveys as well as an example of the survey questionnaire in the main body of the business plan. The actual completed surveys should be copied and included in the appendices of the business plan.

Market Support

Do you have any confirmed customers? What other evidence of market support do you have? What percentage of the total projected sales is represented by the letters of intent? How will the gap between the total sales and letters of intent be filled?

In the text of the business plan, summarize the market support information that you have gathered. The appendices should include the actual letters-of-intent, contracts or agreements you have obtained. If you cannot provide good market support for your projected sales, your business plan will not be approved for funding. A sample letter-of-intent is included for both a product and a service business in the application forms package. Make sure to customize the letter with information about your business, your product or your service and your prices and then add the text from the sample letter. You may further customize this letter to get a clearer idea from your customers as to when and how much they would likely buy. What you are trying to gauge for your business plan and your Cash Flow is how much will they spend, in what month and how frequently will they buy throughout the year.

Competitive Analysis

The best source of industry information is your competition and your suppliers. It is extremely important to know what everyone else is doing before you decide what you are going to do. To understand your own company’s positioning you need to thoroughly assess your competition including:

- ? **Scope of competition – local, regional, national**
Determine whether your competitors are local, regional, online, national or international.
- ? **Who is your direct or indirect competition?**
If there is no direct competition look at the indirect competitors (an example of this could be: movie theatres versus video rentals).
- ? **Demand for product/service**
Are your customers happy with existing products/services? Will you have to educate them about your product/service? How will you overcome consumers’ brand loyalty?
- ? **SWOT Analysis**

The SWOT analysis is an evaluation of the businesses: **S**trengths, **W**eaknesses, **O**pportunities & **T**hreats

For your business plan, you must provide an in depth SWOT analysis on your key competitors. The table below provides you with some ideas for conducting a SWOT analysis.

Strengths and Weaknesses are Internal Factors.	
Strengths could be:	Weaknesses could be:
<ul style="list-style-type: none"> ? specialist marketing expertise ? a new, innovative product or service ? Location of the business ? quality processes and procedures ? any other aspect of the business that adds value to the product or service 	<ul style="list-style-type: none"> ? lack of marketing expertise ? undifferentiated products and service (i.e. in relation to your competitors) ? location of the business ? poor quality goods or services ? damaged reputation
Opportunities and Threats are External factors.	
Opportunities could be:	Threats could be:
<ul style="list-style-type: none"> ? a developing market such as the Internet ? mergers, joint ventures or strategic alliances ? moving into new market segments that offer improved profits ? a new international market ? a market vacated by an ineffective competitor 	<ul style="list-style-type: none"> ? a new competitor in the home market ? price wars with competitors ? a competitor has a new, innovative product or service ? competitors have superior access to channels of distribution ? taxation is introduced on your product or service

There are many ways to find this information out i.e., calling around, asking their customers, talking to the competitors, checking out their price lists, checking out their websites. An example of a SWOT Analysis can be found on Page 11.

SWOT Analysis Example:

Company A –

Strengths – Company A has a solid reputation of providing quality products at a fair price. Their ability to deliver, free of charge within 100 km radius, adds considerable value.

Weaknesses – due to the demand for the products, customers have to wait 2 months for delivery.

Opportunities – Company A is not willing to expand their production so there is room in the market for our company. Company A has indicated that they are willing to pass on orders to our company.

Threats – Our Company does not have delivery capability so some customers may still choose to wait for Company A.

Company B –

Strengths – Company B has a good reputation and provides quality products at a higher price. They have been in business for 30 years.

Weaknesses – Company B is not taking advantage of new production methods and so their production is limited.

Opportunities – The owner is getting ready to retire and they are not accepting any new customers. Again, Company B has indicated that they will refer business.

Threats – One of the employees may decide to purchase the business and increase production levels, but the customer demand is still high enough to support three businesses in this area.

The Self-Employment Program and Competition

Understanding who your competition is and how you fit into the market is critical to the success of your business. You need to identify your competitors who are marketing in the same geographic areas that you intend to market your products or services in - be it locally, nationally or internationally. If your competition is based in the Central Kootenay region and they are marketing their products or services within the same market area as you propose, you will need to approach each competitor and ask them to complete a Market Research letter. A sample Market Research letter is found in the application forms package. Use the same questions as in the sample, but design your own letter with your business information on the top of the page. If you are mailing out or leaving the Market Research letter with your competitor, make sure that you have added "Please respond by: (a reasonable date)" to the letter. Make a note of your efforts to contact each competitor and a note of the date(s) that a response was requested by.

The application forms package also provides a letter that explains Community Futures' policies regarding competition. You may photocopy this letter and attach it to your Market Research letters to let the competition know why you have approached them for their input. The Competitors may choose to respond directly to Community Futures if they wish.

What gives you the competitive advantage?

State all the facts and convince the reader why your business has a competitive advantage over any other businesses. Consider the fact that you might have to re-educate your consumer about your product or service. Determine how you will fit into the market and how you will fill that unsatisfied need. Is there enough room for you in the market? Also evaluate the competitive barriers you face and a solution of how you plan to overcome those barriers.

Target Market

Some businesses have a “direct to consumer relationship” i.e., you sell directly to the public. You need to find out everything you can about who, what, where, when, why, how much and how often they buy.

In some cases, “retail outlets” or “distribution networks” will be the customer, and you will not be dealing directly with the public. In this case, the who, what, where, when, why, how much and how often they buy needs to be explained in terms of **both the buyer and the end user**. What do your customers value as a consumer? I.e., fair trade, locally made, organic, etc.

Your analysis must include the following factors for each identified target market:

Demographics

- ? **Age** - What is the age range that would best support your business?
- ? **Sex** - Determine whether or not the sex of the customer will affect sales.
- ? **Occupation** - Are there specific professions that would buy your product or service more readily than any other?
- ? **Income Level** - Determine what income level you are aiming at. If your product/service is a necessity it may not be dependant on disposable income, however if it is a luxury your market will be different since it would be purchased with ‘spending money’
- ? **Education Level** - Would your clients or customers need an education level or certification in order to be attracted to your business?
- ? **Residence** - Determine whether or not these consumers live in this area on a permanent basis or are there on vacation. Also review the distance consumers would have to travel to acquire your product or service.

Remember, the more you know about your target market, the less money you will waste in trying to reach them.

Market Area

What geographic areas do you intend to sell your services/products in? (I.e., locally, nationally, internationally.)

Sales Method

How will your customers buy your products or services (store front, person-to-person, home-based, catalogue, Internet, direct mail, 1-800 #'s, trade shows, etc.)? Discuss and rank all means. Will you accept cash, cheques, credit cards or debit cards for payments? Will credit be extended to your customers? If so, under what terms? What procedures will be in place for collection of accounts receivable?

Product or Service Placement & Distribution

- ✍ Where will your product or service be offered and how will you distribute it to your customers?
- ✍ Is your location in the right area to reach your target market?
- ✍ Are traffic flows high enough to guarantee visibility and sales?
- ✍ Is it difficult to access your location?
- ✍ Are you reaching outlying markets which require a special distribution channel?
- ✍ What are the costs of distribution? Will you be operating out of your home if offering a service?
- ✍ Are there any considerations to working out of your home (zoning, permits, improvements...)?
- ✍ Where will your product or service be in relation to the competition, to substitute products or services and to complimentary products or services?

Marketing & Promotional Plan

If the circus is coming to town and you paint a sign saying, "Circus coming to Fairgrounds Sunday," that's advertising. If you put a sign on the back of an elephant and walk him through town, that's promotion. If the elephant walks through the Mayor's flower bed, that's publicity. If you can get the Mayor to laugh about it, that's public relations. And, if you planned the whole thing, that's marketing! –

Author unknown.

The Definition of Marketing:

Marketing is a function used to influence customers to behave in a way that improves a products or services' performance.

Marketing Plan

Outline the strategies you will use to let your customers know that you are open for business and the strategies you will use to grow your business. Based on the preceding research you have just completed, you have now determined a need or demand for your product or service. You should now be able to complete a marketing plan to tell the customer about you, your company and what you plan to offer.

- ✍ Describe the advertising, promotion and merchandising techniques to be used and the expenditures required to attract the target market.
- ✍ How will you tell your customers about your product / service?
- ✍ Can you get free publicity for your business?
- ✍ If your advertising budget is low, how will you get the most publicity for your dollar?
- ✍ What advertising medium will allow the majority of your customers to find out about you?
- ✍ How will you reflect your image in your promotional material? (i.e. logos etc)

The more you know about your target market makes the job of developing your marketing plan much easier.

Don't hesitate to be creative in this area to ensure that the advertising you choose works for you. Word of Mouth may be the best form of advertising for you if you offer a quality service or product however, this method takes time to build momentum.

Which method(s) of promotion will your business use?

- Offer free samples of services or products
- Product or service demonstrations
- Attend trade fairs and shows
- Community awareness – i.e. newspaper articles

Advertising – Consider the following advertising options.

- Websites and links to websites
- Television
- Radio
- Newspaper
- Magazines
- Telephone Books/directories
- Direct Mail

If you have any marketing materials developed, enclose copies in your appendices.

12-Month Marketing & Promotional Strategy

Include a 12-Month Marketing & Promotional strategy that outlines what activities you will do each month and what the associated costs are. Don't forget to include low/no cost promotional strategies as well as more traditional strategies. A form is provided in the application forms package. You may use this form or make one of your own, but you will be required to provide a 12-Month Marketing & Promotional strategy in your business plan.

Business Operations

Tell the reader whether or not this is an existing business or if you are starting a new business.

Location

- ✍ Where will your product or service be offered? (**Give an exact location of the business**, i.e. street number, fire number and road name.)
- ✍ Do you need to find a business location outside of your home?
- ✍ If you are working out of your home, have you looked into the zoning and by-laws in your area?
- ✍ Are renovations required to get this space up to your required needs? If so, what are the costs and timelines involved with the renovations?
- ✍ Will the customers come to you or will you go to them?
- ✍ What hours and days will you be available to the customers?
- ✍ What are the local by-laws and building codes relevant to your business?

If you are renting a commercial business location, you will need to **include a signed lease agreement**.

If you are renting your house and plan to be home-based, you will need **a letter from the landlord of the property that gives you permission to operate a business** from the home.

The lease agreements or letters from landlords can be included in the appendices.

Equipment

- ✍ What specific equipment is needed for you to operate this business (tools, machinery, office equipment, etc.)?
- ✍ Do you have them or will you need to purchase them?
- ✍ Where will you be buying the equipment? Submit copies of quotes for the needed equipment in the appendices.
- ✍ Do you have the funds to purchase the equipment or will you be requiring financing?

Be sure to include the costs for any planned equipment purchases in your Cash Flow projections.

Office & Communication Requirements

This refers to your telephone number, email address, web site domain name, fax number, etc. It is important that you have at least one way that clients can contact you easily. It is also recommended that you have a voice mailbox set-up for your business. On your voice mail systems, whether at home or at the business location, remember to state your business name so that clients will know they have reached your business. Answering machine messages created by small children are fine for home use but not if you are also running a business from your home.

Production Process/Capabilities/Schedule

- ✍ What is involved in producing and delivering your product or service?
- ✍ Thoroughly describe your manufacturing or service process.
- ✍ How many units/customers can you produce or service in a given period of time?
- ✍ Include an estimated schedule of how your time will be spent on a monthly basis.

Suppliers

- ✍ Who are your suppliers (names, prices, terms and agreements)?
- ✍ Do you have alternate or back-up suppliers available?

Staffing Requirements

- ✍ Will you need additional employees to do some of the work?
- ✍ Will you need to hire staff right away? If so, have you looked into payroll deductions and getting a revenue Canada payroll number & Worker's Compensation?
- ✍ Would the employees be full-time, part-time or contract?
- ✍ What would their salary/wage be?
- ✍ What skills or training must/should they have?

When you are calculating the costs for employees, be sure to include an additional 20 – 25% to cover the mandatory employment related costs. (Mandatory employment related costs include Workers' Compensation Board, employer's portion of Employment Insurance premiums and Canada Pension Plan premiums and holiday pay.)

Guarantees/Warranties

- ✍ What follow-up will you do with your customers after they have used your product or service?
- ✍ Will you offer guarantees?

Other

- ✍ Who will do the bookkeeping for your business?
- ✍ Who will do the accounting for your business?
- ✍ Where will you do your banking?
- ✍ Do you have other professional advisors or business mentors available?

Laws & Insurance

There are a number of rules and regulations regarding business ventures. Find out which ones will be applicable to your business by contacting the appropriate municipal, provincial and federal agencies. Your industry may also be regulated by a professional association or trade association. If so, you will need to provide evidence that you have the proper training and certifications required to establish your business. If you belong to a professional or trade association, you may also be required to attend professional development conferences or seminars so make sure that these costs have been included in your Cash Flow.

Community Futures needs to ensure that you have a solid understanding of the legal/insurance requirements in your chosen field. Your business plan needs to cover all of the pertinent details in terms of legal set up so make sure that you detail your investigation into each legal requirement even if you find out it is not applicable for your business.

Form of Organization

There are three basic types of ownership:

- ? *A **sole proprietorship** is a business owned and operated by one individual. Legally, if you set up your business as a sole proprietorship, your business is considered to be an extension of yourself. Therefore, you are personally responsible for all the liabilities and obligations your business incurs.*
- ? *A **partnership** is a business entity in which two or more individuals carry on a continuing business for profit as co-owners. Legally, a partnership is regarded as a group of individuals rather than as a single entity, although each of the partners file their share of the profits on their individual tax returns. It is crucial to have a partnership agreement in place. Both partners are 100% responsible for all liabilities and obligations (debts) that the business has.*
- ? *A **corporation** is a legal entity that has rights usually only reserved for individuals. The primary advantage of a corporation is that the business is responsible for filing its own tax return and pays taxes separate from any of the shareholders. The tax advantages for corporations kick in when the business is generating approximately \$50,000 net profit/fiscal year. In the case of publicly traded corporations, the corporation provides the shareholders with a right to participate in the profits without any personal liability. In the case of a corporation where shares are not being openly sold then limited liability is not necessarily the case. The shareholders in the “closely held” corporations may have to personally guarantee to cover any debts of the business.*

Make a statement in your business plan indicating the form of organization your business will assume.

Partnerships will require signed partnership agreements that state that the applicant applying for the Self-Employment Program has 51% ownership in the business. Resumes and job descriptions will be required for all partners in the business.

Incorporations must include a copy of the incorporation certificate of the business and information on the share structure that shows that the applicant to the Self-Employment Program has 51% ownership of shares. If there are other shareholders working in the business, then resumes and job descriptions will be required for those shareholders.

Business Name

When naming a business, a number of different factors should be taken into account:

- ✍ Is the name chosen appropriate for the market you are targeting?
- ✍ Is the name short?
- ✍ Is the name easy to remember?
- ✍ Is the name distinctive enough to separate you from competitors?

Selecting a business name is a very difficult, yet very important part of starting your business. You want your business name to somehow represent the essence of the business without requiring any explanation. You want the name to be easy to remember as well as easy to write. You also want the name to be available for marketing through the internet as well as through your local media.

How to Proceed with Naming Your Business

Choose three names that fit the image you want to create. Test them out on friends, family, and potential customers. Try some names that are strong on imagery, others that are strong on description, and still others that fall somewhere in-between. Pay particular attention to testing your business names with people in your target market - the core consumer groups whose patronage you intend on capturing. Have these people write down their impression of each name in terms of what the business would sell, how it would be run, etc. Compare their thoughts with your own.

Before you finalize your choices do a bit of research to see if there are other businesses out there with similar names. We suggest doing Internet searches through search engines and online phone directories like www.411.ca. If you find an incorporated BC company with a similar name, that name may not be approved when you do your name search. Once you have ranked your choices of business names, the next steps are to do a Provincial Name Search and Declaration.

Provincial Name Search

This is required if you intend to operate your business under a name other than your own personal name. As soon as you add any kind of qualifying statement to your name, it is a requirement to register. For example, if you were doing business as "John Doe" you would not need to register your business name; but, if you were doing business as "John Doe Consulting" you are required to register your business name.

The name search forms are available through local Government Agent Access Centres or available for download at www.bcbusinessregistry.ca. The completed name search form needs to be mailed or presented to the Government Agent with the appropriate fee payment (approx. \$33). This process cannot be completed online at present.

Once your business name has been accepted, you have a 59-day period in which to declare that you will use that name. If you fail to complete the Name Declaration within that time frame, then another name search would need to be completed before the declaration could be done. If all three choices of name get rejected, then a second fee would need to be paid to do another Name Search.

Provincial Name Declaration

If a Name Search is required, you must also complete a Provincial Name Declaration. This step involves another fee payment (approx. \$40) and can either be done online (www.bcbusinessregistry.ca) through a credit card or by going to the Government Agents office. Once the fee is paid, you have access to the Provincial Business OneStop Registration System which will walk you step-by-step through all of the federal, provincial and municipal registrations in "one stop".

With the OneStop Business Registration system you can:

- ✍ Register with the Canada Revenue Agency for:
GST, payroll deductions, import/export accounts, excise tax, etc.
- ✍ Register as a proprietorship or partnership;
- ✍ Register as a vendor for the provincial sales tax;
- ✍ Register as an employer with the Workers' Compensation Board (WCB);
- ✍ Register for Personal Optional Protection with WCB; and
- ✍ Apply for a Business License with participating municipalities.

Important Note: You do not have to officially complete any of these registrations until you know whether or not you will be starting your business. However, if you find it necessary to complete the name search and declaration steps in order to complete any aspect of your business plan you can do so without jeopardizing your ability to access the Self-Employment Program. The Self-Employment Program will only consider you to be an existing business once you have begun to actively market your business or generate revenue.

For the purpose of your business plan, indicate if you have completed the Name Search and Declaration steps or if you still need to complete these steps.

If you have already completed the Name Search and Declaration, then enclose copies in the appendices of the business plan. Also, indicate which of the following federal, provincial or municipal registrations affect your business and if you have completed those registrations.

If you haven't completed the Name Search and Declaration steps, then indicate when these steps will be completed and which of the following federal, provincial or municipal registrations affect your business.

Provincial Sales Tax Vendor Registration Form

You will need to contact the Social Service Tax office to determine if the products or services you want to sell are considered taxable and under what circumstances tax would be charged. If you are selling a taxable product or service to the consumer you will require a Social Services Tax (PST) number. The Enquiry BC phone number (1 800 663-7867) will be able to connect you to the Social Service Tax office free of charge.

If you are manufacturing a product, or retailing products and you wish to purchase your raw materials/inventory tax exempt, you must provide your PST number to your suppliers in order to receive a tax exemption.

Federal Business Identification Number

A Business Identification Number is required for all businesses that are either: registering for GST, having employees or dealing with exporting/importing goods and for corporate tax accounts.

GST

It is optional to register for GST if your anticipated gross sales are under \$30,000 per year. Your business must register prior to reaching the \$30,000 gross sales mark in any consecutive 4 quarter period. GST is not a retroactive registration and will only become effective from the date of registration. Once registered, you need to track the GST that you spend on all purchases for the business and you must also charge GST to your customers. When you register, you can opt for a quarterly or an annual reporting schedule. That means that once a quarter or once a year you will send the government any GST that you have collected minus the amount of GST that you have spent on your purchases. If you are not registered, then you neither charge your customers GST nor track your spending on GST.

Worker's Compensation Board

If you will have employees, registration is mandatory. Sole proprietors and/or partnerships have the option of applying for Personal Optional Protection. This is a personal disability insurance that would cover you for on-the-job injuries. Having Personal Optional Protection may be a requirement for your company if you wish to do business with large corporations or government agencies. Forms may be picked up through Worker's Compensation Board at 524 Kootenay Street in Nelson (Ph: 250 352-2824) or registration may be done through the One-Stop or online at www.worksafefbc.ca.

Insurance

Do you require liability or general insurance or both? Is there a risk of injury at the place of your business, with the use of your product, or a chance of damage if you are offering a service at your customer's residence or place of business? Are you planning to sell your products or services to the U.S.? Do you need coverage for an inventory? Do you need equipment coverage? Do you need to upgrade your current vehicle insurance?

Insurance needs will vary greatly from business to business. Contact an insurance agent to discuss your business' needs. Include a quote from the agent on the type of insurance required and the costs and payment options. Insurance may also be available for your business through professional or industry associations. Don't forget to discuss your need to upgrade your vehicle insurance as well.

Even if you have a small home-based office with no inventory and no clients coming to your door, you need to inform your insurance company that there is a home-based business there or you could find that your existing policy does not cover you any longer.

Municipal Licenses

If you are operating your business or providing a service within a municipality, then you will need to provide information on the requirements of obtaining a Business License from the appropriate municipal office(s). A copy of the business license application from your home community needs to be filled out and included in the business plan but the actual application and payment of fees does not need to be completed until after the Self-Employment Committee accepts the application. Remember to budget for these fees in your Cash Flow and that business licenses are an annual expense and will need to be purchased again in January of the following year.

Beware that having a business license in one community will not cover you to do work within another community. You may need to include additional business licenses or permits to work in other municipalities.

Other

Depending on the business and industry, you may be required to deal with other legal issues or certifications. Examples may include:

- ✍ Department of Health Certification
- ✍ Liquor Control Permits
- ✍ Ministry of Transport (regulatory agency for movement of goods and people)
- ✍ Building Inspections
- ✍ Fire Inspections/Regulations
- ✍ Zoning or Bylaw issues
- ✍ Provincial legislation such as Travel Assurance Fund, Direct Sales Act etc.,
- ✍ Federal legislation such as labeling for food, textiles, cosmetics, Food & Drug Act, etc.
- ✍ CSA Number (Canadian Standards Association)
- ✍ UPC Registration (Universal Product Code)
- ✍ Environmental Regulations
- ✍ Import/export regulations

Community Futures staff may be able to provide some assistance in determining other legal issues that may affect your business.

Financial Plan

The following information will form the basis of your financial plan:

1. Cost Analysis
2. Pricing Method
3. Projected Cash Flow Budget for minimum of one year
4. Projected Income Statement
5. Break Even Analysis
6. Projected Household Budget
7. Equity Statement / Personal Investment List

This information is absolutely critical to the evaluation of your business plan. The information provided will help to determine the potential for success of the business but also provide a needed reality check on whether or not you are being realistic in your projections of revenue and expenses and whether or not this business will provide you with sufficient income.

One of the objectives of these financial statements is to provide a lender with information regarding the status of the business. Lenders will be looking for:

- ? The business' resources, obligations and owner's equity
- ? Changes in these resources, obligations and owner's equity
- ? Overall economic performance and potential of the business

The other objective is to provide the owner with tools to track the progress of the business.

Cost Analysis

- ✍ How much does it cost you to make or deliver your product or service?
- ✍ What are your unit costs (be specific)?
- ✍ How much does it cost you to produce or sell one additional unit of your product or service?
- ✍ List all your costs and show (mathematically) how this amount was determined.
- ✍ What are your fixed costs?
- ✍ What is the total monthly overhead that your business must support?

In order to determine the costs involved in running your business and the nature of their behavior, you should define your costs as being either variable or fixed.

Variable costs are costs that increase or decrease directly with the level of production or volume of service you provide. Example: The wood costs incurred by a furniture manufacturer are directly related to the number of units they produce.

Fixed costs (Overhead) are costs that do not vary with every unit of production such as rent, licenses, advertising, loan payments, etc.

Pricing Method

- ✍ What price(s) will you charge for your product / service?
- ✍ Indicate what you based the price on and how this compares with similar products or services.
- ✍ How do other businesses in your industry price their product / service?
- ✍ What do you estimate your monthly sales to be?
- ✍ Is your pricing strategy aimed at penetrating the market with a low price or maintaining a market share and making a profit?
- ✍ What is your mark-up?
- ✍ What is your selling price?
- ✍ Include a price list in appendix if applicable.
- ✍ List any / all of your pricing strategies and tactics (i.e. discounts, lower prices, etc.)

Explain and show examples of the pricing method you employ for each different revenue generator in your business. How do your prices compare with prices of similar products or services? Some examples of pricing methods are:

? percentage mark-up: $\text{cost} + \text{mark-up}\% = \text{selling price}$

Material cost/unit	\$2.50
Labour cost/unit	\$1.00
Overhead cost/unit	<u>\$0.25</u>
= Cost/unit	\$3.75
+ Mark-up % @ 75%	<u>\$2.81</u>
= Selling Price/unit	\$6.56

? competitive pricing method – pricing your product or services at equal or comparable prices to your competition and also taking into consideration what the market will bear

? simple hourly rate charges – set fee per hour of service.

? contract rates – set amount for completion of work.

The first thing to say is that there is not a perfect method - no one-size fits all solution when it comes to pricing. You should consider the all of the above methods when determining what will work for you.

Projected Cash Flow Budget

Every new business owner wants to know whether or not his or her business will be able to pay its bills and a Cash Flow will help you to determine this.

A Cash Flow is a forecast or projection (estimated budget) showing how much, and more importantly, when money will come in and go out each month over a period of time, typically one year. You are trying to predict the timing of cash going in and out of your bank account. This will allow you to predict when and for how long you may have cash shortages. Even profitable businesses have fluctuating cash cycles. Planning for surpluses and shortfalls increases the possibility of business success.

In order to prepare a Cash Flow you must project the amount of cash coming into the business, when the cash will be received and when the cash will be paid out:

- ? Cash Received is the cash coming in from: Sales, Accounts Receivable, Loans, Personal Investment, and Sale of Assets – items anticipated to provide cash money.
- ? Cash Paid Out is the cash going out to: Inventory Purchases, Wages, Rent, Equipment, Loan Payments, Advertising, Owners Drawings (necessary to maintain household expenses), and a variety of other possible operating expenses.
- ? The difference each month between Cash Received and Cash Paid Out indicates your closing cash balance and whether or not it's positive (+) or negative (-) on a monthly basis. Negative Cash Flows indicate that this business may not be viable and also indicates a need for increased investment or loans, increased sales or deferral of purchases.

Why do a Cash Flow?

The Cash Flow forecast is the most useful financial tool that a small businessperson can use to see if their business will be financially viable.

Because the revenues and expenses of a business are rarely constant (i.e. seasonal in nature, credit to customers, purchases, repairs, etc.) you have to know and plan the most effective use of your cash in order to finance your day-to-day operations. By monitoring your actual business finances in comparison to your forecast you will be able to better control the financial requirements of your business.

Too often business owners do a Cash Flow forecast in their head. Putting the Cash Flow forecast on paper will give you the following:

- ? A format for planning the most effective use of your cash (cash management).
- ? A schedule of anticipated cash receipts – follow through to see that you achieve it!
- ? A schedule of priorities for the payment of accounts – stick to it!
- ? A measure of the significance of unexpected changes in circumstances; e.g., reduction of sales, strikes, tight money situations, etc.
- ? A list, on paper, of all bill paying details which have been running around in your head, keeping you awake nights. A Cash Flow is not an instant cure for sleeplessness but it certainly helps. It also clears your mind for more productive thinking.
- ? An estimate of the amount of money you need to borrow in order to finance your day-to-day operations. This is perhaps the most important aspect of a completed Cash Flow forecast.
- ? An outline to show you and the lender that you have sufficient cash to make loan payments if you are planning to borrow money on a term basis.

How Often Should a Cash Flow be Completed?

Cash Flow forecasting should be a continuous activity although it must be completely redone at least once a year for you to have a clear picture of additional cash requirements (a computer spreadsheet is very useful for this purpose). Most lines of credit are renewed annually. The Cash Flow forecast will assist you in making an effective presentation to your lender.

Cash Flow Worksheet

A Cash Flow must be provided in your business plan. Please ensure that **both the rows and columns are totalled**. If you are preparing your Cash Flow manually, use a pencil as it may be necessary to make changes and corrections to the budget. If you are using spreadsheet software, the changes and corrections are done by simply typing a new number in the cell and the totals will all recalculate for you. Whether you are doing a manual or computer Cash Flow, you will know that it balances because the total of the columns and rows will come out the same. If these totals do not match – you need to re-add your Cash Flow or fix some of the computer formulas.

If you have access to either Microsoft Excel or Microsoft Works, a template complete with formulas is available for download on our Community Futures web site at www.futures.bc.ca. There is also a Cash Flow worksheet and a Sample Cash Flow complete with Assumptions and an Income Statement in the application form package.

A Cash Flow is a projection of how you think your business will operate. As the Cash Flow is an estimate of what will happen in the future, do not include money that you have already spent or items that you already own. The money you have already spent and the items you already own become part of your personal investment list.

Show the income coming into the business the way you think it will happen, and do the same for the expense section. For example - an expense such as insurance should not be divided equally into 12 separate payments, if it will really be paid all at once. Also remember to consider any seasonal fluctuations that may affect the sales and expense levels throughout the year. Be sure to be realistic when you consider your projections. Try and think of everything that will apply to your business venture, and then allow for unexpected expenses that will inevitably arise. A good rule of thumb would be to project your expenses 10% higher than what you think they will be.

The Cash Flow cannot show a cumulative deficit in any month (i.e., the very bottom line can never be a negative number). If so, you will need to show additional “Cash Received” either through loans, lines-of-credit or additional personal investment or you will need to reduce or defer some purchases. If the deficit will be covered through loans or lines-of-credit, include a copy of a letter from your financier stating you have the necessary funds available to cover this. Don’t forget to include repayments on your loans, credit cards or lines-of credit.

Start your Cash Flow by figuring out what your expenses will be and work backwards to determine the level of sales or investment/loans that you will need to achieve.

Cash Flow Budget Assumptions

The Cash Flow must be accompanied by written assumptions. Because your Cash Flow attempts to predict future events, you will have to make assumptions in order to estimate your future revenues and expenses. With your list of assumptions you should demonstrate how you arrived at all of the figures you have shown on your Cash Flow. Keep in mind that although the numbers may seem self-explanatory to you, the person reviewing the Cash Flow is seeing it for the first time. Show your calculations if applicable. **A separate assumption is required for each row on the Cash Flow.**

Sample of Cash Flow Sections and Potential Row Headers

Cash Received

- ? **Cash Sales:** this is your best estimate of your monthly Sales. You may have one or several different sales lines if your business has various streams of revenue.
- ? **Personal Investment:** this figure represents any cash that you have available for business use. You will need to provide documentation to back up all amounts of cash listed here.
- ? **Loans:** if your business requires financing then you will need to budget for receipt of the loan funds as well, and you will need to calculate a loan payment in the Cash Paid Out section. **(Note, if you need financing to start your business, the financing has to be approved before you will receive Self-Employment Program approval.)**
- ? **SE Income Support:** this figure will represent the bi-weekly payment received from the Self-Employment Program if your application is approved. **The amount of Self-Employment funding that you will receive is dependent upon your current EI status.**
 - ? **Active EI Claim** - You will continue to receive EI at your current rate until your claim is completed. The remainder of your Self-Employment contract will be paid at a gross rate of \$320 per week. If your current EI rate is lower than \$320 per week, your income support will increase to \$320/week. The total time on the Self-Employment program will not exceed 52 weeks.
 - ? **Previous Claim in past 3-years or Maternity/Paternity in past 5-years** - Your Self-Employment contract will be paid at a gross rate of \$320 per week. The total time on the Self-Employment program will not exceed 52 weeks.
 - ? EI payments as well as Self Employment Income Support are subject to income tax deductions only.
- ? **Total Cash Received:** this is the total of all cash received.

Cash Paid Out

- ? **Owner's Drawings:** this is the amount of money taken out of the business by the owner including salaries, draws, shareholders' loans etc. Remember that the amount of monthly drawings may fluctuate based on any anticipated annual expenses.
- ? **Wages & Benefits:** this is the amount of wages and benefits paid to employees including holiday pay, EI premiums, CPP premiums, group insurance etc. A general rule-of-thumb is to add an additional 25% on to the planned hourly wage to cover these additional costs. If you are in an industry with a high accident rate, then the 25% could even increase due to the additional costs of Worker's Compensation.
- ? **Rent:** this is the amount of money paid to rent or lease premises to carry on your business. It can be storefront, warehouse, or shop etc. If you are using your personal residence to conduct business, then the rent should be covered in your owner's drawings. At the end of the tax year, your accountant will help you to assign a portion of your personal rent to your business in order to reduce your taxes.
- ? **Inventory or Raw Material Purchases:** if you are manufacturing or retailing products, you need to budget for a sufficient level of stock in order to make your sales projections. This can be calculated as a percentage of your sales or if you have a more regulated purchasing pattern, i.e. seasonal purchases, it should be entered in the month the actual expense occurs.
- ? **Equipment Purchases:** in accounting and budgeting, we must make a distinction between the large dollar value items that we purchase for use in our business and the small dollar value items. If an item costs more than \$200 and is used for longer than a year, call it Equipment. These items will not be written off at the end of the business year, instead they will be written off over several years. Your accountant will help you to calculate your equipment write-offs at year end for tax purposes.
- ? **Small Tools:** reusable items that you purchase that cost less than \$200 are called small tools.
- ? **Professional Fees:** this is money which you pay for professional services such as lawyers, accountants, bookkeepers, graphic designers, etc.

Cash Paid Out (continued)

- ? **Advertising/Promotion:** this includes cost of advertising including print and media advertising including newspapers, radio, television, yellow pages, etc., and other promotional expenses such as tradeshows and promotional lunches. The figures shown on your Cash Flow should match your 12-Month Marketing & Promotional Strategy.
- ? **Telephone:** this includes telephone, cell phone, pager, fax and Internet.
- ? **Repairs & Maintenance:** this includes expenses incurred in the day-to-day operation of your business in keeping your business location and equipment in good order.
- ? **Licenses/Insurance/Fees:** this includes any licenses or permits required to carry on your business including municipal business license, federal or provincial licensing, association licenses, etc. Insurance includes any business insurance including fire insurance, liability, inventory, business loan insurance and bonding. Fees include charges for memberships, loans and service fees etc.
- ? **Loan Payments:** this represents all loan payments related to the startup and operation of your business and includes both principal and interest.
- ? **Lease Payments:** the cost of leasing equipment or automobiles for use in your business.
- ? **Bank Charges:** this includes all banking charges including service charges, overdraft charges, Visa/MasterCard/Interact fees, etc.
- ? **Vehicle Expense:** this includes all expenses relating to the use of automobiles to carry on your business including gas, oil, repairs and insurance.
- ? **Office/Shop Supplies:** this includes all supplies purchased for your business excluding the product you sell and includes stationary, janitorial supplies, paper supplies, etc. (Note: supplies get consumed over time.)
- ? **Utilities:** this includes expenses related to heat, light and power.
- ? **Other Expenses:** this includes other expenses not already categorized and could include such things as postage, courier, sub contracts etc. If any of these expense categories are large then list them as a separate line on the Cash Flow.
- ? **Contingencies 10%:** this row is reserved for unplanned expenses. No matter how hard you try to plan for everything there is always something that gets missed. The way to calculate this is to add together all expenses listed above this line and take 10% of that total.
- ? **Total Cash Paid Out:** this is the total of all cash expenditures.

Summary

- ? **Total Cash Received:** Transfer the Total Cash Received in each month to this row.
- ? **Total Cash Paid Out:** transfer the Total Cash Paid Out in each month to this row.
- ? **Cash Over/ (Short):** take the Total Cash Received that month and subtract the Total Cash Out for that month.
- ? **Cumulative Total:** in your start-up month, the Cash Over/ (Short) figure gets transferred to the Cumulative Total. In month 1 – 12, take the previous months Cumulative Total and add it to the current months' Cash Over/(Short). Remember that you **cannot have a deficit balance in any column of the Cumulative Total** row when you have completed your Cash Flow.

NOTE - It is very common that an individual will underestimate their expenses and overestimate revenues. It is therefore very important that you attempt to be as realistic and unbiased in your forecasts as possible. The amount of research that you can possibly do for each relative area will, without question, pay off in the long term.

Projected Income Statement

A projected Income Statement will show the amount of Sales or Revenue expected to be generated from business activities, the amount of Expenses that the business expects to pay out. The difference between the Sales and the Expenses will show the expected Net Income or Net Loss for the business.

Complete the Projected Income Statement included in the Executive Summary form found in the Application Form package.

The figures will be taken from the Total column on your projected Cash Flow.

In the Sales section, do not include Self-Employment funding, personal investment or loans or lines of credit on the Income Statement. The sales figure should be the total of all sales activities only.

Cost of Goods Sold will only affect those businesses that have an inventory. If you are a service business only, you may skip this section, but transfer the Sales figure to the Gross Profit Line on your Income Statement.

In the Expense section, do not include the costs for purchases of Equipment that cost >\$200, or Owner's Drawings on the income statement.

The Net Profit or Net Loss figure on the income statement **will not match** the cumulative cash total on the Cash Flow budget.

Cost of Goods Sold Section

If Cost of Goods Sold is applicable to your business, this section of the Income Statement will need to be completed.

Opening Inventory – the value of any existing inventory you currently have on hand. (All inventory values are shown at cost.)

Purchases – the total dollar value of planned inventory purchases from your Cash Flow

Cost of Goods Available for Sale – Opening Inventory + Purchases

Ending Inventory – the value of inventory you expect will be left on hand at the end of your first year (or the Cost of Goods Sold – the Cost of Goods Available for Sale)

Cost of Goods Sold – the value of the inventory that has been sold (or the Cost of Goods Available for Sale - the Ending Inventory).

An example of a Cost of Goods section of an Income Statement can be found on Page 27.

Cost of Goods Sold Section Example

Note: for Cash Flow projection purposes, it is easier to calculate our Cost of Goods Sold based as a percentage of our sales and to then force our ending inventory.

For example, if I sell my products for \$20 and my material costs are \$5 I can calculate my cost of goods sold % as:

$$\$20 - \$5 = \$15 \quad 1 - (\$15/\$20) = 25\%$$

If I had projected sales of \$40,000 then my cost of goods sold would be estimated at:

$$\$40,000 \times 25\% = \$10,000$$

If I had \$1,000 for an opening inventory and had purchased \$15,000 worth of inventory that year, the Cost of Goods Sold section on my income statement would look like:

Sales Income		\$40,000
Cost of Goods Sold Section:		
Beginning Inventory		\$1,000
+ Purchases		\$15,000
= Cost of Goods Available for Sale		\$16,000
- Ending Inventory		\$6,000
= Cost of Goods Sold		\$10,000
Gross Profit		\$30,000

Break Even Analysis

The break even point of your business is when you make enough sales to meet all of your expenses. (Zero net profit or loss). The purpose of determining your business' break even point is to assist you in finding out the minimum number of sales and relative amount of revenue you will need to generate in order to cover all expenses.

The break even point is a good reality check for an entrepreneur. You need to be confident in your ability to meet and exceed the break even point for your business venture.

One of the best and simplest methods of determining your break even point is to take your total expenses for the year and work backwards – from the bottom up. It is much easier to determine your fixed and variable expenses, and then determine how much revenue you must generate to cover these costs.

The following formulas can be used to calculate your break even.

Step 1: Calculating Contribution: $\text{Unit Selling Price} - \text{Unit Cost} = \text{Contribution}$

Step 2: Calculate Gross Margin: $\text{Contribution} \div \text{Unit Selling Price} = \text{Gross Margin \%}$

Step 3: Identify your fixed and variable expenses:

Fixed expenses – do not fluctuate based on the level of production. They include things such as Rent, Licenses, Supplies, Repair & Maintenance, Advertising & Promotion, Small tools, etc.

Variable expenses – fluctuate based on the level of production. They include inventory or raw material purchases, wages for production, packaging materials, etc.

Step 4: Calculate Break Even Sales Dollars:

$\text{Fixed Expenses} \div \text{Gross Margin \%} = \text{Break Even Sales Dollars}$

Step 5: Calculate Break Even Sales Units (if applicable)

$\text{Fixed Expenses} \div \text{Contribution} = \text{Break Even Sales Units}$

Projected Personal Household Budget

Because your personal household financial situation will always be of the highest priority, you need to forecast an anticipated budget relative to your household. This will help you to determine what will be required from your business in order to provide you with the minimum amount necessary to sustain you personally. (We also refer to this as "Owner's Drawings.")

Your personal expenses may be broken down into monthly, quarterly and or annual payments. Your budget should reflect how you actually pay these expenses.

Monthly Expenses: these will be amounts either known or estimated on a regular basis. A worksheet is provided in the application forms package.

Equity Statement

A personal equity statement shows a combination of all the things you own vs. all the amounts you owe. The difference between the two equals your equity. A personal equity statement is required by the Self-Employment program and will also be required by a lender if you are applying for financing for your business. It will also provide you with a snapshot of your financial position and help you to determine if you have any contingency funds available or help you to gauge your ability to obtain financing if it becomes necessary in the future.

An Equity Statement is included in the application forms package.

Personal Investment List

A personal investment list will detail your personal interest, or the contribution you are making to the business. It will indicate the level of your personal commitment. This contribution can take the form of cash or "cash in kind," namely personal assets you will be bringing into the business. For example, if you will be entering the construction field and have tools valued at \$2,000, you will be able to apply this value towards your equity contribution. A vehicle can also be valued towards your contribution if it will be an important part of the success of your business.

An outline of your total personal investment in this business must be included in your business plan. Remember to include all your equipment, tools, supplies, materials, inventory, business furniture, office equipment, cash, financing, vehicles, etc. (A personal investment list form is included in the application forms package.)

Provide documentation to support the minimum investment required under the Self-Employment program (25% of your year's funding request). The documentation can include a copy of receipts, bank statements, a letter showing that you have financing approved, a copy of your vehicle registration (if it is needed in the business), photographs of equipment, supplies, etc. **Documentation must include proof of any and all cash & financing that you report being available for business use even if that amount exceeds the 25% required investment.**

Risk Assessment

Take a good look at the risks involved in being self-employed and outline them in the proposal. Consider financial, personal, quality of life, legal risk, sickness and any other risks you could be facing. Then determine how you can minimize the most serious of these risks. Once risks are determined, some contingency plans should be developed. (I.e. What if you only sell half the number expected? What if you sell twice the number expected? How will you cover cost overruns? What will happen if somehow you cannot operate the business? What will happen if you get sick on a short or long term basis, etc.)

Appendices

Attach copies of all of the application forms as well as any supporting documentation required for the business plan. For example, market surveys, letters of intent, documentation of personal investment, resume(s), certificates/diplomas, letter from landlord or lease agreement, insurance quotes, equipment quotes, etc.

The appendices should be numbered and should have a Table of Appendices included to help the reader find the relevant sections.

The Final Review

Preparing a business plan requires a lot of thought. Keep in mind, however, that the final document is a summary of your planning process. You can always refer to your working papers later on to substantiate a particular point.

Have two or three impartial outsiders review the finished plan in detail. There may be something you have overlooked or under-emphasized. Also, a critical review will be good preparation for your presentation to potential investors and lenders.

Approaching Lenders and Investors

When approaching any financial institution, you are effectively selling the merits of your business proposal. As in all successful sales transactions, consideration of the needs of the other party is critical. Detail the following:

- ? Ability to service the debt with sufficient surplus to cover contingencies. (Your Cash Flow forecast and projected Income Statement will show this)
- ? Your personal track record/integrity (personal credit history, management ability as demonstrated in your business plan, company results)
- ? Your level of commitment (your equity in the business or cash investment in the particular asset being purchased)
- ? Secondary source of repayment (this includes security in the event of default and other sources of income – discuss this subject with your lawyer before submitting your proposal)
- ? Lead time (lender needs a reasonable time to assess your proposal – also, the loan may have to be referred to another level within the financial institution)
- ? Don't overdo it (be sensible with the amount of documentation you provide initially – for example, the executive summary and financial plan sections provide a good basic loan submission if the amount requested is small)

Start by first approaching people you know; friends, bank, credit union or trust company manager, lawyer, accountant, doctor. They, in turn, may know of other possible investors. If your business concept exhibits high-growth potential, another alternative is to approach a venture capital company. Either way, take a moment to consider the investor's needs, which may differ from a lender's needs. Detail the following:

- ? Your level of financial commitment (indicative of the risk you are assuming)
- ? Equity participation (investors may demand more equity than you are willing to give)
- ? Rate of return (investors are willing to take a high risk but expect a high rate of return; e.g., to double their money in two to three years)
- ? Involvement in key decisions (possibly as a Director or even an Officer of the company)
- ? Regular financial reporting (investors usually want to see tight financial controls in place and prompt financial reporting)

If you are applying to Community Futures for your financing, please ensure that you have enclosed a completed Loan Application form with your business plan. Once the business plan has been analyzed by staff, they will contact you to discuss your plan and to request any additional information they feel is needed before a decision will be made on your application for financing.

Self-Employment Program Approval Process

Remember that there are deadlines for submitting your business plan to Community Futures for review and approval for the Self-Employment Program.

The deadline for submitting your finished business plan is the third Thursday of any month.

The review process takes one month so the plan will not be put forward for approval until the third Thursday of the following month. For example, a business plan handed in by the third Thursday in February, would be presented to the Committee for approval on the third Thursday in March.

The time between handing in the plan and the approval is to allow the staff time to review the plan, to meet with you to discuss the plan and to request any additional information they feel is needed before a decision will be made on your Self-Employment funding. It is also a window of opportunity for you to continue to gather additional letters of intent, competitor support, etc.

Please note that if a commercial loan is necessary for you to be able to start the business, the financing must be approved before your Self-Employment contract can commence.

If your business plan is approved by the Self-Employment Committee, then you will sign your contracts the Friday after the Committee meeting and your contract start date would be the first Sunday after the meeting.

If your business plan is declined by the Self-Employment Committee, you will be notified of their concerns and have an opportunity to provide additional information to address those concerns at a second review Committee meeting. However, you may not start your business or take ownership of an existing business until you have received approval and signed your contract.

REMEMBER - Community Futures is available to assist you with your business plan & to answer your questions, so call (250) 352-1933 if you need help!

Top Ten Entrepreneurial Mistakes

1. Getting stuck on one idea. Instead, explore all your ideas and options.
2. Being too arrogant. It takes a certain amount of chutzpah to start your own business and you have to have a strong belief in yourself and your capabilities. However, you have to be willing to do whatever it takes to succeed even if some jobs seem beneath you. That small project could turn out to be a great portfolio piece or could lead to more work in the long term.
3. Spending money before you make it. Underestimating the amount of money you'll need to run a successful business. Don't ignore the reality of CASH.
4. Attracting weak employees. If you appear desperate or anxious for staff you will end up hiring people who will not enhance your business.
5. Forgetting to be realistic. Think in a world of possibilities, but work in a world of realities.
6. Not listening.
7. Not setting up sufficient support networks for your business and personal needs.
8. Not writing a business plan and setting long and short-term goals. Without a clear path for the future, your vision can get muddled.
9. Over delegating. Don't assume other people can see your vision and will come up to speed to manage projects. Chances are they won't and you will be left in a lurch.
10. Quitting. If at first you don't succeed, try, try again! You probably remember "The Little Engine That Could". Apply that philosophy of "I think I can, I know I can" to your business.