

HOW TO START A BUSINESS

Presented
by
the
Aboriginal
Business
and
Community
Development
Centre

TOPICS

- Entrepreneurship
- Legal Structure
- Business Planning
- Business Plan 1: Description of Business
- Business Plan 2: Market Research
- Business Plan 3: Management
- Business Plan 4: Financials

ENTREPRENEURSHIP

SECTION TOPICS

- What is an entrepreneur?
- Open Class Discussion
- Characteristics of an entrepreneur
- Reasons for starting a business
- Advantages of being an entrepreneur
- Disadvantages of being an entrepreneur
- Start your own business
- Purchase an existing business
- Buy a franchise
- Ideas vs. Opportunities
- Types of businesses that could be started

ENTREPRENEURSHIP: WHAT IS AN ENTREPRENEUR?

- They assume the risks and opportunities involved in creating and operating a new business venture.
- Their primary goal is to make money through growth and expansion of the business.
- They see an opportunity and organize the resources required to take advantage of it.
- They assumes responsibility for finding and keeping clients, deciding and prioritizing tasks to be done, maintaining good customer relations, etc.

ENTREPRENEURSHIP: OPEN CLASS DISCUSSION

- Discuss what you think are characteristics of an entrepreneur.
- What kinds of people do you think make the best entrepreneurs?

ENTREPRENEURSHIP: CHARACTERISTICS OF AN ENTREPRENEUR

- They have a great deal of independence and self-discipline.
- A good measure of self-confidence.
- They have an above average aptitude for decision making and problem solving.
- A propensity for risk-taking.
- Flexibility and organizational skills.
- A great capacity for work and boundless energy.
- A great deal of self-control and tolerance.
- Optimism and enthusiasm
- Leadership skills and a dynamic personality.
- A facility for communication, public relations and sales
- Open-mindedness and free spiritedness.

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ENTREPRENEURSHIP: REASONS FOR STARTING A BUSINESS

- I want to be my own boss.
- I want to fulfill myself, surpass myself.
- I want to take care of my future, to earn a living, to make money.
- I want to realize a dream.
- I want to be challenged.
- I want to succeed, to win, to be recognized.
- I need to have responsibilities and want to reap the benefits of the results.
- I need to assert myself, to overcome obstacles.
- I have ambition, I want power.
- I want independence of mind.

ENTREPRENEURSHIP: REASONS FOR STARTING A BUSINESS

- I want to be on top of what I do.
- I want to be personally fulfilled.
- I want to accomplish something, to build something lasting.
- I want to be happy by being unselfish.
- I want to create my own job.
- I have a social mission.
- The business was inherited or is for sale.
- I have no other possibilities of employment or promotion, difficult working conditions, a boring job and/or frustration resulting from working for others.

ENTREPRENEURSHIP: ADVANTAGES OF BEING AN ENTREPRENEUR

- You get to create your own full or part-time career.
- You get to be your own boss.
- You may work in your home.
- Job security. You cannot be laid off or fired.
- You have flexible hours and work the hours that suit you.



ENTREPRENEURSHIP: ADVANTAGES OF BEING AN ENTREPRENEUR



- Tax advantages. You are eligible for more tax breaks than employees.
- Spend more time with your family.
- You control your destiny.
- Improvement in standard of living, possibility of making money. You can set and reach your own income goals.

ENTREPRENEURSHIP: ADVANTAGES OF BEING AN ENTREPRENEUR

- Ability to overcome difficulties: chance for success, fame and/or an excellent reputation.
- Higher than average quality of life.
- The great satisfaction of doing what you like, strengthening family ties; possibility of ensuring the future of your offspring and/or ensuring them certain earnings.



ENTREPRENEURSHIP: ADVANTAGES OF BEING AN ENTREPRENEUR



- The pleasure of mixing with business people and other interesting individuals; the satisfaction of contributing to the greater welfare of your community.
- The power to delegate certain responsibilities and less interesting tasks to others; the pleasure of working as a team.
- Contentment, tolerance, self-actualization and stimulation.

ENTREPRENEURSHIP: ADVANTAGES OF BEING AN ENTREPRENEUR

- The chance to fulfill yourself, to be happy, to find balance, to take advantage of your life.
- More time and money to take care of your health and protect yourself.



ENTREPRENEURSHIP: DISADVANTAGES OF BEING AN ENTREPRENEUR

- You may experience difficulty raising capital.
- Financial difficulties and greater financial risk.
- Irregular income.
- Heavy responsibilities.
- You could lose everything if the business fails.



ENTREPRENEURSHIP: DISADVANTAGES OF BEING AN ENTREPRENEUR



- Many hours of work; little or no vacation, leisure time or fringe benefits.
- You may not have all skills necessary to do everything that is needed.
- Difficulties juggling professional life and personal life; potential family problems.
- Loneliness, isolation (often the feeling of being alone).

ENTREPRENEURSHIP: DISADVANTAGES OF BEING AN ENTREPRENEUR

- You may find distractions and self-discipline to be an issue.
- Frustration, impatience, low self-esteem, discouragement.
- Psychological risks (anxiety, depression, aggression, alcoholism & drug abuse, burn-out, etc.)
- Health risks (stomach ache, headache, backache, insomnia, etc.)



ENTREPRENEURSHIP: STARTING A SMALL BUSINESS

There are three main ways to start a small business:

1. Start your own business
2. Purchase an existing business
3. Franchise

ENTREPRENEURSHIP: START YOUR OWN BUSINESS

Most entrepreneurs choose this option.

- New business, new idea → nurture
- Choose suppliers, lenders, company philosophy
- Projected income/profit
- Need to identify genuine opportunity for success
- Large job (accurate business plan)

ENTREPRENEURSHIP: PURCHASING AN EXISTING BUSINESS

- Odds of success are better
- Proven ability to attract customers
- Established relationships with lenders, suppliers, & other stakeholders
- Reputation
- Location
- Appropriate purchase price
- Example: family business

ENTREPRENEURSHIP: BUYING A FRANCHISE

- A franchise is a license to operate issued by the parent company to an entrepreneur
- It's a turn-key business.
- Franchises represent 43% of retail sales in Canada.
- You enter into a franchising agreement (duties/responsibilities).
- Initial payment & royalty payments (2-30% of annual revenues or profits + advertising fee (\$30,000 -1Million))

ENTREPRENEURSHIP: BUYING A FRANCHISE

- No consultation to franchisee
- No unique identity
- Examples:
 - McDonald's
 - Boston Pizza
 - Subway
 - Tim Hortons



ENTREPRENEURSHIP: IDEA VS. OPPORTUNITY

- An *idea* can be good or bad.
- An *opportunity* is an idea that is a chance at a successful business.
- Will enough people pay and buy enough units of what I am selling to cover all costs, pay me, and leave me with profit?
- Ask yourself, do I have the skills, energy and support to start this?



GROUP DISCUSSION: LOCAL BUSINESS OPPORTUNITIES

What types of businesses are needed in your area?

LEGAL STRUCTURE

- **Legal Structure**
- **Sole Proprietorship**
- **Partnership**
- **Corporation**
- **Co-operative**

**SECTION
TOPICS**

LEGAL STRUCTURE

The legal Structure is how your business will be operated.

- **Sole Proprietorship**
- **Owned and operated by one person**
- **Examples: Red Shreds, Gecko Tree, Emoda Design**
- **Partnership**
- **Two or more individuals are owners/operators**
- **Examples: Image House Gallery**
- **Private Corporation**
- **Incorporate the business**
- **Owners become shareholders, 1 + person can incorporate**
- **Examples: Image House Gallery, Dr's & Lawyers**
- **Cooperative**
- **Incorporated business owned and controlled by members**
- **BC – minimum of 3 people to form**

LEGAL STRUCTURE: SOLE PROPRIETORSHIP

A *sole proprietorship* is a business that is owned and operated by one person.

Pros

- Freedom
- Simplicity
- Low Start-Up Costs
- Tax Benefits

Cons

- Unlimited Liability
- Lack of Continuity
- Difficulty Raising Money
- Reliance on One Person

LEGAL STRUCTURE: PARTNERSHIP

A *partnership* is a business where two or more individuals are owners/operators.

Pros

- Larger Talent Pool
- Larger Money Pool
- Ease of Information
- Tax Benefits

Cons

- Unlimited Liability
- Lack of Continuity
- Ownership Transfer Difficult
- Possibility of Conflict

LEGAL STRUCTURE: CORPORATION

A **corporation** is when the business is incorporated and the owners become shareholders, 1 + person can incorporate.

Pros

- Limited Liability
- Continuity
- Professional Management

Cons

- Double Taxation
- Ease of Transferring Ownership

LEGAL STRUCTURE: CO-OPERATIVE

A *cooperative* is an incorporated business owned and controlled by members.

Pros

- Limited Liability
- Continuity
- Greater Likelihood of Professional Management
- Easier Access to Money

Cons

- Stockholder Revolts
- Start-Up Costs
- Regulations
- Double Taxation

LEGAL STRUCTURE

Characteristics	Sole Proprietorship	Partnership	Private Corporation
Protection against Liability	Low	Low	High
Ease of formation	High	High	Medium
Permanence	Low	Low	High
Ease of ownership transfer	Low	Low	High
Ease of raising money	low	Medium	High
Freedom from regulation	High	High	Low
Tax advantages	High	High	Low

BUSINESS PLANNING

- What is a business plan?
- Why write a business plan?
- 4 keys to a business plan

SECTION TOPICS

BUSINESS PLANNING: WHAT IS A BUSINESS PLAN?

A business plan is a written document that summarizes your business strategy for the proposed new venture and how that strategy will be implemented.



BUSINESS PLANNING: WHY WRITE A BUSINESS PLAN?

- Its an opportunity to critically think through all of your business aspects before investing time and money into the business.
- It forces entrepreneur to be thorough.
- You need a plan to secure \$\$\$ from the funders.

BUSINESS PLANNING: KEYS TO A BUSINESS PLAN

A good business plan has four key parts:

1. Description of the Business
2. Market Research
3. Management
4. Financial Projects & History

**BUSINESS PLAN PART 1:
DESCRIPTION OF THE
BUSINESS**

DESCRIPTION OF THE BUSINESS

The first part of the business plan should include a description of the business. This will include:

- Executive Summary
- Your Products
- Your Customers
- Your Marketing Plan
- Your Competition

EXECUTIVE SUMMARY

The Executive summary is:

- The last thing you write.
- Placed at beginning of business plan.
- Short, clear, and inform reader of most important parts of the business plan.
- 2-3 pages maximum.

PRODUCTS

A product is a good you sell or a service you provide.

Your business may focus on one type of product or it may offer several different kinds of products.

It is crucial that you have a clear understanding of the different kinds of products you offer (or plan to offer) because this will help you identify who your customers are.

PRODUCTS

Concentrate on major types of product rather than listing every single item. Consider the following examples...

PRODUCTS: EXAMPLE 1

Example:

A retail jewellery store might have four areas

1. Engagement & Wedding Rings
2. Fashion Jewellery
3. Watches
4. Giftware

OR it may focus on one or two of these areas.

PRODUCTS: EXAMPLE 2

Example:

A carpenter offering a full range of services may have two areas:

1. Major jobs

- House Construction
- Sun Decks
- Trusses

2. Basic Jobs

- Home Renovation
- Minor Repairs
- Maintenance

PRODUCTS: EXAMPLE 3

Example:

A restaurant may offer catering services to hotels and cater private functions – three areas in total.

PRODUCTS

The reason for listing each of these separately is that each area will have different types of customers with different needs.

You may want to promote each area of your business in a different way from the others, since the advertising that reaches one market may not reach others.

CUSTOMERS: YOUR MARKET AREA

- Where do your customers live?
- Are you appealing to people in your community?
- Can you draw on several communities in a region?
- Will you be actively selling to people across Northern BC?
- Focus on your main market areas.

CUSTOMERS

- Who are your customers?
- What do they want?
- Why do they buy your type of product?
- What need does it fulfill?

CUSTOMERS

For each of your products, consider your:

Main Customers

The people who will use your products the most, and will provide the majority of your sales.

Secondary Customers

People who will buy your products, but will not be your main customers.

CUSTOMERS: 80/20 RULE

**For many firms, 80%
of the sales come
from 20% of the
customers!**



CUSTOMERS: DEMAND FOR YOUR PRODUCTS

- For each of your main types of products (the goods you sell or services you provide), is your market growing, shrinking or stable?
- Do you expect any major changes in the demand for your types of products in the near future (within five years)?
- Focus on the overall demand for your types of products, not the demand for your business.

MARKETING PLAN: MARKETING STRATEGY

Marketing is more than just advertising. Your marketing strategy is where you promote your products and your business, trying to create a perception of value among your customers.

This could include areas such as:

- Customer service
- Discounts
- Special sales
- Charities/causes your business may support
- Advertising

MARKETING PLAN: COMPONENTS OF MARKETING STRATEGY

In your marketing strategy, include:

- The strategies that you will use (follow trends, innovate, etc.)
- The advertising planned
- The sales tools (discount, coupons, etc.)

Don't forget to show your marketing costs on your Cashflow Forecast.

MARKETING PLAN: PRICE

How do your prices compare with those of your competitors?
Keep in mind three things:

1. If your products are *more expensive* than your competitors, why will your customers be willing to pay extra price?
2. If your products are *cheaper* than your competitors, can that affect the way that customers view the value of your products?
3. If your products are *the same price* as your competitors, do you have other plans to set yourself apart from the rest?

MARKETING PLAN: LOCATION

- Your location can be a vital part of your success, depending on the kind of business you are in.
- Location will be crucial for retail sales and consumer services, along with some business-oriented services.
- Location is not crucial for all firms – a wide range of firms are run from home, including accounting, marketing, word processing and so on.

COMPETITION

One of the main keys to your success will be in establishing a market niche for your business. To do this, you must understand who your competitors are. What are their strengths? More importantly, where they are weak?

COMPETITION

Disposable income is limited and many businesses are competing for it! There is only a limited amount of “spending money” and many different ways of spending it. Every product has competition of some kind, and it is important to know who your competitors are.

COMPETITION

When looking at your competition, include direct competitors and substitutes. Substitutes are products that are different from yours but can compete for your market.

Example:

An ethnic restaurant may have no direct competition but would still compete with other firms that cater to the “dine-out” market.

COMPETITION

*What do your competitors do right?
Why will your customers use you?*

COMPETITION

- Who are your competitors?
- Are they expanding?
- Are new competitors starting up in or moving into your market?
- Is the market saturated?

Look closely at your competitors' market "niche." Are they appealing to certain types of customers? Are they focusing on certain features of their products? Why do people buy from them? This information can give you many ideas how to set your company apart from the crowd, and create your own niche.

COMPETITION: ADVANTAGES & DISADVANTAGES OF YOUR PRODUCT

- What advantages do your products offer compared with the products of your competitors?
- What are the disadvantages, relative to those available through your competitors?

COMPETITION: YOUR COMPANY'S STRENGTHS & WEAKNESSES

- What are the strengths of your company (not your products), compared with your competitors?
- What are the weaknesses, compared with your competitors?

COMPETITION: OVERCOMING WEAKNESSES/DISADVANTAGES

- How will you overcome your weakness, or the disadvantages of your products?
- What are your plans to improve your weak areas?
- This is a crucial area, and one that should be looked at very closely.

BUSINESS PLAN PART 2: MARKET RESEARCH

WHAT IS MARKET RESEARCH?

Market research is the study of what buyers need and how best to meet those needs.



MARKET RESEARCH

Market research plays a very important part in determining whether your business idea is viable.

What it boils down to is asking your customers whether they will buy your product.

If properly done, it should help you answer very important questions such as...

MARKET RESEARCH: QUESTIONS

- Will the customers buy your product?
- Are they interested in the benefits your products offer?
- What features are important to them? Why do they buy?
- Where do they look when deciding what to buy (newspapers, flyers, radio, TV, etc.)?
- How much will they buy?
- What prices do they expect to pay?

MARKET RESEARCH

- Market research can be simple and straightforward to do.
- You don't need to hire an outside company. The best market research is often the kind you do yourself.
- How you do the research will depend on the type of business you want to start and the nature of your customers.

HOW TO DO MARKET RESEARCH

Step 1: What is the current situation? Define the need and assess what is currently being done about that need.

Step 2: Select a preferred research method (cost, time, effectiveness). Some research methods are: Observation, Surveys, Focus Groups, Experimentation

Step 3: Collect the data

Step 4: Analyze the data

Step 5: Prepare a report

PRIMARY VS. SECONDARY RESEARCH

Secondary Research is information that is already available as a result of previous research by the firm or other agencies.

Primary Research is information developed through new research by the firm.

SECONDARY RESEARCH SOURCES: BC STATS

This site has Provincial government statistics.

<http://www.bcstats.gov.bc.ca>

SECONDARY RESEARCH SOURCES: INDUSTRY CANADA

This site helps you to identify new markets, ID business partners, form alliances, locate emerging technologies/processes and assess risk.

<http://www.ic.gc.ca>

SECONDARY RESEARCH SOURCES: SMALL BUSINESS ACCELERATOR

The Small Business Accelerator (SBA) is a gateway to quality business information - secondary market research sources, education, and business support services - for BC business owners and entrepreneurs. This resource directs you to professionally evaluated business information, helping you to build a successful business. The Small Business Accelerator allows you to search across, and link into relevant sources of industry-specific business information. The information on this website represents a collection of the very best library and web-related business resources. You'll find your answers here!

<http://www.sba-bc.ca/>

SECONDARY RESEARCH SOURCES: SMALL BUSINESS BC

Small Business BC is a key resource centre for business information and services (registration, research library, seminars, etc.)

<http://www.smallbusinessbc.ca>

SECONDARY RESEARCH SOURCES: STATISTICS CANADA

This is a national statistical agency (demographic and social; socio economic and economic).

<http://www.statcan.ca>

SECONDARY RESEARCH SOURCES: STATS LINK CANADA

Stats Link Canada's Source Lists are a database of over 20,000 references to free or low-cost Canadian statistics. It is compiled and maintained by GDSourcing.com.

www.statslinkcanada.com

SECONDARY RESEARCH SOURCES: OTHER

- Trade Magazines
- Industry Guidebooks
- Industry Associations
 - <http://www.smallbusinessbc.ca/pdf/associations.pdf>
- Supplier & Distributor Guidebooks

PRIMARY RESEARCH

Never assume that the community/people will want to buy your product...ASK your test market.



ASSUMPTION

It makes an ass out of you and me

PRIMARY RESEARCH: RESEARCH METHODS

- Questionnaires, market survey and/or talking to customers.
- Focus Groups.
- Assess/Evaluate Competitors.
- Talk to similar businesses.
- Talk to: suppliers, distributors, retailers, agents, brokers, consultants, advisors & mentors.

PRIMARY RESEARCH: QUESTIONNAIRE/SURVEY

There are two essential surveys:

- Informal Initial Survey
- Market Segment Survey

PRIMARY RESEARCH: INFORMATIONAL INITIAL SURVEY

An *Informal Initial Survey* is a test market response to your service/product.

- Test small sample of product/service on people
 - Don't ask your friends and relatives
 - Focus on your potential target market
- Don't be upset or surprised if people aren't interested in what you have to sell. Ask people:
 - What they think of it?
 - Would they buy it?
 - How much they are willing to pay?

PRIMARY RESEARCH: MARKET SEGMENT SURVEY

A *Market Segment Survey* identifies your target market & buying behavior.

- A detailed questionnaire after you have compiled secondary research about the industry
- Individuals in target population – if you don't interview the right people you will not successfully meet the goals of your survey.
- Your sample size is how many people you need to interview. A larger sample size = more accurate projection.

PRIMARY RESEARCH: CREATING A QUESTIONNAIRE

Identify what it is you need to know. For every question ask yourself –

1. Why am I asking this?
2. How will the information contribute to what I need to know?
3. What will this tell me about my target market?

PRIMARY RESEARCH: CREATING A QUESTIONNAIRE

There are three types of questionnaires:

1. Yes or No
2. Multiple Choice
3. Open Ended Questions
 1. Who?
 2. What?
 3. When?
 4. Where?
 5. Why?
 6. How?

PRIMARY RESEARCH: CREATING A QUESTIONNAIRE

- Test run your survey on friends. Avoid jargon and avoid leading questions.
- Number the questions. Is it easy to read?
- Screen: Is this person eligible?
- Ask easy questions first
- Keep it short. Two pages max, in-person and under two minutes.

PRIMARY RESEARCH: SAMPLE SURVEY & QUESTIONS

Introduce yourself – get their permission to ask a few questions.

Example: New Business Hi. My name is Jane Doe and I'm looking at starting a business selling specialty sports equipment. May I have five minutes of your time to ask you six questions?”

Example: Existing Business “Hi. My name is Jane Doe and I run XYZ Sports. We're looking at adding new sports lines to our store. May I have five minutes of your time to ask you six questions?”

PRIMARY RESEARCH: SAMPLE SURVEY & QUESTIONS

Describe the business – keep it very short, three sentences max.

“We offer top-quality, name-brand equipment for the serious athlete, focusing on (examples).”

PRIMARY RESEARCH: SAMPLE SURVEY & QUESTIONS

Sample Questions — substitute your good or service for “product” below.

- Where do you currently buy this product?
- Why?
- What's most important to you when buying this product?
- How important to you is (list 1-2 features you will offer, such as after-sales service, knowledgeable staff, price, etc.). Consider a scale of 1-5, 1=not important, 5=critical.
- What would you most like to see improved in this area?
 - Examples: service, delivery time, etc.
- When you need to buy this product, where do you look?

PRIMARY RESEARCH: SAMPLE SURVEY & QUESTIONS

End with a question.

“If I start this business, may I contact you?” If they give you permission, take their name, address and phone number to add to your mailing list.

PRIMARY RESEARCH: FOCUS GROUP

A focus group is an information gathering where participants give their opinions, come up with new ideas and brainstorm.

- Decide what you want to learn from the group. List up to four questions.
- Decide who you want to invite. Keep it at 6-10 participants.
- Decide where and when. No longer than 1.5 hours.
- Offer snacks and refreshments (non-alcoholic).
- You listen and they talk. All ideas are good ideas.
- Stay on track and thank everyone.

PRIMARY RESEARCH: SIMILAR BUSINESSES

Contact a business that is similar to yours but is not competition with you (different towns). Introduce yourself to the owner or manager and explain the type of business you want to start. If it is a convenient time, ask them questions such as:

- What kinds of customers do you serve?
- How much competition do you have? How has it changed over time? Why?
- How do you advertise to your customers? What works, what doesn't work? Why?
- What kind of sales (daily, monthly or yearly — whatever applies) did you achieve in your 1st year? 2nd? 3rd? OR: I hope to sell \$_____ in my 1st year. How does this compare with your experience?

PRIMARY RESEARCH: ASSESSING/EVALUATING COMPETITORS

- Visit competitor stores.
- Analyze location, customer volumes, traffic patterns, hours of operation, busy periods, prices, quality of goods etc.
- If feasible, talk to their customers and sales staff.
- Determine what you could do better.
- ESTIMATE sales volume.
- Don't go head to head with the big guy.

PRIMARY RESEARCH: SUPPLIERS, DISTRIBUTORS, RETAILERS, ETC.

- Suppliers provide information on pricing techniques, markups, most popular lines they are selling and why some competitors are successful.
- The better connection you have with your supplier the more willing they are to find you what you need, when you need it and at the price you want.
- Talk to advisors, consultants and mentors.

PRIMARY RESEARCH: MARKET RESEARCH IN ABORIGINAL COMMUNITIES

- Industry has done research in the past and in turn has exploited Aboriginal communities, medicinal plants, traditional knowledge, etc.
- “Business is business”
- Aboriginal communities are over-researched & studied.
- Think about if the effects of the research will be positive or negative.

PRIMARY RESEARCH: HOW TO COMPILE MARKET RESEARCH

- Compile all of the answered surveys.
- Grid to show answers to questions.
- Translate information into readable format (business plan).
- Create a narrative.
 - What did your research tell you?
 - How receptive were they to your products?
 - How much do you think they will buy *from you*?

BUSINESS PLAN PART 3: MANAGEMENT

MANAGEMENT

As an entrepreneur, your skills will play a vital part in your success or failure. There is far more to running a company than simply providing the good or service itself. All businesses require skills in organisation, sales, customer relations, crisis management, marketing and technical areas. Successful entrepreneurs either have sufficient experience in these areas to be reasonably effective, or have people with those skills who they can draw on.

MANAGEMENT

Running your own business is not for everyone.

There are several self-assessment books and tests on the market. These are useful because they help you look at your strengths and weaknesses. It is important to consider these areas as carefully and honestly as possible.

MANAGEMENT

You will also need to have plans for overcoming your weaknesses. ***No one is strong in every area.*** An effective entrepreneur knows where they are weak and has plans for compensating for those weaknesses. You may need to hire staff, take training in some of your weak areas or arrange with someone to provide those skills (ex. bookkeeper, lawyer, advertising representative, etc.)

Weaknesses do NOT mean that you shouldn't consider going into business. Everyone has weaknesses. However, they are an indication that you should make plans to deal with these weak areas – don't ignore them.

MANAGEMENT: TECHNICAL SKILLS

Your ability to provide the service or make the good.

MANAGEMENT: MARKETING & PROMOTION

Your exposure to using advertising or promoting products.

MANAGEMENT: FINANCIAL MANAGEMENT

Your background handling books, tracking cash, etc.

MANAGEMENT: ORGANIZATION & ADMINISTRATION

Your skills, abilities and experience managing many details at the same time.

COMPANY STRUCTURE

- A ***proprietorship*** is a business owned, managed and controlled by one person.
- A ***partnership*** is a business where two or more people share ownership.
- A ***limited company*** is a company that is legally separate from its owners.

COMPANY STRUCTURE: STATUS

- Are you starting a brand new business?
- Taking over an existing business?
- Expanding your current business?
- Refinancing your existing debts?

COMPANY STRUCTURE: TYPE OF BUSINESS

Is this a manufacturing firm, a retail store, or a service?

- Manufacturing firms make goods.
- Retail firms sell goods to consumers.
- Service firms sell their skills to their clients. Their clients may be consumers or other firms. While they may sell some items, their main product is the service they provide.

COMPANY STRUCTURE: PRICE OF PURCHASE/EXPANSION

In this part of the business plan, give details about the costs of your expansion or purchase price. Give a more detailed breakdown of costs in the Use and Source of Funds section.

COMPANY STRUCTURE: REASON FOR DECLINE

If the business has been operating at a loss, what are the reasons?

Are they due to one-time events, or is this an on-going problem?

If you are planning to purchase an existing business that has this problem, make sure you have plenty of background information on this area.

COMPANY STRUCTURE: PLANS FOR CHANGE

- What will you do differently?
- What changes will you be making to the business?

PRODUCTION PLAN

Most firms sell goods as part of their business, whether they are manufacturers, retailers or services. Manufacturers make goods, retailers sell them, and many services carry them as part of delivering their service.

In this section of the business plan, you will outline how you will make your product.

PRODUCTION PLAN: FACILITY REQUIRED

- What special facilities do you require to make your product or provide your service?
- Will you be operating out of your home?
- If not, where will you be located?

PRODUCTION PLAN: DELIVERY OF PRODUCT/SUPPLIES

- Who are your suppliers?
- Have you made arrangements for ensuring that your supplies arrive when needed?

PRODUCTION PLAN: STAFFING REQUIREMENTS

- What staff and skills will you have to hire?
- Will you need staff for sales, management, technical or other functions?

PRODUCTION PLAN: TECHNOLOGICAL INNOVATIONS IN YOUR FIELD

- Are you in a field where technology is rapidly changing?
- If so, how can this affect you?
- If your products can become out-dated quickly, you need to be aware of this and make plans accordingly.

PRODUCTION PLAN: AGE OF YOUR EQUIPMENT

- If you need equipment to make your good or provide your service, how old is it?
- Could changing technology turn your equipment obsolete?
- Does it look like new regulations might force you to change your equipment, or give advantages to competitors with different machinery?
- Can your equipment adjust to meet these changes?

NOT-SO-MINOR-DETAILS: LICENSES & PERMITS

- **Business License** – Do you have your current license from the local government?
- **Name registration** – Have you registered your company's name with the Provincial Registrar of Companies?
- **Provincial Sales Tax** – Do you have a Social Services Tax Number (or Exceptions Certificate Number)?
- **GST** – Have you registered?
- **Revenue Canada** – Do you have an Employer Registration number?
- **WCB** – Do you require a Workers Compensation Board assessment number?
- **Zoning** – Which zoning regulations apply to your business? How will you be affected?

NOT-SO-MINOR-DETAILS: INSURANCE

- What types of insurance will you need?
- How much does each type cost?
- Show the costs in the Cash Flow Forecast.

NOT-SO-MINOR-DETAILS: ADMINISTRATION

Who will handle your:

- Bookkeeping?
- Year-end accounting?
- Taxes?
- Legal matters?

BUSINESS PLAN PART 4: FINANCIALS

SECTION TOPICS

- Use & Source of Funds
- Owner's Drawings
- Financial Projections
- Sales Forecast
- Cash Flow Projection
- Balance Sheet
- Income Statement
- Arranging Financing

FINANCIALS: USE OF FUNDS

This section should cover whatever you need to start or expand your business, including items you already have. The Use of Funds covers the following categories:

- Capital Items – major pieces of equipment you need to start or expand.
- Inventory.
- Other costs (advertising/marketing, business licenses, accounting/bookkeeping fees and other costs related to start-up or expansion).
- Renovations.
- Operating Line – this is similar to a line of credit, these are funds you need to carry you through slow periods, and provide a "buffer" for your operation.

FINANCIALS: USE OF FUNDS

Start Up Cost =
Door Opening Cost + Working Capital Requirement

- ***Door opening cost:*** money needed to get to opening day.
- ***Working capital requirement:*** money needed to survive from opening day to positive cash flow

FINANCIALS: USE OF FUNDS

Example:

Let's assume your business requires \$10,000 in equipment to operate, and you already have \$3,000. You would show the full picture (\$10,000) in the appropriate section of the Use of Funds, not just the part that you don't have yet (\$7,000).

Capital Items	Have Already	Need to Buy
Computer	\$3,000.00	\$0.00
Machinery	\$0.00	\$2,000.00
Other Equipment	\$0.00	\$3,000.00
Inventory:		
Books	\$0.00	\$1,000.00
Other Costs:	\$0.00	\$0.00
Renovations:	\$0.00	\$500.00
Operating Capital / Line:	\$0.00	\$500.00
TOTAL USE OF FUNDS	\$3,000.00	\$7,000.00

FINANCIALS: SOURCE OF FUNDS

Once you know what your needs are, you need to determine where the money will come from. List the cash and assets that you are contributing to the start-up or expansion. Show the full amount of any leases, bank loans, investments by partners or other investors, and the like.

Example:

Grant (ABC, INAC)	\$5,000.00
Loan (ANTCO, CFDC)	\$0.00
Personal Investment:	
Cash	\$2,000.00
Assets	\$3,000.00
TOTAL SOURCE OF FUNDS	\$10,000.00

FINANCIALS: OWNER'S DRAWINGS

In this section, you calculate the funds you need to meet your personal living expenses.

There are two types of expenses you must consider: *monthly* and *annual*.

The amount in this section is the **MINIMUM** you can take from the business. You can take more than this, but you cannot take less. For example, your minimum monthly living expenses may be \$1,900.00. You could not take less out of the business to live on, though you could choose to take more (ex., \$2,500.00 per month).

FINANCIALS: OWNER'S DRAWINGS

Monthly Expenses

- Car Expense
- Clothing
- Entertainment
- Food
- Heat
- Light
- Medical Expenses
- Rent or Mortgage Payment
- Telephone
- Other
- Total Expenses
- Less: Other Sources of Income

Yearly Expenses

- House Insurance
- Vehicle Insurance
- Life Insurance
- Property, Water/Sewer Taxes
- Personal Income Taxes
- Other

FINANCIALS: FINANCIAL PROJECTIONS



FINANCIALS: FINANCIAL PROJECTIONS

Financial projections should not be prepared in isolation from the rest of the plan.

Example: the results of market research should flow into the sales projections and therefore drive the revenue forecast

Under no circumstances should detailed financial projections be done first and then tailor the plan to suite the projections

Do some high-level fin. planning at the beginning to get a feel for the basic figures and sensitivities. However, do not allow the plan to become a financially driven document without strong market basis.

FINANCIALS: SALES FORECAST

The Market Research section asked you to explain how you arrived at your predicted sales amount. In this section you state what those expectations are. If your projections are based on your many years experience in the field, say so. However, the more information you can provide to show how you came up with your sales forecast, the more accurate (and meaningful) they will be.

Sales Forecasts must be supported by market research to be credible!

FINANCIALS: SALES FORECAST

The assumptions should consider any major areas that can affect your business. For example, a retail store should consider the effects of Christmas on their November and December sales.

Factors could include things like:

- Seasonal conditions – weather, Christmas, etc.
- Economic conditions – logging down-time, housing constructions etc.
- Customers – the number of customers you expect to be working with daily, weekly or monthly.
- Marketing – the type of marketing or promotion you will be doing during this time, and the number of hours you plan to devote to it.

FINANCIALS: SALES FORECAST

Example: Jewellery Store Sales Forecast

Estimate sales for each general type of product that you plan to offer, by month.

A jewellery business may plan to offer products in four areas:

1. Engagement & Wedding Rings
2. Fashion Jewellery
3. Watches
4. Giftware

Make sales forecasts for each of the four areas, NOT for every single item that the store carries.

FINANCIALS: SALES FORECAST

Example: Jewellery Store Sales Forecast

When estimating your sales for the month, estimate:

1. The average number of items that you will sell in the month, or the average number of hours that you will be able to charge for in the month.
2. The average price per item, or the average hourly rate you will charge.

FINANCIALS: SALES FORECAST

Example: Jewellery Store Sales Forecast

Using the example of the jewelry store mentioned earlier, a sample sales forecast for a month might be:

Sales Area	avg # Sales	Avg \$ per sale	total sales
Gold Jewelry	12	\$450	\$5 400
Fashion Jewelry	187	\$32	\$5 984
Giftware	83	\$40	\$3 320
China/Silver/Crystal	41	\$75	\$3 075
TOTAL SALES			\$17 779

FINANCIALS: CASHFLOW FORECAST

The key to remember in preparing a cashflow forecast is that you are not trying to determine a profit or loss yet – you are trying to predict the timing of cash in or out of your bank account.



FINANCIALS: CASHFLOW FORECAST

Cash In

Total Sales
Accounts Receivable
Cost of Goods Sold

Total Cash In

Cash Out

Advertising/Marketing
Accounting/Bookkeeping
Auto Expense & Repairs
Bank Charges & Fees
Cell Phone
Equipment Repairs
Fax
Freight & Postage
Fuel Expense
Insurance
Licenses & Fees
Office Expenses
Depreciation
Loan Interest

Total Cash Out

Net Cash

Starting Cash Balance
Cash In Less Cash Out
Add Loan Proceeds
Add Depreciation
Less Loan Principle Payment
Less Owner's Drawings
Less Capital Purchase
Ending Balance

FINANCIALS: CASHFLOW FORECAST

When preparing your cash flow, keep in mind the following points:

- 1. *Don't spread costs evenly over the year.*** If insurance costs \$1,200 per year and is payable in May, put the whole \$1,200 in that month. Do not put in \$100 each month.
- 2. *Remember the timing of collections on accounts receivable.*** If you offer 30-day terms, show the cash received in the month following the sale.
- 3. *Take the time to do it right.*** The cash flow is an important first step in preparing your entire financial forecast. Most of the data collected here is used on balance sheet and income statement forecasts also.

FINANCIALS: CASHFLOW FORECAST

Cash is the lifeblood of every business and more businesses fail for want of cash than lack of profit.

Every manager's primary task is to help keep it flowing and to use this cash flow to generate profits.

If a business is operating profitably, then it should, in theory, generate cash surpluses.

The faster a business expands, the more cash it will need for working capital and investment.

The cheapest and best sources of cash exist as working capital right within business.

There are two elements in the business cycle that absorb cash: inventory and receivables. The main sources of cash are payables, equity and loans.

FINANCIALS: CASHFLOW FORECAST

Cash flow can be significantly enhanced if the receivables are collected faster. Every business needs to know who owes them money, how much is owed how long it is owing, and for what it is owed.

Management of payables is just as important as the management of receivables. It is important to look after your creditors. Slow payment by you may create ill-feeling and can signal that your company is inefficient, or in trouble.

Managing inventory is a juggling act. Excessive stocks can place a heavy burden on the cash resources of a business. Insufficient stocks can result in lost sales, delays for customers etc.

FINANCIALS: WAYS TO IMPROVE CASH FLOW

- Sales - Become more selective when granting credit
- Reduce Costs & Improve Systems for billing and collection
- Credit Management - Generate regular reports on receivable ratios and aging
- Purchasing - Make prompt payments only when worthwhile discounts apply (borrowing costs vs. saving %)
- Inventory - Sell off or return obsolete/excess inventory
- Investment - Use leasing etc. to gain access to the use of productive assets

FINANCIALS: DIFFERENCE BETWEEN PROFIT AND CASH FLOW

When planning the short or long-term funding requirements of a business, it is more important to forecast the likely cash requirements than to project profitability etc.

While profit, the difference between sales and costs within a specified period, is a vital indicator of the performance of a business, the generation of a profit does not necessarily guarantee its development, or even the survival,

More businesses fail for lack of cash flow than for want of profit.

FINANCIALS: DIFFERENCE BETWEEN PROFIT AND CASH FLOW

Sales and costs and, therefore, profits do not necessarily coincide with their associated cash inflows and outflows. While a sale may have been secured and goods delivered, the related payment may be deferred as a result of giving credit to the customer. At the same time, payments must be made to suppliers, staff etc., cash must be invested in rebuilding depleted stocks, new equipment may have to be purchased etc.

The net result is that cash receipts often lag cash payments and, whilst profits may be reported, the business may experience a short-term cash shortfall. For this reason it is essential to forecast cash flows as well as project likely profits

FINANCIALS: CASH CRUNCH

Even if you are projecting a profit, if you run out of cash, your business could be dead in the water.

Just about all small businesses will feel a cash crunch sooner or later, and for most businesses it will happen sooner, later, and fairly regularly. But if you keep your cash flow projection up to date, you can take steps to avoid cash shortages before the problem becomes evident.



FINANCIALS: CASH CRUNCH

Otherwise, you will conduct business as usual until one day you find yourself having no money in the bank, your bank credit is exhausted, your payroll is due, your key vendors are demanding payment, Revenue Canada is calling, and customers are still paying their bills slowly.

Remember, cash crunches happen all the time in successful, profitable, growing businesses too.

FINANCIALS: BENCHMARK YOUR COSTS

One of the best ways to establish cost goals for annual planning is to benchmark your costs with other firms in your industry. Don't get too wrapped up in the details, focus on the total picture for major categories

For example, if your marketing costs are 23 percent of sales and the industry average is 16 percent, it's time for some cost-cutting. Benchmarking is a great way to get management to understand why they need to control costs

Often industry associations provide standard industry costs, and occasionally they might be mentioned in articles in trade magazines

FINANCIALS: FINANCIAL PLANNING TRAPS TO AVOID

- Using financial forecasting as a substitute for business planning
- Ignoring historic trends or performances at company, sectoral and national levels
- Overstating market shares and growth, sales forecasts, and profit levels
- Giving insufficient consideration to working capital requirements

FINANCIALS: FINANCIAL PLANNING TRAPS TO AVOID

- Underestimating costs and delays likely to be encountered
- Disregarding industry performance norms and competitors' responses
- Breaching generally-accepted financial guidelines and ratios
- Making unduly optimistic assumptions about the availability of loans, trade credit, grants, equity, etc.
- Seeking false accuracy while failing to recognize matters of strategic importance

FINANCIALS: BALANCE SHEET

A balance sheet is a statement of the financial position of a business as of a certain date.

Assets minus liabilities equals current net worth.

- Assets are everything that the company owns.
 - e.g., cash, accounts receivable, equipment, land
- Liabilities are amounts/services owed by the company.
 - e.g., loans payable, accounts payable, customer advances, etc.

Stockholders' equity - initial investment by the owners (capital stock - common and preferred stocks) plus the sum of undistributed profits (retained earnings).

FINANCIALS: SAMPLE BALANCE SHEET

Balance sheet for XYZ business on the 31 st of December 2010		
	\$	\$
ASSETS		
<i>Non-current assets</i>		2,150,000
Land and buildings	2,000,000	
Furniture	12,000	
Machinery	18,000	
Investments	<u>120,000</u>	
<i>Current assets</i>		10,000
Inventory	1,000	
Debtors / receivables	3,200	
Bank and cash	<u>5,800</u>	
TOTAL ASSETS		<u>2,160,000</u>
EQUITY AND LIABILITIES		
<i>Owner's equity</i>		1,700,000
Capital	<u>1,700,000</u>	
<i>Non-current liabilities</i>		440,000
10% Loan	<u>440,000</u>	
<i>Current liabilities</i>		20,000
Creditors / payables	<u>20,000</u>	
TOTAL EQUITY AND LIABILITIES		<u>2,160,000</u>

FINANCIALS: INCOME STATEMENT

The Income Statement is a short-term indicator of how a company's day-to-day business is doing.

For example, your monthly checking account statement is similar to an Income Statement. It tells the story of what happened in your financial life in the past month , year, how money came into your pocket, and how you spent it. Simple as that.

Net Income equals Revenues minus Expenses

FINANCIALS: INCOME STATEMENT

Revenues are a measure of economic benefits generated by the sale of products or providing of services over a period of time.

Example:

- Sales
- Service

Expenses are a measure of economic sacrifices incurred to “earn” the revenues of a given period.

Examples of expenses:

- Cost of inventory sold
- Salaries to employees
- Rent
- Advertising

FINANCIALS: SAMPLE INCOME STATEMENT

Income statement for XYZ business for the period ending 31 st of December 2010		
	Budgeted \$	Actual \$
INCOME		
Services rendered	<u>100,000</u>	<u>94,600</u>
EXPENSES		
Salaries	25,000	25,000
Telephone & internet	6,500	6,500
Water & electricity	14,000	16,000
Property rates and taxes	1,000	1,000
Insurance	7,300	7,300
Advertising costs	1,000	1,000
Fuel	1,800	2,500
Stationery	500	412
Bank charges / interest paid	600	654
Tax expense	<u>3,000</u>	<u>3,414</u>
NET PROFIT	39,300	30,820

FINANCIALS: RETAINED EARNINGS & SHAREHOLDERS EQUITY

Retained Earnings are a measure of undistributed profits of a business. This does not include capital contributed by owners.

Retained Earnings = Cumulative sum of profits earned from the inception of business (-) Cumulative sum of all “dividends” distributed to the owners from the inception of business

FINANCIALS: RETAINED EARNINGS & SHAREHOLDERS EQUITY

Statement of shareholders' equity describes the change in retained earnings over a period of time.

- Beginning balance in retained earnings
- Add Net income earned during the period
- Subtract Dividends distributed during the period
- Ending balance in retained earnings

FINANCIALS:

SHOULD YOU HIRE AN EXPERT TO PREPARE THE FINANCIALS?

It's better to prepare them yourself. A potential lender or equity investor wants to see not only that the numbers look good, but also that you understand them inside and out.

If you can't answer highly detailed or thorny questions about how you arrived at your numbers, you aren't going to get your funding.

FINANCIALS: ARRANGING FINANCING/INVESTMENT

What do you need in order to convince the lender to approve the loan?

A strong business plan demonstrating:

1. Your managerial skills – background and experience related to the proposed business
2. Strong market and competitive analysis demonstrating a demand for your service/product offering
3. Ability to repay your loan based on cash flow projections

RESOURCES

RESOURCES

100 Essential Small Business Skills

GoForth Institute

Aboriginal Business and Entrepreneurship Skills (ABEST) Training

B.C Ministry of Aboriginal Relations and Reconciliation

Accounting Basics For Students

www.accounting-basics-for-students.com

Business Plan Development Skills for Coaches and Facilitators

Macrolink Action Plans Inc.

First Nations & Inuit Youth Business Program

NACCA