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## Guide for Preparing a Business Plan

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#5- 1200 Princess Royal Ave, Nanaimo, BC V9S 3Z7  
Phone: 250 591 -7499 Toll Free:1-877-585-5385 [www.cfnanaimo.org](http://www.cfnanaimo.org)



## Guideline for Preparing a Business Plan

### *What is a business plan?*

A business plan is a written summary of what you hope to accomplish by being in business and how you intend to organize your resources to meet your goals. It is the road map for operating your business and measuring progress along the way.

### *Why prepare a plan?*

1. It encourages realism.
2. It helps you identify your customer, your market area, your pricing strategy and the competitive condition under which you must operate to succeed. This process often leads to the discovery of a competitive advantage or new opportunity as well as deficiencies in your plan.
3. By committing your plan to paper, your overall ability to manage the business will improve. You will be able to concentrate your efforts on the deviations from your plan before conditions become critical. You will also have time to look ahead and avoid problems before they arise.
4. The Business Plan identifies the amount of financing or outside investment required and when it is needed.
5. First impressions are important. A well-organized plan makes it easier for the lender or investor to assess your financing proposal and assess you as a business manager.
6. Three or four hours spent each month updating your plan will save you time and money in the long run and may even save your business. Resolve now to make planning a part of your management style.

**REMEMBER: Businesses do not plan to fail...they fail to plan.**



## Guideline for Preparing a Business Plan

### *Recommended Format*

The Business Plan is intended as a starting point for organizing your own plan. The comments in brackets should help you to decide which headings are relevant to your own business situation.

### *Instruction*

The format should start with a capsule (executive) summary of the highlights of the business plan. (see 9.0) Even though your entire business is well described later on, a crisp one or two pages instruction helps to capture the immediate attention of the potential investor or lender.

#### **1. BUSINESS PLAN CONCEPT**

Part 1 identifies your market potential within your industry and outlines your action plan for the coming years. Make sure your stated business goals are compatible with your personal goals, your own management ability and family considerations.

Your loan proposal will assess many factors but of paramount importance will be:

1. Your market research;
2. Your marketing plan;
3. Realistic financial projections; and
4. Your background and experience as it relates to the business venture.

The heart of the Business Concept is your monthly sales forecast for the coming year. It is your statement of confidence in your marketing strategy and forms the basis for your cash flow forecast and projected income statement.

Part 1 contains an assessment for business risk and contingency plan. We urge you to take the offensive and be your own devil's advocate. Being honest about your business risks and how you plan to deal with them is evidence of sound management.

**Make your plan REALISTIC and ACHIEVABLE!**



## Guideline for Preparing a Business Plan

### 2. FINANCIAL PLAN

Part 2 outlines the level of the present financing and identifies the financing sought. This section should be kept concise with supporting material supplied. The Financial Plan contains financial forecasts. In carrying out your action plan for the coming year, these operating forecasts guide you towards business survival and profitability. Resolve now to refer to them often and if circumstances dictate, re-work them as necessary.

Before presenting your Business Plan to a lender or investor, review your financial statements with your accountant. This familiarity will increase your credibility and at the same time provide you with a good understanding of what the financial statements reveal about the viability of your business.

### 3. BUSINESS HISTORY

Readers will first want to know about the history of your business. If you have an existing business, briefly describe when and by whom the business was started and any major changes that have occurred in the business. If this is a new business, highlight some of the reasons why you would like to start this specific business.

#### A. Vision and Mission Statement

It is important to have a long-term vision of what you want your business to become. Some businesses use their vision and mission statement to highlight what their business places on developing good relationships with customers and employees.

#### B. Objectives

It is also important to have objectives so that you can measure how well your business is doing in the short-term. You can set objectives for desired market position (for example, we want to be the largest repair shop in town), sales (we want sales to increase by 25% over the next 12 months), profitability (we want to improve profitability by 5% in 2007), or any other issue important to your business. Your objectives should be simple factual statements that are measurable.

#### C. Ownership

Is your business a sole proprietorship, partnership, or corporation? What is the legal name of your business and who are the principal owners?

#### D. Location of Facilities

Discuss where your business is located and what facilities you have. You may wish to include the company address and a description of your site, the size of your facility, your equipment, and your lease agreements. In addition,



## Guideline for Preparing a Business Plan

explain how the location of your business adds to the success of the business.

### 1.0 Products and Services

The purpose of this section is to introduce the reader to the products and services you will be selling. In this section we will ask you to:

- Provide a description of your products and services and their key features;
- Describe your production process and any comparative advantages you may have; and
- Highlight any future plans you have to upgrade existing products or introduce new products and/or services.

#### A. Description of Products and Services

Briefly describe the products and/or services that your business will be selling.

#### B. Key features of the Product or Services

Why will customers buy your products and/or services instead of another company's? Explain what makes your products and/or services unique in the marketplace and how they will differ from those of your competitors.

#### C. Production of Products and Services

Describe how your products and/or services will be produced. You may wish to highlight the resources used (both human resources and materials) and the process involved in the production of your product or services.

#### D. Future Products and Services

Do you have any plans to update existing products or to offer new products and/or services in the next three to five years? If yes, provide a brief description of what you plan to do.

#### E. Comparative Advantage in Production

Is there anything about your production capabilities that may give you an advantage over your competition? For example, do you have specialized skills, new technology, access to cheaper materials, or low overhead costs? If nothing comes to mind, leave this question blank.

### 2.0 Industry Overview

In order for readers to understand your business plan, they need to understand your industry. The purpose of this section is to describe the industry that your business will be operating in. In this section we will ask you to discuss:



## Guideline for Preparing a Business Plan

- the overall size of your industry;
- key product and market segments;
- customer buying criteria and processes;
- the types of businesses in the industry;
- key industry trends; and
- the outlook for your industry.

### **A. Market Research**

When writing a business plan, it is important to have a good understanding of the industry in which you will operate. Discuss what research you did to write your business plan. For example, have you surveyed current and potential customers, reviewed research reports and statistics prepared by others, read magazines and newspaper articles, or spoken to people who are particularly knowledgeable about the industry?

### **B. Size of the Industry**

How big is the industry your business will operate in? Size can be defined in many ways including sales, the number of units sold, number of producers, and/or total employment. Be sure to highlight any statistics you have on how fast the industry is growing and discuss the size of the industry in the particular area that will be served by your business.

### **C. Key Products Segments**

Industries can be divided into a number of product segments. For example, product segments within the automobile industry includes car, trucks, vans, and recreational vehicles. Divide your industry into key product segment, highlighting the size and characteristics of the segments your business will compete in.

### **D. Key Market Segments**

Market segments can also divide industries. Who do the businesses within your industry sell their products and/or services to? Divide the market into customer groups, highlighting the size and characteristics of those groups. For example, markets can be grouped by type of customer, geography, or other characteristics. Segment the markets on the basis that make the most sense for your business.

### **E. Purchase Process and Buying Criteria**

It is important to know how and why customers purchase products like yours. For example, are price, quality, warranties and/or service support important factors to your customer? Briefly discuss how the purchase process and buying criteria may vary by each of the market segments or product segments.



## Guideline for Preparing a Business Plan

### **F. Description of Industry Participants**

Describe, in general terms, the type of businesses that compete in your industry. For example, where are they located, how broad are their product and service lines, how large are they, and how do they distribute their products?

### **G. Key Industry Trends**

The only thing that is constant in business is change. What are the key trends in your industry? These trends include technology, products, markets, regulations, or economic conditions. What trends will affect the supply of, or demand for, your products/services? Highlight the factors and trends that could have the largest impact on your business.

### **H. Industry Outlook**

For your industry, discuss what types of products have the greatest opportunities for growth over the next three to five years and why? What products or product groups are expected to see a decline in sales?

## *3.0 Marketing Strategy*

Now that readers understand your industry, they will want to know how your business will fit in. In this section describe your marketing strategy. In particular:

- define your target markets;
- describe your competitors and your competitive position; and
- outline your pricing, promotional and distribution strategies.

### **A. Target Market**

In the last section you described the key market segments within your industry. Which of these customer groups or market segments will your business specifically target? You can define your target market in both by type of customer and by geographic region. Explain how your target markets may change during the term of the business plan.

### **B. Description of Key Competitors**

There will be other businesses or competitors that are also competing for these target markets. List your key competitors and provide a brief description of their businesses in terms of location, product and services, marketing strategies and market position.

### **C. Analysis of Competitive Position**

Now we want to compare your business to your competitors. In what ways will you have an advantage over your competitors and in what ways will you be at a competitive disadvantage? In which markets will you have the greatest competitive advantage?



## Guideline for Preparing a Business Plan

### **D. Pricing Strategy**

Briefly discuss how you will price your products and services. How will the pricing of your products and services compare to that of your competitors? For example, will you follow a penetration pricing policy (offer low prices in order to generate higher sales volumes)?

### **E. Promotion Strategy**

Having a good product and/or service is no guarantee of success. You have to make potential customers aware of your products and tell them how and where they can buy them. Describe how you will create awareness of your products and services. Highlight the types of promotional activities you will undertake such as media advertising, trade shows, direct mail, sales calls and any other means of promotion that you will use to reach your target markets.

### **F. Distribution Strategy**

How will you distribute your products and/or services to your target markets? Discuss where your customers will be able to buy your product and/or service, and how you will provide customer service and after-sales support.

## *4.0 Management and Staffing*

Management and staffing is a very important section of a business plan. Many investors say that they invest in people, not in businesses. Readers will want to know that your management team and staff have the necessary expertise and experience to be able to implement the business plan.

### **In this section we will ask you to:**

- describe the structure of your organization;
- summarize the expertise and experience of your management team; and
- identify your staffing needs and any labour market issues.

### **A. Organizational Structure**

Describe the management and staffing structure of your business. Discuss how many employees you currently have and how many you expect to have over the next three years. What are the key positions within your business and what are the reporting relationships between those positions?

### **B. Management Team**

Who are the key people on your management team? List and give a brief description of each member of your management team, including his or her position, key functions, and relevant experience. Discuss the strengths and





## Guideline for Preparing a Business Plan

weaknesses of the management team (including any positions, which are not currently filled) and how these weaknesses will be dealt with. At the end of your business plan, attach resumes for each member of the management team.

### **C. Staffing**

Discuss how you will fill key non-management jobs within your business. Highlight the qualifications and level of experience you will require, the wage rate and benefits you will pay, and what training you will provide.

### **D. Labour Market Issues**

Discuss any factors that could affect your ability to find, hire and keep employees.

## *5.0 Regulatory Issues*

Regulatory issues affect any business. In this section, we will ask you to identify any:

- patents;
- copyrights;
- trademarks
- licenses;
- permit requirements; or
- other regulatory issues affecting your business.

### **A. Intellectual Property Protection**

Will your products, services or processes be protected by patent, copyrights, and trademarks? If so, please describe what is covered. If not, leave this section blank.

### **B. Regulatory Issues**

What other regulatory issues could directly affect your operations? For example, are you in a regulated industry? Will your business require licenses and permits? What step are you taking to address these issues?

## *6.0 Risks*

Some people think that you should not discuss risks in your business plan. However, the reader will want to know you have thought about what could go wrong and you have taken steps to protect your business. In this section, identify



## Guideline for Preparing a Business Plan

any risks that could affect the success of your business and discuss how you will overcome them.

### **A. Market Risks**

Are there any events that could affect your customers' need or demand for your products and/or services during the term of the business plan? If yes, discuss how likely it is that these events will occur and what steps you will take to limit the impact.

### **B. Other Risks**

Discuss any other risks that could affect the success of your business and how you will overcome them.

## *7.0 Implementation Plan*

In your business plan you have identified a series of things that you are going to do. It is useful to the reader to summarize these, and to identify who will do them and when they will be done.

### **A. Implementation Activities and Dates**

When will the key activities and initiatives in your business plan be implemented and who will be responsible for their implementation?

## *8.0 Executive Summary*

The Executive Summary can be the most important section of your business plan because people will read it first and it may be the only section they read. Although it will be printed out first, the Executive Summary should be done last after you have completed the other sections.

**The keys to a good Executive Summary are that:**

- it should be short (2 pages at the most);
- it should highlight what is important to your plan; and
- it should get the reader excited about your business.

### **A. Business Description**

Briefly describe your business and highlight the key features of your products and services.



## Guideline for Preparing a Business Plan

### **B. Ownership and Management**

Briefly describe the organizational structure, ownership, and key management team of your business.

### **C. Key Initiatives and Objectives**

Highlight the key initiatives and objectives that are outlined in your business plan.

### **D. Marketing Opportunities**

Provide an overview of the marketing opportunities for your business.

### **E. Competitive Advantages**

Summarize the main competitive advantages of your business.

### **F. Marketing Strategy**

Briefly describe the key components of your marketing strategy.

### **G. Summary of Financial Projections**

Summarize the highlights of your financial plan such as your projected revenues and net income.

## *9.0 Confidentiality and Recognition of Risks*

You may want to include a confidentiality clause asking readers not to discuss your business plan with others and recognition of risk clause warning readers as to the uncertain nature of financial projections. These statements are printed after the Executive Summary and before the main body of the report.

### **A. Confidentiality Clause**

What, if any, clause do you want to include in your business plan to request that readers maintain confidentiality? If you do not wish to include such a clause, leave this section blank.

### **B. Recognition of Risk**

What, if any, clause do you want to include in your business plan to notify reader as to the uncertain nature of financial projections. If you do not wish to include such a clause, leave this section blank.



## Guideline for Preparing a Business Plan

### 10.0 Financing and Capitalization

- A. State Term Loan applied for (amount, term, when required).
- B. Purpose of term loan (attach detailed description of assets to be financed with cost quotations).
- C. Owner's equity (your level of investment and commitment to the program).
- D. Summary of term loan requirements (for a particular project or for business as a whole).

Example:

PROGRAM		FINANCING	
Leasehold improvements	\$ 30,000	Term loan	\$80,000
Equipment & machinery	75,000	Owner's equity	-
Vehicles	36,000	Founder's investment	48,000
Non-recurring start-up expenses	12,000	New Investor*	25,000
	\$153,000		\$153,000

\* If the purpose of the Business Plan is to attract a new investor, further details would be given here concerning share participation, role in company, etc.

### 11.0 Present Financing

- A. List loans outstanding (balance owing, repayment terms, purpose, security held, name and phone number of creditor).
- B. Current operating line of credit (amount, security held).

### 12.0 References

- A. List Loans outstanding (balance owing, repayment terms, purpose, security held, name and phone number of creditor).
- B. Current operating line of credit (amount, security held).



## Guideline for Preparing a Business Plan

- C. Accountant's name (includes address and phone number).
- D. List any pertinent character references or industry specific references.

### 13.0 Appendix

The following documents will be requested by your banker or potential investor and will strengthen your proposal

- Personal net worth statement (including personal property values, investments, cash, bank loans, charge accounts, mortgages, other liabilities. This will substantiate the value of your personal guarantee if required for security).
- Letter of intent (potential orders, customer commitments, and letter of support).
- List of inventory – existing business (type, age and value).
- List leasehold improvements (description, when made).
- List of fixed assets (description, age, serial number).
- Price lists (to support cost estimates).
- Description of insurance coverage (insurance policies, amount of coverage, name of insurance company, phone number).
- Accounts receivable summary (include aging schedule).
- Accounts payable summary (include schedule of payments, and aging).
- Copies of legal agreements (contracts, leases, franchise agreement, mortgages, debentures).
- Appraisals (property, equipment).
- Financial statements for associated companies (where appropriate).



## Guideline for Preparing a Business Plan

### 14.0 Financial Planning Guide

1. The complete financial forecasts is necessary to make certain assumptions. These assumptions can be based on previous historical financial data, actual figures from similar business or small business statistics, research of costs and the constraints of your business i.e. hours of operation, number of staff, number of tables in a restaurant, number of hours it takes to produce an item etc.
2. **START UP COSTS BUDGET:** Itemize all the expenses which your business will incur before you can officially open. Keep your worksheets showing details of your calculations.
3. **CASH FLOW** – (a month by month projection of what your anticipated revenue and expenses will be) Remember: **NOT ALL BUSINESS MONTHS WILL BE THE SAME.** You should anticipate slow/busy months. Show expenses in the exact month they must be paid i.e. - vehicle insurance, business license. Do not spread these items evenly over the twelve months. (Keep all details about your calculations. You will be asked to explain your cash flow summary).
4. Using totals from your Cash Flow worksheet as a guide to complete the Pro-Forma Income Statement. This is a summary of your one-year projections. Based on your first year projections, project for year one and two (i.e. 10% increase in profits with associated costs).
5. Now complete the Projected Balance Sheet. This is a “snap shot in time” of where your money will be on opening day. Assume that you will have secured your financing.

### FINANCIAL FORECAST ASSUMPTIONS SHEET

To improve the quality of your loan presentation, use this document to explain the rationale you used to arrive at the major figure on your forecast.

**Sales:** What are you gross revenues based on?

**Cost of Good and Services**

**Labour:** Refer to number of employees including increases or decreases, wages rates and contract terms. Provide a detailed breakdown of your cash flow projections for this item. Ensure that you have budgeted for all employees.



## Guideline for Preparing a Business Plan

### Pricing of the Product (s) or Service(s)

**Administration & Financial Expenses:** State the basis for amounts shown in each expense category. Ensure your interest and bank charges reflect the proposed debt included in your loan application.

**Other Income/Expense:** Clearly explain any items in this area and state whether they are “one-timers” or ongoing sources.

**Drawing/Taxes:** If the business is not incorporated ensure you include the total amount of cash withdrawals by the proprietor or all partners. Also allow for taxes on profits earned.



## Guideline for Preparing a Business Plan

### START UP COSTS BUDGET SUMMARY SHEET

ITEM	DETAILS – sources, quotes, calculations	COST
Rent/Lease, Damage Deposit, First/Last Month's Rent		
Leasehold Improvements		
Purchase of Equipment		
Initial Inventory Purchase		
Business License/Name Registration		
Advertising		
Business Supplies/Stationary		
Business Insurance		
Legal Fees		
Accounting Fees		
Other		
<b>TOTAL OF ALL START UP COSTS</b>		\$

**Important:** Do not forget to transfer all of these expenses into month one of the cash flow.





## Guideline for Preparing a Business Plan

### INSTRUCTIONS FOR DOING A CASH FLOW

A cash flow is a forecast of when you expect to receive cash from your sales and when you anticipate paying your bills (expenses). It is not, and should not be confused with a projected income statement. A cash flow is not an estimate of your total revenues and expenses, rather it is an estimate of when the money associated with those revenues will be received and when the money required for expenses will be paid. (i.e. money in and out of your business wallet).

#### *Why do a cash flow?*

To often business owners do a cash flow in their heads. Putting the cash flow on paper will give you the following:

- a. A format for planning the most efficient use of your cash.
- b. A schedule of anticipated cash receipts and follow-through to see that you achieve.
- c. A schedule of priorities for the payment of accounts – stick to it.
- d. A measure of the significant or unexpected changes in circumstances, i.e.: reduction of sales, strikes, delayed receipt of accounts receivable, etc.
- e. A list on paper of the bill paying details which have been keeping you awake at night.
- f. An estimate of the amount of money you need to borrow (for start up costs and working capital) to finance your operations. This is perhaps the most important aspect of a completed cash flow projection.
- g. An outline to show you and the lender that you will have sufficient cash to make loan payments or you are planning to borrow money on a term basis.



## Guideline for Preparing a Business Plan

### *Cash Flow Instructions*

1. The key is to remember 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 business bank account.
2. Do not automatically spread costs evenly over the year. For example, if insurance costs \$1200 per year and is payable in one month, put this whole amount in that month. Do not put \$100 in each month.
3. Using the Operating Expense to Consider and the cash flow sheet, first prepare a detailed sheet of your revenues and expenses, which includes the assumptions you are making to calculate your figures, in particular, your sales figures. Attach the detail sheet to the summary sheet (which is the actual cash flow sheet). You will need this to refresh your memory as to how you calculated the revenues/expenses. This will help you monitor your own progress.
4. Keep in mind that timing of collections in your accounts receivable. If you offer 30-day terms, be sure to show the cash received in the month following the sale.
5. The Cash Flow is an important first step in preparing your entire financial forecast. Some of the data collected here is also used on the Balance Sheet and Income Statement forecasts.
6. Do the cash flow for the first 1 consecutive month from your projecting day. Once you are finished, add the columns top to bottom and the rows left to right. Year two projections should also be done. Each year must have a 12 month total.
7. Once your cash flow is completed, it can be used to monitor your actual progress. It can help you assess why revenues and/or expenses are not what you may have expected.
8. As your business progresses through the months, record your “actual” in each category, so you can use these “ACTUAL” figures to help draft a cash flow for year 2, 3, etc. Cash flow “actual” can help you establish patterns in your business, i.e. cash rich/poor months.

**Note:** Make sure you include a salary draw for yourself to withdraw monthly.

***Effective cash management is essential to SURVIVAL and increased profits. Do not leave cash flow and outflow to chance. Your business will be the loser.***



## Guideline for Preparing a Business Plan

### OPERATING EXPENSES TO CONSIDER

The following is a checklist of the expenses that your business may be faced with. We suggest you check the ones that apply to you and include them in your Cash Flow and Pro-Forma Income Statements.

- ☐ Goods bought for resale (inventory)
- ☐ Provincial Sales Tax and Goods & Services Tax
- ☐ Owner/Manager wages or drawings
- ☐ Employee salaries
- ☐ Income tax payable by the company
- ☐ Employee/manager benefits: i.e.: Workers' Compensation premiums, Employment Insurance premiums, Canada Pension Plan, medical etc.
- ☐ Rent, Telephone, Utilities
- ☐ Automotive Expenses
- ☐ Travel and Entertainment
- ☐ Property Taxes
- ☐ Business License
- ☐ Repairs and Maintenance
- ☐ Insurance
- ☐ Bank Charges
- ☐ Loan payments (Principles & Interest)
- ☐ Advertising
- ☐ Office & Administration supplies and expenses
- ☐ Freight & Postage
- ☐ Accounting & Legal
- ☐ Depreciation
- ☐ Bad Debt
- ☐ Memberships, Donations, Franchise Fees, Commissions
- ☐ Employee Training
- ☐ Packaging



PLANNED	ACTUAL

[illegible]

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[illegible]

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PLANNED	ACTUAL

[illegible]

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[illegible]

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22



## Guideline for Preparing a Business Plan

### *Projected Cash Sales and Accounts Receivable*

Month												
Projected Sales												
Cash Sales (Line 1)												
Collection of previous months sales												
Collection from 2 months previous												
Collection of sales on 3 or more months previous												
Collection from accounts receivable (Line 2)												

### *Projected Accounts Payable*

Month												
Planned Purchases												
Payment on current months purchases												
Payment on previous months purchases												
Payment on purchases from 2 months previous												
Payment on purchases from more than 2 months previous												
Payment on accounts payable inventories (Line 32)												



## Guideline for Preparing a Business Plan

### PRO-FORMA INCOME STATEMENT

<b><u>REVENUE</u></b>	<b>YEAR 1</b>	<b>YEAR 2</b>	<b>YEAR 3</b>
(1) Sales	_____	_____	_____
(8) Cost of Goods Sold	_____	_____	_____
<b>A. GROSS PROFIT (line 1 – 8)</b>	_____	_____	_____
Income from the sources:	_____	_____	_____
(5+6) Other cash received	_____	_____	_____
(3) Self-Employment grant	_____	_____	_____
<b>C. TOTAL of line 3,5+6</b>	_____	_____	_____
<b><u>EXPENSES</u></b>	_____	_____	_____
(9) Rent	_____	_____	_____
(10) Management Salaries	_____	_____	_____
(11) Other Salaries/Wages	_____	_____	_____
(12) Legal and Audit Fees	_____	_____	_____
(13) Utilities	_____	_____	_____
(14) Telephone	_____	_____	_____
(15) Repairs and Maintenance	_____	_____	_____
(16) Licenses, Taxes, Insurance	_____	_____	_____
(17) Other	_____	_____	_____
(18) Payments on Fixed Assets	_____	_____	_____
(19) Loan Payments	_____	_____	_____
(20) Payments on Mortgages	_____	_____	_____
(21) Income Tax Payments	_____	_____	_____
(22) Advertising	_____	_____	_____
(23) P.S.T. & G.S.T.	_____	_____	_____
(24) Other Cash Expenses	_____	_____	_____
(25) Depreciation	_____	_____	_____
<b>B. TOTAL EXPENSES (add line 5 to 25)</b>	_____	_____	_____
<b>NET INCOME = (A) – (B)</b>	_____	_____	_____
Add: C Income from Other Sources	_____	_____	_____
Add: (25) Depreciation	_____	_____	_____
Add: (2) Loan/Financing to be received	_____	_____	_____
Add: (5) Personal Investment	_____	_____	_____
Subtract: Loan Principle Payments	_____	_____	_____
= Cash Generated by Operations D.	_____	_____	_____





## Guideline for Preparing a Business Plan

### PRO-FORMA BALANCE SHEET

<b><u>A) ASSETS</u></b>	<b>OPENING</b>	<b>AT END OF YEAR 1</b>
1. Cash and Bank Accounts	_____	_____
2. Accounts Receivable	_____	_____
3. Inventory (at cost)	_____	_____
4. Furniture, Fixtures, Equipment*	_____	_____
5. Automobiles	_____	_____
6. Land and Buildings	_____	_____
7. Leasehold Improvements	_____	_____
8. Other (specify) _____	_____	_____
<b>TOTAL ASSETS</b>	=====	=====
* Net of depreciation & write offs.		
<b><u>B) LIABILITIES</u></b>		
10. Accounts Payable	_____	_____
11. Loan Payments: CF Central Island	_____	_____
Bank	_____	_____
Other	_____	_____
12. Mortgage	_____	_____
13. Shareholder Loans	_____	_____
14. Other Long-Term Loans	_____	_____
<b>TOTAL LIABILITIES</b>	=====	=====
<b><u>C) EQUITY</u></b>		
15. Investment to Date by Owners	_____	_____
16. Add: Profits to date	_____	_____
17. Deduct: Withdrawals	_____	_____
18. Equals: New Equity Balance	_____	_____
<b>TOTAL LIABILITIES AND EQUITY</b>	=====	=====

NOTE: The total of B + C must equal the total of A – only include assets & liabilities related to the business.



## Guideline for Preparing a Business Plan

### FINALLY...

Preparing a business plan will generate a lot of thought and a lot of paper! 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 your business counselor and two or three impartial outsiders review the finished plan in detail. There may be something you overlooked or under emphasized. Also a critical view will be good preparation for your presentation to potential investors and lenders.

### APPROACHING LENDERS

When approaching any financial institution, you are effectively selling the merit of your business proposal. As in sales, consider the needs of the other party:

**Your ability to service the debt with sufficient surplus to cover contingencies**

(carry interest charges, eventually repay in full - cash flow forecast and projected income statement will show it).

**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**

(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).

**Do not overdo it**

(be sensible with the amount of documentation you provide initially - for example, the Introductory Page, Summary, and Financial Plan sections provided a good basic loan submission if the amount requested is small).



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### ATTRACTING INVESTORS

Start first by approaching people you know, i.e. friends, bank, credit union or trust company manager, lawyer, accountant, and doctor. They, in turn, may know of possible investors. If your business concept exhibits high growth potential, a second 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:

**Your level of commitment** (to be sure that you are sharing the risk).

**Share 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, i.e.: to double their money in 2 - 3 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 reporting).



## Guideline for Preparing a Business Plan

### BUSINESS PLAN DEFINITIONS

**Ability to service the debt** – Considers past credit history and current assets to determine a person's ability to make payments on a debt.

**Accounts payable** – Money that a business owes to its suppliers for goods and services purchased for the operation of the business.

**Accounts receivable** – Money that is owed to a business by its customers for goods or services they have purchased.

**“Actual” figures** – The true, historical records pertaining to a business. They are not estimated.

**Administrative expenses** – Expenses pertaining to management costs. Examples include costs of accounting, invoices, marketing, management, training, etc...

**Advertising** – Draws public attention to the product a business wishes to sell.

**Agent** – Someone who legally represents someone else and can act in the name of that person or company.

**Agreement** – See contract.

**Anticipated revenue** – Estimated future income of a business.

**Appraisal** – A report estimating the value of real estate. Moneylenders use it to determine collateral value.

**Article** – A legal document filed provincially and/or federally that sets forth the purposes and/or regulations for a corporation. These papers must be approved provincially and/or federally before a corporation can legally exist and do business.

**Associated companies** – Two or more businesses that have common interests.

**Bad debts** – Money is owed to you, and you cannot collect.

**Balance sheet** – An itemized statement that lists the total assets and liabilities of a business to portray its net worth at a given moment in time.

**Bank charges** – Fees a bank charges for its services.

**Bottom line** – The summary of the business idea.

**Business concept** – The business plan or idea.

**Business field** – The industry type a business is a part of. Examples include forestry, retail, manufacturing, recreation, health care, etc...



## Guideline for Preparing a Business Plan

**Business license registration** – New businesses need to register with the government. This can be done at the local Government Agent Office.

**Business net worth** – A business' value after expenses and liabilities have been deducted from assets and income.

**Business operation** – An operation that receives money for a service, product or commodity.

**Business proposal** – A summary of the estimated reactions to the implementation of a new business.

**Business venture** – A business operation that presents some risk to an investor/operator.

**Buying patterns** – Consumer purchasing trends indicate what people are buying.

**Capitalization** – Used to convert income into an estimate of value.

**Cash flow** – The flow of cash in and out of a company. Its timing is usually projected month by month to show the net cash requirement of each period.

**Cash flow forecasts** – A schedule of expected cash receipts and payments which highlights expected shortages and surpluses, and is essential to good cash management. Important when negotiating loans.

**Cash flow summary** – A summary of the flow of cash in and out of a company.

**Cash generated by operations** – The income generated by the product a business offers.

**Cash management** – Involves proper bookkeeping/accounting to enable analysis of expenses and incomes.

**Cash poor months** – The months when a business runs out of cash, usually because it is growing at a rate that cannot be supported by profit alone.

**Cash rich months** – The months when a business exceeds its expenses and forecasts.

**Cash surplus** – When a business has leftover cash once all expenses and liabilities are paid. Also becomes working capital or investment capital for the business.

**Character references** – Persons who can voice for personality and perhaps competence.

**Check points for measuring results** – Planned points where a business analyzes its profitability and effectiveness.



## Guideline for Preparing a Business Plan

**Closing cash balance** – The amount of cash remaining after all expenses and income, within a certain time period.

**Collateral/Security** – Assets placed by a borrower as security on a loan

**Collection policies** – Identified solutions to collecting debt or accounts receivable.

**Commissioned sales staff** – Sales staff who earn a percentage of sales.

**Competitive Advantage** – When one business has an advantage over other competing businesses. The advantage can be anything from lower production costs, to location, to market intelligence.

**Competition** – A market in which rival sellers are trying to gain extra business at one another's expense and thus are forced to be as efficient as possible in their service and to hold their prices down.

**Consumer trends** – Also known as consumer behavior. What do people purchase? How much do they spend? Where do they purchase products?

**Contract** – An agreement regarding mutual responsibilities between two or more parties. In business law, a contract exists when there has been a meeting of minds, whether the contract is written or oral. It is also known as a legal partnership agreement.

**Copyright** – The legal registration and ownership of the product by the original creator. The owner of a copyright owns all rights to use the copyrighted material.

**Corporation** – A business comprised of one or more individuals treated by the law as a separate legal entity. Liability is limited to the assets of the corporation.

**Cost of goods sold** – The direct costs of acquiring and/or producing an item for sale. Excludes any overhead or other indirect expenses.

**Cost of services** – The direct costs associated with services purchased by a business. Such services may include accounting/bookkeeping, legal consultations, janitorial duties, etc...

**Customer profile** – A description of the key characteristics of the people who buy your products or services.

**Damage deposit** – A cash refundable payment to a landlord to protect the property from possible damage.

**Default** – To neglect or fulfill an obligation, as to pay money due or appear in court.

**Deficit** – Is the deficiency or absence of an amount needed.

**Deficit cash balance** – When business revenue is lower than expenses.



## Guideline for Preparing a Business Plan

**Depreciation** – A method of calculating and writing off the costs to a firm of fixed assets. Fixed assets include machinery, furniture, buildings, automobiles and equipment.

**Director** – One of a group of persons who supervises the affairs of a business or institute.

**Distribution (Direct to public)** – The movement of goods directly from the manufacturing plant to the customer market. There are no middlemen retailers, wholesalers, etc...

**Equity** – The difference between assets and liabilities of a company, often referred to as net worth.

**Expense** – Monetary amount paid to items used to operate a business.

**Extraordinary income** – Income that originates from an unlikely source.

**Financial expenses** – Expenses pertaining to a person's monetary situation.

**Financial forecasts** – Predicts or estimates the financial well being of a business or operation.

**Financial plan** – An analysis of the future and the preparation of forecasts. Pro forma statements and cash forecasts are important tools for preparing a plan.

**Financing** – Allows businesses or people to borrow money for the present in exchange for full repayment plus interest. Typical financing situations include mortgages or business start-up expenses.

**Fixed assets** – Items a firm owns, uses and keeps in its business for more than one year. Examples include machinery, furniture, vehicles and equipment.

**Flow chart** – A summary of steps planned, in a specific order, to achieve a goal.

**Forecasts** – Estimates for a future period of time.

**Format for planning** – Guidelines and arrangements used in the planning process.

**Formulating credit** – Refers to an individual's ability to establish some recognized type of credit. Typical examples include credit cards, loans, and mortgages.

**Franchise fees** – The fees paid for running a business under a corporate name or trademark.

**Franchise rights** – The legal rights a franchise has on certain products or services under a corporate name or trademark.

**Freight & Postage** – Amount paid for sending by registered mail

**Goals** – Future objectives or visions.



## Guideline for Preparing a Business Plan

**Goods and services tax (GST)** – A 6% government tax on goods and services sold by a business.

**Gross profit** – The difference between sales and the cost of goods sold.

**Gross revenue** – The total amount of revenue accumulated in a period.

**Gross sales** – The total amount of sales for a period of time.

**Guarantee** – An agreement to pay in full.

**Historical financial data** – Historical information on assets, income, expenses, and liabilities. A common tool to determine the success of a person or business.

**Income statement** – A financial document that shows how much money (revenue) came in and how much money (expenses) was paid out. Subtracting the expenses from the revenue gives you net profit; all three are shown on the income statement.

**Income tax payments** – The amount charged by the provincial and federal governments on business income for doing business within its boundaries.

**Increased profits** – When earnings from business increase, profit is the remaining amount after costs are deducted from income.

**Industry trends** – A specific direction that an industry is going in or behavior that industry is portraying.

**Insurance coverage** – Is the portion that is reimbursed or protected in an emergency situation.

**Interest paid on loans** – The service charge a lender charges to people borrowing money. Interest can be calculated daily, monthly, or yearly.

**Introductory page** – A part of a business plan that introduces an idea to an individual.

**Inventory** – A list of assets being held for sale or use.

**Investment to date by owners** – The total amount of capital, including the assets sold to the business, an owner invests in a business by a certain date.

**Investors** – Individuals who have provided money to a business.

**Key decisions** – Important decisions that affect the overall outcome.

**Key personnel** – The employees needed to operate and manage a business.

**Labour** – Work done for purpose.

**Lead-time** – Reasonable time to assess a proposal.





## Guideline for Preparing a Business Plan

**Lease** – A contract in which the owner of a piece of property gives the exclusive use of it to someone else in exchange for a stated sum of money for the duration of a specific period.

**Leasehold improvement** – Renovation and other improvements made to the business premises. These become property of the landlord.

**Legal agreements** – see contract.

**Level of commitment** – The amount of energy a person asserts towards a goal.

**Liabilities** – All debts of a business, including accounts payable, loans, leases etc...

**Loans payable** – A liability that considers the amount of money borrowed and payable in a term.

**Loss** - Occurs when expenses are greater than income.

**Manufacturing** – The process where a product is constructed from a selection of materials.

**Market** – The population sector that is most likely to purchase your product or service.

**Market area** – The geographic area that is most likely to purchase a company's product.

**Market intelligence** – Knowledge of a particular market. The more you know about a market the more likely you will succeed.

**Market niche** – The special advantage in the marketplace where a business places itself. Should be based on some competitive advantage like location, intimate knowledge of the area, or patent.

**Market share** – The amount of a company's sales, for a particular product, as a percentage of the total industry sales for that product.

**Market trends** – A specific direction or behaviour a market is leaning towards. Market trends are useful in establishing market strategies and developing business plans

**Marketing plan/strategy** – An outline of the methods to reach marketing goals. Marketing strategy starts with market research, in which consumer needs, attitudes and competitor's product are assessed, and continues into advertising, promotion, distribution, and customer service.

**Mark-ups** – When a product's selling price is increased in an effort to make a profit. Markups only work if consumers purchase the product at the marked-up price.

**Media advertising** – Promoting your product through the media. Media can include radio, television, newspaper, magazine or Internet.



## Guideline for Preparing a Business Plan

**Memorandum** – A legal document that states who has the signing authority for the business.

**Methods of control** – Ways to maintain authority and command of a situation.

**Monthly salary** – Wage paid monthly to an employee

**Multiple outlets** – Numerous facilities/homes where a business is located.

**Net Income** – The difference between income and expenses left over for the owner.

**Officer of the company** – The person(s) authorized to sign for the company.

**One-year projections** - Estimated expenses and incomes for a year period.

**Opening balance sheet** - States the amount of income or expenses at the beginning of a fiscal year or term.

**Opening cash balance** - The cash assets of a business at the beginning of a month, carried over from past months of operation.

**Operating expenses** -Expenditures arising out of current business activities - the cost of doing business.

**Organization chart** – Outlines the control and responsibilities within a business.

**Overhead expenses** – The fixed costs for doing business

**Owner/Manager wages** – The cost paid to an owner/manager for their service to the business.

**Owner' equity** – The owner's invested portion in the business. It can include equipment, real estate and money.

**Partnership** – A legal business relationship of two or more people or companies who share responsibilities, resources, profits and liabilities.

**Partnership agreement** – Usually a written legal agreement indicating the partnership.

**Patents** – The legal right to ownership of an invention issued, in Canada, under the Patent Act.

**Patterns in your business** – Recognizable trends that relate to the way your business operates.

**Personal net worth statement** – States the assets less the liabilities of an individual.

**Planning process** – Methodology in which one establishes a plan

**Population shifts** – Changes in population due to cause.



## Guideline for Preparing a Business Plan

**Price lists** – The cost of the product a business is selling or buying.

**Pricing** – Setting the selling price for goods or services.

**Pricing formulas** – Provide support and reason for pricing a product at a certain price.

**Pricing strategy** – The value given to the commodities, products and services of a business in an effort to maximize profits and net returns.

**Pro forma** – A projection or estimate of what may result in the future from actions in the present. It is a projected business formula.

**Production process** – The process in which a service or commodity is created.

**Product** – What a business offers in an effort to generate income. A product can be a service or commodity.

**Profit** – The excess of the selling price over all costs and expenses incurred in making the sale.

**Profit Margin** – The difference between your selling price and your costs. Many factors affect profit margin both inside and outside the business.

**Profitability** – The ability of a product or business to provide a financial return after all expenses have been accounted for.

**Project** – Is a business idea.

**Projected accounts payable** – Are estimated credit expenses for a period.

**Projected balance sheet** – An estimated statement that lists the total assets and liabilities of a **given business, to portray its net worth at a given moment in time.**

**Projected cash sales** – **An estimated income that is from cash transactions for a period.**

**Projected income statement** – An estimated financial document that shows how much money (revenue) came in and how much money (expenses) was paid out during a period.

**Promotion** – Introducing a product to the public through advertising and marketing. Common promotion activities include offering incentives to buy the product, attending trade shows, and publicity stunts.

**Proprietorship** – Sole ownership of a business. Personal and business assets and liabilities are not considered separate legal entities.

**Provincial sales tax (PST)** – A 7% government tax issued on goods and services sold in British Columbia.



## Guideline for Preparing a Business Plan

**Publicity** – The state in which a product is recognized and known by the public.

**Rate of return** – The ratio between the amount of money invested and the amount of money made.

**Registered companies** – Businesses that are registered with the government.

**Relevant economic indicators** – Economic statistics that pertain to a business or industry. Examples of economic indicators include income per capita, average household income, disposable income, etc...

**Retail** – Businesses that sell products directly to the consumer.

**Return on investment** – Usually a percentage that indicates the profit earned on an invested amount.

**Revenue** – The income of a business for a period of time.

**Sales** – Represents the dollars earned by the business activity.

**Sales figures** – Statistics that represent the sales of a business or industry during a period.

**Sales objectives** – The direction a business ideally wants sales to go.

**Schedule** – A list or written chart which shows the times at which events will happen, including a plan given for work and specified deadlines.

**Seasonal variation** – Most businesses will have sales that change according to season.

**Security/Collateral - Assets place by a borrower as collateral on a loan.**

**Service warranties** – Guarantees on a service provided to a customer by a business.

**Share distribution** – Ltd. Co. will have an “X” amount of shares. The share distribution tells us who has what number of shares.

**Share of market** – The portion of a market (customers) that a business has captured.

**Shareholder Loans** – The money invested into a company by an investor. The investor is given shares in the company to offset his investment.

**Shareholders** – People who have an invested interest in a business or company.

**Start up costs** – The costs incurred to get a business off the ground.

**Start-up costs budget** – An estimate of expenses to get a business up and running.

**Statistical data** – Accurate information collected to represent an area in a particular category.



## Guideline for Preparing a Business Plan

**Sufficient surplus** – A reasonable estimate of the amount of money needed.

**Summary** – A conclusion of the main points of the plan.

**Surplus** – An amount of money beyond what is needed.

**Surveys** – Examine opinions and situations in an effort to understand what is going on.

**Target customers** – The specific customers, distinguished by socio-economic, demographic, and/or interest characteristics, most likely to purchase the goods and services of a business.

**Timing of collections** – Refers to collecting accounts receivable. Generally spread over 30, 60 and 90 day periods depending on the credibility of the client.

**Total assets** – The value of a company's resources that have future value.

**Track record/integrity** – Historical records that refer to the ability of a person or a business to operate and manage itself.

**Tracking methods** – A system to follow up on results of the business.

**Trade markets** – See market area.

**Turnover rates** – The number of times a year that a product is sold and recovered.

**Venture capital** – Investment capital made available to new businesses. More expensive than bank loans, since higher risk requires higher rates of return.

**Volume discount** – Savings received when buying in bulk.

**Wholesale** – Wholesalers distribute manufacturer's products to retailers and to other distributors in different regions. Usually they are not permitted to sell to the end user.

**Working capital** – The funds available to carry on the day-to-day operation of a business after an allowance is made for bills that have to be paid within the year. Working capital is the excess after deduction of the current liabilities from the current assets of a firm, and indicates a company's ability to pay its short-term debts.

**Write-offs** – The removal of a worthless asset or receivable not collectable from a company's accounting records.