



Business Plan Guide

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Why Do I Need a Business Plan?

A business plan is a business development map. Not only does it show your end destination, but it also maps out your travel path. Set out realistic goals and a stable path.

Every business venture can benefit from the preparation of a carefully written business plan. The purpose of the business plan is to:

- Help you think through the venture and ensure that you have considered all options and anticipated any potential difficulties
- Serve as an operating guide as you turn your ideas into a viable business
- Aid in arranging strategic alliances and obtaining contracts
- Convince potential funding programs, lenders and investors that the proposed venture has merit

Writing the Plan

The hardest part of writing a business plan is getting started. The thought of writing a document of this length may seem overwhelming to many people. This is why it is recommended that you use the bite-size approach to writing your business plan.

- Set aside a specific period of time each day to sit down and write a few paragraphs or pages.
- If you are not able to fully answer a question, write a few short notes that immediately occur to you, and think further about what the questions suggests.
- As you continue to write and do more research, you can go back and add things that you have previously missed.
- You may not find it possible to answer every question; however, you should be aware of these issues as they may affect your venture in the future.

A common mistake in writing a business plan is to recognize only the data that supports your concept and to ignore facts that, when considered objectively, might change the direction of your business.

- Issues must be seriously and objectively considered and you should be somewhat open minded in your approach.
- It is better to recognize needed changes when your business is in the planning stage than when the business is already underway and your investment is at stake.
- Many good business plans go through several revisions and take up to six months to complete.
- As changes in the business environment occur (i.e. new competition, new product design), a company's business plan should be modified to reflect the new environment. *A business plan is not a static document – it will continue to evolve as the business grows and things change in the internal and external environment.*

Avoid highly technical terms and diagrams that the reader may not be familiar with. You want to write the plan as if the reader knows nothing about the type of business you are starting.

Think of your business plan as a sales document. After all, it must convince you and other readers that your venture has the potential to be successful. Your enthusiasm, dedication and confidence in the project should be evident to the reader, to the point that they will share your view.

Remember not to ignore or omit risk factors that are inherent with your project. Risk is inherent in every business venture.

Should I Write the Business Plan Myself?

The management team should develop as much of the business plan as possible.

Much of the information, data retrieval and the setting of objectives and targets can only be completed by the management team. These objectives and targets will be issued to measure the success of the business by investors, lenders employees and management.

How to Use the Business Plan Guide

The following pages provide a suggested outline of the material that should be included in your business plan. However, the final product will need to be tailored to fit the circumstances of your business.

Cover – Title Page

State the business' name, address, phone number, fax number and the names of the principal owners. Indicate the date of issue of the plan and the copy number.

Table of Contents

A single page that lists section headings with corresponding page numbers.

The table of contents can be automatically generated (saving time and frustration) by right clicking the mouse and selecting 'update entire table of contents'. Changes to titles and page number are done in one click.

Executive Summary

The executive summary should be written after the business plan is complete.

It is a brief (one to two pages) summary of the main topics covered within the business plan.

This section may be the most important part of your plan. Investors will read the summary to decide whether to read the entire plan. For this reason, your summary should be convincing, attract the reader's interest and at the same time, be brief.

Your executive summary should cover the following items:

- Type of business
- Type of business structure (sole proprietorship, partnership, or corporation)
- Management/key employee background
- Products or service offering and how they are unique
- Target market and its size
- Marketing strategy – how does it differ from the competition
- Financing required and how it will be used

1. Company Outline

This section clearly identifies the long-term and short-term objectives that will contribute to the overall mission. These objectives will give the operation direction for future activity and serve as a measuring stick for the success of the operation.

a. Goals and Objectives of Business

What short and long term goals have been set?

List both the long term and more specific short-term goals of the company. List these goals in order of importance. Short-term goals (less than one year) should be very specific. Long-term goals may be more general. Some common goal areas include:

- Growth targets (i.e. sales, production, capacity to produce, market share)
- Product quality and service
- Research, development and adoption of the production and marketing methods
- Comparative profitability (i.e. return to owners or investors, profit/investment)
- Maintaining control over your company's resources.

b. Profile of Key Management

A strong management team is the key to a successful business. Investors will look for a committed management team with a balance of marketing, technical, operational and financial skills and experience. Show that your management team has these necessary skills or is making efforts to attain them.

What are the business and management skills of the key management participants?

List management personnel and the position they will fill in this business venture. Emphasize the skills and abilities each person brings to the operation.

Does your management team have direct operational or managerial experience in your business field?

If the management team has direct experience in this proposed business area, it should be stated. Support this experience by listing accomplishments related to other successful ventures.

Describe your organizational structure and include a brief description of each person's responsibilities.

Include an organizational chart if your group is very large. It is necessary for the company to determine the relationship between the key management roles. In addition, show who has authority and responsibility for the successful completion of each business function. An organizational chart may make this area easier for you to explain and easier for the reader to understand.

What plans have been made to increase the level of expertise in management?

Address the areas where your management resources are not as strong as they should be and show how you plan to fill these gaps. Consider using other management resources such as consultants.

c. Identify Target Market

What consumer need(s) is not currently being met?

What do consumers want that no one is currently providing? Consumer needs may relate to things such as special features, quality levels, service, price, availability, or greater selection.

Needs are areas that you should focus on when developing your product.

Further on in the business plan you will want to show how your product meets these needs.

Who are your target market(s)?

A target market is a group of similarly described customers. Many businesses will have anywhere from one to five target markets, or groups of customers. List your target markets and describe each in detail. Include possible future target markets.

Include each target market's common characteristics including:

- Age
- Group
- Sex
- Income level
- Lifestyle
- Other factors which may influence their buying decisions

You may also consider:

- Level of education
- Marital status
- Career
- Personality
- Ethnic and religious background

Identifying your target market involves segmenting the entire market based on these common characteristics and other factors. By segmenting the market, you can focus your marketing efforts on the segment(s), which are the most likely to purchase your product.

Possible sources of information to define target market:

- Canada Business Service Centres (click on your province): www.cbsc.org
- Statistics Canada - Census Division and Subdivision Profiles: www.statcan.ca
- Canada Post - Demographic and Income Statistics for Postal Statistics
- City Planning Departments - Neighbourhood Profiles
- Provincial Health and various market research reports and trade journals.

What factors affect their decision to buy?

Consider the following factors:

- How, when and where they purchase
- The quality demanded
- Packaging requirements
- Supply requirements
- Service level demanded
- The price they are willing to pay
- Other related issues

Is the market primarily domestic or foreign?

Will the greatest amount of sales occur in Canada or a foreign country? Information on foreign markets can be obtained from government agencies in other countries. For more information on international trade, contact one of the regional offices of Industry Canada (located in Regina and Saskatoon).

Will the foreign market be affected by tariffs, political instability, lack of patent protection or currency exchange?

If the greatest percentage of your sales will occur in a foreign country, be aware of the country's importing history, as well as future trends. Countries that have trade policies that support importation of products provide a good opportunity for the Canadian exporter. Protectionist nations may not be so receptive and added tariffs may make your products uncompetitive in that country.

d. Identify Geographic Service Area

Clearly identify the Service area within which the Company will operate.

2. Marketing Plan

A marketing plan is an overall company program for selecting a particular market segment and then satisfying that segment through the best marketing mix. A marketing plan requires that all aspects of the marketing mix be considered including the product planning, pricing, distribution and promotion.

a. Business Plan and SWOT

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (**S**) or weaknesses (**W**), and those external to the firm can be classified as opportunities (**O**) or threats (**T**). Such an analysis of the strategic environment is referred to as a **SWOT analysis**.

Strengths

A firm's strengths are its resources and capabilities that can be used as a basis for developing a **competitive advantage**. Examples of such strengths include:

- Patents
- Strong brand names
- Good reputation among customers
- Cost advantages from proprietary know-how
- Exclusive access to high grade natural resources
- Favourable access to distribution networks

Weaknesses

The absence of certain strengths may be viewed as a weakness. For example, each of the following may be considered weaknesses:

- Lack of patent protection
- A weak brand name
- Poor reputation among customers
- High cost structure
- Lack of access to the best natural resources
- Lack of access to key distribution channels

In some cases, a weakness may be the flip side of a strength. Take the case in which a firm has a large amount of manufacturing capacity. While this capacity may be considered a strength that competitors do not share, it also may be considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

Opportunities

The external environmental analysis may reveal certain new opportunities for profit and growth. Some examples of such opportunities include:

- An unfulfilled customer need
- Arrival of new technologies
- Loosening of regulations
- Removal of international trade barriers

Threats

Changes in the external environmental also may present threats to the firm. Some examples of such threats include:

- Shifts in consumer tastes away from the firm's products
- Emergence of substitute products
- New regulations
- Increased trade barriers

b. Pricing Strategy

Refer back to section 2d. to ensure that no issues arising from your SWOT analysis have been overlooked.

c. Marketing Plan – Product Introduced to Target Market

Industry and Market Analysis

This section of the business plan will analyze the environment in which your business will compete.

Many people find the market analysis section the most difficult to complete. However, it is absolutely essential that you understand the market in which you will sell your product.

Market analysis should first be done before business start up, and should be ongoing throughout the life of the operation.

The market analysis will demonstrate that there is a market for your product and that this market is large enough for your business to earn a reasonable profit (now and in the future). Financial investors will want assurance that you have realistically considered all the potential opportunities and threats relating to your business.

1. Overview

Consider how long the industry has been in existence, major changes that have taken place, and situations that have affected this industry.

2. Industry Size

What is the size of the entire "target market" - number of consumers, geographic area?

Defining the size of your target market will assist you in calculating the required level of production, distribution channels, promotion strategy and other marketing decisions. Information can be gathered from a number of different sources including industry/trade associations and journals, Statistics Canada publications, producers and suppliers, university libraries and business resource centres and Government business or agricultural advisory services.

What percent of the market do you expect to capture (initially and in the long term)?

Consider how your company plans to grow. Do you plan to develop new customers or win customers away from your competitors? Be realistic in terms of how many competitors' customers can be convinced to purchase your product in the short term, as customers may be loyal to existing brands.

3. Industry Trends

Are any future short and long term trends evident?

Based on history and recent developments, consider what the outlook is for the industry. Trends may include changes in:

- Consumer preferences
- Product supply and demand
- Production practices and technology
- Traditional payment arrangements
- Regulations

A very important trend is the market growth potential. You will want to be entering a market that is growing. You can identify these trends by reading industry journals or asking suppliers or customers what changes they foresee. Once these trends have been identified, you should decide how your business will accommodate them.

Competition

Entrepreneurs tend to be quick to minimize the significance of competitors. They often believe that competitors offer inferior products or services. However, it is important to understand why customers buy from other producers and to learn from this.

You must be sure to evaluate each competitor objectively in order for your plan to have credibility in the eyes of investors.

1. Competitive Analysis

To easily show the competitors and the associated strengths and weaknesses of each, display in a competitor analysis table.

How many competitors are there and who are they?

Establish which competitors are the largest and/or the fastest growing in order to appreciate where the strongest competition may come from. Small, recent entries are of importance since they may have an advantage, which will help them quickly become market leaders. State the percentage of market share each competitor controls in terms of revenues and volume sold.

What are the competitors' strengths and weaknesses?

Why do people currently buy from your competitors? What are they not doing well that will cause their customers to buy from you? Strengths and weaknesses may involve areas such as:

- Consumer and supplier loyalty
- Price
- Payment arrangements
- Reputation
- Technology
- Customer service
- Warranty / return policy
- Experience
- Location
- Financial stability
- Quality
- Other related areas

Be realistic and try to back up your claims where possible.

How will the competition react to your entry?

Will competitors:

- Decrease their prices?
- Increase promotional efforts?
- Develop new technology?
- Adapt the quality of their products?

Competitor reaction is of critical importance - especially if the competitors are financially stable and are therefore able to decrease prices and/or increase promotion. By anticipating their reaction, you can develop an action plan of your own.

Are there any barriers, which may discourage additional competitors from entering the market?

Examples of barriers may be

- High start-up costs
- Technology
- Skilled labour
- Brand loyalty
- Established contracts with suppliers or middlemen

Discuss if and how your company will overcome these barriers.

Is there any indirect competition in the form of a substitute for this product?

Substitute products refer to those that are different from your product, but have potential to serve as a partial replacement (i.e. popcorn or another snack food may serve as a substitute for potato chips).

2. Competitive Advantage

What is your "Competitive Advantage" with respect to the competition?

This is one of the most important questions you will have to answer. Your business must have a competitive advantage in order to be successful. Consider areas where your product and/or services differ from the competition. Also, examine competitor weaknesses (question H-2) and your company's strengths. It may not be enough to just say that your product and/or service is different, or even better. You must show that the customer actually wants or needs this different or improved product.

Is this advantage sustainable in the long term?

You will want to demonstrate that your product is not only different from the competitors', but that it will not be quickly duplicated. Consider the barriers to entry (questions H-4). The greater the barriers, the easier it will be to sustain your advantage. A competitive advantage can also be sustained with continuous product developments through research and development.

What is your product offering?

Are there product segments within your product offering? For instance you may sell men's clothes. The segments may include shirts, pants, shoes, and accessories. The product offering directly ties back to the target market.

What is the nature of your product and how is it unique?

Describe the features, functions, warranties and any other benefits to the consumer of your product. Demonstrate how your product meets the needs of the customer (discussed earlier in the Industry and Market Analysis section).

What steps in the product/technology development process have been completed?

In this process, each step of product/technology development is linked with a marketing step and is then evaluated to decide if the process should be continued, stopped, or modified. Comment on test marketing results, product/technology modifications and the projected launch date of the product/technology.

3. Operating Plan

a. Production Processes Described

Carefully detail all the steps that are required to deliver your product/service to the identified target market.

b. Assets Required are Identified

Ensure that all the assets required to operate the business have been clearly identified in your Business Plan.

c. Supply of Product/Service – Suppliers

Who are the raw material suppliers and where are they located?

List the major suppliers and identify those you are considering. Location is important because of shipping costs and delivery time.

Do the suppliers have a history of being efficient and reliable?

Consider how long they have been in business, their turnaround time from when the order is received to when the order is shipped and their return policy for damaged items. You may wish to get information on major suppliers from the Better Business Bureau if the supplier will have a major impact on your business success.

Do you have any letters of intent from prospective suppliers?

Letters of intent show commitment on the part of suppliers to provide your business with the needed raw materials. These letters should be mentioned and included in the Supporting Documents section at the end of the business plan.

If your business success will rely on one or two major suppliers, what plans have you made to diversify?

When evaluating suppliers, you should consider an alternate supplier in the event that problems arise.

d. Supply of Product/Service – Price and Quality

What price(s) will you charge for your product(s)?

What is the cost of producing your product – your direct costs with providing your product or service?

What is the price based on – what's the pricing strategy?

Understanding your cost of production is perhaps the most important thing to know about your business. When deciding upon the price you will charge, you should take into account a number of different factors such as your costs, product demand, desired profit levels, competitor prices and the price the market will bear. Because costs tend to be underestimated, you must calculate them very carefully, including not only raw material and distribution costs, but costs related to the day-to-day running of the business. These may include (among others):

- Utilities
- Labour
- Marketing
- Bad debts
- Quality control expenses
- Equipment leases
- Taxes
- Loan payments
- Employee benefits

Proper cost calculation is of particular importance as it is much more difficult to raise prices (if costs are greater than expected) than it is to decrease them.

What prices do your competitors charge?

How will you use discounts, rebates, etc. in your pricing strategy?

State what type of discounts or rebates (if any) you will use, how often, and when you plan to use them. Some examples are volume discounts, coupons, and mail-in rebates. Discounts and rebates can be especially effective when introducing a new product to the market, or when trying to convince competitor's current customers to try your product. However, overuse of these strategies may make some customers reluctant to purchase your product at its regular price.

Will customers pay immediately for the product / service – cash based business?

Will customers have 30 days to pay – credit based business?

Will it be a mixture of both?

Describe your credit policy. What credit policy is most commonly used in your industry? Customer payment terms are especially important for start-up businesses as cash outflow can be very high in the first few years.

Cash received must at least equal cash outflow in order for the business to operate. For this reason, your business will want to develop a payment policy that ensures cash is continually coming in.

Keep in mind that many businesses that offer credit (30 day or 45 day) have a certain amount that are never paid – called bad debt. Credit increases the amount of risk involved for the business.

Cost of Bringing Product/Service to Market Identified

How will you get your product(s) to the consumer?

Once you have identified the target market, you must then determine the most effective and efficient way to get your product to the consumer. The way in which you move your product to your target market makes up your distribution channel and may include one or more of the following:

- Retail outlets
- Direct sales
- Brokers - local and export
- Catalogue marketing
- Transport companies
- Custom brokers
- Manufacturing agent
- A combination

Where will your business be located and why was that location chosen?

Describe the location of the business and discuss any advantages and/or disadvantages of this site. These may include things such as labour availability, proximity to customers or suppliers, utilities, zoning, etc. Also, mention whether the land will be leased or owned. If leased, what are the terms of the lease contract?

Are you near available distribution channels?

Consider the distance between your business and the distribution channel(s) you propose to use. Compared to the competition, are you close to, or far from, these channels? This may be viewed as a competitive advantage or a disadvantage to your business due to associated shipping costs.

Who will be responsible for shipping costs?

You should first determine what is the standard practice in this industry. Shipping costs will affect the price you are able to charge for your product (i.e. if you pay for shipping, your price should reflect this added expense).

e. Risk Analysis/Assessment

In this section you will want to recognize potential problems relating to your venture and take steps to decrease the likelihood and impact of their occurrence. Be realistic and honest when identifying potential risks. Nothing is more damaging to a venture than having an investor discover negative factors the entrepreneur did not know about, does not want to discuss or has casually dismissed. Identifying and

analyzing potential problems before they happen will make the venture look more attractive. It will also enable your operation to deal effectively with them if they occur.

What potential internal and external risks exist for this business?

How are these risks going to be minimized or overcome?

Internal risks are weaknesses within your company over which you have control (such as not being able to secure a qualified manager).

External risks are those potential situations over which your business has little or no control (such as increased shipping costs).

- How will your business minimize the potential impact of these risks?
- What plans have you made in the event that these risks materialize into problems?

For example, if a qualified manager could not be secured, you could consider training a less-qualified manager. If shipping costs increased, you could consider other distribution methods or channels.

What type of insurance does the business have?

This section provides information regarding the type of insurance the business has.

Contingency Plan

In the event that the business fails, what type of exit strategy has been considered?

No new business owner likes to consider this possibility. However, if factors beyond your control force you to discontinue your business, you should consider what can be done to lessen the problems this situation presents.

4. Cash Flow Projections

a. Cash Flow Projections – Two Years

Show monthly and year-end totals for two years for all the cash inflow (investment, loans and sales) and cash outflows (direct costs, expenses and other disbursements).

For a new business, the cash flow forecast can be more important than forecasts of profits. Cash flow statements detail when the company expects to receive cash from sales and when the company expects to pay its bills. Obviously, businesses must bring in at least as much cash as they pay out.

The cash flow projections will assist you to determine how much credit will be needed and when.

Income Statement

Show year-end amounts for two years.

The income statement presents the reader with the forecasted results of earnings activity over a period of time. Include written comments on increases in net income over the two-year period, reasons for any losses and reassurance that projections are as accurate as possible.

b. Assumptions

All assumptions, which were outlined in the Business Plan under the sections Company Outline, Operating Plan, and Marketing Plan, are clearly identified.

Supporting Documents

Supporting documents back up claims made previously in the business plan. Include the following documents and any other information, which you feel, would strengthen your business plan/

- Copies of all leases, contracts, agreements, deeds or other legal documents.
 - Business Incorporation
 - Lease Agreement
 - Insurance Policy / Quote
- Industry Analysis Market Research
- Promotional Materials / Research
- Management Resumes
- Letter of Intent / Contract – Suppliers
- Letter of Intent / Contract – Customers
- Detailed drawings, descriptions and photos of the operation and products
- Copies of technology rights