CHAPTER 7
What is a business plan?

Success doesn't just happen—it usually takes thorough planning, and of course, money always helps.

WHY DO YOU NEED A BUSINESS PLAN?

You have probably discovered by now that there is more to starting a business than you first thought. There is so much to learn and gather that it can become quite overwhelming. Have you assessed whether you are an entrepreneur at heart and ready for the challenge? Do you have a good indication of the type of business you want? This next step will test your theories and indicate whether to proceed further.

A business plan is a necessary tool for all businesses. Just as a home is not built without blueprints or a movie made without a script, you don't start a business without a sound and workable blueprint. You now take the information you have gathered and put those ideas formally onto paper.

Without a business plan, banks or investors will not entertain the thought of financing your business. It is your only foot in the door, so make sure it shines. You will learn how much you need to borrow, whether you can afford to borrow, your break-even point and whether the business can afford to pay you a satisfactory wage. People often prepare a plan and start crunching numbers, only to discover that their idea needs reworking or is not financially viable. It is better to discover this on paper rather than after you've started.

Where do you find help with business plan information?

With the Internet, sample plans can be freely downloaded and used as a reference. Most banks and large accounting companies have publications or CD-ROMs to help you. As well, try the following resources:

- ***Canada Business Service Centre:*** An on-line interactive business planner that allows you to complete your plan using a template.
  Web site: ***www.cbsc.org.***
- ***Royal Bank:*** Their small business resource centre includes three sample plans which can be downloaded, along with other resource information.
  Web site: ***www.royalbank.ca/sme/bigidea.***
- ***Small Business Development Center:*** Offers over 30 industry-specific business plans, both U.S. and Canadian.
  Web site: ***http://sbdcnet.utsa.edu.SBIC/bplans.htm.***
- ***Small Business Information Canada:*** This site offers extensive business plan information.
  Web site: ***http://sbinfocanada.about.com/cs/businessplans.***
- ***Business Plans.com:*** This site offers over 250 plans, many of them industry specific and some Canadian. A mine of information.
  Web site: ***www.bplans.com.***
- ***GlobalStar Software Ltd.:*** Retails excellent business planning software, Business Suite Deluxe and Business Plan Deluxe, which includes hundreds of business forms, marketing plans and office templates, plus a free copy of *Business for Beginners,* available in retail office and computer stores.
  Web site: ***www.globalstarsoftware.com.***

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GET PROFESSIONAL ADVICE: Enlist a consultant or accountant's help in compiling the information into the correct format, and have him or her review it after both the first and final drafts. Putting it all together can be challenging. A bank would prefer to see that you have involved a professional—it helps to validate the contents.

Expect to spend anywhere from two weeks to a few months in completing research and putting the plan together. Some people hire a consultant or accountant to prepare their whole plan, which isn't a good idea, because *you* need to have answers to all the questions to operate your business successfully—and to satisfy a lender or investor.

WHAT IS IN A BUSINESS PLAN?

Follow a plan format that ensures you research all the important areas of your business, and if it is being used for lending or investment purposes, that you have provided all the information that lenders need. Your first task is to decide why you are preparing this plan. Answer these questions:

- Why am I preparing this plan?
- Who else will be reading it?
- Why will they be reading it?
- What do they need to know?

The size of the final document will be dependent on the size and complexity of your business and whether you are looking for outside funding. The end result should be professionally presented, with typewritten pages and a table of contents, and securely bound. Include the following sections.

1. Executive summary

The executive summary should be no longer than two pages. Prepare it after the plan is completed, as it summarizes the whole plan in a nutshell. Make it dynamic and exciting, to generate the reader's interest. Loans officers or investors have read copious plans and tend to skip through them if they get bored.

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KNOW YOUR GOALS AND OBJECTIVES: By knowing why you are preparing this plan, you can save time and effort by focussing on the important areas. Business plans often contain "filler" information that is not pertinent. Look at sample plans from the sites mentioned earlier to get an idea. If you need to borrow funds, ask the lending institution exactly what is required.

2. The company

Introduce the business in more detail, outlining your type of business, giving its history (if you are purchasing an existing business) or an outline of the new business' products or services. With an existing business, highlight any recent special achievements. This section should be broken down into the following subsections:

a) ***General business overview:*** A description of the business, where it fits into the marketplace, what needs it will be filling and how it will fill those needs. Describe the markets that will use your business and include any business history.

b) ***Company structure:*** Outline the corporate structure of the business. Include a list of shareholders or partners and incorporation information.

c) ***Location:*** Describe the location, its benefits, amenities and accessibility to customer traffic. Include freight routes if it's a manufacturing or wholesale business, traffic statistics if available from your local municipality, and area demographics and growth rate. Detail parking and zoning information, the cost and terms of the lease, taxes and utilities. List any foreseeable disadvantages to your location, and explain why you chose it. Detail office space, storage and operational facilities. List any renovations or alterations that need to be completed.

d) ***Key personnel:*** Include a brief profile of all key partners or employees, their duties and experience, and include their resumés in the appendix. Highlight their education and expertise, business qualifications, history and references if available.

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COVER ALL BASES: Lenders look for sound managerial experience in the key areas of sales and marketing, accounting and technical operations. A gap in any one area will count as a strike against the business. Ensure you have covered all these bases in your plan. Competent managers are a strong indication that the business will be in good hands.

e) ***Goals and objectives:*** Outline your goals and objectives, both long- and short-term. Many people neglect this area, failing to think past the start-up stage. Your goals and objectives should be explained in more detail in other sections of your plan and be considered when preparing financial figures.

f) ***Strengths and weaknesses:*** Blow your horn and detail the business' strengths. Stress where and why you excel in these areas, whether it be great customer service, pricing or a strong distribution base. Don't include marketing strengths and weaknesses—this will be covered in the marketing section. Discuss your weaknesses and how you plan to overcome them.

g) ***Mission and vision statements:*** A mission statement describes your company philosophy in a few sentences. A vision statement describes how you see your company in the future. Think carefully about each one. Study other mission statements and design one that is uniquely yours. A mission statement shows your commitment to the business and its customers and gives you a written promise to uphold.

3. Products and services

Your business is all about selling services or products, so ensure that what you are offering is marketable and profitable. Use the following headings to detail this information.

a) ***Product description:*** Describe your products or services, their benefits and how they fill a need in the marketplace. Show your advantage over the competition and the volume you can output. Describe your business' developmental stage. List potential or current contracts. Refer to any letters of intent from prospective clients and include these in the appendix.

b) ***Cost of sales:*** The basis of your business is profit margins. Show what products sell for and provide the costs of raw materials, freight, packaging, wages, etc. Note the expected gross profit margins and whether they will change if you diversify or expand. Clearly explain how the manufacturing or distribution process will operate, remembering that a lender may not be familiar with your type of business.

c) ***Future projections:*** If you plan future expansion, research or development, include this information. List any potential threats or opportunities.

d) ***Legal concerns:*** If your business entails legal considerations such as patents, copyrights, trademarks or special licences, include relevant information.

4. Marketing strategies

Refer to both market research (Chapter 4) and how you plan to market your business (Chapter 10). As marketing is a key component to the success of your business, prepare this section in depth. Ensure that the following topics are included.

a) ***Market research:*** Break this section down into the following subsections:

- An analysis of today's market and trends
- Past and future industry, global and consumer trends
- Your target market, its size and demographics
- Your ideal consumer profile
- Your projected share of the market
- Geographic boundaries
- Seasonal trends
- Customer service policies
- Strengths and weaknesses
- Market survey results.

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SHOW YOU DID YOUR HOMEWORK: Include a summary of your market survey results including how many people you contacted, the questions you asked and their responses. Note if you have changed your strategy based on these results. Convert answers into percentages, for example, "75 percent of respondents said they would use my service at least four times a year."

b) ***The competition:*** Both you and the lender must understand the strength of your competitors. Your field trips and research should allow you to address the following topics:

- The current competition, their size and market share
- Future competition
- The strengths and weaknesses of the competition
- How you can overcome their strengths and capitalize on their weaknesses
- Your strengths and weaknesses (use the SWOT analysis in Chapter 4)
- Your edge over the competition
- Your cost to stay competitive.

c) ***Marketing and sales strategies:*** Part of your business plan will be a marketing plan, which details how you will find potential customers. A sound marketing plan includes a mix of methods, including using various media, promotional methods and one-on-one techniques. Address these topics:

- Promotional and media methods you will use
- Special services or policies
- The target market these methods will reach
- The effectiveness of each method
- The frequency of use
- How you will sell your products/service (agents, representatives, staff)
- Incentive or sales bonus schemes
- The reach of your sales force.

5. Operational information

Plan how you will operate your business, from overhead costs to distribution channels. Include the following information:

a) ***Overhead costs:*** Explain your estimated overhead costs and demonstrate a break-even point. If future plans involve expansion, reflect these costs. A detailed explanation of these costs will be included in your projections, so don't go into great detail here.

b) ***Suppliers:*** List your major suppliers, their terms of credit and their product availability. Note whether you have to sign any personal guarantees to obtain credit from them.

c) ***Quality control:*** Describe your policies on quality control, any relevant hazards or environmental risks and how you propose to overcome these obstacles. Mention any specific safety procedures relevant to your operation.

d) ***Distribution:*** Outline how your products will be distributed or delivered and any competitive advantages to your methods.

e) ***Employees:*** List the staff positions along with their job descriptions, areas of responsibility and expected salaries.

f) ***Assets and equipment:*** Note any equipment on hand or to be purchased, its value or cost and its life expectancy.

g) ***Insurance policies:*** List the various insurance policies you will take out, including liability, theft and fire, workers' compensation, and key management and employee insurance.

h) ***Licences and permits:*** List any licences or permits that your business requires to operate, and their cost.

6. Financial information

The viability of your new venture will culminate when you prepare projections of income and expenses, cash flow forecasts and when you review how much money you may require. Even if you are not borrowing money, projections and cash flows facilitate making many future decisions.

If you are attempting to borrow money, the financial section should include the following:

a) ***Projections of income and expenses:*** Projections are a month-by-month estimation of sales and expenses, including start-up costs, itemized in the month the revenue was earned and the costs were incurred. Prepare the first year in months, and by quarters or annually for the following two to five years. The bottom line reflects profits or losses. Include notes to substantiate the numbers—it's easy to create figures out of thin air. Be conservative with revenues and practical with expenses.

b) ***Cash flow forecasts:*** The projections should be accompanied by cash flow forecasts for the corresponding periods. A cash flow forecast differs from projections, as it estimates when revenues will be received and when expenses will be paid, and includes income from loans and other sources. Samples can be found later in this chapter.

c) ***Financial statements:*** Banks require a projected balance sheet and, if you are purchasing a business, past financial statements for the last two to four years.

d) ***Capital expenses:*** Include a list of capital spending, such as asset purchases or building renovations. When a lender considers a proposal, these values help determine how a loan will be used and secured.

e) ***Net worth statement:*** Lenders require personal statements of net worth from owners, partners or shareholders. Loans are often personally secured, and this statement lists your personal assets, liabilities and net worth. Net worth statements also indicate the stability of the key management players.

7. Funding requirements

This section is devoted to the sum you need to borrow, how you expect to repay it and over what time period. Your projections and cash flow forecasts should have indicated how much the business needs and can afford to repay. The total monthly loan payment shows on the cash flow forecast and loan interest only on the projections. How you intend to secure the loan and with what assets should be explained. If you are looking for an investment partner, note the share of the company available in return for their investment.

Outline the following:

- When you need the money and how much
- The type of loan you are applying for
- The desired terms of repayment
- A breakdown of how you will use the funds
- Future funding requirements, if any.

8. Appendix

Include *copies* of any documents that back up and strengthen the information in your business plan, including:

- Up-to-date financial statements from the business you are purchasing
- Personal statements of net worth
- Letters of reference and letters of intent
- Product pictures or relevant newspaper articles
- Resumés of key employees or partners
- Incorporation or business registration papers

CASE STUDY

PLANNING FOR SUCCESS

Mary Jane Stenberg had no concept of a business plan until she participated in a nine-month Step Into Business program, sponsored by the Business Development Bank of Canada. Her fledgling Langley, B.C., company, Stenberg and Associates, provides employment training for a variety of career opportunities. After two years in business, she already employed five people. Mary Jane paid bills and drew a salary, but her dreams were to expand—yet she didn't know how to start.

Now, eight years later, she heads a highly successful business with two locations offering 14 training programs and employing 37 people. How did she grow her business so rapidly and successfully? Mary Jane attributes her success to always using a business plan before making any decisions.

"I followed the business plan I had learned to prepare during the course, and used the template for other things, such as expansion," she explains. "I learned so much. Whenever I wanted to get larger, I revisited and revised my plan. You have to have your plan and abide by it, but don't be afraid to change it."

- Cash flow and projection forecasts
- Permits, licences, trademarks or patents
- Market surveys
- Equipment and asset appraisals
- Partnership or employee agreements
- Insurance policies and leases.

HOW DO YOU PREPARE PROJECTIONS?

Working through the numbers with Phenomenal Flowers Inc.

Following are examples of three months of a twelve-month income and expense projection, a corresponding cash flow forecast and reconciliation of the two. Jasmine is the proprietor of Phenomenal Flowers Inc. and wants to borrow $12,500 from the bank to open a retail outlet. She prepared draft projections and discussed the results with her accountant.

Projections of sales and expenses

Figure 7.1 demonstrates the projected (estimated) sales and expenses for the store. Jasmine made the following assumptions:

- The gross profit margin after purchases and wastage is 45 percent of retail price.
- One full-time employee is paid $1,800 a month.
- Start-up expenses include consulting with an accountant, insurance policies, renovations and repairs to the store, marketing, advertising, phone line installation and office supplies.
- The employee will use Jasmine's van for deliveries.
- If the business starts in March, it can capitalize on Easter in April and Mother's Day in May.
- Jasmine doesn't expect a steady customer base for six to 12 months.

Figure 7.1: PROJECTIONS OF SALES AND EXPENSES

PHENOMENAL FLOWERS INC.
Twelve Months Projected Sales and Expenses

Description	March	April	May
Sales	$ 4,500	$ 9,000	$12,150
Cost of sales:			
Purchases	2,350	4,600	6,300
Wastage	125	350	380
	2,475	**4,950**	**6,680**
Gross profit	**2,025**	**4,050**	**5,470**
Overhead expenses:			
Accounting fees	1,500	200	200
Advertising	775	750	850
Bank charges	65	65	70
Fees & licences	230	45	0
Insurance	2,400	0	0
Loan interest	100	100	100
Office supplies	923	180	90
Promotion/marketing	400	500	450
Rent	1,250	1,250	1,250
Repairs & maintenance	1,780	200	100
Telephone	410	125	125
Utilities	300	300	300
Vehicle–gas	100	100	100
Vehicle–repairs & maintenance	130	130	130
Workers' Compensation	65	65	65
Wages	1,800	1,800	1,800
	12,228	5,810	5,630
Profit/(loss)	**(10,203)**	**(1,760)**	**(160)**
Accumulated	**($10,203)**	**($11,963)**	**($12,123)**

Cash flow forecast

In preparing the cash flow forecast (Figure 7.2), Jasmine assumed the following:

- The bank would loan her $12,500 on an unsecured line of credit, which she wants to pay off quickly. She would put $5,000 into the business.
- Half of her sales would be on account, receiving half in 30 days and half in 60 days.

- Her floral supplies would be paid for by cash at the auctions, which she would charge to her Visa and pay off the monthly balances in 30 days.
- Smaller trade accounts would be paid in 30 days.
- Bank charges, loan interest, rent and utilities would be paid when due.
- Repairs, renovations, marketing and insurance would be paid immediately.

Figure 7.2: CASH FLOW FORECAST

PHENOMENAL FLOWERS INC.
Twelve Months Cash Flow Projections

Description	March	April	May
Cash receipts in:			
Cash sales	$ 2,700	$ 5,400	$ 7,290
Receivables–30 days	0	900	1,800
Receivables–60 days	0	0	900
Loan proceeds	12,500	0	0
Total cash:	**15,200**	**6,300**	**9,990**
Cash disbursed:			
Cost of sales	0	2,475	4,950
Accounting fees	0	1,500	200
Advertising	0	775	750
Bank charges	65	65	70
Fees & licences	230	45	0
Insurance	2,400	0	0
Loan interest	0	100	100
Loan principal	0	700	700
Office expenses	300	473	180
Promotion/marketing	400	500	450
Rent & taxes	1,250	1,250	1,250
Repairs & maintenance	1,780	200	100
Telephone	0	410	125
Utilities	0	300	300
Vehicle–gas	100	100	100
Vehicle–repairs & maintenance	130	130	130
Workers' Compensation	0	0	195
Wages	1,800	1,800	1,800
	8,455	10,823	11,400
Surplus/(deficit):	**6,745**	**(4,523)**	**(1,410)**
Opening balance:	5,000	11,745	7,222
+ cash receipts	15,200	6,300	9,990
– cash disbursed	8,455	10,823	11,400
Closing balance	**$11,745**	**$ 7,222**	**$ 5,812**

Reconciliation

To understand how the projections relate to the cash flow, Figure 7.3 shows the outstanding monies due to and by the business at the end of the three-month period. This figure agrees with the projected sales and expense statement.

Figure 7.3: RECONCILIATION OF CASH FLOW WITH PROJECTIONS

PHENOMENAL FLOWERS INC.
Reconciliation of Sales Projections with Cash Flow

Accounts receivable balance due:	$ 6,660
Less accounts payable balance due:	7,095
Shortfall:	435
Loan due:	12,500
Contributed capital:	5,000
Current debts:	17,935
Less cash on hand after three months:	(5,812)
Reconciliation with loss:	**(12,123)**
Less loan principal repaid: (Non-operational cost)	$ 1,400

What her accountant noticed

Jasmine's accountant was somewhat concerned with the projections. Month three reflects the store's break-even point, yet until Christmas, the retail floral trade is relatively quiet. With the business heading into summer, no amount of marketing is going to bring in customers when they are on vacation. With the store costing $5,630 in monthly overhead, how are the sales going to be sustained to pay the bills?

Jasmine may have to consider hiring a part-time employee and not taking wages from the business for up to a year. She should reduce her loan principal payments to the standard three percent of the outstanding balance, plus interest, and reduce her marketing costs over the summer, saving the marketing push until later in the year. These measures would reduce overhead to approximately $4,000 and help with cash flow, but the store still has to generate $9,000 a month in sales to break even. Jasmine's accountant felt that the bank would not give her a loan based on these projections and advised her against opening the store until she could devise a more profitable solution—or business.

WHO WILL LEND YOU MONEY?

If you have a viable business plan, the ability to repay and, most important, security for the loan—you have the right formula. Deciding what type of money to borrow and from whom is the next hurdle. Many businesses do not require large sums to get them started, and often, people can't get a small loan from the bank, so they look elsewhere. Be aware of the pros and cons of non-traditional financing before you make your decision. With all potential lenders, consider the ten tips for borrowing in Figure 7.4.

Figure 7.4: TEN TIPS FOR BORROWING

1. Don't approach a lender for "working capital." Loans are usually given for tangible assets that can be secured.
2. Don't expect a lender to finance your whole venture. The owner is expected to invest money, at least one-third of the start-up cost.
3. When you call for an appointment, ask what information will be needed so you are well prepared.
4. Dress smartly. Jeans and sneakers are out. Don't chew gum.
5. Research the various government-funded grants and loans before deciding on a lender.
6. Have an experienced third party critique your business plan before presenting it to a lender.
7. Have the approval of your spouse or partner before committing to financial obligations.
8. If you are initially turned down, take the lender's advice and rework your plan.
9. Discuss with your accountant whom you should approach for money and what type of loan may best suit your requirements.
10. In your interview, be a good listener. Don't try to hold the floor and convince the lender how great you are. He or she can tell this by your manner, presentation and business plan.

Traditional financing options

You have a sound business plan and are ready to approach a lending institution for financing. Following are your traditional options.

1. Canada Small Business Financing Program

Small business loans of up to $250,000 are available through this federally secured loans program. Qualifying small businesses include proprietorships and partnerships. The loan will finance up to 90 percent of asset purchases, including new or used equipment and leasehold or property improvements. Financing is also available for capital leases for vehicles and certain equipment. Security is required, and personal guarantees cannot exceed 25 percent of the loan.

The interest rate on commercial loans can be fixed or floating, but should not exceed the lender's residential mortgage interest rate by more than three percent. Lease rates are higher. The interest rate includes a 1.25 percent administration fee. There is a two percent registration fee and loans cannot extend longer than ten years. These loans are administered through your local financial institution. A sound business plan is a firm requirement. For more information, contact your local bank or visit their Web site at ***http://strategis.gc.ca/csbfa.***

2. Bank unsecured lines of credit

For loans under $25,000, a line of credit is a source of reasonably priced financing. Interest rates fluctuate, based on current rates, and are usually two percent higher than a mortgage. A line of credit is usually repaid at a minimum of three percent of the loan, so on $25,000 you have to pay at least $750 a month. This option can work if you are sure the business can meet the monthly payments.

3. Bank secured lines of credit

This is riskier financing, because banks require security, usually in the form of a mortgage on your home. The upside is that as you are getting established, you have the option of paying only the monthly interest. The downside is that you are threatening the security of your family if the business doesn't perform as projected. Unless you are 100 percent sure that the business will be profitable in a short time frame, think carefully before putting your home on the line.

CASE STUDY

NICE MORTGAGE—NO BUSINESS

Jean-Guy, a new entrepreneur, remortgaged his home to open a retail furniture store. Thinking that he knew everything about running a store because he had competently managed one for many years, he leased a cheap building, completed renovations and advertising and opened the doors. Jean-Guy forgot one very important start-up step—his business licence. When the bylaws officer visited, he told Jean-Guy that he was contravening the bylaws because the property was not zoned for retail sales. He fought hard, but the municipality would not budge, and he had to close the store.

Jean-Guy couldn't raise enough capital to move to another location. He returned his inventory, lost a 15 percent restocking fee of $7,500 and the last month's rent on the lease. He also suffered the cost of all the renovations, advertising and signage. The final loss amounted to nearly $30,000. He will now be paying off his mortgage for the next 20 years.

4. Alternative lending programs

There is a myriad of loan programs designed to help small businesses get off the ground. They vary from province to province, aiding everyone from students to women, First Nations peoples and youth. Banks and credit unions now recognize that many entrepreneurs need only small loans, and are catering more to this market. Some alternative financing programs include:

- Community Futures Development Corporation (national)
- Women's Enterprise Society (western provinces)
- Canadian Business Youth Foundation (national)
- Calmeadow (national)
- BDC Student Business Loans Program (national).

To learn more about these and other programs, check out ***http://sbinfo-canada.about.com*** and click on “financing.”

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VISIT YOUR LOCAL CBSC: The Canada Business Service Centre is in business to help start-ups and growing businesses. Offices are located across Canada and through the Internet at ***www.cbsc.org***. Talk to an information officer, as they are conversant with the loans programs in your province.

“Risky” financing alternatives

When traditional financing is not an option, some eager entrepreneurs seek riskier financing. This route may be destined for failure, because if traditional financing is denied, there is usually a good reason—this is a warning to revisit the business plan and the whole business idea. Here are some options to consider and the risks involved.

1. Family or friends

It’s easy to approach parents or family for a loan, but not so easy explaining to them why you can’t repay them. Before you consider this option, clarify how they would feel should the business not be profitable and the loan not paid back as per the agreed terms. The benefit to these loans is that family can be flexible if repayments are late, and loans can be interest-free or low interest. If the loan could jeopardize family relationships, perhaps it isn’t advisable.

The same principle applies to friends. Which do you value the most? Your business or your friendship? There is no better way to ruin a good friendship than by not repaying debts. Don’t ask friends to guarantee a loan for you either. This too ruins friendships. I once guaranteed a small loan for a friend who didn’t honour some payments. I made the payments but it caused the demise of a long-time relationship.

2. Second or increased home mortgages

Similar to a secured line of credit, an increased or second mortgage is risky financing for a new business. It's a long-term battle to regain home equity if the business doesn't succeed. You will be left with a large mortgage payment, business debts and the possibility of the bank foreclosing on your home. Many marriages have dissolved for this reason. Business is a gamble, even when you have a good poker hand.

3. Credit cards

For short-term financing, credit cards come in handy—but at what price? They give you a false sense of security because they allow you to make minimum monthly payments. At the same time, high interest rates compound at an alarming rate. Many businesses use credit cards to pay for supplies and start-up costs, so if you have to use them, keep strict control over your spending habits. Use them as a 30-day, interest-free, short-term business loan. Pay off the full balance each month. Collect points but not interest charges. If you have trouble controlling your plastic purchases, cut up your cards or freeze them in a block of ice—it's called freezing your liabilities.

4. Redeeming RRSPs

It's difficult enough to save for an RRSP, and even more difficult to put the money back, once it is withdrawn. There are also tax consequences, so discuss this with your accountant. Redeem them only if you are *sure* that you can replace them by February of the following year. An extra tax burden is the last thing you need in your first year of business.

5. Finance companies and brokers

Finance companies and brokers are often willing to lend money with fewer security requirements than a bank demands, but you may pay exorbitant interest rates. Some people have obtained second mortgages from finance companies, ultimately paying just interest without reducing the principal amount. Treat these loans as you would treat credit cards—proceed with caution and preferably, avoid this type of financing.

CASE STUDY

THE ETERNAL LOAN

Terry and Marianna were in dire straits with their business. Terry spent freely while Marianna lay awake worrying about the mounting debts. Their home was mortgaged to the hilt; the bank would not lend them more. Terry finally persuaded Marianna that if they took out a second mortgage for $50,000, the bills could be paid off. The monthly payments would only be $400. In a moment of weakness, Marianna agreed. They signed with a broker for a two-year-term loan, paying interest only. They paid over $9,000 in interest without reducing the principal. Terry didn't change his spending habits and at the end of two years, they still owed $50,000 and had to sign for another two-year term.

6. Venture capital and loans

Venture capital is money obtained through investors who, in return for their investment, expect a share of your business and usually a say in its management. Expect to spend time looking for this type of financing. Venture capitalists usually only consider investing amounts from $100,000 and upwards. An excellent site for more information is ***www.acoa-apeca.gc.ca***.

DOING IT RIGHT: YOUR BUSINESS PLAN CHECKLIST

As you prepare your business plan, use the checklist in Figure 7.5 on page 165 to review your progress through the various stages.

WHAT IS THE NEXT STEP?

A business plan is a true blueprint for your business. The next important step is determining the corporate structure of your business. Many people start as proprietorships and later incorporate. Others incorporate when they didn't need to. Looking at the pros and cons of both, you can decide—with the help of your accountant—which best suits your needs.

Figure 7.5: BUSINESS PLAN CHECKLIST

Ensure that you have completed all the following tasks when creating your business plan.

1. ***Before starting my plan:***
   - ❒ I have looked at sample plans to use as resources
   - ❒ I know why and for whom I am preparing this plan
   - ❒ I have clear and defined goals and objectives
   - ❒ I asked the lending institution what they need.
2. ***I have researched and documented the company with regard to the:***
   - ❒ General business overview
   - ❒ Company structure
   - ❒ Location
   - ❒ Key personnel
   - ❒ Goals and objectives
   - ❒ Strengths and weaknesses
   - ❒ Mission and vision statements.
3. ***I have researched and documented the products and services:***
   - ❒ Product/service description
   - ❒ Cost of sales
   - ❒ Future projections
   - ❒ Legal concerns.
4. ***I have researched and documented the marketing strategies:***
   - ❒ The competition
   - ❒ Marketing strengths and weaknesses
   - ❒ Marketing and sales strategies.
5. ***I have researched and documented the operational information:***
   - ❒ Overhead costs
   - ❒ Suppliers
   - ❒ Quality control
   - ❒ Distribution
   - ❒ Employees
   - ❒ Assets and equipment

- ❒ Insurance policies
- ❒ Licences and permits.

6. ***I have researched and documented the financial information:***
   - ❒ Projections of income and expenses
   - ❒ Cash flow forecasts
   - ❒ Financial statements
   - ❒ List of capital expenses
   - ❒ Net worth statements.
7. ***I have researched and documented the funding requirements:***
   - ❒ How much, terms, type of loan, use of funds.
8. ***I have provided an executive summary:***
   - ❒ Synopsis of all of the above.
9. ***I have provided an appendix:***
   - ❒ Included all relevant documents.
10. ***Now that the first draft is completed, I have:***
    - ❒ Typed my plan neatly
    - ❒ Discussed it with my accountant
    - ❒ Made suggested revisions
    - ❒ Completed the final draft
    - ❒ Shown it to my accountant
    - ❒ Had it proofread and edited, made corrections
    - ❒ Shown it to an experienced person for critiquing
    - ❒ Completed the final copy (at last)
    - ❒ Made an appointment to present it to the lender.