

# BUSINESS START-UP HANDBOOK



[www.prec-cepr.com](http://www.prec-cepr.com)

519 Main Street East,  
Hawkesbury, ON K6A 1B3  
Tél: 613.632.0918/1.877.632.0918  
Fax: 613.632.7385

# TABLE OF CONTENTS

THE 10 MOST FREQUENTLY ASKED QUESTIONS.....	2
EVALUATING THE START-UP DECISION.....	7
SO, YOU WANT TO BE AN ENTREPRENEUR?.....	7
DEVELOPING BUSINESS IDEAS AND OPPORTUNITIES.....	12
BUSINESS OPTIONS.....	19
STARTING A BUSINESS.....	23
THE 10 STEPS TO STARTING A BUSINESS.....	23
PREPARING YOUR BUSINESS PLAN.....	24
BUSINESS PLAN CHECKLIST.....	36
ASK THE EXPERTS.....	50
ARRANGING YOUR FINANCING.....	53
OVERVIEW OF FINANCING PROGRAMS.....	60
UP AND RUNNING.....	64
CATCHING YOUR BREATH: HOW TO ANALYZE YOUR CURRENT SITUATION.....	64
TAKING YOUR PULSE: HOW TO RECOGNIZE SIGNS OF PROBLEMS.....	69
UP AND RUNNING CHECKLIST.....	72
STREETWISE ADVICE FROM ENTREPRENEURS.....	75

# THE 10 MOST FREQUENTLY ASKED QUESTIONS

## 1. How do I start a business?

There is no single answer to this question. There are a number of factors that should be investigated when starting a business. Have you considered...

- Start-Up Check List (*a sample*)
- Do you have a business idea?
- Who will your customer be?
- Have you started your business plan?
- Is this going to be a full time or part time venture?
- Do you need a business license(s)?
- Have you started your market research?
- Are you going to charge GST/HST?
- What business structure have you decided on?

*(This list is just a sampling of some of the questions you will be faced with when considering going into business. You are on the right track if you have started to ask yourself similar questions).*

*Did you know? ...The average person spends more time planning a one month holiday than planning the start-up of a new business!!!*

## 2. What loans are available for business start-ups?

In addition to funding provided through the chartered banks and other financial institutions there are also some loans provided through partial guarantees by provincial and federal government departments. The programs are generally geared towards both, existing and start-up businesses with varying degrees of criteria and eligibility requirements. Specialized programs are also in place aimed at assisting young entrepreneurs seeking funding, encouraging region-specific initiatives, or facilitating growth in certain industry sectors.

*50% of new businesses are financed through loans provided by friends and family ...so be sure to have them share in your plans and excitement. They are often your most important "partners" and supporters.*

## 3. Are there grants available for business start-ups?

While there has been a great reduction in the number of grants available to general business start-ups over the past ten years, there are monies available. Most of these programs are federally funded and are targeted strictly to specific industries, geographical areas or particular groups of entrepreneurs.

#### 4. Are there any loans available for existing businesses?

The Canada Small Business Financing Program is governed by the Small Business Loans Act and is a loan guarantee from the federal government. The loan is available for the purchase of land or premises, equipment and/or renovation required within a premise. Working capital requirements are not eligible. The loan is administered by the chartered banks and covers capital expenditures up to \$250,000.

#### 5. Where should I start looking for a good business opportunity?

Identifying a good business opportunity is an ongoing process and requires considerable thought and research. Business opportunities can be identified through a number of sources including your workplace, magazines and newspapers, trade shows and the Internet. A sound understanding of consumer trends and lifestyles may also lead to innovative business ideas.

#### 6. What are the different business structures?

The three most common business structures are: 1) sole proprietorship, 2) partnership and 3) corporation. The three structures are outlined in the following chart format for ease of comparison.

##### 1) Sole Proprietorship

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"><li>• Ease of formation</li><li>• Low start-up cost</li><li>• Greatest freedom from regulation</li><li>• Owner in direct control</li><li>• All profit/loss to owner</li></ul>	<ul style="list-style-type: none"><li>• Unlimited liability</li><li>• Lack of continuity</li><li>• Difficulty raising capital</li><li>• Less status and credibility</li></ul>

##### 2) Partnership

If you are establishing a partnership, be sure to seek legal advice to prepare a proper partnership agreement. This could help avoid disagreements and considerable legal costs later.

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"><li>• Ease of formation</li><li>• Low start-up cost</li><li>• Limited regulations</li><li>• Broader management base</li><li>• Increased source of investment base</li><li>• Possible tax advantages</li></ul>	<ul style="list-style-type: none"><li>• Unlimited liability</li><li>• Lack of continuity</li><li>• Responsibility for partners' business obligations</li><li>• Difficulty raising capital</li><li>• Partner conflicts</li><li>• Divided authority</li></ul>

### 3) Corporation

Tax and legal implications vary depending upon the business structure, so don't forget to get legal and professional advice before you make your decision.

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Limited liability</li> <li>• Transferable ownership</li> <li>• Ease of raising capital</li> <li>• Separate legal entity</li> <li>• Possible tax advantage</li> <li>• Continuous existence</li> </ul>	<ul style="list-style-type: none"> <li>• Closely regulated</li> <li>• Higher start-up cost</li> <li>• Losses remain within the business</li> <li>• Yearly reporting</li> <li>• Extensive record keeping required</li> <li>• Possible charter restrictions</li> </ul>

### 7. What is the difference between a provincial corporation and a federal corporation?

	<b>Provincial</b>	<b>Federal</b>
Application Fee	On paper \$360. Online Statutory Fee \$300	On paper \$250. Online \$200
Office Established	Ontario only	Any Province
NUANS Search Required (for name search)	Yes	Yes
National Selling Restrictions	No	No
International Selling Restrictions	No	No
Required Extra-Provincial License	No	Yes
Other Business Requirements	Varies depending on the province	Varies depending on the province
Corporate Filings	Yearly fee – none	Yearly fee – \$40 online \$20
Where to Register	Service Ontario Land Registry Office 110 Laurier Ave West, Ground Floor, Ottawa, ON K1P 1J1 Tel: (613) 239-1230 www.cyberbahn.ca	Corporations Directorate 365 Laurier Avenue West, 9th Floor, Ottawa, ON K1A 0C8 Tel: (613) 941-9042 Corporations Canada

### 8. Is it mandatory to register for GST/HST?

If your gross revenues over a 12-month period do not exceed \$30,000, registration is optional. However, once you surpass \$30,000 in gross revenues you must register and collect GST/HST. The decision to register for GST/HST should not be based solely on revenues. Your customers may require that you have a GST/HST number to do business. If you are not registered to collect GST/HST, you may not take advantage of the GST/HST Input Tax Credit.

*By not being registered for GST/HST, your customers may know your revenues are less than \$30,000. This may make it more difficult to secure business with larger Corporations who may be concerned about the stability of a smaller company.*

## **9. I have heard so much about the business plan – what is it?**

The business plan is simply a document that contains information about your business. The information should be current and accurate – supported by facts. It should be easy to read and use. If used properly, it will be an important tool in guiding your business.

*A business plan will provide you with a road map or path to follow so you have direction and focus. It will be used as a tool on which to base your business decisions.*

A business plan can help you determine whether the venture will be viable or not. The plan forces you to look at each aspect of the business under a magnifying glass to ensure you have researched all areas before starting your business.

*"Long range planning does not deal with future decisions but with the future of present decisions."*

*Peter Drucker*

*Whether you are selling your idea to the bank or to your family, you need a business plan. If you are negotiating with investors, partners, or financial institutions, a business plan is essential to assist financiers to evaluate the investment opportunity.*

## **10. Where do I start?**

The key to writing a business plan is to first identify what you already know and devise a plan to gather the information necessary to fill the gaps.

### *Put it in Writing*

Get an outline (table of contents) of a business plan. At the top of separate pages write the titles of the various sections. Next, spend 2-3 hours writing – point form only – the information you already know about each section.

### *Check to See What You Don't Know*

Gather information on what should be included in the various sections and identify what you are missing. This information can be obtained through publications and courses on this subject and/or seeking the advice of a consultant or professional.

### *Start Your Research*

There are numerous sources of information available for today's entrepreneur. The Entrepreneurship Centre is an excellent place to start as it provides one-stop access to these sources.

### *Time Line the Plan*

It is critical that the development of the business plan be time lined – if not entrepreneurs may become bogged down with researching and time may fly by without the entrepreneur taking the final step to implementation.

## EVALUATING THE START-UP DECISION

So, you have decided that entrepreneurship might be for you – the idea of being your own boss appeals to you and you are interested in joining the thousands of Canadian individuals who strike out on their own every year. The following section explores what you need to consider before taking the plunge.

### SO, YOU WANT TO BE AN ENTREPRENEUR?...

In pursuing your dream, you will be the biggest factor in your own success – your ability to identify an opportunity, execute an idea or deliver a service. In this section we will consider the all-important question: What are the qualities and personality traits that come together to make the successful entrepreneur?

Many studies have been conducted that delve into the personality of entrepreneurs. The results of these studies can help us begin to build the profile of the successful entrepreneur. For example: they were most likely the first born in their family; they held their first job before they were fifteen; and while they are college graduates, they were average students.

These kinds of studies of the entrepreneurial psyche may be interesting, but as you evaluate your entrepreneurial potential, you need to know more. After all, being the second born in your family, or being at the top of your class, does not preclude entrepreneurial success.

While many of the key characteristics and attitudes that make up the entrepreneurial "right stuff" can be acquired or learned, the importance of innate attributes such as physical health, energy and emotional stability cannot be overlooked. The life of the entrepreneur is a demanding one and there is little distinction between professional and personal life. That they are comfortable in this all-consuming role is critical to the success of the business and the satisfaction of the individual.

In this chapter we will look at what have been described as the key elements of the entrepreneurial "right stuff" the characteristics that are essential to the successful entrepreneur. It is important that you evaluate yourself as objectively as possible. There is no right or wrong answers and an honest evaluation will help you map your characteristics against those that define the successful entrepreneur.

**Is It You?** Ask yourself if you agree with the statements listed in the "Is It You?" section following each characteristic description. The more strongly you agree with the statements, the more closely your characteristics match those of the successful entrepreneur.



### **Determined and Dedicated**

Determination, dedication, perseverance, commitment— many consider these to be the most important of all the characteristics of the entrepreneur. In fact, strength in these areas can make up for many other areas of "weakness".

Starting a new business is never easy and these characteristics are necessary tools for those who persevere through the difficulties of start-up – the practical implications of which can put anyone's dedication and determination to the test.

### **Is It You?**

- I am prepared to make sacrifices in my personal life to ensure the success of my business.
- I am prepared to take a cut in pay while I build my business.
- I am happy to work long hours to get a job done.

*"An entrepreneur must be prepared to spend long hours and be the last in line to collect dollars from a venture."  
Michael Mulhall*

*"There are lots of smart people in business, but the ones who succeed never give up. In business, perseverance is the key to success." Ron Connelly*

### **Optimistic Realist**

Successful entrepreneurs combine natural optimism with a healthy dose of realism. They are very self aware and possess a keen sense of their own strengths and weaknesses. They are objective and can examine themselves and their ideas impartially. They know when they are beyond their capabilities and have no problem seeking help from experts. In pursuing opportunities, the entrepreneur is not fool-hardy or stubborn.

In fact, despite their dedication and determination, they will give up the pursuit of an opportunity more quickly than most if they perceive it will not deliver the promised benefits. This – combined with the fact that the entrepreneur possesses a keen understanding of their competitive environment and an intimate knowledge of their customers – means that entrepreneurs do not waste their efforts.

### **Is It You?**

- I can admit my areas of weakness as readily as my areas of strength.
- I am comfortable asking for, and accepting, advice from people more experienced than I.
- I have a strong and intimate understanding of my future business and my potential customers.

## **Resilient**

Studies have shown that many successful entrepreneurs have had businesses that have failed in the past. This statistic speaks to one of the key defining characteristics of a successful entrepreneur: the ability to bounce back and respond positively to challenges.

Entrepreneurs do not take failure personally. In fact, for them there is no such thing as an unmitigated failure— every experience is a lesson and every challenge an opportunity. They quickly come to terms with a defeat and learn from their mistakes in order to ensure that the same problems do not reoccur. They have the ability to pick themselves up, dust themselves off, and begin again – armed with new information that makes them stronger and better at what they do.

Entrepreneurs meet change head-on. When they meet with failure, they are able to objectively analyze the situation and identify what should have been done differently. In evaluating how things should be done differently, they are creative thinkers: unconcerned with rules, hierarchy or how things have been done in the past.

Entrepreneurs have an insatiable desire to know how they are performing. Quantitative evaluation is more important to them than qualitative; they want to see sales figures and profit margins. They seek out constructive criticism from those they respect. They are good listeners and quick learners.

## **Is It You?**

- I can accept failure without admitting defeat.
- When something does not succeed, it is very important to analyze the situation and what could have been done differently.
- I appreciate constructive criticism, and encourage it from people whom I respect.

*"Trial and error are the ways of progress. A capacity to enjoy the trial and error adventure is a common characteristic of successful entrepreneurs." Grant Hooker*

## **Motivated and Motivating**

Entrepreneurship has no built-in status and no guaranteed perks or income level. Entrepreneurs therefore are not motivated by status or money, but instead they have a high need for achievement.

Their greatest satisfaction is derived from the excitement and challenge of creating and building a business. For this reason, they are never content with the status quo and are not comfortable resting on their laurels. They always feel that things could be done better, more efficiently, more effectively — and they are constantly solving problems and improving their practices.

Entrepreneurs have a strong success orientation but it is their own definition of success that is important and that definition is a constantly moving target. They are not content with just being better than others; they want to be better than their own best results. They are action-oriented and want to begin achieving results immediately.

*Successful entrepreneurs need not only be self-motivated, but must also be able to motivate others. They are visionaries with a clear idea of what they want to achieve. Because, as we have seen, they have little time for hierarchy, entrepreneurs can exert influence without a formal structure. They are able to inspire people to work towards a solution; they are skilled in conflict resolution.*

They understand that a substantial business cannot be achieved by one person. Because they have a strong understanding of their own strengths and weaknesses, entrepreneurs seek out those that complement their skills — and inspire those people to become part of the team. They are hero builders: happy to reward members of their team by sharing credit for success and giving them more responsibility. After all, it is not status that motivates the entrepreneur.

#### **Is It You?**

- Perks such as company cars and expenses accounts are not important to me.
- Personal satisfaction is more important to me than being able to buy expensive things.
- I believe that change is the one constant.
- I am always trying to better myself.
- I find it easy to get people to do things for me.

#### **Self-Confident and Self-Reliant**

Entrepreneurs have tremendous confidence in their own abilities. They are optimistic and believe they can achieve anything. In fact, they believe that the impossible just takes a little longer to accomplish. They believe that they have been the most important factor in their own success and feel that luck (although welcome) has not been a major contributing factor. During the course of their lives, entrepreneurs have not been heavily involved in team or group activities. They do not have a great need for affiliation. They can get along with many different personalities but do not need to have a lot of friends. Their belief in their own abilities means that they do not need to seek approval in making decisions and they are comfortable with the fact that it is “lonely at the top”.

### **Is It You?**

- I prefer to make big decisions on my own.
- I wake up happy most of the time.
- I have made my own luck.
- I believe that every problem has a solution.

### **Tolerant**

As we know, there are no guarantees of success for entrepreneurs starting out.

In the same way that status and perks are not of great importance to them, they are not overly concerned with job security and retirement. They are tolerant of uncertainty and ambiguity.

There is a commonly held misconception that entrepreneurs are risk-seekers but this is not the case. Entrepreneurs are comfortable accepting moderate and calculated risk — and they deal with stress effectively. They are able to make decisions quickly under pressure but they exhibit the patience and exert the self-control necessary to maintain their vision.

### **Is It You?**

- I am able to keep things in perspective in times of difficulty.
- I do not take risk for the thrill of it.
- I enjoy working in a fast paced environment.
- I trust my instincts in decision-making.
- I do not spend a lot of time worrying about all the things that could possibly go wrong.

*"Entrepreneurship is responsible risk-taking... the leadership of responsible risk-taking." John Kelly*

### **Integrity and Reliability**

Integrity and reliability are the characteristics that are rated most highly among entrepreneurs as the quality that they most respect.

Trust is the single most important ingredient in building the strong business relationships that are key to success. Successful entrepreneurs are honest and forthright. They expect and reward the same from those they work with, both customer and suppliers.

### **Is It You?**

- I believe that ethics and honesty are key ingredients to a successful business.
- People describe me as being direct and forthright.
- I do not shy away from situations of confrontation.
- It is very important to me that I do what I say I am going to do.

While this section outlines what are commonly held as the key characteristics of a successful entrepreneur, weakness in some areas does not forestall success. As we outlined at the beginning of this section, many of the characteristics of the successful entrepreneur can be learned or acquired— and knowledge and understanding of your areas of weakness can help you improve.

*"In business if you don't dream of doing more, you'll just end up doing more of the same." Jim Cummings*

## **DEVELOPING BUSINESS IDEAS AND OPPORTUNITIES**

You may have considered the prospect of starting your own business many times before. The thought of being your own boss – calling the shots, being responsible for your own financial rewards – is very alluring. You may have had the drive, the experience, and the financial resources necessary to succeed. The only thing stopping you was figuring out what type of business you should start.

If this sounds familiar, you are in good company. Most entrepreneurs take a considerable amount of time investigating, analyzing, and agonizing about the right type of business for them. They may have a multitude of ideas, but are unsure which one of them would be the most satisfying and successful.

The opposite is equally common: they do not have a business idea, but know they want to be an entrepreneur.

How do people come up with ideas to start businesses and how do you know if an idea would make a good business?

### **Business Opportunities**

Often, business ideas are generated from a **problem** in the market place:

A group of people have needs that are not being properly satisfied.



This leads to an idea for the solution to the problem.



If the idea can be proven to be viable, a business **opportunity** has been created.

As an entrepreneur, you must learn to look at situations from a whole new perspective. You must look beyond what is there and imagine what could be there. The possibilities are endless. The opportunities surround you.

The challenge, for you, is to teach yourself how to recognize problems and visualize solutions.

### **Learn how to tap into your creative side**

As we grow up, we often trade in our creativity for practicality and predictability. As employees, we learned to adapt our thinking to the expectations of our employers, often maintaining the status quo.

- Attend a seminar on creative thinking and brainstorming techniques.
- Refer to publications which provide exercises to help ignite your creative fires. There are many available through libraries and book stores.
- Organize your own brainstorming session with friends, family, or business associates. The energy created in group situations is infectious and can result in many interesting ideas.

### **Take off your blinders**

As an entrepreneur, you must learn how to shed barriers to your creative thinking and look at situations with a new perspective.

- Think of situations from the point of view of others.
- Approach problems from different perspectives.
- Learn how to look outside of the norm for solutions.

### **Investigate opportunities**

- Read everything you can get your hands on.
- Go to trade shows.
- Surf the Internet.
- Attend conferences.
- Never stop learning.

Once you have uncovered a business opportunity, there are two key factors to consider:

#### **1. Could this be a viable business?**

Only further investigation, such as conducting a feasibility study or writing a business plan, will answer this question.

#### **2. Has anyone else done this before?**

Your research will uncover whether or not this opportunity has been discovered before. If it has, investigate who is successful at it to find out what they are doing right and if there is any room for you to do it better. You need something to differentiate your business from the competition. This is a critical part of deciding whether or not this idea will make a viable business.

## **WHERE TO LOOK FOR OPPORTUNITIES**

Business opportunities can come from two different sources. They can evolve as a result of your personal background including your previous jobs, hobbies and personal experiences or from opportunities in the external environment or general marketplace.

### **Look at Yourself**

The following list highlights the possible sources of business opportunities that are generated from your own life. Review each of these topic areas to see if there is a business opportunity ready to be uncovered.

- Lifestyle and Experience
- Your Job
- Your Hobbies
- Education

Why would business opportunities develop from your personal life? A major consideration in any business venture should be to love what you are doing. It is only natural that looking at past experiences and interests could reveal an opportunity to further develop them into a viable business. Possessing transferable skills is key to business success.

### **Lifestyle and Experience**

Ideas may arise from casual observations of daily life situations. It's simply a matter of being more attuned to what is happening around you. Ideas may become obvious as a result of travel, your own experiences in seeking products in the marketplace, ideas expressed by others who have recognized a problem or opportunity, or simply the result of observing the behaviour of other people.

### **Your Hobbies**

Hobbies or interests may lead to business opportunities. Examples include serious athletes who distribute sporting goods, fishermen who open fishing lodges, boaters who establish rental or tour services, casual writers who establish publishing companies and so forth. An entrepreneur must be careful that they remain objective when assessing business opportunities in this area since what one loves to do may not always be the most profitable business opportunity.

### **Your Job**

This is one of the most common sources of business ideas which is not surprising since it also normally provides an excellent match with the entrepreneur's skill set. Ideas from your employment can evolve in many different ways. You may have identified a product or service opportunity that your employer is not pursuing. Perhaps you have developed specialized technical skills or knowledge that may be of interest to others in the industry or maybe you have a product to sell to your employer. If you decide to develop something similar to your employer's product be sure to seek legal advice to ensure you are not violating any legal rights of your employer.

## **Education**

Lifelong learning is an important requirement for successful entrepreneurial endeavours. In addition to developing skills, education – whether formally through courses or seminars or informally through self-directed reading – can lead to business ideas. It will significantly broaden your perspective and help you see opportunities in areas that you may not have otherwise considered.

## **Look at What Is Happening Around You**

The following list highlights factors in the environment that may provide you with ideas for a business opportunity. Remember that when something changes, the result usually has an effect on something or somebody, often creating new needs or shifting the demand for products or services. Hence, the possibility for you to develop a creative solution.

## **Changes in the Market**

When consumers change their buying habits and preferences there are always new opportunities to tap into. For example, the shift from going outside of the home for entertainment to staying at home and watching videos created a whole new opportunity for the growth of video stores, manufacturing of larger home entertainment centres and building smaller (cozier) movie theatres.

## **Changes in an Industry**

When governments change regulations there is often an effect on many industries. Opportunities arise to help provide solutions to companies to deal with these changes or to service new needs created by them. For example, when regulations for first time drivers changed to a graduated system, the demand for driver education programs increased. Drivers who take a driver education program are allowed to test for their license earlier than those who do not take training.

*When you start a business, be sure you're going to be doing something that you truly love doing. You'll be spending at least 50% of your week working at it.*

## **Technological Influences**

The impact of technological growth has had an influence on almost all sectors in business from car maintenance to photo radar to video conferencing. New opportunities that exploit new technologies are developing at an incredible rate.

## **Competitive Pressures**

The demand for certain products has created a very competitive market place in some industries. The personal computer industry is an example where competitive pressures have greatly influenced this market.



## **Demographic Shifts**

Changes in the age, income, and status of the population have contributed to increased demand in many sectors such as health care, financial planning and travel advice.

### **HOW DO TRENDS FACTOR IN?**

If you can identify a trend and learn how to tap into it, you are on the road to developing a successful business with incredible potential. Knowing what your client will want in the future is a stepping stone to success. According to Celente & Milton, in *Trend Tracking*, "A trend is a definite, predictable direction or sequence of events". A trend can last over ten years.

Trend information provides us with data about the past and the future. Trend forecasting is accomplished by using different methods, depending on who is doing the forecasting.

### **How do you predict trends?**

You have two options to help you recognize trends that are occurring. You can read one of the numerous books out in the market, written by futurists, or you can learn how to identify a trend yourself. Either way, the following tools should be considered:

- Demographic data: shifts in the statistics relating to the population
- Changes in the make-up of the population (ie: baby boomers)
- Changes in society: habits and values
- Economic indicators: inflation, unemployment levels, etc.

What you are looking for in a trend are indicators that there will be a large enough segment of the population who have similar needs to support a business venture.

*For example, if we look at the sheer numbers of baby boomers in Canada (9.8 million out of a total population of 30 million) a business that focuses on servicing the needs and wants of this segment of the population could be very successful. The impact of technological changes on our work and personal life is another area that should not be overlooked.*

The following chart identifies some major trends that have resulted in new business opportunities. This is by no means complete but it will give you a few ideas to consider:

<b>Trend</b>	<b>Industry</b>	<b>Resulting Business Opportunities</b>
Technological Advances	Computers	Internet training
Going Green	Recycling	Environmentally friendly products
Small Office/Home Office	Business	Providing specialized products to small office/home office
Accessibility for All	Construction	Re-doing existing entrance ways, washrooms, etc.
Re-engineer/Re-structuring	Business	Specialized business and of Business/Government management consultants
Eating Healthier	Food	Restaurants specializing in alternative eating
New Media	Media	Hardware/software – mass market products
Gardening/Landscaping	Horticulture	Garden centres
Personal Financial Control	Financial	Financial planners, RRSP's and mutual fund sales
Fresh Air	Transportation	Alternative modes of transportation – bicycle, car pools, rollerblades
Home Improvement	Numerous	Do-It-Yourself-Centres retail sales – “How To” Seminar Series
Licensed Merchandise	Sports	Retail sportswear
Craft Making	Arts/Crafts	Specialized retail outlets – tradeshow – country fairs
Aging Population	Healthcare	Private nursing homes, healthcare & food products
Increasing Consumer Affluence	Service	Social clubs and organizations, convenience services, adventure tours/services
Continued Self-Improvement	Training	Training, Development and Self-Improvement directed Adult Education Programs

Part of the science of evaluating a business opportunity is knowing that what is hot today may not be tomorrow and what is hot somewhere in the country may not be hot here.

Annual listings of hot or growing businesses are available through numerous sources such as the Entrepreneur Handbook and Business Start-Up Magazine.

*Look before you leap has never been truer than in starting a business. Ask questions, read up on everything published on the subject, check the competition, do your market research first; act afterwards.*

## **EVALUATING YOUR IDEAS**

Discovering business ideas is only part of the process involved in starting a business. The ideas must be screened and evaluated to determine those which warrant further investigation. The following checklist includes a number of questions that will help guide you through an initial screening and further direct your research efforts.

Business Opportunity Checklist

<b>Market Issues</b>	<b>Yes</b>	<b>No</b>	<b>Not Sure</b>
Is there a need for the Product/Service?			
Is there a trend that supports the need for the product or service?			
If the product or service is successful in a different geographical area, have you considered these differences?			
Is the market large enough to support the idea?			
<b>Financial Issues</b>	<b>Yes</b>	<b>No</b>	<b>Not Sure</b>
Can the product or service be produced for a reasonable cost?			
Will the customer pay the price required to generate a profit?			
Avec quelle fréquence la nouvelle technologie change les affaires dans votre industrie?			
	<b>Strong</b>	<b>Avg.</b>	<b>Weak</b>
What are the profit margins in the industry?			
<b>Operation Issues</b>	<b>Yes</b>	<b>No</b>	<b>Not Sure</b>
Can the product or service be delivered within a reasonable time frame?			
Are there industry changes that may affect production or delivery of the product or service?			
	<b>6 mo.</b>	<b>2Yrs.</b>	<b>5Yrs.</b>
How frequently does new technology change the way your industry does business?			
<b>Entrepreneurial Issues</b>	<b>Yes</b>		<b>No</b>
Does the idea coincide with your own values and beliefs?			
Is the idea an extension of your work experience, hobby, and education?			

## BUSINESS OPTIONS

Here are a few interesting statistics for you to consider:

(Source: Canadian Entrepreneurship and Small Business Management)

- According to a 2001 Statistics Canada study, nearly 3/4 of the 789, 000 businesses in Ontario have fewer than 5 employees; and more than 95% of said businesses have fewer than 50 employees.
- Eight out of ten influential North Americans indicated that they believe entrepreneurialism will define twenty-first century business.

In the previous section you were introduced to suggestions for generating ideas to start new businesses. There are other options available for getting into business. The following section discusses the three most popular ways that people become entrepreneurs.

### WHICH OPTION IS RIGHT FOR YOU?

*Before you decide if business ownership is right for you, consider the following:*

- What are you expecting from self employment?
- How much control do you want?
- How much money do you want to invest?
- How much experience are you bringing to your business?

Which business option best matches your personal and business needs?

- It is important for you to take the time to assess your personal and business goals and objectives.
- These should be considerations when you decide which method of becoming an entrepreneur is right for you.

*Outlined below are three business options available to you:*

- 1) Starting from scratch
- 2) Buying an existing business
- 3) Buying a franchise

In each section there are a number of questions to help you identify your personal and business motives for choosing the business option that will best suit your needs. The questions have been written as open ended questions with no right or wrong answers. They are to be used to assist you in making your business choice. A list of advantages and disadvantages is included for your consideration.

## STARTING A BUSINESS FROM SCRATCH

Consider the following:

- Do you want to be in total control?
- Have you considered the possibility of low cash flow in the beginning?
- Do you want to have control over where your supplies are purchased?
- Do you want or need to build your customer base from scratch?
- Are you prepared for the uncertainty and risk involved?
- Have you developed a strong support network?
- Are you bringing substantial skills or experience to the business?

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• You are your own boss</li><li>• Unlimited potential for wealth</li><li>• Challenge of bringing your product to market</li><li>• Opportunity to develop your own business policies and practices</li><li>• Personal satisfaction of accomplishment</li></ul>	<ul style="list-style-type: none"><li>• Cash flow fluctuation</li><li>• Lack of support</li><li>• Sole responsibility</li><li>• Limited resources and possible gaps between business and technical skills</li><li>• Difficulty financing</li></ul>

*Most new ventures need twice as much money and three times as much time to succeed as their founders had anticipated. (Source: The Complete Idiot's Guide to Being an Entrepreneur in Canada.)*

## BUYING AN EXISTING BUSINESS

Consider the following:

- Are you ready to walk into a business that is set up and running?
- Are you prepared to invest a significant lump sum of money at the beginning of your venture?
- Is there established customer loyalty and goodwill?
- Are you prepared to take over from where the previous owner left off?
- Do you have a need to establish your own systems?
- Have you developed a great support network?

### Advantages

- Already up and running
- Potential for immediate salary
- Established company reputation and customer base
- Existing facility, equipment and trained employees
- Established track record on which to base projections

### Disadvantages

- Significant research required to identify and assess viability of business
- Business value may be difficult to determine
- Assets may be overvalued
- Difficult to begin slowly or try business out
- Possibility of having to pay for "goodwill"
- Reduced feeling of personal satisfaction from creating and building a business
- Possibility of inheriting employees who do not share your vision
- Changing previous business practices may create customer resistance
- Difficulty financing

## BUYING A FRANCHISE

*Consider the following:*

- Do you want to be in total control?
- Do you want to walk into a business that is up and running?
- Are you prepared to invest a significant lump sum of money at the beginning of your venture?
- Do you want to control where you buy your supplies?
- Will you be comfortable not developing your marketing materials?
- Are you looking for additional business support?
- Do you have a need to establish your own systems?

### Advantages

- Possibly easier to access financing
- Access to quality training and ongoing support
- Established concept with reduced risk of failure
- Use of well-known trademark or trade name
- Access to lower cost and possible centralized buying
- Fewer start-up problems
- Access to extensive advertising

### Disadvantages

- Onerous reporting requirements
- Termination policies of franchisors may allow little security
- Possible exaggeration of franchisor advantages
- Franchisor may saturate your territory
- Cost of franchise and other fees may reduce your profit margins
- Inflexibility due to restrictions imposed by franchisor
- Costs of supplies and materials may be more expensive

When you purchase a franchise, you are actually purchasing the right to use the name, products, services, trademarks, and business concepts of that company. You must sign a lengthy legal agreement that outlines all of the terms and conditions of this relationship. Always consult a lawyer before you sign the agreement (or any related legal document).

For further assistance contact the Canadian Franchise Association at 1-800-665-4232 or [www.cfa.ca](http://www.cfa.ca)

## STARTING A BUSINESS

Now that you have an idea of what is involved in becoming an entrepreneur, it is time to investigate what starting a business entails. The following section will provide you with fundamental information to help you plan your new business.

### THE 10 STEPS TO STARTING A BUSINESS

The following 10 steps are provided to help you familiarize yourself with the process that you are about to begin. Don't be intimidated by the number of steps that must be taken before starting your business. The more you can plan and prepare yourself before you start, the better your chances of success once you open.

1. Develop an idea you would like to investigate.
2. Research your business idea. Conduct a feasibility study to determine whether or not this idea could turn into a viable business. Is there a need for your idea? Will people pay for your product or service? Are there enough customers to sustain a business over time? How do you expect your competition to respond?
3. Find out if there are any regulations that could prevent you from starting this business or that will hamper your success in this business.
4. Do a skills and lifestyle audit. Is this the right time to start the business, or do you need to upgrade some of your skills before you get going?
5. Write a business plan. Talk to a lawyer and accountant about protecting yourself and your assets.
6. If you decide to go into business, decide on the most appropriate structure. Register your name if necessary.
7. Identify a business location. Open your business bank account and arrange financing.
8. Organize your office, accounting, filing and client contact systems.



9. Develop promotional tools to set yourself up for effective selling.
10. Enjoy the experience.

You may find that the steps you take to start your business follow a different order. That is the interesting part of starting a business; each entrepreneur has a different experience. The key is to make sure that you are properly organized before you begin so you can concentrate on developing your products and establishing a customer base rather than wasting time wrapping up last minute details.

## **PREPARING YOUR BUSINESS PLAN**

Developing a sound business plan is one of the most important steps an entrepreneur can take to improve their chances of business success. The business plan is the guide or road map for your business. It provides the big picture helping to guide you through day-to-day decision making and planning.

### **Why Write a Business Plan?**

- A business plan presents many challenges and opportunities for an entrepreneur.
- This is your chance to test your idea on paper.
- You will learn how to manage your company more effectively while you become an expert on your business.

The following list outlines the key reasons why a plan plays an integral part in the success and future of your business.

### **A business plan acts as a detailed feasibility study**

If you want to assess whether your idea could turn into your dream business, a business plan is a good start. It provides a detailed checklist for the internal evaluation of your business. Some of the questions it answers include:

- Is there a need for your product or service?
- Will people pay for this product or service?
- Are there any barriers to your success? This could include regulations or education issues.
- Can you make enough money to satisfy your business and personal needs?
- Do you need outside financing to make this business successful?

If you believe that your idea would make a successful business, the business plan will provide an organized way to conduct your investigation.

### **A business plan helps you to become a better decision-maker**

The information you gather will turn you into an expert on your business idea and will lead to more informed decisions.

### **A business plan prepares you**

Researching your plan helps you to anticipate problems so you can develop possible solutions before a crisis actually occurs.

### **A business plan provides an organized implementation plan**

The business plan provides a timetable for accomplishing your stated objectives. It helps keep you focused and on track to set up your business by your chosen start date.

### **A business plan expands business options**

Knowledge is power. The more you find out about your industry, competition, and opportunity, the more choices you have to solve problems.

### **A business plan can help determine contingency plans**

The business plan can help you work out “worst case” and “best case” cash flow scenarios BEFORE they really occur. This gives you the opportunity to plan strategies to ensure your business is capable of withstanding the pressures of unexpected external changes in the economy, your competition, or your customer.

### **A business plan can be used as a selling tool to attract resources and support**

If you need to secure financing from friends or family, you should show them a business plan so they understand what you are doing and that you are serious about doing it. If you intend to approach investors or the bank for financing, you may be required to submit a detailed business plan for consideration for funding.

### **A business plan plots a course (1-3-5 years)**

Your business plan can help you think long term and keep you focused on the big picture. You must plan beyond starting a business to make sure you stay in business.

## **WHERE TO BEGIN**

- Put it in writing. Develop an outline.
- Write down everything you know and research the parts that are missing.
- Talk to people who can help advise you on areas you need to learn more about.
- Develop a time frame for completing your plan.

## **Format**

- Make sure your business plan is easy to read.
- All sections must be clearly identified.
- Be creative. Your business plan is a selling tool.
- Know your business plan.

## **Major Components**

These are the major components in any business plan:

- Introduction to Your Business
- Marketing Plan
- Operational Plan
- Financial Plan

## **Business Plan Basics**

Writing your business plan will take time, discipline, and a lot of research. The following section highlights the key elements of a business plan. It is concluded with a check list to help you get started, and to keep you thinking along the way.

As an entrepreneur, you will be spending your time on three critical areas while you are running your business:

- Marketing: What are you going to do?
- Operations: How are you going to do it?
- Finances: What will you accomplish?

It is only logical, therefore, that your business plan focuses on the same areas. After all, you are writing this plan to help you to learn how to run your business in the most efficient and profitable manner possible. This is your opportunity to take advantage of the best planning you may ever do for yourself.

*"Of the primary functions of management, planning is the most important. Plan your work and work your plan. Old... but it holds." Grant Hooker,*

## **Developing Your Marketing Strategy**

Marketing is a complex subject but one of the most important contributing factors to the success of your business. Without customers there are no sales and therefore no profits. This section is simply intended to give you some pointers and things to think about when designing your marketing program.

If you feel you are weak in this area, seek training/assistance to develop your skills. Recruit a partner or employee who is strong or seek professional help.

This section includes practical tips we've collected from both entrepreneurs and professional marketers to help you develop a winning marketing strategy.

*Marketing is not rocket science. It's grounded in common sense. If you combine this with a strong customer focus you can design a marketing strategy that works.*

An effective marketing strategy will be the cornerstone of your success as an entrepreneur. The classic elements included in a marketing strategy revolve around what is known as the **4 "Ps": Product, Price, Promotion and Place**. However, before addressing these elements, you must start by clearly defining the need you wish to fulfill with the product or service you are offering, the target market you are going to reach and your marketing objectives. Finding the market need and developing a service or product to fill a gap in the marketplace will be key to your overall strategy.

### **Finding the Need - Starting with Market Research**

You must do your homework to find the need or market opportunity upon which you want to base your business. Although the process may begin with assumptions you are making about the market, you need to support your idea with data through market research. Research will help confirm or challenge your idea of who your best customers are and what they are seeking in a product or service. There are two types of information you can gather:

**Primary Data** – Information that you collect yourself including interviewing potential customers about their needs and willingness to purchase the type of product or service you would like to offer - and at what price.

*You may wish to survey potential customers over the telephone, in face-to-face meetings or through a mail survey. However you conduct the research, begin by writing out all the questions you need answered and testing your questionnaire on a few potential customers before you start your research.*

**Secondary Data** – This is information that is relevant to your market but has been gathered or compiled through other organizations. For example, Statistics Canada is an excellent source for information on various markets and market trends. Other sources of secondary data include industry magazines and industry associations.

*You can't know enough about the market you are entering. Make sure you are up on all trends and projected shifts in market demand by subscribing to relevant trade publications and becoming active in industry associations. You also need to follow the general economy and the cultural and social environment to ensure that you are aware of major external forces that can affect your business. It is a good idea to subscribe to general business publications and to be well informed about overall trends in society.*

*"Let research define your products and write your ads, brochures, and web site. It's the best investment you'll make." Don Hewson*

The next step is to take a close look at your competition.

### **Competitive Analysis**

This is a very important step in the process of defining your marketing strategy. You need to know what you are up against in terms of competition. The factors you need to examine include:

- Who can you expect to compete with?
- What market need do they fulfill?
- What are the specific attributes of the product or service they fulfill?
- At what price do they offer their product or service?
- What has been the key to their success in the marketplace?

You need to examine each of these factors in order to be able to clearly differentiate your product or service in the market.

Once you have gathered all the information you require regarding your market and the competitive and general business environment, you must determine whether you feel you have a viable business idea. If you do, then the next step is to define all the elements of your marketing strategy - beginning with the target market.

*An excellent way to find out about the competition is to contact them or visit their location to get to know their business. For example, if they are a restaurant - go there as a customer. If it is a retail operation, visit the store and get a feel for the service.*

### **Target Market**

A target market is defined as a relatively homogeneous group of potential customers. Your business can target either consumers or other businesses. Regardless, you are trying to reach individuals who are either making a buying decision on their own behalf or on the behalf of the organization for which they work. It is very important to know who these individuals are and how they are motivated to make buying decisions.

To define your target market you should consider the following variables:

- Demographics - age, gender, income, occupation, education
- Geographic - where they live or are located
- Psychographics - lifestyle characteristics including activities, interests and opinions

*"You can't know enough about your target market. You must keep them top of mind in everything you do - the customer is the focus for all your efforts. Knowing who you are trying to reach, where they are located and what makes them "tick" will be important to consider when you are developing your promotional strategy."*

*Christine Kincaid*

It's a good idea to pull together lists of who your target market is - either by sourcing mailing lists or identifying where they live through postal walks provided by Canada Post Corporation. For example, if you are targeting Restaurant Managers with a new product for this sector, then you can build a mailing list through the Yellow Pages or through the local restaurant association. As another example, if you are offering a landscaping service and you are targeting specific neighbourhoods and a certain income level, Canada Post Corporation can provide you with a list of the postal walks that meet your criteria. You could then use these for a direct mail campaign. Once you have defined your target market, you must clearly define the product or service you will be offering to them. This is where we get into our 4 "Ps" of marketing but not without first setting some objectives for your marketing program.

### **Marketing Objectives**

In order to ensure that your business is on track, you must set out objectives for your efforts. At their most basic, these objectives should include a forecast for your sales for your first year in business and projected growth for the years thereafter. These forecasts will be based on the results of your research into market demand and on your capacity as a business to fulfill the demand.

### **The Four "Ps"**

#### **1) Product**

Clearly define the product or service you are providing including a description of the market need you are satisfying. List the specific attributes and benefits of your product or service and focus on what is unique about it in the marketplace. By focusing on your unique selling proposition, you will be able to clearly differentiate your product or service.

#### **2) Price**

Once your product is defined you must set a competitive price for it. A number of factors come into play when setting your price. You must look at the competitive environment and what your competition is charging. As well, you must consider the price your market can bear by referring back to the market research you undertook. You must also make sure that the price you will charge is one that is profitable for you. To do this you must refer back to your sales projections to ensure that the price you are charging covers both your overhead and cost of sales.

#### **3) Place**

Place refers to your distribution strategy which includes your business location and how you will distribute your product or service. Distribution options include:

*Personal selling* – usually most appropriate when you are reaching other businesses

*Wholesalers* – who will in turn sell the product to retailers who reach end customers

*Mail order* – fulfilled either by you in your place of business or through a mail order house you retain

*Retail stores* – where you contact retailers directly rather than going through a wholesaler

*Sales agents* – where you hire someone to sell your product and you pay them a commission

Regardless of which option is appropriate for your business, the key is to ensure that your end customers can easily access your product or service.

#### **4) Promotion**

This is the element of your marketing strategy where you communicate to your target market to make them aware of the product or service you are offering. As with marketing objectives, it is important to set objectives for your promotional program. For example, you may wish to generate overall awareness leading to increased traffic to your location. You may wish to generate leads for sales follow-up or your objective may be to generate sales by having customers buy or order directly through the promotion you implement. Remember, to know whether your efforts are successful, it is important to start with clear objectives.

There are a number of ways or tactics to reach your market including: advertising through various media including television, radio, newspaper, magazine and outdoor (billboards, busboards and transit shelters); direct mail; personal selling; telemarketing; publicity; and point of purchase advertising.

Most promotional strategies include a combination of these tactics depending on who you are trying to reach and the budget you have set for marketing. For example, if you are targeting other businesses as opposed to consumers, your promotional strategy will focus more around personal selling instead of advertising. However, you may wish to employ direct mail in combination with personal selling.

To develop a promotional strategy you must start by selecting the tactic that is best suited to cost effectively reach your target market and achieve your objectives. For example, there is no point using television advertising which reaches a broad consumer audience if you are launching a business which targets only a small percentage of the market. To find the best tactic you must go back to your research on defining your target market. What magazines or newspapers do they read? Do they take the bus; if so, is busboard or transit shelter advertising the answer? Where are they located and are there community newspapers that reach that area? Can you access mailing lists that reach your target market? If so, you may wish to use direct mail to introduce your product or service. Rely on good research and common sense to decide how to best reach your target market.

Once you have selected the media or tactic that is best suited to reach your target market, the next step is to define your message. If you have selected an advertising medium such as radio, television, outdoor and even print, you can get assistance in putting together the creative through that medium. For example, newspapers will design your ad and television and radio stations can produce your spots. Or, you may wish

to use the services of an advertising agency to assist you with production. Direct mail houses can help you to put together the most effective direct mail piece. It is important to know that you don't have to do it all on your own.

There are resources in the community you can access. If personal selling is the main focus of your promotional program and you feel that you may be weak in this area, then investigate groups such as Dale Carnegie or Toastmasters to enhance your communication and interpersonal skills.

*No matter what anyone tries to tell you remember that word of mouth is still one of the most effective promotional tools. The referral network is powerful and can lead to numerous new customers without spending a penny on promotions.*

### **The Art of Selling**

Here is a brief review of the selling process that you should be going through with your customers. The more diligently you follow the process, develop your own style and techniques, the faster your sales will increase.

*Prospecting:* Looking for potential customers

- Cold calling
- Direct mail
- Telemarketing
- Trade shows

*Developing a Rapport:* Gaining common interest with your client

- Asking general questions to establish a profile
- Identifying a need
- Giving a one minute verbal presentation

*Qualifying your Customer:*

- Matching a client need to a product or service
- Giving a five minute verbal presentation

*Your Sales Presentation:*

- Focus on benefits, benefits, benefits.
- Provide a written copy of your presentation.
- Focus on the client's specific area of interest.

*Closing the Sale:*

- Overcoming objections
- Suggestive selling



### *Follow-Up:*

- Make a decision on the possibility of a sale now or schedule the next appointment. You must have a valid reason to meet the client again.
- Close the sale.

It is important to devote time to design an effective selling strategy. The following three areas are critical to developing and executing a successful sales program.

### **Organization**

#### *1. Networking*

- You must have a system set up to keep track of your clients and what stage of the buying process they are at: should you call them back in a week, a month, never? If you don't keep track of this, you will lose opportunities and waste valuable time. Some businesses invest in a client contact computer program, but a database system, whether on a computer or organized through files, will also work.

#### *2. Time Management*

- You must divide your time between activities that generate revenue, such as selling your product or service, and activities that prepare you for generating revenue, which include prospecting, cold calling, marketing, and networking.

### **Communication**

- Have a one minute verbal presentation of your product or service to use when you are meeting someone informally. You should introduce yourself, your company, and your product.
- Have a five minute verbal presentation prepared for a "sit-down" encounter, such as a networking event, where you include the topics listed above, and add information on the strengths and benefits of your product or service.
- Prepare a longer formal presentation, that is polished, practiced, and interesting. Have written material to give to the client.

### **Marketing**

- Know your competition. You must be aware of the prices, services, and promises your competition is making to their customers. The more information you have, the better negotiating position you are in.
- Know your business. Be current on trends and changes in your industry.
- Update your sales information to keep it dynamic and fresh.
- Package yourself: Take a look at the market perception of your business. Make sure you are a reflection of that image.
- Make sure you are minimizing your spending and maximizing your personal selling.

## Selling Tips

- Every day there are new opportunities for new customers.
- Every one in your organization contributes to the sales process, either directly or indirectly.
- Listening is the most important compliment you can pay to your customer. Listen for subtle clues from your customer. Listen to their complaints and comments. Listen and learn. Step into your customers shoes. What kind of salesperson and sales style would you be responsive to? You must adjust your selling style to your own personality, the industry norm, and your customers' preference.
- Develop a rapport with your customer.
- Pay attention to what they say and their body language. These give you clues about your customers' readiness to buy.
- Show interest in what your customer says.
- Take action and schedule a next step, whether it is scheduling another meeting or closing the sale.
- Unless you ask for the sale, you will never know if you have one!

## DEVELOPING YOUR OPERATIONAL STRATEGY

This section of your business plan outlines information on your **suppliers**, your **manufacturing plans**, relevant **regulations**, and your **human resources**: all of the details that are necessary for you to efficiently run your business.

For your **suppliers**, include a list of who will provide the necessary materials and products to run your business. Information on your key suppliers should include their address, products, services and their terms of payment. This is how you find out what it is going to cost to produce your product or supply your business with key products. Information from this section ties into your cash flow projection and helps form your pricing strategy. You need to find out if you have to pay cash for a certain amount of time before you are allowed credit terms.

If you are **manufacturing** a product, include information on the production method. An evaluation of where your product is in the development cycle, and what resources are necessary to ready it for sale. If you are manufacturing a product you need to establish a plan to move the product from the research stage into the production stage. This exercise forces you to step back and look at where you are going. Include information on the following topics, that are relevant to your business.

- Research and Development (time invested, future requirements)
- Cost Analysis (direct and indirect overhead)
- Production Methodology
- Equipment and Plant Requirements
- Time Requirements
- Sub-Contracting Arrangements
- Prototype Development
- Commercialization Strategy

The **operating regulations** that apply to your business should be explained. Discuss any extra compliance your company may be offering to your customers, such as ISO Certification or bonding.

- Federal Regulations
- Provincial Regulations
- Municipal Regulations
- Insurance and/or Bonding
- Professional Accreditation Requirements
- Business Registration Requirements

A description of the people who will provide the expertise required to run the business is called your human resources. This section of the plan forces you to do a skills inventory of yourself and develop a plan to “fill in the gaps” with the expertise of staff or contractors. This enables you to accept larger jobs or contracts than you could do alone! Remember, you only have a limited amount of time in the day – use it to focus on what you do well and hire people to do the rest! If you are going to hire employees or contractors, you have to factor this into your pricing and cash flow projections.

- Organizational Structure
- Service & Employee Contracts
- Job Descriptions & Responsibilities
- Staffing Plan
- Details of Advisors and Associates
- Future Human Resource Plans

### **STAFFING FOR SUCCESS**

Use the following checklist to ensure that your staffing plan is complete and ready to use when you need to use it. If you are initially going to use sub-contractors on projects, most of the issues still apply to them. Even if you are presently a one person operation, you should be prepared and knowledgeable about the topic.

*I have developed a thorough job description of each position in my company. This description includes:*

- Job functions and duties
- Hours of employment
- Salary range
- Supervisors, reporting structure

*I understand the legal responsibilities of hiring employees:*

- Taxes and deductions (CPP, EI, Income Tax, Workplace Safety and Insurance Board)
- Payroll records
- Employment standards

*I have established and clearly communicated human resource policies and procedures:*

- Sick Leave
- Maternity Leave
- Discipline Policy
- Harassment Policy
- Extended Leave
- Complaints
- Vacation Time
- Benefits

*I have developed a new employee training and orientation program.*

*I know how to attract good employees, by offering:*

- A competitive compensation
- Good benefits
- An opportunity for growth
- Opportunities for package education
- A detailed job description
- Sound management

*I have investigated employee regulations through the appropriate government offices:*

- Workplace Safety and
- Human Resources and Insurance Board Skills Development Canada
- Canadian Centre for Occupational
- Canada Revenue Agency
- Ministry of Labour Health and Safety

## **DEVELOPING YOUR FINANCIAL STRATEGY**

Completing a thorough financial analysis of your business will help you determine whether or not this business is viable. Can you make enough money in this business for your personal needs, to run the business and to make a profit? Knowing your monthly sales and expenses helps you make good decisions such as when to purchase equipment, hire staff or use your line of credit! There are six key elements to consider in this section of the plan.

1. First, compile a list of all of your **start-up costs**. Include all the money you will spend getting the business set up for opening day.
2. Your **cash flow projections** are shown on a chart that outlines the revenue you expect to earn each month and the money you must spend each month (expenses). This lets you know if you can pay your bills each month. You must be prepared to justify your sales projections and expenses.

3. A **projected income statement** shows the projected profit/loss for your business for a given year and shows the “health” of the business. It is an estimate of all sales revenues, direct, indirect and administrative expenses (including depreciation, interest expenses and taxes payable) and subsequent profit or losses for the first five years.
4. Your **opening balance sheet** is a “snapshot” of what the business owes and owns at a particular moment in time. It consists of a projected statement of assets, liabilities, and equity, for the first five years. Assets include cash, inventory, accounts receivable, buildings and equipment. Liabilities include short term debt, accounts payable, taxes payable, and long term debt.
5. If you require money to start your business, detail your financing requirements: the amount of money required, what the money is for, and your repayment plan. **Owner’s Equity** or **Shareholder’s Capital** is the total investment by the owners or shareholders of the business.
6. **Risk Analysis** can be shown using scenarios based on best case/worst case occurrences. Often, three different cash flow statements are included in a plan. You can do an optimistic, pessimistic, and realistic cash flow to show how your company would adjust to different market scenarios. Be sure to include information, or the assumptions, you made for each scenario.

## BUSINESS PLAN CHECKLIST

Use this checklist as a guide to help you develop your business plan. It will help you keep track of information you need to collect and topics you need to investigate. Check off each step as you complete them to monitor your progress and ensure that you are “on track”.

### INTRODUCTION TO YOUR COMPANY

#### ***Executive Summary***

*Is your executive summary short and concise?*

- Yes, my executive summary is one to two pages in length.
- My executive summary is more than two pages because I am sending it out prior to my business plan as an introduction to my business.
- My executive summary reflects the length that is expected in my particular industry.

*Does it reflect the highlights from the following key sections in your business plan?*

- Introduction to your business
- Key marketing strategies and opportunity
- Product/service differentiation Critical legal issues
- Target market analysis
- Management team
- Competitive analysis
- Financing requirements

*Did you write your executive summary after your entire business plan was finished?*

- Yes, I used the information from my plan to write this summary.
- No, I did not realize that the executive summary should be written last. I will rewrite it when my plan is completed.

### ***Company Profile***

*Does your company profile include the following information?*

- Name of company
- Start date
- Form of business:
  - Sole proprietorship
  - Corporation (shareholders)
  - Partnership (% of ownership)
- Address, phone number, fax number, website
- Business advisors

## **Marketing**

### ***Industry and Market Analysis***

*Did you include information on the following?*

- Major customer groups and current/future trends that are affecting these customers.
- The number of competitors in this industry.
- Is your product/service part of a trend?
- Have you identified a particular need or gap in this industry?
- Is demand for your product/service growing, shrinking or staying the same?
- What are the key success factors in this industry?
- What are the barriers to entry in this industry?
- Business or consumer trends

*Opportunities as a result of:*

- Social change
- Economic change
- Demographics
- Political change
- Statistics reflecting the size of the industry you are entering:
  - Industry-sales (\$)
  - Industry volume (# of units sold)
- The growth of the industry
  - Past sales volume
  - Present sales volume
  - Future sales volumes

*Check off which stage you are at in investigating your opportunity:*

- I have identified and understand the key trends affecting my industry.
- I have analyzed their impact on my industry.
- I have identified new opportunities and developments in my industry.
- I am prepared to seize this opportunity.
- I have talked to real customers to validate the identified gap/need.
- I understand how to satisfy this need in the marketplace.

### **Product or Service Description**

*Do you know what you are selling?*

- I am selling a product.
- I am selling a service.
- I am selling both.

*Have you included the following information about your product or service in your business plan?*

- Value-added features of your product or service
- Benefits (advantages) of these features to your customer
- Your unique selling proposition (competitive-edge)

*What is unique about your product or service?*

- Superior quality product or service
- Reputation
- Delivery
- Hours of operation

*How is your product or service positioned against the competition?*

- My product or service is less expensive.
- My product or service is more expensive.
- My product or service is the same price.
- My product or service is of better quality.
- My product or service is new to the market. I am positioning it against substitutes.

### **Target Market**

*Have you considered the following items when selecting and confirming your target market?*

*I am selling my product or service:*

- Business to Business
- Business to Consumer
- Both

*If you are selling to end consumers, check off which of the following information you have already located:*

Demographic information

- |   |  |
|---|--|
| <input type="checkbox"/> Age Range                  | <input type="checkbox"/> Income Range          |
| <input type="checkbox"/> Gender                     | <input type="checkbox"/> Location of household |
| <input type="checkbox"/> Number of children         | <input type="checkbox"/> Occupation            |
| <input type="checkbox"/> Average purchase           | <input type="checkbox"/> Education             |
| <input type="checkbox"/> Rent/own                   | <input type="checkbox"/> Size of market        |
| <input type="checkbox"/> Cultural/ethnic background | <input type="checkbox"/> Marital status        |

Psychographic Information

- |  |                                      |
|--|--------------------------------------|
| <input type="checkbox"/> Frequency of purchase | <input type="checkbox"/> Preferences |
| <input type="checkbox"/> Attitudes             | <input type="checkbox"/> Likes       |
| <input type="checkbox"/> Behaviours            | <input type="checkbox"/> Dislikes    |

*If you are selling to businesses, check off the information you have already located:*

Demographic Information

- |   |  |
|---|--|
| <input type="checkbox"/> Number of businesses | <input type="checkbox"/> Average purchase amount |
| <input type="checkbox"/> Age of business      | <input type="checkbox"/> Business sector         |
| <input type="checkbox"/> Location of business | <input type="checkbox"/> Number of employees     |
| <input type="checkbox"/> Sales volume         |  |

Psychographic Information

- What influences the purchasing decision?
- What need does your product or service fill?
- Key decision maker
- Day/month of purchase
- Frequency of purchase

*Have you investigated which of the following factors are most important to your customers when they are making their decision to buy?*

- |                                     |  |
|-------------------------------------|--|
| <input type="checkbox"/> Price      | <input type="checkbox"/> Durability                |
| <input type="checkbox"/> Quality    | <input type="checkbox"/> Ease of Use               |
| <input type="checkbox"/> Appearance | <input type="checkbox"/> Location                  |
| <input type="checkbox"/> Packaging  | <input type="checkbox"/> Reputation                |
| <input type="checkbox"/> Size       | <input type="checkbox"/> Credit terms              |
| <input type="checkbox"/> Service    | <input type="checkbox"/> Advertising and promotion |



*Have you segmented your target market into your:*

- Primary market
- Secondary market
- Tertiary market

*Do you have a plan to penetrate those markets?*

- Yes, I have developed an extensive marketing strategy to penetrate all of these markets. It is outlined in the marketing section of my plan.
- No, I am still researching this topic.

### **Marketing Research**

*Did you acquire your marketing research information from some of the following sources:*

- Secondary Data: Information that already exists, such as statistical and demographic information on the target market.
- Primary Data: Any direct information researched by the business, even informal discussions with potential clients.

*Did you complete the following steps when conducting your marketing research?*

- Set your budget.
- Determine what information you needed.
- Set a timeline for your research.
- Analyze the secondary research material you located.
- Locate, read and learned what information already existing about the target market, industry, competition, and product/service.
- Find facts.
- Organize a lot of critical information that was missing.
- Conduct primary research.
- Design research tools, who you would talk to and what you would ask them.
- Analyze the results of the primary research and secondary research data.
- Integrate this information into the business plan by adjusting the marketing strategy (pricing, advertising, product/service alterations) to give credibility to your sales projections.

*Did you use any of the following tools to conduct your primary research?*

- Telephone surveys
- Interviews
- Mailed questionnaires
- Contest entry forms
- Focus groups
- Other

*Did you use any of the following tools in your secondary research?*

- Census information
- Chamber of Commerce
- Libraries
- Local magazines/newspapers
- Trade associations
- Market profiles
- Lifestyles profiles
- Other

*Did you find out the answers to any of these questions from your primary market research?*

- Is there a need for your product?
- What price will your customers pay?
- How often do they buy a product or service like yours?
- How do they buy it now?
- What makes them want to buy it?
- What company do they usually buy it from?
- What do they like about the product or service?
- What don't they like about it?

### ***Competitive Analysis***

*Did you include the following information on your competitors?*

- A list of all key competitors
- Location
- Years in business
- Product/service sold
- Pricing
- Hours of operation
- Customer profile
- A description of their marketing strategies
- Size of company
- Marketing/promotional strategy
- Your observations
- An analysis of their strengths and weaknesses
- A strategy on how you will deal with these competitors

*Where did you get the information on your competitors?*

- I hit the pavement and visited my competition personally, and I observed their set-up, customers, staff, and professionalism.
- I collected any material I could find from them.
- I asked their customers (primary research).
- I used secondary sources such as the yellow pages, trade associations and newspapers to gather information.
- I looked at their website.

*What steps did you take to conduct a strategic competitive analysis? Did you:*

- Develop a thorough list of all the competition you will face in the industry.
- Search for direct competitors who offer products or services that are essentially the same as yours.
- Search for indirect competitors who are businesses that offer products or services that can be substituted for yours.
- Identify each competitor's strengths.
- Identify each competitor's weaknesses.
- Identify your top 3 competitive advantages.
- Identify your top 3 weaknesses.
- Develop a strategy for dealing with competitors.
- Work out some best case/worst case scenarios on paper.
- Make sure your pricing, positioning, and marketing strategies are flexible enough to deal with these situations.

*"Know your competition inside out, and try to beat them at every turn." Ron Connelly*

### **Promotional Strategy**

*How did you investigate which advertising medium you would use?*

- Identify what market you are targeting (who will be reading your message).
- Identify your message. (create awareness, educate, persuade, problem solve).
- Investigate and collected the advertising and promotional material from your competitors.
- Learned from their mistakes and successes.
- Call advertising agencies, radio stations, newspapers, direct mail services (Canada Post), and asked them to send their rate cards and background material on their target audience.

### **Pricing Strategy**

*How did you arrive at your pricing policy? Did you:*

- Determine the costs involved,
- Set prices for selling and profit,
- Fit pricing into sales forecast for cash flow projections,
- Consider clients' perception of value, and
- Consider internal marketing strategies (the image you wish to project).

*Did you include the following factors into your pricing policy?*

- Costs (Material + Labour + Overhead)
- Competition
- Their pricing strategies
- Ability to adjust pricing
- Ceiling prices
- Customers' buying behaviour
- Your anticipated return on investment (profit margin)

*Did you factor in any of the following overhead expenses into your pricing?*

- Fixed expenses:
  - Rent
  - Vehicle
  - Bank charges
  - Insurance
  - Lease
  - Utilities
  - Salaries
  - Other
- Variable expenses:
  - Inventory
  - Commissions
  - Vehicle Costs
  - Other
  - Labour
  - Professional fees
  - Materials

*If you are selling a service, did you factor these components into your pricing?*

- Labour
- Overhead
- Profit margin

*If you are selling a product, did you factor these components into your pricing?*

- Labour
- Overhead
- Materials
- Profit margin

*Did you do a break-even analysis using the following formula?*

$$\square \text{ Units Break-Even} = \frac{\text{Annual Fixed Costs}}{\text{Unit Selling Price} - \text{Unit Variable Costs}}$$

$$\square \text{ Sales Break-Even} = \# \text{ Units to Break-Even} \times \text{Selling price/unit}$$

### **Location/Distribution**

*Did you consider the following issues when choosing your location?*

- Location
  - Where is it? What are the costs involved?
  - What is the marketing importance of the location to your business?
  - Consider residential versus commercial location.
  - Consider strip mall versus indoor mall.
  - What are the traffic flows of the potential location selected?
- Distribution – How will you distribute your product?
  - Personal selling
  - Retail stores
  - Wholesalers
  - Direct sales agents
  - Mail order
  - Independent sales agents
  - Strategic alliances
- You should investigate the following factors before you sign your lease:
  - What are the traffic counts?
  - What is the mall traffic?
  - Talk to a lawyer before you sign the lease.
  - Ask your banker what type of lease rates their clients are negotiating.
  - Your market research should reveal your customers preference for location.

## **OPERATIONAL PLAN**

### ***Suppliers***

*Did you include the following information on your suppliers in your business plan?*

- Name of supplier
- Address
- Telephone
- Fax
- Contact person
- Price
- References
- Terms and conditions
- Product line
- Trade volume discounts
- Shipping restrictions
- Exclusive rights to the product
- Alternative suppliers

*Did you look for suppliers in any of the following places?*

- Yellow pages
- Supplier directories
- Advertisements in trade papers or magazines
- Trade show

### ***Manufacturing Plans***

*Did you include any of the following information relating to your manufacturing plans?*

- Production methodology
- Research and development (time invested, future requirements)
- Cost analysis (direct and indirect overhead)
- Time requirements
- Equipment and plant requirements
- Sub-contracting arrangements
- Prototype development
- Commercialization strategy
- Municipal zoning and bylaws
- Intellectual property

### ***Operating Procedures***

*Did you include information on any of the following relevant topics?*

- Retail/service/wholesale
- Facilities description
- Leasehold improvements
- Furniture, fixtures, equipment
- Store layout, design & specifications
- Warehousing requirements
- Operating hours & procedures

### ***Operating Regulations***

#### *Federal Regulations*

- Goods & Services Tax/Harmonized Sales Tax (GST/HST)
- Employee source deductions
- Personal/Corporate Income Tax
  - Income tax deductions and tax installments
- Export/Import
- Packaging & labeling
- Intellectual property
  - Trademarks
  - Patents
  - Industrial design
  - Copyright
- Product standards
- Personal Information Protection & Electronic Documents Act (PIPEDA)

#### *Provincial Regulations*

- Vendor's Permit
- Employer Health Tax
- Workplace Health and Safety
- Ontario Health Premium
- Special regulatory acts

#### *Municipal Regulations*

- Zoning & by-laws
- Signage
- Licenses, permits

### *Insurance and/or Bonding Requirements*

- Errors and omissions insurance
- Business interruption insurance
- Disability insurance
- Home-based business insurance

### *Business Registration Requirements*

- Business name registration
- Incorporation

## **PROFESSIONAL ACCREDITATION**

### ***Human Resources***

*Did you include information on the following issues?*

- Organizational structure
- Salaries/wages
- Job descriptions, roles and responsibilities
- Service and employee contracts
- Details of advisors and associates
- Full-time verses part-time
- Future human resource plans
- Employee benefits

*Did you investigate the following sources for human resource information?*

- Canada Revenue Agency
- Employee vs Contractor
- Employee Source Deductions
- Ontario Ministry of Labour (labour regulations)
- Workplace Safety and Insurance Board
- Human Resources and Skills Development Canada (employment insurance)
- Ontario Ministry of Finance (Ontario Health Premium & Employer Health Tax)
- Contact potential contractors to find out their rates

## **FINANCIAL PLAN**

### ***Cash Flow Forecast***

*Cash flow forecasting is simply taking the words of the Business Plan and translating them into numbers.*



*Did you use any of the following steps to determine your cash flow projections?*

- Disbursement section (Disbursements = Expenses)
- Include all start-up costs + projected monthly expenses.
- Revenue projections
- This is a projection of the amount of money you will bring into the business each month – this is not a guess!
- Analyze the factors that affect your revenue collection.
- Cash flow assumptions
  - ✓ Justification of your expense projections
  - ✓ Justification of your sales projections
  - ✓ Provide quotes
  - ✓ Second opinion

*Did you include all of your start-up costs in your disbursements?*

- Advertising
- Insurance
- Purchase of inventory
- Permits
- Training
- Legal fees
- Equipment
- Drawings
- Office supplies
- Telephone
- Rent
- Licenses and fees
- Accounting fees
- Bank fees
- Utilities
- Hook up fees and deposits
- Leasehold improvements
- Payroll expenses
- Signage
- Vehicle expenses
- Association fees

*Do you have all of the following financial statements in your financial plan?*

- Cash Flow Projections
- Income Statement
- Balance Sheet

*Have you included different scenarios in your cash flow statement?*

- Worst case scenario
- Best case scenario

*Did you research the different sources of financing for your business?*

- Bank Loan
- Friends and Family
- Venture Capital Investment
- Personal Investment
- Government Loan or Grant Program
- Angel Investors

*Did you consult any of the following professionals to discuss your financial situation prior to opening your business?*

- Lawyer
- Banker
- Business Consultant
- Accountant
- Mentor

## **TABLE OF CONTENTS**

*Use this checklist as a final guide to make sure you have included all of the necessary information in your business plan.*

- Executive Summary
- Company Profile (Introduction)
- Market & Industry Analysis (Opportunity Identification)
  - Industry Trends
  - Target Market Identification
  - Competitive Analysis
  - Product/Service Identification
  - Marketing Research
- Marketing Strategy (Tactics and Tools)
  - Promotion Strategy
  - Distribution or Location Strategy
  - Pricing Strategy
- Operational Plan (Resource Requirements)
  - Suppliers
  - Manufacturing Plans/Operating Requirements
  - Operating Regulations
  - Human Resources
- Financial Information
  - Start-Up Costs
  - Cash-Flow Forecasts
  - Financing Requirements
  - Opening Balance Sheet
  - Projected Financial Statements
  - Risk Analysis/Considerations
- Future Plans
- Appendices

## ASK THE EXPERTS

### YOU AND YOUR LAWYER

You may not need the services of a lawyer right now. However, it is a good idea to know how to deal with a lawyer when a business situation arises that will require legal expertise. Before choosing a lawyer, a good place to start is by asking a friend or colleague for a recommendation. You can also conduct research on the Internet as most law firms have web sites.

#### *Your Initial Visit*

Your initial visit will allow you to meet and assess your lawyer's ability to mesh with your needs and personality. At this time your lawyer will discuss the hourly rate, method and terms of payment, and the areas of expertise offered by this law firm. They may mention that you will also be charged disbursements. Disbursements are out-of-pocket expenses the law firm may incur on your behalf. These can include items such as registration or filing fees, photocopying charges, long-distance telephone charges, special postage or courier fees, parking and transportation.

There are several factors to consider:

#### *Be Prepared*

Bring any relevant documentation with you to your appointment. This includes any contract, lease or other legal agreement you are considering signing.

You must have confidence in the lawyer's ability to understand your business, in order to best represent your concerns. Many lawyers develop specialties for this reason. In most cases you will be looking for a business law lawyer.

Since you will be paying for your lawyer's time, generally the less time you use, the lower the charge to you. Here are some tips to keep down costs:

- Organize all documents. Have a copy of all relevant documents for your lawyer. This will ensure that when discussing a specific document each of you will have a copy for review.
- Prior to the meeting, outline your thoughts, questions and issues in writing. This will keep you on track and ensure that you accomplish what you intended at the meeting.
- Try not to call your lawyer more often than necessary. Consider writing or sending an e-mail whenever possible. This is an efficient way to communicate and has the advantage of providing a written record of your message.

Don't feel intimidated. Your lawyer works for you. They are experts in their field and you are an expert on your business; together you should make an effective team. You should feel free to ask questions if you do not understand the advice given. If you don't feel comfortable discussing issues with this person, then find a new lawyer.

### *Using your lawyer*

As your business grows and changes to meet new challenges, your need for legal advice and services will also evolve.

The following lists outline common situations that could require professional legal advice:

- To obtain advice on what legal structure is best for your business
- To obtain advice prior to purchasing or selling a business
- To obtain advice on structuring financing for your business
- To obtain advise on contracts for employees or independent contractors
- To review and advise you on legal implications of signing a contract or to write a contract for your company

*This may include any of the following binding agreements:*

- Lease – commercial space or office equipment
- Franchise Agreement
- Distribution Agreements (with Suppliers)
- Sub-contractor Agreement
- Shareholder's Agreement
- Partnership Agreement
- Loan Agreement
- To represent your business during a legal dispute

*"Success in Business: Best measured not by how fast you achieve your goals but in the long run, how best you set out to achieve your goals." David Stout Nelligan O'Brien Payne LLP*

## **YOU AND YOUR ACCOUNTANT**

An accountant offers many types of valuable expertise in addition to being a tax expert. It is critical when you are setting up your business that you open your doors with an accounting system in place and a basic understanding of record keeping methods.

### *Your Initial Visit*

Accounting firms often offer an initial free orientation session, so you can familiarize yourself with your accountant's personality, the services available, and the fee structure. Be sure you review the same factors for your accountant as you did for your lawyer. Remember, they are both part of your team.

There are several factors to consider:

### *Using an Accountant and a Bookkeeper*

Many businesses use an accountant to initially set up their books and to suggest an easy and effective accounting software program or manual system that will result in accurate financial information. Often, a bookkeeper is hired to keep the records up to date on a more regular basis because they are less expensive to retain.

### *Assess Your Record Keeping Habits*

Many business owners are surprised at the amount of paper work involved to run a company. If you are finding receipts for expenses stuffed in pockets, your car ashtray and your briefcase, that probably is a sign that you are not keeping accurate records of your expenses.

This will affect the amount of write-offs you are entitled to and at tax time, you may end up paying more than you should. You may need a bookkeeper or accountant to visit your business weekly, monthly or quarterly. The money you spend now could be recouped at tax time when your accountant does your books without having to sort through boxes of receipts!

Your records may be the critical factor to attracting future investors, borrowing money or even going public. Accurate records add credibility and history to your businesses growth.

Almost every business gets audited at least once. Use your accountant to keep you up to date on changes in Revenue Canada's tax laws. Good accounting practices will set you up for a short and problem free audit.

### *Using Your Accountant*

The following list outlines some of the situations that may require you to seek the advice of an accountant.

- Recommendation of a strategy to maximize retained earnings or net profit by decreasing your tax liability. This may include advice on the most appropriate business structure for your company. It is critical for you to understand the different tax implications, for both you and your business, between a sole proprietorship, partnership or corporation.
- Completion of your annual income tax return.
- Advice on the allowable depreciation value of assets. Canada Revenue Agency (CRA) continually updates and changes the percentage of depreciation you are allowed to claim on particular assets. This deduction affects your net profit and may help you make a good decision on the right time to make a capital expenditure.
- Help to understand, analyze and complete accurate cash flow statements, income statements and balance sheets. These three statements are critical to securing financing, investors and for understanding the general health of your business.
- Lends credibility to your financial statements.

Your accountant can be a resource person in raising capital or bringing “angel” investors together to invest in your business growth.

*“Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. An accounting or bookkeeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it.”*

*Garth Steele CA, Welch & Company LLP*

## **ARRANGING YOUR FINANCING**

Arranging for financing for a new business is no easy task. New businesses do not have sales or a track record. Hence they are considered much higher risk than financing an established business. New business entrepreneurs also find it difficult to estimate the amount of money they’ll need to get a business up and running. More often than not entrepreneurs significantly underestimate the amount of funds they require. They leave no room for unexpected obstacles or opportunities.

*More than 80% of new business start-ups are financed through the entrepreneur’s own savings.*

### **SOURCES OF FUNDS**

The primary sources of funds for small business start-ups are personal funds, friends and relatives, angels or private investors, banks, government agencies and programs, and venture capital.

#### *Personal Funds*

The most accessible and unconditional source of funds for your new venture is often in your own pocket. It is also the first source you should tap because most people will not invest in your business unless you can demonstrate some financial commitment yourself. After all, why should someone else invest in your business if you are not prepared to put your own finances on the line? This may mean looking in your savings accounts or other investments, tapping into a life insurance policy, selling some real estate or postponing some other expenditure.

#### *Friends/Relatives*

Once you’ve assessed your own savings and found that there is still a shortfall, it may be time to look to raising money from friends and relatives. This is often known as “love money” and is used by many entrepreneurs for at least part of their start-up financing. The biggest risk with this source of capital is that it can create a considerable strain on these relationships if your business does not work out. It is therefore important that you treat their investment the same as you would a bank or other external source of capital. Develop a formal agreement, lay out the terms and conditions including a repayment schedule plan, and keep them abreast of developments in your business. Depending on the nature of your business this type of financing may be sufficient to supplement your own funds.

### *Angels/Private Investors*

Private investors often known as “angels” are becoming more and more active in early stage financings. Angels are normally high net worth individuals including successful entrepreneurs, senior executives, and professionals. They represent the single largest source of external start-up capital for entrepreneurs. In addition to providing capital, private investors can also provide experience and managerial expertise, factors critical to the growth and success of young, fledgling companies. They represent a critical component of the private equity capital markets.

Finding private investors is not a simple task. They are mainly private individuals who usually keep their investment activities confidential and prefer to learn about investment opportunities from respected sources. The investment process can be quite lengthy and can range anywhere from a few weeks to several months. Private investors can be found through professionals such as accountants, lawyers, and investment advisors since they typically have clients who may be active private investors.

Private investors can provide capital of anywhere between \$10,000 to \$500,000. The vast majority have preference to co-invest with other investors. This investment most often takes the form of equity in a business, mainly to compensate for the lack of securable assets and the high degree of risk involved. Due to the risk, investors who make direct investments in private companies normally seek returns higher than other more conventional investments. Hence business opportunities suitable for this type of investment are those which demonstrate high growth potential.

Before embarking on the search for “angel” financing, entrepreneurs must have a good understanding of the characteristics of this type of investor and be thoroughly prepared. Bad first impressions are most often the last. To help entrepreneurs better understand the specific characteristics, investment preferences and expectations of private investors, this subject is addressed in greater detail at the end of this section.

### *Banks*

Banks are one of the most widely used external sources for funding new businesses. The primary consideration for banks in assessing a loan applicant is their confidence in the person’s ability to pay back the loan. This confidence is a function of a number of factors:

- 1) the person’s previous track record and credit history,
- 2) adequate cash flow in the business to meet the payment schedule,
- 3) sufficient equity or assets. Banks do not take large risks.

Banks have a responsibility to ensure the safety of their depositor's money and obtain a reasonable return. Unfortunately many entrepreneurs do not understand this. Hence it is common for an unprepared entrepreneur to walk into a bank, ask for a loan, and if they are refused, blame the bank for not caring for the "little guy". Informed entrepreneurs go into the bank with all the information the banker may need at their fingertips including their financial history, credit history, current financial circumstances, business plan, and resume.

If you qualify, the types of financing you can get from your bank include:

*Short-term loans* - Usually repaid within 30 to 180 days, short-term loans are used to purchase extraordinary inventory, finance cash flow shortages, and access supplier discounts for early payment. Some form of personal guarantee, outside security or company assets is usually required to secure these loans.

*Operating loans* - Banks will usually lend about 65 to 80% of the value of approved receivables and maximum 50% on inventory on a short term basis. Not all receivables qualify; it is usually targeted to those that are considered good credit risks and are no more than 90 days old while only raw materials and finished products (readily saleable) inventory are accepted. It is usually based on a line of credit allowing you to access money up to a pre-established limit and repay the money with interest. It can be compared to a preauthorized loan. Small lines of credit are issued on an unsecured basis depending on the entrepreneur's financial statements and track record.

*Fixed Asset Loans* - These are usually long term loans provided for a year or more to cover the costs of fixed assets such as machinery/equipment, vehicles, commercial buildings, and real estate. They are normally term loans linked to the lifespan of the asset. These loans usually cover about 60 to 80 percent of the cost of equipment and about 75% of the market value of property. Entrepreneurs should be aware that most business bank loans, both operation and term loans are demand loans so that regardless of the term the bank can demand that they be paid back if they think the company is running into trouble. Hence, the importance of open communication between the banker and the entrepreneur cannot be overemphasized.

*"Considerable effort should be made when choosing your banker. Remember your banker is much like a financial advisor or partner.*

*Treat your initial meeting as an interview and be sure they can satisfy the following:*

1. *Do they have experience lending to small business?*
2. *Does their job include the mandate to secure new small business loans?*
3. *Do they appear interested and comfortable with what you are presenting?*
4. *Do they have the time to give you a fair hearing?*
5. *Do they have the decision making authority?"*

*Bob Morais, Strata KBD Inc.*



An experienced and interested banker can be one of a small business' best assets. When this is combined with effective and ongoing communication (both positive and negative), a comfort level will develop which will serve the small business in the future.

*"Your bank should not be looked upon as simply a provider of capital for your business. Look to the bank for more, including advice on: services the bank can provide to minimize the time you spend on banking related activities; recommendations on other sources of information and tools to help your business be successful; advice on how to customize your credit to match your business needs: and, fulfillment of your personal financial and investment objectives. For many businesses, the majority of capital will come from sources other than the bank. Understand all the products and services that are available including capital and financial advice."*

*Ken Locklin*

### *Government*

Governments at all levels have developed a number of financial assistance programs for small business. They are not, however, nearly abundant as they were in the late 80s and 90s and most of these are in the form of loans. Key sources include the Business Improvement Loan, the Business Development Bank of Canada, the Community Funds Development Corporation, IRAP, and for young entrepreneurs, My Company and Summer Company programs. Information on these loans is provided in more detail in a chart at the end of this section.

### *Venture Capital*

Venture capitalists provide equity investments for start-up or expanding businesses. These investors are generally looking for investment situations in well established firms seeking \$1,000,000 or more and on which they can earn 40 to 50 percent annual returns. Hence few business opportunities have sufficient growth potential to attract these types of investments. In fact, venture capital firms only invest in 4-5% of the opportunities that they review. Venture capital investment is therefore most suitable for firms with proprietary products, international export markets and high growth potential.

### *Other Sources of Financing*

#### *Internal financing*

- Shareholders Loan
- Retained Earnings
- Employee Share payment
- Leasing vs. Buying
- Supplier's Discounts/Financing
- Advance payments from customers
- Real estate/remortgaging
- Factoring against accounts receivables

*“Don’t count your money until it is deposited in your bank account.”*

*Anne Barron, AB Comm*

## **FORMS OF FINANCING**

Capital is normally invested in a business in two primary ways: debt financing or equity financing.

### 1)Equity Financing:

- Investment in the business as an owner
- Investment as a Partner
- Buying Shares in a Corporation

### 2)Debt Financing:

- Money loaned to the business from an outside source, that is paid back over time

A mix of both types can help a business. An improper balance may lead to problems. You need to factor any loan payments you make into your cash-flow statement. Starting a business under-financed can lead to serious problems very quickly.

### *Debt Financing – Key Considerations*

- You retain more control over your business.
- The payments can be a strain on your cash flow.
- There is an imposition of restraints and conditions for repayment of the loan.

### *Types of Debt Financing*

- *Operating (A/R and inventory)*
- *Short term (current assets)*
- *Long term (fixed assets)*

### *Equity Financing – Key Considerations*

- Requires more commitment from investors.
- Reduces stress on the cash flow.
- You must give up some ownership.

### *Types of Equity Financing*

- Cash on capital contributions
- Personal equity (bootstrapping, sweat equity)
- Partnership cash or capital injection
- Love money
- Investor (preferred or common shares)

### *Sourcing Financing – Top Ten Tips*

1. Be prepared when meeting with an investor or banker. Have your completed business plan, executive summary or prospectus, and financial statements with you.
  - Demonstrate your knowledge of the industry.
  - Know the strengths & weaknesses of your plan.
  - Understand your financial information.
  - Be clear and concise about the opportunity.
2. Make sure you have the ability to repay or retire the investment.
3. Emphasize managerial abilities & credentials; particularly with equity investors whose investment decisions are largely driven by their confidence in your ability to grow the company.
4. Invest some of your own capital to demonstrate your own commitment and belief in the business.
5. Develop a long term financing strategy.
6. Find financing to suit your business. Be prepared to walk away from a deal if you don't like it.
7. Seek strategic alliances or joint ventures with suppliers or clients to leverage your financial resources.
8. Use your contacts. Networking is the key to "getting the word out".
  - Make a list of everyone you know.
  - Add a list of everyone they know.
  - You will be amazed at how you can come up with someone who knows, or knows someone who knows, a key investor you may be trying to reach. This really works!
9. Re-examine the capital structure of your business regularly to ensure it is appropriate. Proportion of bank financing, private investment and owner's equity may change depending on the circumstances.
10. Know your financing objectives. Do you want control or do you want growth? Sometimes financing growth means giving up control.

*"Take the time to strategize where you want to go with your business, how you are going to get there and remember—the most important person you are doing this for is yourself." Ken Locklin*

### *Accessing "Angel" Investors*

Due to the growing importance of angels as a key source of start-up capital for entrepreneurs this section has been developed to provide some additional information and tips that relate specifically to angel investors. In the Ottawa marketplace this particular source has been widely used by the technology industry to secure investment in the early stages of business operations. It is also suitable for other business sectors provided that the growth of the business allows for annual expected returns in the range of 30-40% per annum.

To help entrepreneurs understand the profile of a typical angel investor, the Entrepreneurship Centre's Ottawa Capital Network undertook a study of private investors in the Ottawa region. The following includes highlights of the study, most of which are believed to be strong indicators of the characteristics of the overall private investor community in Canada.

#### Characteristics of "Angels"

- *Demographic:* entrepreneurs, professionals and business executives, well educated and can be described as self-made successes
- *Preferred investment size:* < \$50,000 - 65%; \$50,000 to \$150,000 - 35%
- *Preferred stage of company development:* seed (concept stage) - 53%, start-up (near market ready) - 32%
- *Preferred business sectors:* Software, Wireless, Telecommunications, Services
- *Note:* Focus on technology investments is believed to be unique to the Ottawa marketplace due to the strengths of this industry. Preferences may vary in other areas.
- *Average length of investment process:* < 3 weeks - 14%; 3 to 6 weeks - 14%; > 6 weeks - 73%
- *Expected return on investment (annualized):* < 30% - 35%; 30 to 40% - 22%; > 40% - 43%
- *Areas of active involvement in investee companies:* Finance - 35%; Marketing - 35%; General - 75%; Strategic Planning – 55%
- *Preferred exit horizon from investment:* < 3 years - 15%; 3 to 5 years - 57%; > 5 years - 54%

Entrepreneurs who approach private investors must be thoroughly prepared. This involves completing your business plan (see: Preparing Your Business Plan, page 37) and assembling the management team. Shortcomings which according to angels, have led to decisions to decline investment opportunities include: lack of management competence, incomplete management team, lack of understanding of market for product(s)/service(s); inadequate market research and competitive positioning; weak/unrealistic business plans; and unrealistic expectations of investment raising process.

Conversely, key factors which have prompted investment include: confidence in management team, strong product sales potential, knowledge of key players in the business, clear differentiation of product in market, and entrepreneur's commitment to personal development and willingness to take advice. The following are some tips that you may find useful if you believe your investment opportunity is suitable for "angels" and wish to approach this type of investor:

#### *Approaching Angel Investors*

- Sell yourself first by emphasizing and demonstrating your managerial competence and vision.
- Be clear and concise when describing your investment opportunity and when answering questions – you may "lose" the investor if you are unfocused and use language (i.e. technical) which may be confusing.
- Be honest at all times and openly discuss the strengths and weaknesses of your venture – investors expect all companies to have weaknesses and will dig until they find yours.

- Be prepared to discuss valuation, exit strategy, and rate of return. Obtain professional advice in these areas if needed.
- Be prepared to meet with as many qualified investors as possible - and never stop meeting new investors until you have secured the required funding.
- Remember that personal chemistry is a two-way street and that it is critical that you share the same visions and plans for the company.
- Bad relationships can lead to the demise of your company.
- Always keep in mind that an investor is in business for the same reason that you are - to make a profit;
- Don't forget to run your business. Seeking investment is an important function but it should not completely consume you.

*"In seeking equity investors, give preference to those who can add value to the enterprise in the form of management assistance."*

*Denzil Doyle, GrowthWorks WV Management LTD.*

## OVERVIEW OF FINANCING PROGRAMS

The following list highlights key government programs to help small businesses as of November 2004. Remember to always do your own search for other loan and grant programs, since the offering of programs is constantly changing.

### SMALL BUSINESS FUNDING SOURCES

#### *Canada Small Business Financing Program*

Purpose:	Start-up and existing financing
Loan Amount:	\$250,000
Program Criteria:	Purchase or lease of land and/or premises; purchase of equipment;
Terms: Up to 90% financing;	10 years; interest rate 3% above prime (floating); registration fee
Applications Available:	Chartered Banks, Credit Unions
Information available at:	<a href="http://www.strategis.ic.gc.ca/csbfa">www.strategis.ic.gc.ca/csbfa</a>

#### *Summer Company*

Purpose:	Start-up financing
Award Amount:	Up to \$3,000
Program Criteria:	Must be a full-time student between 15-29 years old;
Applications available on-line at:	<a href="http://www.sbe.gov.on.ca/summercompany">www.sbe.gov.on.ca/summercompany</a> .
(Program subject to renewal each year)	

### *Co-Vision Loan*

Purpose:	Start-up financing
Loan Amount:	Up to \$100,000 for new businesses
Program Criteria:	Start-up phase; demonstrate realistic market and sales potential; sound management; owner commitment
Terms:	Principal can be postponed for one year; 4 to 6 year term
Applications Available at:	Business Development Bank of Canada; <a href="http://www.bdc.ca">www.bdc.ca</a>

### *Working Capital for Growth*

Purpose:	Innovation Loan
Loan Amount:	Up to \$250,000
Program Criteria:	Experienced and accomplished management team; existing line of credit; solid growth and profitability prospects; identified new or expanded markets; a good financial commitment from principals; loan is based on the firm's cash flow requirement
Terms:	4 to 7 years; principal payment may be postponed for one year
Applications Available at:	Business Development Bank of Canada; <a href="http://www.bdc.ca">www.bdc.ca</a>

### *Productivity Plus Loan*

Purpose:	Equipment Financing
Loan Amount:	Up to \$5,000,000, up to 100% equipment cost plus 25% (up to \$500,000) for expenses related to the acquisition
Program Criteria:	In business at least 1 year, solid growth and profitability prospects, sound management team, good financial commitment from principals, opportunity to increase productivity
Terms:	Up to 8 years
Applications Available at:	Business Development Bank of Canada; <a href="http://www.bdc.ca">www.bdc.ca</a>

### *Subordinate Financing*

Purpose:	Cash flow and quasi-equity financing
Loan Amount:	Between \$250,000 and \$5,000,000
Program Criteria:	A proven earnings record and above average growth potential; products or services that serve established markets; a competitive advantage or promising strategic market position; a competent, well-rounded and experienced management team; flexible and customized repayment schedules based on cash flow needs; start of the principal/royalty repayments can be postponed

Terms: Normal term is six to eight years; flexible pricing: base interest rate plus a royalty on your firm's sales

Applications Available at: Business Development Bank of Canada; [www.bdc.ca](http://www.bdc.ca)

### *Venture Capital Financing*

Purpose: Equity Financing

Loan Amount: Up to \$5,000,000

Program Criteria: Small and medium sized Canadian companies; solid comprehensive business plan; unique product, technology, service or market approach; dynamic, committed and competent management teams; can be at any stage of a company's life cycle

Terms: Maximum financing of \$5,000,000, with an average initial investment of \$1,000,000; financing is flexible; straight equity, options, warrants, or convertible and other forms of debentures depending on company's needs; 3 to 7 years

Applications Available at: Business Development Bank of Canada; [www.bdc.ca](http://www.bdc.ca)

### *Industrial Research Assistance Program (IRAP)*

Purpose: Cost-shared projects

Loan Amount: \$5,000 up to a maximum of \$500,000 depending on complexity of project

Program Criteria: Technology enhancement projects; Research and Development; Canadian small or medium-sized incorporated business (500 employees or less)

Terms: IRAP may fund up to 50% of certain project research and development costs

Applications Available at: National Research Council; [www.irap-pari.nrc-cnrc.gc.ca/](http://www.irap-pari.nrc-cnrc.gc.ca/)

### *Self-Employment Benefit*

Purpose: Human Resources and Skills Development Canada's (HRSDC) Self-Employment Benefit provides individuals with income support, coaching and technical assistance to enable them to become self-employed

Loan Amount: Participants receive agreed-upon financial assistance while working to implement their business. Financial support is provided for up to 52 weeks

Terms:

Eligible participants are those who, pursuant to the Employment Insurance Act, are unemployed individuals who at the time of applying for the Self-Employment Program:

- for whom an unemployment benefit period has been established or has ended within the 36 months prior to the date of requesting assistance; or
- for whom a benefit period that included a maternity or parental claim has been established within the 60 months prior to the date of requesting assistance, after which the individual remained out of the labour market in order to care for a newborn or newly adopted child and is now seeking to re-enter the labour force.
- Other criteria may apply.

Applications Available at:

Human Resources Development Canada; [www.hrsdc.gc.ca](http://www.hrsdc.gc.ca)



## UP AND RUNNING

Once you are up and running as a business it is important to take the time at regular intervals to assess how you are doing. It is easy to get caught up in the day-to-day of running a business and forget about the big picture - specifically how your business is doing against the objectives you have set for it. The most important way of assessing how your business is doing is to refer back to your business plan.

In your plan you will have set projections for where you should be at key milestones including the first six months of operation and the important one year milestone. In referring back to your plan in relation to the results you are achieving, you may also find it necessary to revise your business plan to reflect any changes in the market or the general business environment that have affected the way you do business. As such, you can use this time as an opportunity to make any necessary changes to your business plan to more accurately reflect current business and market conditions. A business must change to meet the demands of the changing world and incorporate new knowledge and ideas into its daily activities.

In addition to referring back to your plan to check the status of your business, you will find the tips and suggestions in this section useful in detecting any problem areas and how to act upon them.

*"As the business grows it is very important that the owner maintains a presence in the business. You must continually provide leadership to ensure that the philosophy and principles on which your business was originally founded remains core to your business operations."*

*Irene Martin, Retire-at-Home Services*

## CATCHING YOUR BREATH: HOW TO ANALYZE YOUR CURRENT SITUATION

The following section offers some guidelines and benchmarks to help you assess your business' overall health. It is important to catch your breath and take time to look at the management, marketing, and financial state of affairs in your company.

### **Management**

Take a look at where you are spending your time. You want to make sure that the long hours you are spending at your business are effective and focused on the right areas.

As an exercise conduct a time audit and keep track of what you do each hour for an entire week.

At the end of one week, total up the amount of time spent on key areas such as:

- Selling
- Marketing
- Administration
- Planning
- Networking

*The questions you need to ask are:*

- Are you spending enough time on areas that are critical to moving your business forward such as generating revenue? If not, you need to evaluate whether you can delegate some work to staff or contractors. Whenever possible, you should manage your time so you are selling and marketing when customers are available and doing non-revenue based work during after work hours.
- Is your bookkeeping up to date? If not, you may need to hire a bookkeeper or accountant to get you caught up. You can take it from there. The longer you wait to get organized, the more time and money you will invest in correcting this situation.

*"One of the most difficult things that an entrepreneur must learn as their business grows is to be able to delegate. No longer can you do everything yourself. Attempting to do so can significantly impact the growth of your business and lead to lost opportunities."*

*Shirley Westeinde, Westeinde Group*

## **Marketing**

You must constantly be aware that everything around you is changing. Your product or service will sell only if people think they need it, and they can afford to buy it. When their needs change, you must assess whether they still are your clients and if you can adjust your product or service to satisfy them, before your competition does.

*Take a look at:*

*Your Product or Service*

- Are there any changes you should make that may increase your sales?
- Have you surveyed your customers to find out what they like or don't like about your business? (customer satisfaction is a key criteria for success.)
- Is your inventory sitting in your store collecting dust?

### *Customers*

- What percentage of your customers are return customers?
- Are you attracting any of your competitors' customers?
- Are you getting referrals from your customers?
- Are you interested in your customers' complaints and suggestions?

### *Competitors*

- Have they adjusted to you entering the market?
- Have you visited your competition recently?
- Have they changed their pricing or service lately?
- Are you taking business away from them yet?

### *Advertising and Promotion*

- Are you monitoring the effectiveness of your advertising and promotional programs?
- Is your media coverage increasing the awareness of your product or service?

### *Sales*

- Is your revenue as high as you predicted?
- Are you properly set up for selling?
- Do you have the proper sales tools?
- Do you have an adequate sales team set up?
- Are you closing sales?

*"Focus is key in the early years of a growing company. Generally, it is best to focus on only a few products and market segments in the first year or two. Broaden the focus in later years."*

*David McCarthy*

## **How to Analyzing the Financial Health of Your Business**

### *Financial Situation*

It is never too early to assess how your business is doing, from a financial point of view. Many entrepreneurs may fear this type of analysis but a smart entrepreneur looks at a situation and determines how best it can be turned around as soon as there are signs of problems.

The following section outlines some financial ratios you can use to compare your situation to industry standard ratios, to see how you are doing.

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

The current ratio calculation tells you if you have enough liquid assets compared to your current liabilities.

**Current Assets** are things that you can dispose of within a year.

- Cash
- Investments
- Accounts Receivable
- Inventory
- Prepaid Expenses

**Current Liabilities** are debts that are short term, payable within one year.

- Accounts Payable
- Accrued Expenses Payable (salary, wages, interest on bank loans, taxes, etc.)

The figures come from your balance sheet. The general benchmark is for your current ratio to be greater than two. This means that you have twice the current assets to cover your current liabilities. If your current ratio falls below one, you are in serious financial danger.

You can check to see what the current ratio standards are for your particular industry by asking a banker, accountant, or by checking key financial ratios that are published by several companies, (e.g. Dun & Bradstreet, Moody's, Standard & Poor's).

*"Sales are the key to all business. Whatever else is going on in your business, never take your eyes off sales."*  
Ron Connelly, Connelly Group of Companies

### **Financial Ratios**

*Quick Ratio = (Cash + Receivables) / Current Liabilities*

- This ratio is sometimes called the acid test because it includes only those assets that are easy to turn into cash fast.
- The general benchmark is to keep your quick ratio above 1.0.
- Each industry has different suggested "safety nets". Take the time to investigate yours.

*Debt-to-Equity Ratio = Total Liabilities / Total Equity*

- This is a critical ratio for anyone considering lending you money.
- Lenders like to see a low debt to equity ratio. Generally the ratio should be 1:1 to 3:1.
- Equity investors like to see a high ratio, because it increases their leverage in the business.
- Use the balance sheet for these figures.
- Check industry averages to see how your company compares.
- The following ratios will become important as your business grows. Use them to assess whether the profits you are making are equal to the risks you are taking. This is also the type of information that investors look at when considering your company's potential.

## Efficiency and Performance Ratios

*Inventory Turnover = Cost of Goods Sold / Average (Beginning + End Inventory / 2)*

- This ratio tells you how fast you sell your inventory. This is important to know because your money is invested in your inventory. You need to assess whether you are selling enough inventory in a short enough period of time.
- Use the balance sheet for your inventory numbers.
- Use your income statement for the cost of goods sold.
- The ratio will tell you how many times in a year you turn over your inventory. Divide that number into 365 days (1 year) and you can determine how many days it takes to turn over your inventory.
- You must look at industry standards to assess whether your inventory turnover ratio is good or bad. It will also change, depending on the time of year.

*Receivables Turnover = Sales on Credit / Average Accounts Receivable (Beginning + Ending Balances / 2)*

- This ratio helps you determine how long it is taking for you to collect money owed to you (accounts receivables) and lets you compare it to your collection policy.
- You must calculate the percentage of total sales you make on credit.
- You can use the accounts receivable from your balance sheet.
- The ratio will give you the number of times per year you turn over your receivables.
- Take this number and divide it into 365 (1 year) to determine the average amount of days it takes to turn over your receivables.
- Compare this number to your company policy (30, 60, 90 days) to see if your customers are paying you on time. If not, you must re-evaluate your collection policy or withhold credit from chronic abusers.

*Net Profit Margin = Net Profit / Gross Revenue on Sales*

- Compare this ratio from one year to the next.
- Use your income statement for these figures.

*Return on Investment = Net Profit / Total Assets*

- This ratio is commonly used as a measure of a company's profitability.
- Use the figures from your balance sheet and income statement for these calculations.
- Compare your figures to those in your industry.

*Return on Equity = Net Profit / Owner's Equity*

- This ratio gives you the return on the equity part of the investment.
- Use the balance sheet and income statement for these figures.
- This ratio can help you determine if your business should be more or less leveraged (in debt) to maximize the return on investment.

## TAKING YOUR PULSE: HOW TO RECOGNIZE SIGNS OF PROBLEMS

### Running out of Money?

It is not unusual for a new company to struggle with cash flow the first couple years in operation. If you're experiencing cash flow difficulties you may want to check the following potential causes:

#### *Collection Procedures*

- Are you collecting your money on time?
- What is your accounts receivable turnover ratio?
- Check your customers' payment cycle, you may be missing the cut off date.
- What is your invoicing procedure? How often do you invoice?
- Negotiate installments/interim payments for larger projects.
- Check your credit application process. Are you giving credit to customers without investigating their bill payment history?

#### *Inventory*

- Check your inventory turnover rate. Are you turning over your inventory fast enough?
- Inventory overload? Do you have too much cash tied up in inventory?
- Do you have old stock or items not selling? Time for a door-crashing sale!

#### *Purchasing Behaviour*

- First, stop buying!
- Where is the money going? Start tracking your expenditures.
- Have you made any large/significant purchases? If yes, renegotiate terms.
- Are you taking advantage of net 30 days vs COD purchases?
- Negotiate credit terms with suppliers.
- When do you pay your bills? Negotiate cash discounts or time payments to coincide with cash inflow.
- Bank online. Watch your bank account daily if necessary.
- Reduce expenses to stay in line with revenue.

#### *Pricing Your Product/Service*

- What are your competitors' prices?
- Are your prices competitive in the market?
- Have you under priced your product/service?

### **Sales Not Taking Off?**

- Have you over priced your product/services?
- Are you easy to do business with?
- Distribution channels - How quickly can you get the product/service into your customers' hands?
- Are you spending enough time pounding the pavement for new customers?
- Are you selling more to existing clients? It is 100 times easier to sell to existing clients vs finding new ones.
- Review your advertising collaterals.
- Review your advertising methods – do you have the right media method?
- Understand and track how your customers find you – spend your money wisely.
- Do you know your true target market? Segment and focus on specific markets.

### **Running Out of Time?**

Business owners are constantly drawn in several directions at the same time. No one person can do it all. Owners need to determine where they bring the most value to the business and delegate those responsibilities better served by others.

#### *Selling*

- Selling should always be your top priority. Without sales, the rest is irrelevant.
- Arrange your calendar to accommodate networking events, cold calling, etc.

#### *Administration*

- Organize your office.
- Build systems – schedule time to do your bookkeeping.
  - ✓ Set aside a day each month to pay bills (eg. 30th of every month).
  - ✓ Build a system around tasks that are daily, weekly, monthly, etc. Don't forget or delegate to someone else.
- Hire a part-time office administrator or a virtual assistant. If you cannot afford one ask your spouse or a family member to help out.
- Schedule your week on a calendar, make sure it's visible and stick to it.
- At the end of each day, take 15 minutes to plan the next day.

#### *Bookkeeping System*

- Do you have a effective system in place that works for you?
- Are you losing your receipts? The solution can be as simple as creating an envelope system. One envelope for each month. It's easy and they are all in one spot.
- Not able to keep up – hire a bookkeeper to come in once a week or once a month and delegate. Less stress and far more efficient.

*Proactive or Reactive*

- Are you spending more time putting fires out?
- Take a time management course to help develop systems.
- Learn to prioritize your tasks and focus on top priorities.



## UP AND RUNNING CHECKLIST

You may find the following checklist useful in assessing how your business is doing in relation to critical milestones.

### First 90 days

#### *Operational*

- My bookkeeping system is set-up.
- My office is adequately set-up with the proper technology:
  - Appropriate number of telephone lines
  - Fax
  - Modem
  - Internet
  - Answering System
- I have installed all my computer software and learned how to use it.
- I have set up my filing system and have labeled file folders in my filing cabinet.
- I have filled out all of my monthly filings for my business.
  - Source Deductions
  - GST/HST
- I have properly trained and identified the responsibilities of my staff.
- I have identified the method of compensation for my staff.

#### *Sales and Marketing*

- I have ordered my next set of business cards.
- I have contacted the phone company to make sure that my company is listed in the next white and yellow page publication.
- I am concentrating my work activity on generating revenue.
- I am in daily contact with my key business network.
- I have issued a press release to the media to announce my company opening.
- I am following my publicity and media plan.
- I am spending regular work hours (8:00 a.m.-5:00 p.m.) on activities that are related to generating revenue. Paper work and other administrative duties are done during off hours.
- I focus on scheduling meetings with clients where business will be concluded within seven days.
- I conduct daily telemarketing that will lead to business within 30 days.
- I am also active in sending direct mailings and doing client drop-bys, and
- I am constantly networking to help me identify future prospects.

- I am asking for (and getting) referrals from my customers.
- I have analyzed my human resource situation in relation to my sales levels.

I need to:

- Increase sales training.
- Expand my sales force.
- Maintain the quality level of my support staff.

#### *Financial*

- I have established sales projections based on sound industry ratios for activity.
- I am tracking actual and projected revenues on a weekly basis. I am looking for established patterns such as peak/slow hours, days or weeks.
- I have established a line of credit at the bank, that will be used for contingencies and ensure my business has access to more credit as required.
- My accounts receivable policy conforms to industry standards and expectations.
- I have identified where I can lower my expenses by negotiating the most beneficial payment agreement with my creditors. I am avoiding COD payments.

#### **First 6 months**

#### *Operational*

- I have set up a tracking system for my customers and created a database with this information.
- I have compared the pricing of my suppliers with others in the industry and am confident that I am getting the best prices and most reliable delivery in the industry.
- I have evaluated the performance of my staff and sales team.

#### *Sales and Marketing*

- I have reviewed my competitive analysis to ensure my competitive advantage.
- I sent out a customer survey to collect critical information so I can improve my customer service and differential advantage.
- I am offering a new service, product, or cost savings plan to my market.
- My projected and actual revenues are reviewed (for adjustments) to establish new sales targets and hiring practices.
- I have testimonials representing a broad range of clients.

#### *Financial*

- I met with my banker to "touch base" and begin the important process of building a relationship, which may prove invaluable when it is time to borrow more money or secure my first loan to grow my business.
- I made adjustments to my cash flow to reflect any increase or decrease in my expenses for the rest

- of the year.
- I collect my accounts receivable on a timely basis.
  - I have developed new credit policies to correct the "gaps" in collecting my accounts receivable on time.
  - I am recording my actual sales and disbursements each month and comparing them to my projected calculations.

## **First Year**

---

### *Operational*

- I have reduced costs without compromising the growth of my business.
- I have proper documentation on customers in my database.
- Key suppliers are established and I have visited their business site.
- I have alternate suppliers on hand, in case I need them.
- My relationship with my bank is clearly defined.

### *Sales and Marketing*

- I reviewed my sales targets and activity requirements.
- I am maintaining continued training programs for myself and my staff.
- I am reviewing the amount of money spent on advertising and promotion, to see if I need to spend more in the future.
- I will join a key business networking group, such as my local Chamber of Commerce, or a key customer related group.

### *Financial*

- I am in the process of completing my income statement, balance sheet, and preparing for my income taxes to be done.
- I am reviewing the status of my company using industry ratios.
- I am going to meet with my accountant to review my situation and see if I can make any changes that may increase my profits for next year.
- I am reviewing my annual expenses, focusing on major cash outlays, to see if they can be lowered.
- I am re-forecasting my revenue projections based on the results of this year.

## STREETWISE ADVICE FROM ENTREPRENEURS

The following includes various tips that have been provided by experienced entrepreneurs. They are provided as “food for thought” to assist you when making key business decisions.

- Using a “best” or highest quality approach to your marketing is generally not the best marketing tactic. Everyone claims their products are the best. Instead, develop a strategy that stresses what specifically you are offering that provides a significant advantage over your competitor’s offerings. Set yourself apart from the competition.
- As your business grows, you won’t be able to spend as much time personally checking over details as you did initially. You will need to set up systems and procedures to ensure that management and staff are continually making checks in the same manner you would have. The more control you establish in your day-to-day operations, the more growth you will be able to achieve.
- Most entrepreneurs when looking for their first office space, will be tempted to spend more money than they budgeted. Resist! You will need that extra cash to get you through the growing pains of your first critical year in business.
- Entrepreneurs have a responsibility to create an environment in which those who work in it are learning and are enjoying that experience. By making work fun, exciting and challenging for your employees, you’ll find you have less turnover, happier people, and more productivity.
- Be sure to give the hiring effort the time it deserves. The caliber of people who work for your company is one of the single greatest factors in the success of your company.
- It is critical that entrepreneurs make the distinction between which tasks are most urgent and those tasks which have the most impact on the success of the company. More often than not, the urgent tasks are not the most important. To grow your business, you need to set aside plenty of time for important work, even if it is at the expense of more urgent work.
- Entrepreneurs must be on top of their cash flow situation at all times. Do everything you can to hold off on unnecessary purchases. Cash flow can change quickly and negatively. You must be sure you can weather any unexpected surprises.
- Set your ethical code before you start your business. Never let the lures of money in a business deal sway you or lead you to a deal you don’t feel proud of. Always be fair to your customers, your employees, your family, and yourself.
- Never sign a contract you don’t understand. Seek legal advice to ensure you clearly understand all terms and passages. Remember, every business transaction has implications for your company.

- The most important advice for reaching a goal is the single word - “start”. Work harder, work smarter, work longer than the competition and you will win.
- Strive always for the positive, for no other reason than the fact that there is nowhere to go from a negative judgment. Attitude is one of the single most important determinants of entrepreneurial success.
- It is not only important for the entrepreneur to have a clear vision for the business opportunity, but also equally important that the employees share this vision. Don’t keep your strategy a secret! Be absolutely sure all your employees feel part of it and clearly understand how they contribute to it.

#### **Other “Words of Wisdom”**

- Lead by example and inspire others.
- Trust your instincts.
- Always listen to your customers.
- Whatever you think it will cost, plan for it to cost more.
- Never lose sight of your primary mission.
- Know your limits.
- Never underestimate your competition.
- Set your sights high. You can reach the stars.
- Always have an alternate solution.
- Under promise and over deliver.
- Be consistent and positive when dealing with people.

## About the Publication

We would like to thank the Entrepreneurship Centre who has developed this publication.



To those starting their business, congratulations for having the courage to follow your dreams. You are the people who are changing the face of the region – creating jobs and wealth, and building an entrepreneurial spirit that is unsurpassed by other communities. Good luck with your business venture.

John Candie  
Executive Director,  
Prescott-Russell Community Development Corporation

Toll-free: 1-877-632-0918  
info@sdcpr-prcdc.ca  
Website: www.sdcpr-prcdc.ca



Federal Economic  
Development Agency  
for Southern Ontario

Agence fédérale  
de développement économique  
pour le Sud de l'Ontario