Business Plan Development Guide

Lee A. Swanson

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8TH EDITION

BUSINESS PLAN DEVELOPMENT GUIDE

LEE A. SWANSON

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Lee A. Swanson

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Introduction

This textbook and its accompanying spreadsheet templates were designed with and for students wanting a practical and easy-to-follow guide for developing a business plan. It follows a unique format that both explains what to do and demonstrates how to do it.

Main Body

Chapter 1 – Developing a Business Plan

Learning Objectives

After completing this chapter, you will be able to:

- Describe the purposes for business planning.
- Describe common business planning principles.
- Explain common business plan development guidelines and tools.
- List and explain the elements of the business plan development process
- Explain the purposes of each of the elements of the business plan development process
- Explain how applying the business plan development process can aid in developing a business plan that will meet entrepreneurs’ goals

Overview

This chapter describes the purposes for business planning, business planning principles, the general concepts and tools related to business planning, and the process for developing a business plan.

Purposes for Developing Business Plans

Business plans are developed for both internal and external purposes. Internally, entrepreneurs develop business plans to help put the pieces of their business together. The most common external purpose for a business plan is to raise capital.

Internal Purposes

- The business plan is the road map for the development of the business, it:
  - Defines the vision for the company
  - Establishes the company’s strategy
  - Describes how the strategy will be implemented
  - Provides a framework for analysis of key issues
  - Provides a plan for the development of the business
  - Is a measurement and control tool
  - Helps the entrepreneur to be realistic and to put theories to the test

External Purposes

- The business plan is often the main method of describing a company to external audiences such as potential sources for financing and key personnel being recruited
- It should assist outside parties to understand the current status of the company, its opportunities, and its needs for resources such as capital and personnel
- It provides the most complete source of information for valuation of the business

Business Plan Development Principles

Hindle and Mainprize (2006) suggested that business plan writers must strive to (1) effectively communicate their expectations about the nature of an uncertain future, and (2) to project credibility. The *liabilities of newness* make communicating the expected future of new ventures much more difficult than for existing businesses. Consequently, business plan writers should adhere to five specific *communication principles*.

The first communication principle indicates that business plans must be written to meet the *expectations* of targeted readers in terms of what they need to know to support the proposed business. Business plans should also lay out the *milestones* that investors or other targeted readers need to know. The remaining communication principles suggest that business plan writers clearly outline the *opportunity*, the *context* within the proposed venture will operate (internal and external environment), and the *business model* (Hindle & Mainprize, 2006).

There are also five *business plan credibility principles* that writers should consider. Business plan writers should build and establish their credibility by highlighting important and relevant information about the venture *team*. Writers need to *elaborate* on the plans they outline in their document so that targeted readers have the information they need to assess the plan's credibility. The *scenario integration* principle suggests that, to build and establish credibility, a business plan must show that the entrepreneur has made realistic assumptions and has effectively anticipated what the future holds for their proposed venture. Business plan writers need to provide comprehensive and realistic *financial links* between all relevant components of the plan. Finally, to establish credibility, a business plan must outline *the deal*, or the value that targeted readers should expect to derive from their involvement with the venture (Hindle & Mainprize, 2006).

General Guidelines for Developing Business Plans

Many businesses must have a business plan to achieve their goals. The following are some basic guidelines for business plan development.

- A standard format is applied to help the reader understand that the entrepreneur has thought everything through, and that the returns justify the risk
- Bind the document so readers can easily go through it without it falling apart

As you write your Business Plan

1. If appropriate, include nice, catchy, professional graphics on your title page to make it appealing to targeted readers; but don't go overboard.

2. Bind your document so readers can easily go through it without it falling apart. You might use a three-ring binder, coil binding, or a similar method. Make sure the binding method you use does not obscure the information next to where it is bound.

3. Make certain all of your pages are ordered and numbered correctly.

4. The usual business plan convention is to number all major and subsections within your plan using a format as follows

1. First main heading

    1.1First subheading under the first main heading

        1.1.1. First sub-subheading under the first subheading

2. Second main heading

    2.1 First subheading under the second main heading

Use the *styles* and *references* features in Word to automatically number and format your section titles and to generate your table of contents. *Be sure that the last thing you do before printing your document* is update your automatic numbering and automatically generated tables. If you fail to do this your numbering may be incorrect.

5. Prior to submitting your plan, *be 100% certain* each of the following requirements are met.

- Everything must be completely integrated. The written part must say exactly the same thing as the financial part.

- All financial statements must be completely linked and valid. Make sure all of your balance sheets balance.
- Everything must be correct. There should be NO spelling, grammar, sentence structure, referencing, or calculation errors.
- Ensure your document is well organized and formatted. The layout you choose should make the document easy to read and comprehend. All of your diagrams, charts, statements, and other additions should be easy to find and be located in the parts of the plan best suited to them.
- In some cases it can strengthen your business plan to show some information in both text and table or figure formats. You should avoid *unnecessary repetition*, however, as it is usually unnecessary – and even damaging – to state the same thing more than once.
- Include all the necessary information to enable readers to understand everything in your document.
- Be clear what terms you use in your plan. For example, the following statement in a business plan would leave a reader completely confused.
    - "There is a shortage of 100,000 units with competitors currently producing 25,000. We can help fill this huge gap in demand with our capacity to produce 5,000 units."
    - This statement might mean there is a total shortage of 100,000 units, but competitors are filling this gap by producing 25,000 per year; in which case there will only be a shortage for four years. However, it could mean something completely different. It might mean there is an annual shortage of 100,000 units with only 25,000 being produced each year, in which case the total shortage is very high and is growing each year.
- You must always provide the complete perspective by indicating the appropriate time frame, currency, size, or other measurement.
- Be certain that if you use a percentage figure, you indicate to what it refers – otherwise the number is meaningless to a reader.
- If your plan includes an international element, indicate in which currency, or currencies the costs, revenues, prices, or other values are quoted. This can be solved by indicating up-front in the document in which currency all values will be quoted. Another option is to indicate each time which currency is being used, and sometimes you might want to indicate the value in more than one currency. Of course, you will need to assess the exchange rate risk to which you will be exposed and describe this in your document.

6. Ensure credibility is both established and maintained (Hindle & Mainprize, 2006).

- If a statement is included that presents something as a fact when this fact is not generally known, always indicate the source. Unsupported statements damage credibility.
- Be sure to be specific. A business plan is simply not of value if it uses vague references to high demand, carefully set prices, and other weak phrasing. It must show hard numbers (properly referenced, of course), actual prices, and real data acquired through proper research. This is the only way to ensure your plan is considered credible.
- Your strategies must be integrated. For example, your pricing strategy must complement and mesh perfectly with your product/service strategy, distribution strategy, and promotions strategy. For example, you probably shouldn't promote your product as a premium product if you plan to charge lower than market prices for it.

7. Before finalizing your business plan, re-read each section to evaluate whether it will appeal to your targeted readers.

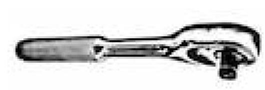
Useful Resources for Business Planning

- Canada Business Network
- http://www.canadabusiness.ca/eng/
- Innovation, Science and Economic Development Canada: Financial Performance Data
- http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/Home
- BizPal site for accessing licensing and other needs
- http://www.bizpal.ca/
- Canada Revenue Agency site for CRA asset classifications
- http://www.cra-arc.gc.ca/tx/bsnss/tpcs/slprtnr/rprtng/cptl/dprcbl-eng.html

- Canadian Company Capabilities database to use to find suppliers and buyers
- http://www.ic.gc.ca/eic/site/ccc-rec.nsf/eng/home
- For finding possible Canadian Government contracts:
- http://www.merx.com/
- The Conference Board of Canada
- http://www.conferenceboard.ca/
- Bank of Canada
- http://www.bankofcanada.ca/
- Bank Sites
- http://www.td.com/
- http://www.rbc.com/
- http://www.scotiabank.com/
- http://www.bmo.com/
- http://www.cibc.com/
- Business Loan Calculator
- http://www.rbcroyalbank.com/cgi-bin/business/loan_calc/loans.cgi
- Use the business area within our library site
- http://library.usask.ca/
- Read existing business plans
- Come to my office to browse through past plans
- http://www.edwards.usask.ca/faculty/marv%20painter/businessplans/
- Other possibilities include business plan software and business plan templates (both widely available online and also at some banks), but be cautious because these are often designed for people without business backgrounds and are sometimes too basic for what you need.

Business Plan Development Tools

The Ratchet Effect



A ratchet is a tool that most of us are familiar with. It is useful because it helps its user accomplish something with each effort expended while guarding against losing past advancements.

Use the ratchet effect to help you develop an excellent business plan.

The *ratchet effect* means that with each word, sentence, paragraph, heading, chart, figure, and table you include in your final business plan, the ratchet should move ahead a notch because *you achieve two important things*.

- *First, only needed and relevant information is included.*
- *Second, your additions build credibility in a relevant way.*

Apply the ratchet effect by making sure that each and every sentence and paragraph conveys needed and relevant information that adds to your credibility and that of your plan. Use the following principles:

- Rarely – and only if it truly needs to be said again – repeat something that has already been said in your plan.
- Avoid using killer phrases, like “there is no competition for our product” or “our product will sell itself, so we will not need to advertise it”. Any savvy reader of your plan will understand that these kinds of statements are naive and demonstrate a lack of understanding about how the market and other real-life factors actually work.
- Avoid contradicting yourself. Make sure that what is said in the written part of your plan completely synchs with what is said in the other written parts of your plan and in the financial sections of your plan. Likewise, make certain that what you include in the financial parts of your plan is completely in synch with what is said

the written part.

The Strength Meter

Use the ratchet effect to continually increase the reading on an imaginary *strength meter* that you use to envision how – when you continually go back and revise parts of our plan – your revisions to your evolving business plan continually strengthen it.

The Magic Formula

Apply the following *magic formula* throughout your write your plan.

(a)Consideration X affects my business because …

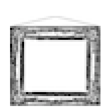
(b)… consideration X is subject to this trend into the future …

(c)… which means that we have decided to do this … (or) will implement this strategy … in response to how the expected trends for consideration X will affect my business

Here is an example of how you can use the magic formula to develop part of the pricing strategy in the marketing plan part of your business plan.

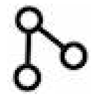
We expect that our expenses to run our business will rise with the rate of inflation, which means that we must plan to increase the prices on our products to establish and maintain our profitability. The Bank of Canada (201x) has projected that the general inflation rate in <the city in which my business will operate> will be 3.0% in 201x, 3.5% in 201y, and 4.0% in 201z. In our projected financial statements, therefore, we have inflated both our expenses and our prices by those rates in those years.

Framing



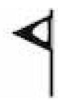
Pay special attention to *framing* when you develop your business plan. When you frame the stories you tell in your plan correctly the *ratchet effect* will happen and the *strength meter* will rise. One example of effective framing is when you, as the writer of the plan and the entrepreneur, clearly indicate how your education, expertise, relevant experiences, and network of contacts will more than make up for any lack of direct experience you have in running this particular kind of business. An example of ineffective framing is when you indicate that you lack experience with this type of business, or when you fail to specify how and why your levels of experience will affect the development of the business.

Context



You must provide the right *context* when you provide descriptions of situations, strategies, and other components of your plan. Business plan readers should never be left to guess as to why you indicate in a business plan that you will do something.

Barrier Breaking



In business planning there are always barriers. Often times when an an issue arises, we get hung up on solving it immediately. Barrier breaking is the notion of “planting a flag” and moving on when an issue has the potential to sideline the project for a length of time. In many cases when we look back on issues, they have solved themselves. If not, we will return to these issues at a later time when we are hopefully more informed and have insight into solutions.

a) Never get hung up on something that doesn’t need immediate problem solving

b) “Plant a flag” and move on

c) Re-address the issue at a later time if it is not already solved

Process for Developing Business Plans

The business plan development process described next has been extensively tested with entrepreneurship students and has proven to provide the guidance entrepreneurs need to develop a business plan appropriate for their needs; a *high power business plan*.

There are six stages involved with developing a *high power business plan*. These stages can be compared to a process for hosting a dinner for a few friends. A host hoping to make a good impression with their anticipated guests might – *Essential Initial Research* stage – analyze the situation at multiple levels to collect data on new alternatives for healthy ingredients, what ingredients have the best prices and are most readily available at certain times of year, the new trends in party appetizers, what food allergies the expected guests might have, possible party themes to consider, and so on.

The *Business Model* stage is where the host might construct a menu of items to include with the meal along with a list of decorations to order, music to play, and costume themes to suggest to the guests. The mix of these kinds of elements chosen by the host will play a role in the success of the party.

The *Initial Business Plan Draft* stage is where the host rolls up his or her sleeves and begins to assemble make some of the food items, put up some of the decorations, send invitations, and generally get everything started for the party.

During the *Initial Business PlanDraft* stage the host will begin to realize that some plans are not feasible and that changes are needed. The required changes might be substantial, like the need to postpone the entire party and ultimately start over in a few months, and others might be less drastic, like the need to change the menu when an invited guest indicates that they can’t eat food containing gluten. *Making the Business Plan Realistic* stage is where these changes are incorporated into the plan to make it realistic and feasible.

Making A Plan Desirable to Stakeholders and the Entrepreneur stage involves further changes to the party plan to make it more appealing to both the invited guests and to make it a fun experience for the host. For example, the host might learn that some of the single guests would like to bring dates and others might need to be able to bring their children to be able to attend. The host might be able to accommodate those desires or needs in ways that will also make the party more fun for them – maybe by accepting some guests’ offers to bring food or games, or maybe even a babysitter to entertain and look after the children.

The final stage – *Finishing the Business Plan* – involves the host putting all of the final touches in place for the party in preparation for the arrival of the guests.

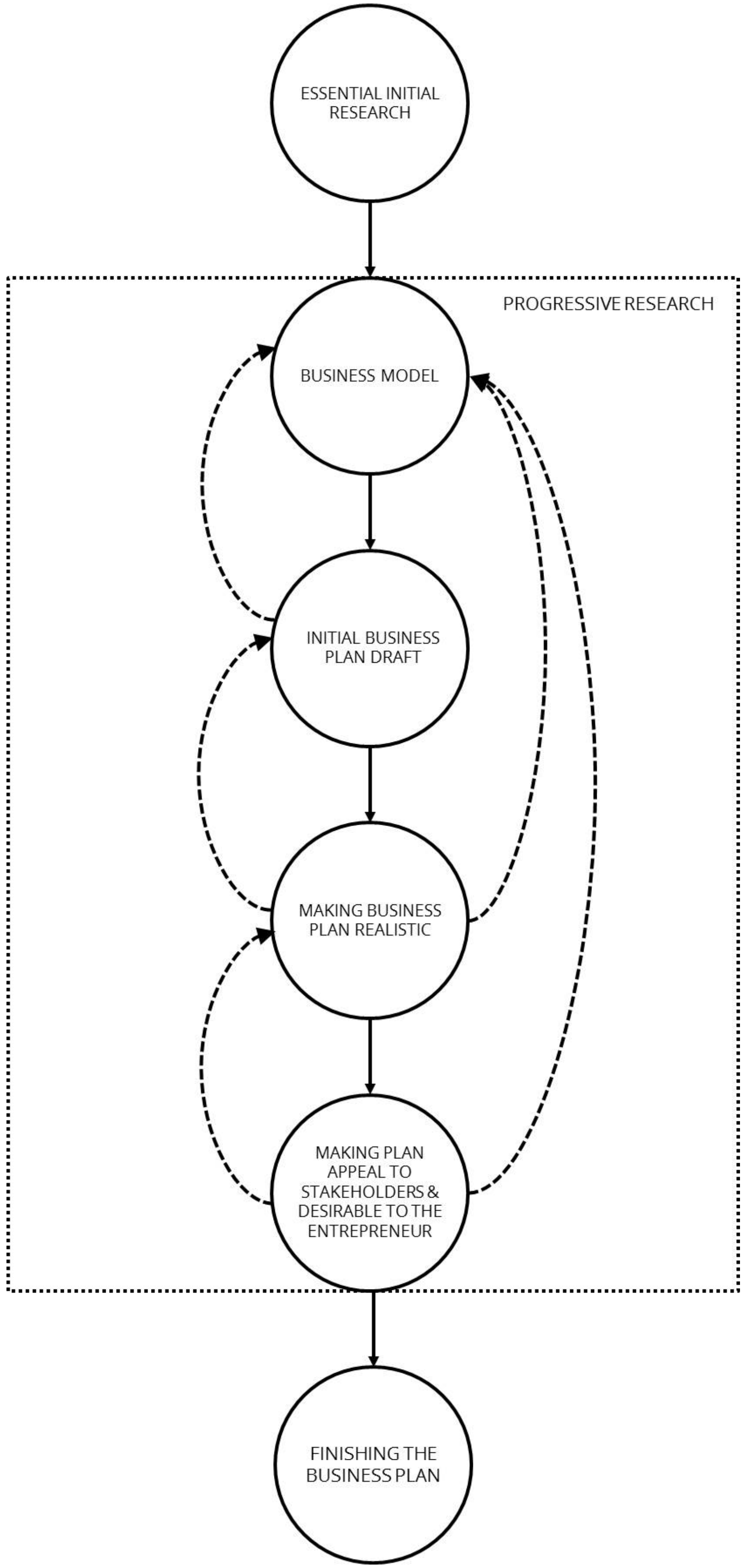

ESSENTIAL INITIAL RESEARCH
PROGRESSIVE RESEARCH
BUSINESS MODEL
INITIAL BUSINESS PLAN DRAFT
MAKING BUSINESS PLAN REALISTIC
MAKING PLAN APPEAL TO STAKEHOLDERS & DESIRABLE TO THE ENTREPRENEUR
FINISHING THE BUSINESS PLAN

Figure 1 – Business Plan Development Process (Illustration by Lee A. Swanson)

Essential Initial Research

A business plan writer should analyze the environment in which they anticipate operating at each of the levels of analysis: *Societal*, *Industry*, *Market*, and *Firm* (see pages 21 to 30). This stage of planning is called the *Essential Initial Research*, and it is a necessary first step to better understand the trends that will affect their business and the decisions they must make to lay the groundwork for, and to improve their potential for success.

In some cases much of the *Essential Initial Research* should be included in the developing business plan as its own separate section to help build the case for readers that there is a market need for the business being considered and that it stands a good chance of being successful.

In other cases, a business plan will be stronger when the components of the *Essential Initial Research* are distributed throughout the business plan as a way to provide support for the plans and strategies outlined in the business plan. For example, a part of the *Industry* or *Market* part of the *Essential Initial Research* might outline the pricing strategies used by identified competitors and might be best placed in the *Pricing Strategy* part of the business plan to support the decision made to employ a particular pricing strategy.

Business Model

Inherent in any business plan is a description of the *Business Model* chosen by the entrepreneur as the one that they feel will best ensure success. Based upon their *Essential Initial Research* of the setting in which they anticipate starting their business (their analysis from stage one) an entrepreneur should determine how each element of their business model – including their revenue streams, cost structure, customer segments, value propositions, key activities, key partners and so on – might fit together to improve the potential success of their business venture (see Chapter 3 – Business Models).

For some types of ventures, at this stage an entrepreneur might launch a lean startup (see page 37) and grow their business by continually pivoting, or constantly adjusting their business model in response to the real-time signals they get from the markets' reactions to their business operations. In many cases, however, an entrepreneur will require a business plan. In those cases their initial *Business Model* will provide the basis for that plan.

Of course, throughout this and all of the stages in this process, the entrepreneur should seek to continually gather information and adjust the plans in response to the new knowledge they gather. As shown in Figure 1 by its enclosure in the *Progressive Research* box, the business plan developer might need conduct further research before finishing the *Business Model* and moving on to the *Initial Business Plan Draft*.

Initial Business Plan Draft

The Business Plan Draft is about taking the knowledge and ideas developed during the first two stages and organizing them into a business plan format. An approach preferred by many is to create a full draft of the business plan with all of the sections, including the front part with the business description, vision, mission, values, value proposition statement, preliminary set of goals, and possibly even a table of contents and lists of tables and figures all set up using the software features enabling their automatic generation. It is also useful for most to write all of the operations, human resources, marketing, and financial plans as part of the first draft so that all of these parts can be appropriately and necessarily integrated. The business plan will tell the story of a planned business startup in two ways by using primarily words along with some charts and graphs in the operations, human resources, and marketing plans and in the second way through the financial plan. Both ways must tell the same story.

The feedback loop shown in Figure 1 demonstrates that the business developer may need to review the *Business Model*. Additionally, as shown by its enclosure in the *Progressive Research* box, the business plan developer might need conduct further research before finishing the *Initial Business Plan Draft* and moving on to the *Making Business Plan Realistic* stage.

Making Business Plan Realistic

The first draft of a business plan will almost never be realistic. This is because as the entrepreneur writes the plan, it will necessarily change as new information is gathered. Another factor that usually renders the first draft unrealistic is the difficulty in making certain that the written part – in the front part of the plan along with the operations, human resources, and marketing plans – tells the exact same story as does the financial part as represented in the financial plan. This stage of work involves making the necessary adjustments to the plan to make it as realistic as possible.

Making Business Plan Realistic has two possible feedback loops, one going back to the *Initial Business Plan Draft* in case the initial business plan needs to be significantly changed before it is possible to adjust it so that it is realistic. The second feedback loop circles back to the *Business Model* stage in case the business developer need to rethink the business model. As shown in Figure 1 by its enclosure in the *Progressive Research* box, the business plan developer might need conduct further research before finishing the *Making Business Plan Realistic* and moving on to the *Making Plan Appeal to Stakeholders* stage.

Making Plan Appeal to Stakeholders and Desirable to the Entrepreneur

A business plan can be realistic without also appealing to potential investors and other external stakeholders, like employees, suppliers, and needed business partners. It might also be realistic (and possibly appealing to stakeholders) without also being desirable to the entrepreneur. During this stage the entrepreneur will keep the business plan realistic as they adjust plans to appeal to potential investors and others, and to themselves as the business owner.

If, for example, investors will be required to finance the business start, some adjustments might need to be relatively extensive to appeal to potential investor needs for an exit strategy from your business, to accommodate the rate of return they expect from their investments, and to convince them that the entrepreneur can accomplish all that is promised in the plan. In this case, and in others, the entrepreneur will also need to get what they want out of the business to make it worthwhile for them to start and run it. So, this stage of adjustments to the developing business plan might be fairly extensive, and they must be informed by a superior knowledge of what targeted investors need from a business proposal before they will invest. They also need to be informed by a clear set of goals that will make the venture worthwhile for the entrepreneur to pursue.

The caution with this stage is to balance the need to make realistic plans with the desire to meet the entrepreneur's goals while *avoiding becoming discouraged enough to drop the idea of pursuing the business idea*. If an entrepreneur is convinced that the proposed venture will satisfy a valid market need, there is often a way to assemble the financing required to start and operate the business while also meeting the entrepreneur's most important goals. To do so, however, might require significant changes to the business model.

One of the feedback loops shown in Figure 1 indicates that the business plan writer might need to adjust the draft business plan while ensuring that it is still realistic before it can be made appealing to the targeted stakeholders and desirable to the entrepreneur. The second feedback loop indicates that it might be necessary to go all the way back to the *Business Model* stage to establish the framework and plans needed to develop a realistic, appealing, and desirable business plan. Additionally, this stage's enclosure in the *Progressive Research* box suggests that the business plan developer might need conduct further research.

Finishing the Business Plan

The final stage involves putting all of the important finishing touches on the business plan so that it will present well to potential investors or others for whom it is written. This involves making sure that the math and links between the written and financial parts are accurate. It involves ensuring that all the needed corrections are made to the spelling, grammar, and formatting. The final set of goals should be written to appeal to the target readers and to reflect what the business plan says. An executive summary should be written and included as a final step.

Chapter Summary

This chapter described the internal and external purposes for business planning. It also explained how business plans must effectively communicate while establishing and building credibility for both the entrepreneur and the venture. The general guidelines for business planning were covered as were some important business planning tools. The chapter concluded with descriptions of the stages of the business development process for effective business planning.

Chapter 2 – Essential Initial Research

Learning Objectives

After completing this chapter, you will be able to:

- Apply analytical skills to assess how the nature of entrepreneurial environment can influence entrepreneurial outcomes.
- Apply the right tools to do impactful analyses at each of the societal, industry, market, and firm levels to evaluate entrepreneurial and other business opportunities.

Overview

This chapter introduces the distinct levels of analyses that must be considered while stressing the importance of applying the appropriate tools to conduct the analyses at each level.

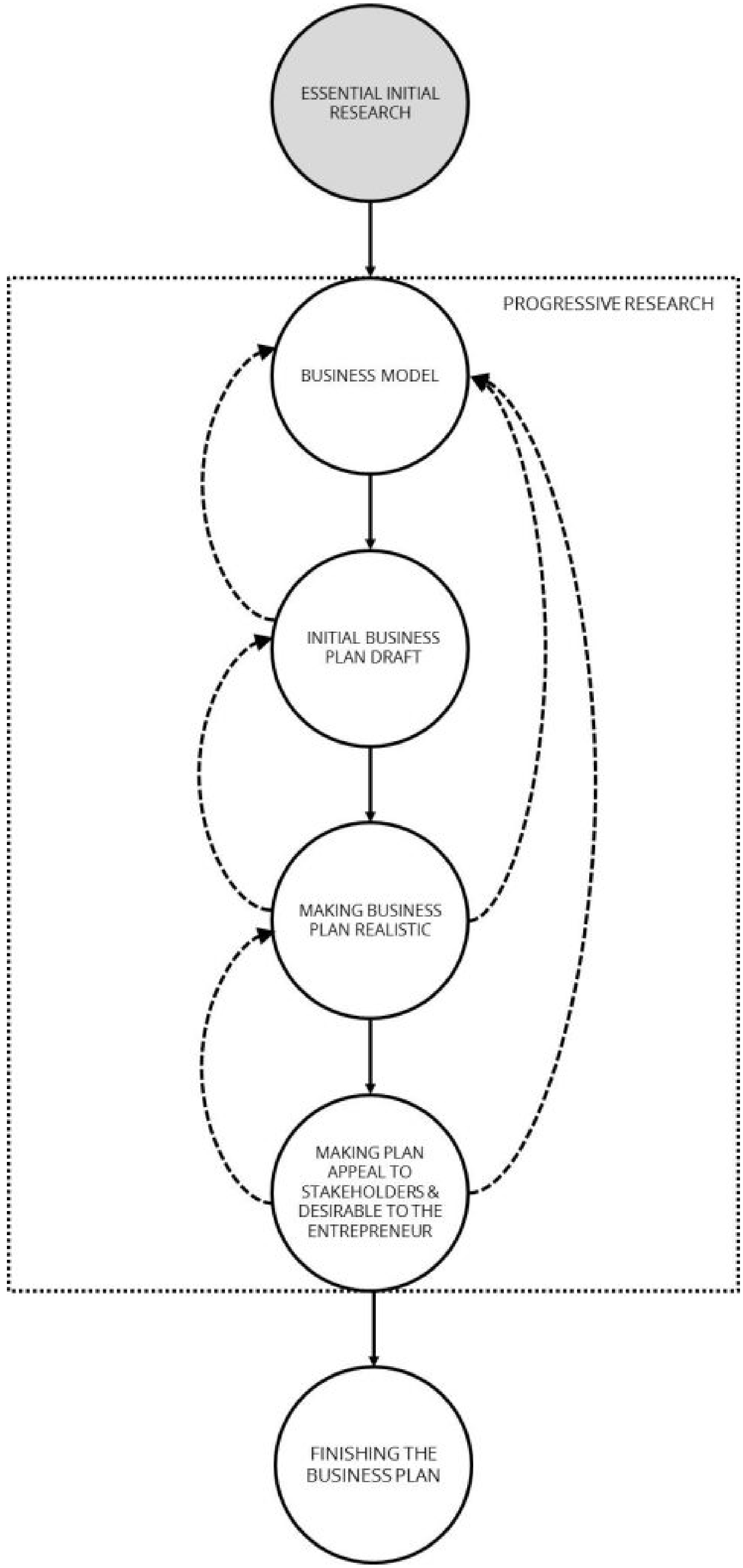

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Figure 2 – Essential Initial Research (Illustration by Lee A. Swanson)

Support Information

It is important to conduct *Essential Initial Research*. All information and items in the plan should be backed with facts from valid primary or secondary sources. Alternatively, some entrepreneurs can make valid claims based on experience and expertise. As such, their background and experiences should be delineated in order to provide support for claims made in the business plan.

> Evidence-based claims makes the business plan stronger.

Levels of Analyses

When evaluating entrepreneurial opportunities – sometimes called idea screening – an effective process involves assessing the various venture ideas being considered by applying different levels and types of analyses. Entrepreneurs starting ventures and running existing businesses should also regularly analyse their operating environments at the societal, industry, market, and firm-levels. The right tools, though, must be applied at each level of analysis (see Figure 3). It is critical to complete an *Essential Initial Research* at all four levels (societal, industry, market, and firm). The initial scan should be high-level, designed to assist in making key decisions (i.e. determining if there is a viable market opportunity for the venture). Secondary scans should be continuously conducted in order to support each part of the business plan (i.e. operations, marketing, finance). However, information should only be included if it is research-based, relevant, and adds value to the business plan. The results from such research (i.e. the Bank of Canada indicates that interest rates will be increasing in the next two years) should support business strategies within the plan (i.e. debt financing may be less favourable than equity financing). Often times, obtaining support data (i.e. construction quotes) is not immediate so plant a flag and move forward. Valid useful resources may include information from Statistics Canada, Bank of Canada, IBIS World Report, etc.

> Finding support data is not always immediate, plant a flag and return to the subject at a later time.

Societal Level

At a *societal-level* it is important to understand each of the political, economic, social, technological, environmental, and legal (PESTEL) factors – and, more specifically, the trends affecting those factors – that will have an impact on a venture based on a particular idea. Some venture ideas might be screened-out and others might be worth pursuing at a particular time because of the trends occurring with those PESTEL factors. Avoid the use of technical jargon that may distract readers (i.e. rivalry among firms) and use simpler language (i.e. competitive environment).

Industry Level

Apply Porter's (1985) Five Forces Model, or a similar tool designed to assess *industry level* factors. This analysis will focus more specifically on the sector of the economy in which you intend to operate. Again, the right analysis tool must be used for the assessment to be effective. Again, avoid technical jargon (i.e. threat of new entrants) and use simpler wording (i.e. difficulty of entering the market) or flip to an analysis of the threat (i.e. strategies to establish and maintain market share).

Market Level

At the *market-level*, you need to use a tool to generate information about the part of the industry in which your business will compete. This tool might be in the form of a set of questions designed to uncover information that you need to know to help develop plans to improve the success of your proposed venture.

Firm Level

At a *firm-level* both the internal organizational trends and the external market profile trends should both be analyzed. There are several tools for conducting an internal organizational analysis, and you should normally apply several of them.

Analyzing the Trends at Each Level

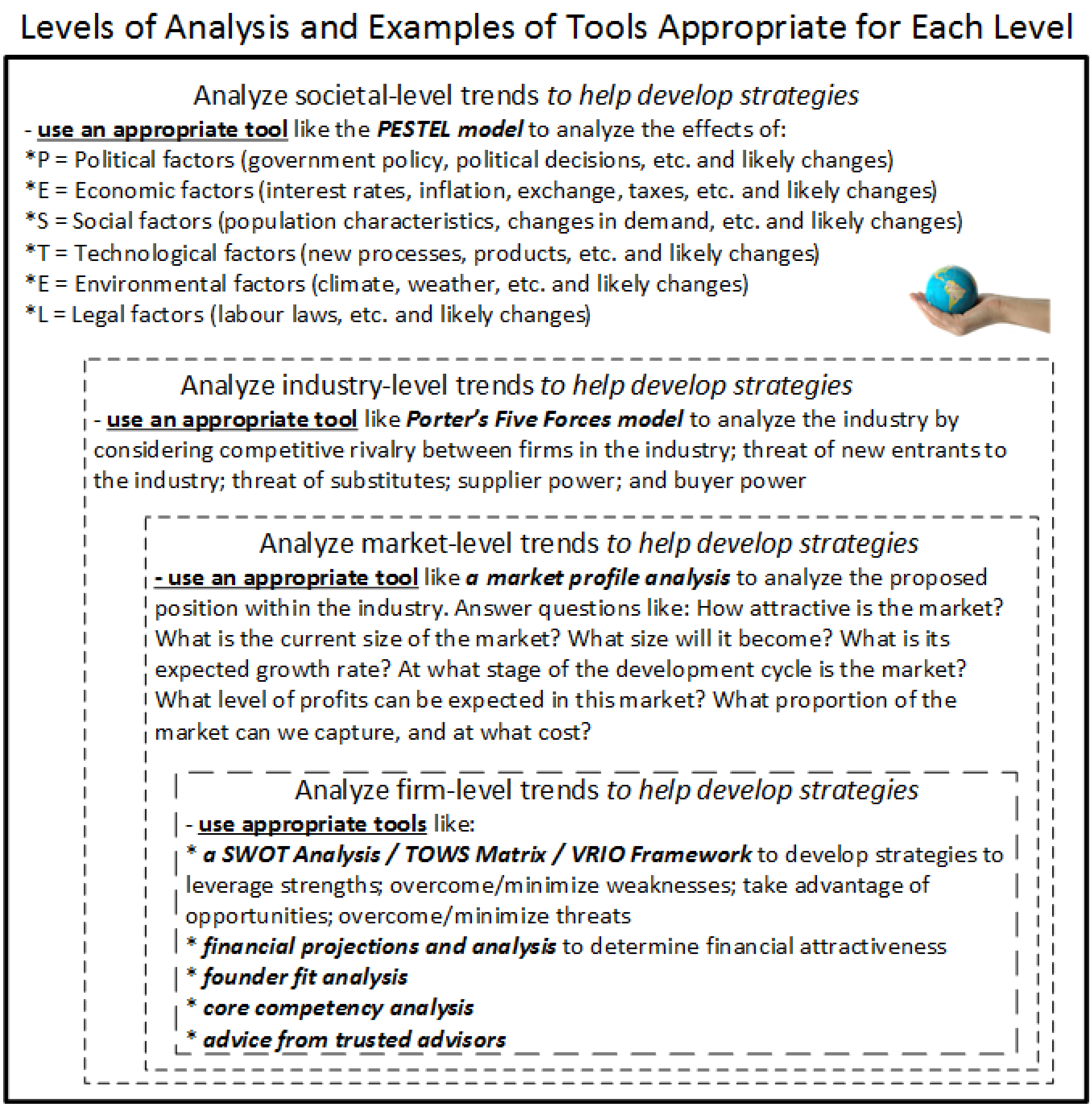

Figure 3 – Different Levels of Analysis (Illustration by Lee A. Swanson)

Analyze Societal Level Trends

- Use an appropriate tool like the *PESTEL model* to assess both the current situation and the likely changes as

they may affect you.
    - Political factors (federal & provincial & municipal government policy, nature of political decisions, potential political changes, infrastructure plans, etc.)
    - Economic factors (interest rates, inflation rates, exchange rates, tax rates, GDP growth, health of the economy, etc.)
    - Social factors (population characteristics like age distribution and education levels, changes in demand for types of products and services, etc.)
    - Technological factors (new processes, new products, infrastructure, etc.)
    - Environmental factors (effects of climate / weather, water availability, smog and pollution issues, etc.)
    - Legal factors (labour laws, minimum wage rates, liability issues, etc.)
- Assess the impact these trends have upon the venture:
    - Do the trends uncover opportunities and threats?
    - Can opportunities be capitalized on?
    - Can problems be mitigated?
    - Can the venture be sustained?

Analyze Industry Level Trends

- Use an appropriate tool like the *Five Forces Model* (Porter, 1985) to analyze the industry in which you expect to operate.
    - Horizontal relationships: Threat of substitutes, Rivalry among existing competitors, Threat of new entrants
    - Vertical Relationships: Bargaining power of buyers, Bargaining power of suppliers

Analyze Market Level Trends

- Use an appropriate method like a *market profile analysis* to assess the position within the industry in which you expect to operate.
    - Determine the answers to questions like the following:
        - How attractive is the market?
        - In what way are competitors expected to respond if you enter the market?
        - What is the current size of the market and how large is it expected to be?
        - What are the current and projected growth rates?
        - At what stage of the development cycle is the market?
        - What level of profits can be expected in the market?
        - What proportion of the market can be captured? What will be the cost to capture this proportion and what is the cost to capture the proportion required for business sustainability?

Prior to a new business start-up, the customers the new business wishes to attract either already purchase the product or service from a competitor to the new business – or they do not yet purchase the product or service at all. A new venture’s customers, therefore, must come from one of two sources. They must a) be attracted away from existing (direct) competitors or b) be convinced to make different choices about where they spend their money so they purchase the new venture’s product or service instead of spending their money in other ways (with indirect competitors). This means an entrepreneur must decide from which source they will attract their customers, and how they will do so. They must understand the competitive environment.

According to Porter (1996), strategy is about doing different things than competitors or doing similar things but in different ways. In order to develop an effective strategy an entrepreneur must understand the competition.

To understanding the competitive environment, entrepreneurs must do the following:

- determine who their current direct and indirect competitors are and who the future competitors will be,
- understand the similarities and differences in quality, price, competitive advantages, and other factors their proposed business and the existing competitors,
- establish whether they can offer different products or services – or the same products or services in different ways – to attract enough customers to meet their goals, and

- anticipate how the competitors will react in response to the new venture's entry into the market.

Analyze Firm-level Trends (organizational analysis)

There are several tools available for firm-level analysis, and usually several of them should be applied because they serve different purposes.

- Use an appropriate tool like a *SWOT analysis / TOWS Matrix* to formulate and evaluate potential strategies to leverage organizational strengths, overcome/minimize weaknesses, take advantage of opportunities, and overcome/minimize threats. You will also need to do a *financial analysis* and take into account the *founder fit* and the *competencies* a venture should possess.
  - SWOT analysis – identify organizational strengths and weaknesses and external opportunities and threats
  - TOWS matrix – develop strategies to:
    - leverage strengths to take advantage of opportunities
    - leverage strengths to overcome threats
    - mitigate weaknesses by taking advantage of opportunities
    - mitigate weaknesses while minimizing the potential threats or the potential outcomes from threats

For analyzing a firm's strategy, apply a *VRIO Framework* analysis.

- While conceptualizing the resource based view (RBV) of the firm, Barney (1997) and Barney and Hesterly (2006) identified the following four considerations regarding resources and their ability to help a firm gain a competitive advantage. Together, the following four questions make up the VRIO Framework, which can be used as an analysis tool to assess a firm's capacity and to determine what competencies a venture should have. Determine whether competences are: valuable, rare, inimitable, and exploitable.
  - Value: Is a particular resource (financial, physical, technological, organizational, human, reputational, innovative) valuable to a firm because it helps it take advantage of opportunities or eliminate threats?
  - Rarity: Is a particular resource rare in that it is controlled by or available to relatively few others?
  - Imitability: Is a particular resource difficult to imitate so that those who have it can retain cost advantages over those who might try to obtain or duplicate it?
  - Organization: Are the resources available to a firm useful to it because it is organized and ready to exploit them?

Assess the financial attractiveness of the venture

- Analysis of similar firms in industry
  - Comparative ratio and financial analysis see (Vesper pp. 145-148) can help determine industry norm returns, turnover ratios, working capital, operating efficiency, and other measures of firm success
- Projected market share
  - Analyze the key industry players' relative market share, and make judgments about how the proposed venture would fare within the industry
  - Use information from market profile analysis and key industry player analysis
- Margin analysis
  - Involves projecting expected margins from venture
  - Useful information might come from financial analysis, market profile analysis, and NAICS (North American Industry Classification System) codes (six digit codes used to identify an industry – first five digits are standardized in Canada, the United States, and Mexico – is gradually replacing the four digit SIC [Standard Industrial Classification] codes)
- Break-even analysis
  - Involves using information from margin analysis to determine break even volume and break even sales in dollars
  - Is there sufficient volume to sustain the venture?
- Pro-forma analysis

    - Forecasting income and assets required to generate profits
- Sensitivity analysis
    - What will be the likely impact if some assumed variable values change?
- Return on investment (ROI) projections
    - Projecting the ROI from undertaking the venture
    - What is the opportunity cost of undertaking the venture?
- *Founder fit* is an important consideration for entrepreneurs screening venture opportunities. While there are plenty of examples of entrepreneurs successfully starting all types of businesses, “technical capability can be an important if not all-important factor in pursuing ventures success” (Vesper, 1996, p. 149). Factors such as the experience, training, credentials, reputation, and social capital an entrepreneur has can play an important role in their success or failure in starting a new venture. Even when an entrepreneur can recruit expert help through business partners or employees, it might be important that he or she also possess technical skills required in that particular kind of business.
- A common and useful way to help screen venture options is to seek input from experts, peers, mentors, business associates, and perhaps other stakeholders like potential customers and direct family members.

	Completing a TOWS matrix develops strategies from the SWOT analysis and strengthens your business plan.
	Reference your technical skills, as this is a major factor in a venture’s success.

Lean Startup

Ries (2011) defines a lean start-up as “a human institution designed to create a new product or service under conditions of extreme uncertainty” (p. 27), and the lean startup approach involves releasing a *minimal viable product* to customers with the expectation that this early prototype will change and evolve frequently and quickly in response to customer feedback. This is meant to be a relatively easy and inexpensive way to develop a product or service by relying on customer feedback to guide the *pivots* in new directions that will ultimately – and relatively quickly – lead to a product or service that will have the appeal required for business success. It is only then that the actual business can truly emerge. As such, entrepreneurs that apply the lean start-up approach – because their business idea allows for it – actually forgo developing a business plan, at least until they might need one later to get financing, in favour of building their business by introducing a *minimum viable product* to help “entrepreneurs start the process of learning as quickly as possible” (Ries, 2011, p. 93). This is followed by ever improving versions of their products or services. However, all entrepreneurs must directly consult with their potential target purchasers and end users to assess if and how the market might respond to their proposed venture. The *Essential Initial Research* and *Progressive Research* should include purposeful and meaningful interactions with the entrepreneur and target purchasers and end users.

Ries’s (2011) five lean startup principles start with the idea that entrepreneurs are everywhere and that anyone working in an environment where they seek to create new products or services “under conditions of extreme uncertainty” (27) can use the lean startup approach. Second, a startup is more than the product or service, it is an institution that must be managed in a new way that promotes growth through innovation. Third, startups are about learning “how to build a sustainable business” (pp. 8-9) by validating product or service design through frequent prototyping that allows entrepreneurs to test the concepts. Forth, startups must follow this process, or feedback loop: create products and services; then measure how the market reacts to them; and learn from that to determine whether to pivot or to persevere with an outcome the market accepts. Finally, Ries (2011) suggested that entrepreneurial outcomes and innovation initiatives need to be measured through innovative accounting.

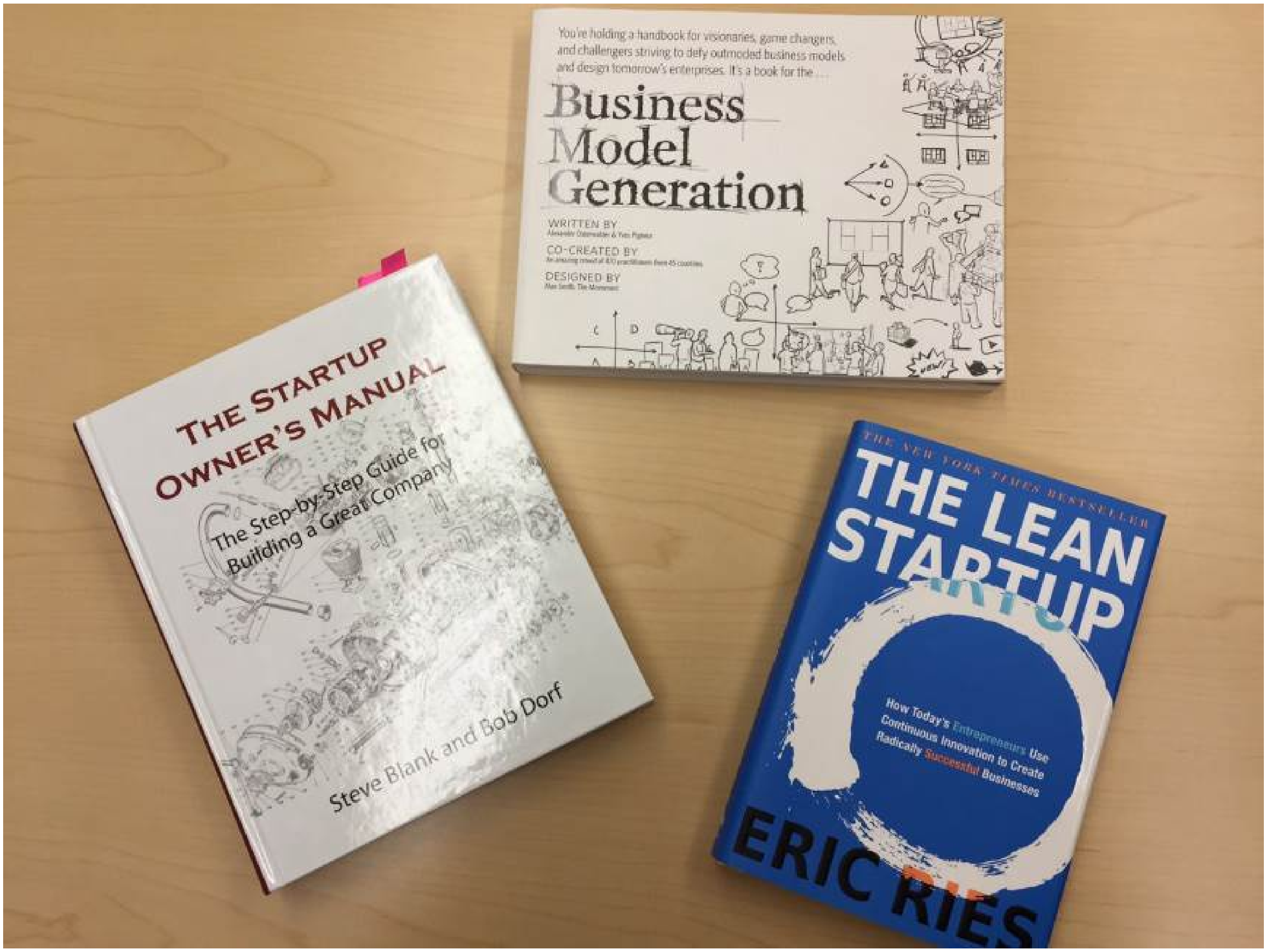

Figure 4 – Business Model and Lean Start-Up Books (Picture by Lee A. Swanson)

Chapter Summary

By *applying the right tools* to analyze the operating environment at each of the societal, industry, market, and firm-levels, entrepreneurs screen venture ideas, plan new venture development, and potentially detect factors that might affect their business operations. It also explained the lean startup concept. See Figure 4 for other resources on business models and the lean startup.

Chapter 3 – Business Models

Learning Objectives

After completing this chapter, you will be able to:

- Describe what a business model is.
- Analyse existing and proposed businesses to determine what business models they are applying and what business models they plan to apply.
- Develop and analyze alternative business models for new entrepreneurial ventures.

Overview

In this chapter the concept of the business model is introduced. One concept of the business model in particular, the Business Model Canvas, is explored as a way to conceptualize and categorize elements of a business model.

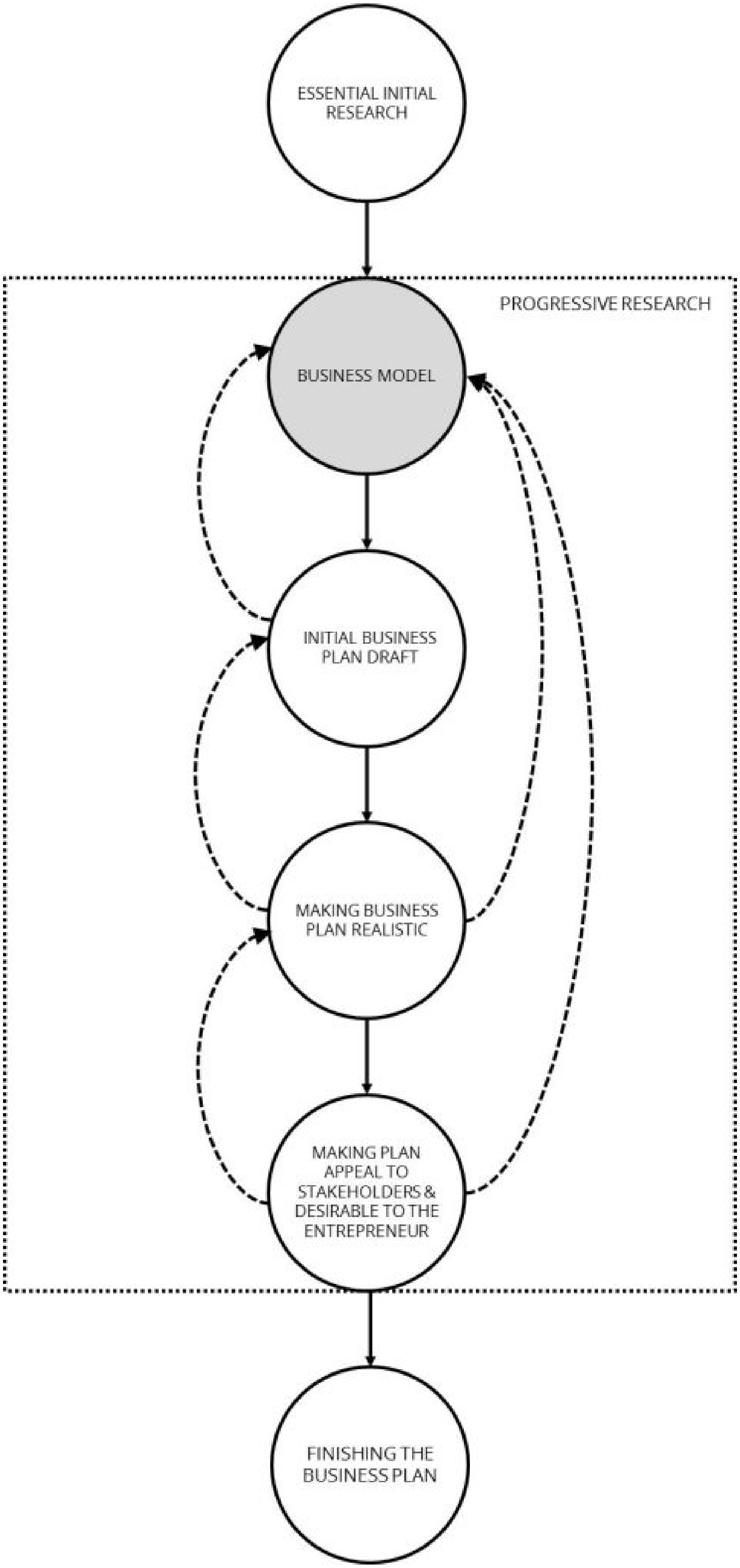
ESSENTIAL INITIAL RESEARCH
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Figure 5 – Business Model (Illustration by Lee A. Swanson)

What are Business Models?

Magretta (2002) described business models as “stories that explain how enterprises work” (p. 87) and Osterwalder, Pigneur, and Clark (2010) claimed that they reveal “the rationale of how an organization creates, delivers, and captures value” (p. 14). Chatterjee (2013) said that “A business is about selling what you make for a profit. A business model is a configuration (activity systems) of what the business does (activities) and what it invests in (resources) based on the logic that drives the profits for a specific business” (p. 97).

Osterwalder et al. (2010) said that a start-up is something quite different than an ongoing venture. A start-up should not be viewed as a smaller version of a company because it requires very different skills to start-up a company than it does to operate one. A start-up that is still a start-up after some time – maybe after a couple of years for some kinds of start-ups – is actually a failed enterprise since it hasn’t converted into an ongoing venture. Entrepreneurs that develop a business model for their ventures that deliver value to the targeted customers and to the entrepreneur and the venture stand a better chance of converting their start-up into an ongoing venture.

The Business Model Canvas

The business model canvas is made up of nine parts that, together, end up describing the business model (see Figure 6).

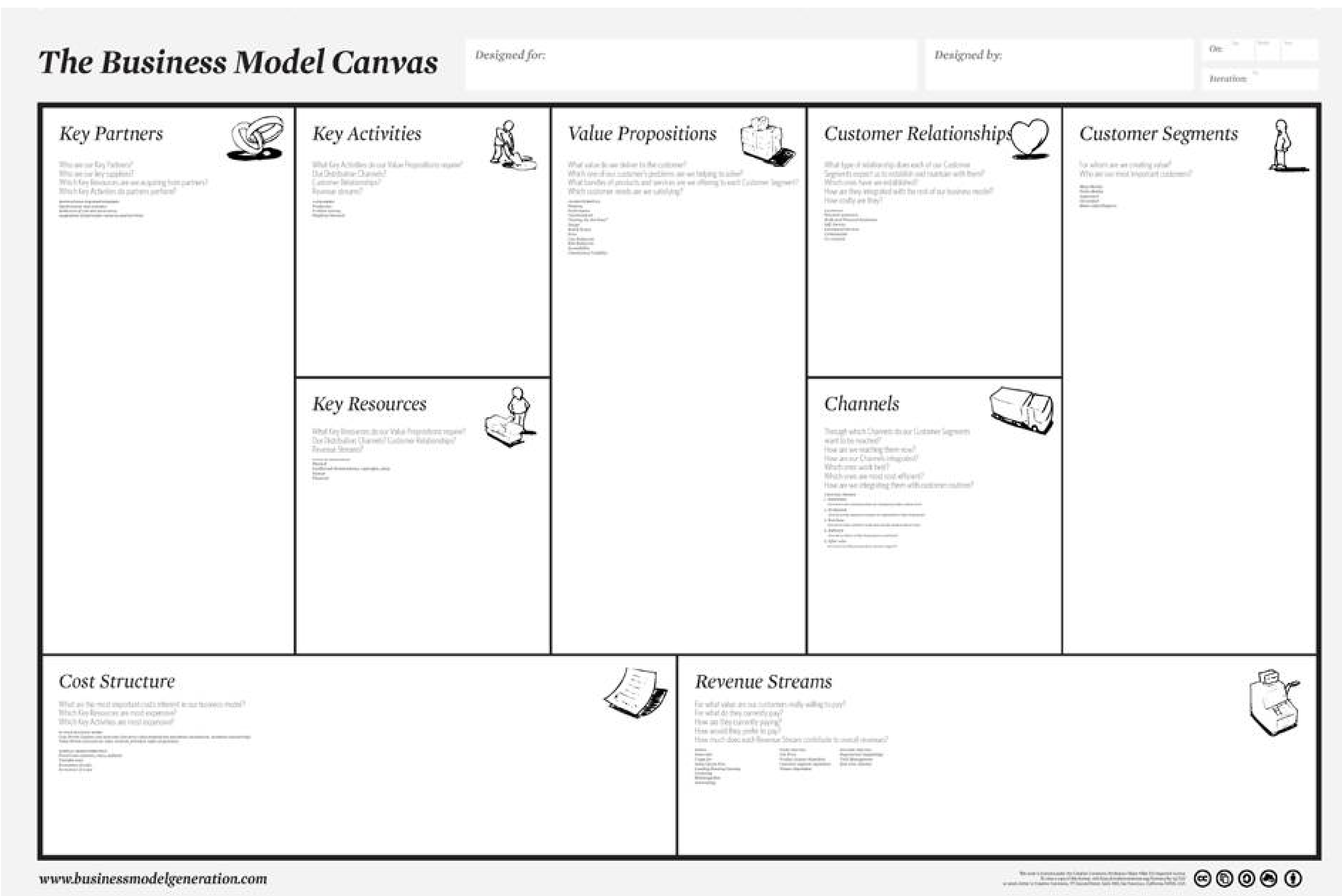

Figure 6 – Business Model Canvas from http://www.businessmodelgeneration.com (Designed by: Strategyzer AG, strategyzer.com, Creative Commons Attribution-Share Alike 3.0 Unported License)

The following elements of the Business Model Canvas were taken, with permission, from http://www.businessmodelgeneration.com.

- Key partners
    - Who are our key partners?
    - Who are our key suppliers?
    - Which key resources are we acquiring from partners?
    - Which key activities do partners perform?
    - Motivations for partnerships: optimization and economy; reduction of risk and uncertainty; acquisition of particular resources and activities.
- Key activities
    - What key activities do our value propositions require?
    - Our distribution channels?
    - Customer relationships?
    - Revenue streams?
    - Categories: production; problem solving; platform/network.
- Key resources
    - What key resources do our value propositions require?
    - Our distribution channels?
    - Customer relationships?
    - Revenue streams?
    - Types of resources: physical; intellectual (brand patents, copyrights, data); human; financial
- Value propositions
    - What value do we deliver to the customer?
    - Which one of our customer's problems are we helping to solve?
    - What bundles of products and services are we offering to each customer segment?
    - Which customer needs are we satisfying?
    - Characteristics: newness; performance; customization; "getting the job done"; design; brand/status; price; cost reduction; risk reduction; accessibility; convenience/usability.
- Customer relationships
    - What type of relationship does each of our customer segments expect us to establish and maintain with them?
    - Which ones have we established?
    - How are they integrated with the rest of our business model?
    - How costly are they?
    - Examples: personal assistance; dedicated personal assistance; self-service; automated services; communities; co-creation.
- Customer segments
    - For whom are we creating value?
    - Who are our most important customers?
    - Mass market; niche market; segmented; diversified; multi-sided platform.
- Channels
    - Through which channels do our customer segments want to be reached?
    - How are we reaching them now?
    - How are our channels integrated?
    - Which ones work best?
    - Which ones are most cost-efficient?
    - How are we integrating them with customer routines?
    - Channel phases: (1) awareness (How do we raise awareness about our company's products and services?); (2) evaluation (How do we help customers evaluate our organization's value proposition?); (3) purchase (How do we allow customers to purchase specific products and services?); (4) delivery (How do we deliver a value proposition to customers?); (5) after sales (How do we provide post-purchase customer support?).
- Revenue streams
    - For what value are our customers really willing to pay?
    - For what do they currently pay?

    - How are they currently paying?
    - How would they prefer to pay?
    - How much does each revenue stream contribute to overall revenues?
    - Types: asset sale; usage fee; subscription fees; lending/renting/leasing; licensing; brokerage fees; advertising.
    - Fixed pricing: list price; product feature dependent; customer segment dependent; volume dependent.
    - Dynamic pricing: negotiation (bargaining); yield management; real-time-market.
- Cost structure
    - What are the most important costs inherent in our business model?
    - Which key resources are most expensive?
    - Which key activities are most expensive?
    - Is your business more: cost driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing); value driven (focused on value creation, premium value proposition).
    - Sample characteristics: fixed costs (salaries, rents, utilities); variable costs; economies of scale; economies of scope.

The idea is to keep adding descriptions, or plans to the nine components to create the initial business model and then to actually do the start-up activities and replace the initial assumptions in each of the nine parts with newer and better information or plans, and to let the business model evolve. This model is partly based on the idea that the owner should be the one interacting with potential customers so he or she fully understands what these potential customers want These interactions should not only be done by hired sales people, at least until the business model has evolved into one that works, and this evolution can only happen when the venture owner is completely engaged with the potential customers and the other business operations (Osterwalder et al., 2010).

A business plan shouldn't be created until the above has been done because you need to know what your business model is before you can really create a business plan (Osterwalder et al., 2010). This seems to imply that the Business Model Canvas is best suited to technology-based and other types of companies that can be basically started and operated in some way that can later be converted into an ongoing venture. By starting operations and making adjustments as you go along, you are actually doing a form of market research that can be compiled into a full business plan when one is needed.

According to Osterwalder, et al. (2010) the things we typically teach people in business school are geared to helping people survive in larger, ongoing businesses. What is taught – including organizational structures, reporting lines, managing sales teams, advertising, and similar topics – is not designed to help students understand how a start-up works and how to deal with the volatile nature of new ventures. The Business Model Canvas idea is meant to help us understand start-ups.

The Business Model Canvas tool is intended to be applied when business operations can be started on a small scale and adjustments can continually be made until the evolving business model ends up working in real life. This is in contrast to the more traditional approach of pre-planning everything and then going through the set-up and start-up processes and ending up with a business venture that opens for business one day without having proven at all that the business model it is founded upon will even work. These traditional start-ups sometimes flounder along as the owners find that their plans are not quite working out and they try to make adjustments on the fly. It can be difficult to make adjustments at this time because the processes are already set up. For example, sales teams might be in the field trying to make sales and blaming the product developers for the difficulty they are having, and the product developers might be blaming the sales teams for not being able to sell the product properly. The real issue might be that the company simply isn't meeting customers' needs and they don't have any good mechanism for detecting and understanding and fixing this problem.

Chapter Summary

This chapter described business models and used the example of the Business Model Canvas as a tool that entrepreneurs can use to develop and define their own business models.

Chapter 4 – Initial Business Plan Draft

Learning Objectives

After completing this chapter, you will be able to:

- Develop a comprehensive business plan draft.

Overview

This chapter describes an approach to writing your draft business plan. It also outlines the elements of a comprehensive business plan so that they can be used as a template for starting your business plan.

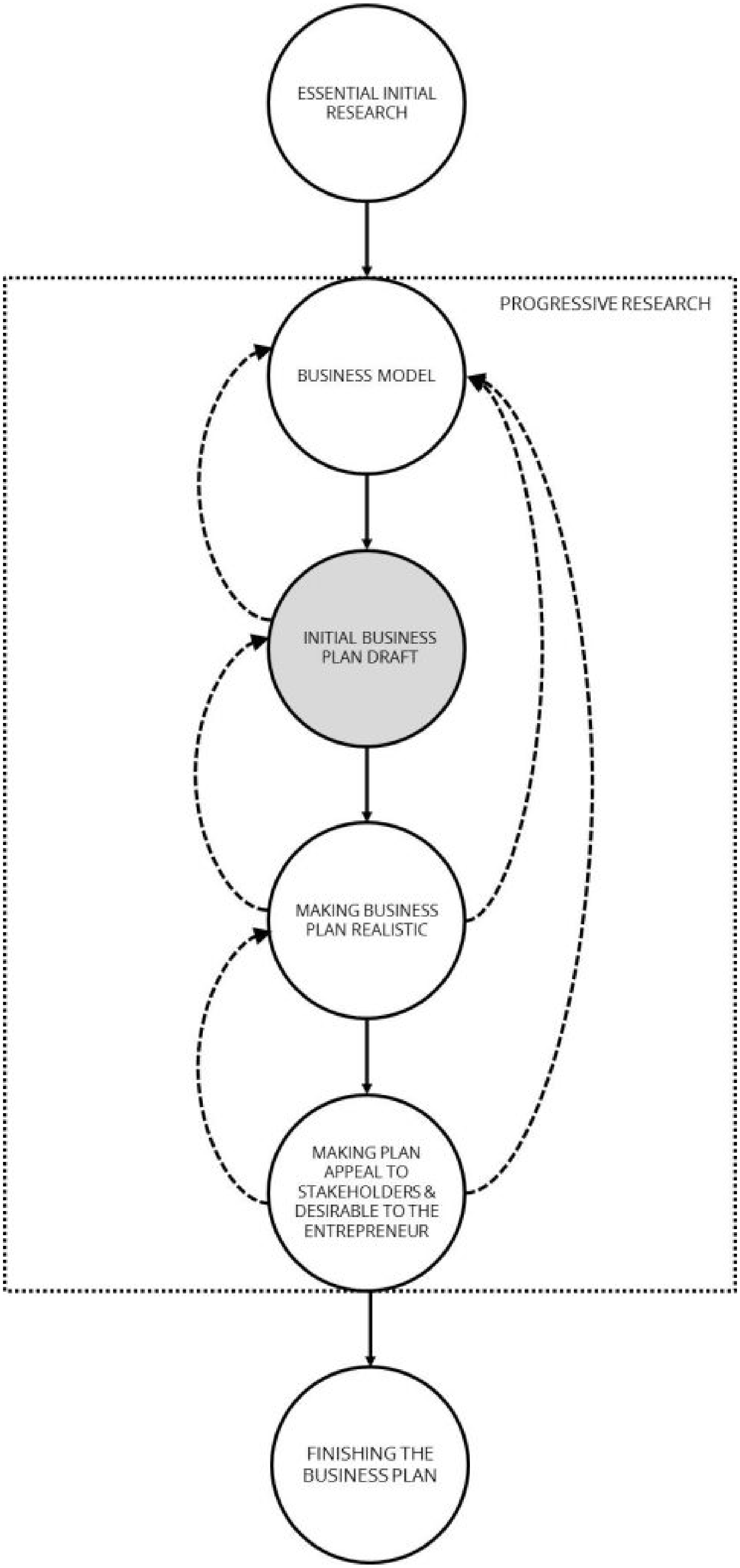
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Figure 7 – Initial Business Plan Draft (Illustration by Lee A. Swanson)

Effective Business Plans

Effective business plans:

- Provide statements that are backed by evidence or data
- Include context and references with every table, figure, or illustration
- Include tables and financial information that is relevant, clear, concise, and exclude unnecessary material
- Present timelines for distinct purposes
- Exclude generic sections but have clear and customized to the particular business or its environment

	Evidence-based claims strengthen your business plan.
	Providing context for tables and figures is critical.

Writing the Draft Business Plan

Although there are various ways to approach the task of writing a draft business plan, one effective approach is to do the following:

- Use the following sections of this chapter to prepare an outline for your business plan. You should do the *headings* feature in Word so that you can later automatically generate a *table of contents*.
    - This will provide you with a template into which to insert the information needed for your plan.
- Insert the relevant parts of the written work produced during *Essential Initial Research* into your new business plan template. You can do this in one of two ways.
- First, you can copy and paste the results of your *essential initial research* into the sections of your business plan template where you believe that they can be used to support or justify the strategies and other decisions you will later describe in those sections. Of course, you can later move those parts of your environmental scan as needed as you develop your plan. *In general, this strategy results in a stronger business plan*.
- Second, you can insert the results from your societal-level and industry-level analyses in an *Operating Environment* section as listed in the outline below. As described below, the market-level analysis will probably always fit best within the *Marketing Plan* and the firm-level analysis might fit across all of the plans within the business plan.
    - *Completing this step will give you the satisfaction of seeing some of your work so far taking shape in the form of a business plan.*
    - *Also, inserting the results from your environmental scan into the relevant sections of your plan should later provide you with the stimulus and support you will need to develop solid, realistic, evidence-based strategies and decisions for those sections.*
- Incorporate your business model into your new business plan template. As there is no section in a business plan in which you specifically describe your business model, you will need to incorporate your business model elements into appropriate sections of your plan.
- Fill in as much relevant information as you can under as many of the headings on your business plan template as possible.
    - You will normally include both (1) information that you got from particular sources and (2) information that has not come from any source, but that is based on an assumption you made (and that you might intend to replace later with more accurate information from valid sources). Follow the following practices:
- Every time that you insert something into your business plan template that you got from a source, clearly indicate from where you got that information. For example, if you list the office equipment and furniture that you need along with their exact costs as taken from suppliers’ catalogue, clearly indicate from which

catalogues you got the information. Similarly, if you spoke to an industry expert who recommended that you manufacture your product in a particular way, if you can (if you got the person's permission to do so) clearly indicate who you spoke to and what their credentials are.
    - When you do this, you help establish your credibility as a business plan writer, and your business plan's credibility. It also might save you time later when you discover that you need to add a similar item along with its cost to your list.
    - Note: Do not reinvent the wheel by "inventing" your own method to reference your sources, and do not use multiple methods. Use one (and only one) proper and well established referencing method, like APA. This will improve the degree of professionalism of your plan.
- Every time that you insert something into your plan that did not come from a source, a best practice is to highlight that part of your plan, possibly by using a distinct font color. The objective will be to ultimately *replace all of those assumptions* with source-backed information. When you do so, change the font to its regular color so you can quickly and easily see what still needs to be sourced.
    - Note that if you are an expert source on something – maybe you are a construction expert that business plan readers will trust to do estimates on building costs – you should establish your credentials and clearly indicate when some of the information in your plan is based on your own expert knowledge.
    - When you flag your assumptions in this way, you can quickly and easily see what information needs to be replaced with sourced information before you finalize your business plan.
- Use the appropriate schedule in the spreadsheet templates to record estimated sales revenue for each month. You must base these sales projections on well-reasoned criteria and set them up in your spreadsheets using formulas so that if you need to change a criterion later, you can change a number in one cell or a limited number of cells rather than have to change all of them.
    - Projecting realistic sales can be difficult, but setting up a method for doing so early gives business plan writers a significant start toward completing their business plan. A well-developed sales model that takes advantages of the powers of electronic spreadsheets gives business plan writers the opportunity to relatively quickly easily make necessary changes to their assumptions and overall estimates when needed.
- Use the spreadsheet templates by filling in all of the numbers you have in the various schedules. As you are doing in the written part of your plan, use a distinct font to flag numbers that are based on assumptions. When you have actual numbers, be certain that it is clear to a reader what source you used to get those numbers.
    - When you use the schedules provided on the spreadsheet templates, and any others that you add, you will be well on your way to developing the financial component of your business plan.

	Providing references strengthens the credibility of claims and makes the business plan stronger.
	If you don't have a source to a claim, plant a flag and move forward, returning later to insert the source.

General Business Plan Format

Letter of Transmittal

A letter of transmittal is similar to the cover letter of a resume. The letter of transmittal should be tailored to the reader, clearly identifying the customized ask of the potential investor or lender. It should be short and succinct, delineating the ask (i.e. funding, specialized recruiting, purchase product or service, obtain advice, etc.) within a few paragraphs. It should not summarize the business plan, as that is the job of the executive summary.

Title Page

Include nice, catchy, professional, appropriate graphics to make it appealing for targeted readers

Executive Summary

- Can be longer than normal executive summaries … up to 3 pages
- Write after remainder of plan is complete
- Include information relevant to targeted readers as this is the place where they are most likely to form their first impressions of the business idea and decide whether they wish to read the rest of the plan

Table of Contents

List of Tables

Be certain that each and every table, figure, and appendix included in the plan is referenced within the text of the plan so the relevance of each of these elements is clear.

List of Figures

Introduction

- Indicate the purpose for the plan
- Make appealing to targeted readers

Business Idea

- May include description of history behind the idea and the evolution of the business concept if relevant

Value Proposition

- Explain how your business idea solves a problem for your expected customers or otherwise should make them want to purchase your product or service instead of a competitor's

Vision

- Generally outlines what the owner intends for the venture to be
- A good one will inspire all members of the organization
- It should help stakeholders aspire to achieve greater things through the venture because of the general direction provided through the vision statement
- After articulating a good vision, the business plan writer should consider what achieving the vision looks like. Many business plan writers write their vision and leave it at that. The problem with this approach is that they often then do not take the necessary steps to illustrate how the strategies they outline in their plan will move them toward achieving their vision. If they make this mistake, their strategies might indicate that they are fulfilling their current mission, but are not taking steps to move beyond that.
- Vision statements should be clear with context throughout the business plan. For example, if the goal is to be the premier business operating in that industry in Saskatchewan, does that mean you have one location and are considered the best at what you do it even though you only have a small corner of the market, or does it mean that you have many locations across the province and enjoy a large market share.

> Vision statements should be clear with context throughout the business plan.

Mission

- Should be very brief – a few sentences or a short paragraph
- Indicates what your organization does and why it exists – may describe the business strategy and philosophy

Values

- These are reflected in *five to ten* short statements indicating the important values that will guide everything the business will do

- They outline the personal commitments members of the organization must make, and what they should consider to be important
- They define how people behave and interact with each other
- The proposed venture’s stated values should be reflected in all of the decisions outlined in the business plan, from hiring to promotions to location choices
- They should help the reader understand the type of culture and operating environment this business intends to develop

Major Goals

- Describe the major organizational goals
- Ensure each goal is:
    - Specific, Measurable, Action oriented, Realistic, and Timely [SMART]
    - Realistic, Understandable, Measureable, Believable, and Achievable [RUMBA]
- Be certain all goals perfectly align with everything in plan
- You should write, or re-write this section as the second last thing you do before finalizing your business plan by doing the final proof-read, polishing it up, and printing it (writing the executive Summary will be the final thing you should write).

Having goals that are SMART and RUMBA strengthens the business plan.

Operating Environment

Trend Analysis

- Include an analysis of how the current and expected trends in the political, economic, social, technological, environmental, and legal (PESTEL) factors will impact the development of this business
- Consider whether this is the right place for this analysis
- It may be better positioned in, for example, the Financial Plan section to provide context to the analysis of the critical success factors, or in the Marketing plan to help the reader understand the basis for the sales projections

Providing strategies to capitalize on trends is a winning formula.

Industry Analysis

- Include an analysis of the industry in which this business will operate
- A common approach is to apply the Five Forces Model (Porter, 1985)
- Consider whether this is the right place for this analysis
- It may be better placed in, for example, the Marketing Plan to enhance the competitor analysis, or in the Financial plan to provide context to the industry standard ratios in the Investment Analysis section

Of course, your trend analysis will also include a *market-level analysis* (using a set of questions, like those listed in Chapter 2) and a *firm-level analysis* (using tools like a SWOT analysis / TOWS matrix, various forms of financial analyses, a founder fit analysis, and so on), but those analyses are usually best placed in other sections of your plan to support the strategies and decisions you present there. The *market-level analysis* will inevitably fit in the *Marketing Plan* section, but the *firm-level analysis* might be spread across some or all of the *Operating Plan*, *Human Resources Plan*, *Marketing Plan*, and *Financial Plan* sections.

Operations Plan

- Key questions answered by operating plans:
    - What are your facility plans?
        - Where will your facility be located?
            - Expressed as a set physical location
            - Expressed as a set of requirements and characteristics
        - How large will your facility be and why must it be this size?
        - How much will it cost to buy or lease your facility?
        - What utility, parking, and other costs must you pay for this facility?
        - What expansion plans must be factored into the facility requirements?
        - What transportation and storage issues must be addressed by facility decisions?
        - What zoning and other legal issues must you deal with?
        - What will be the layout for your facility and how will this best accommodate customer and employee requirements?
    - What constraints are you operating under that will restrict your capacity to produce and sell your product?
        - Given these constraints, what is your operating capacity (in terms of production, sales, etc.)?
    - What is the work flow plan for your operation?
    - What work will your company do and what work will you outsource?

Operations Timeline

- When will you make the preparations, such as registering the business name and purchasing equipment, to start the venture?
- When will you begin operations and make your first sales?
- When will other milestone events occur such as moving operations to a larger facility, offering a new product line, hiring new key employees, and beginning to sell products internationally?
- Sometimes it is useful to include a graphical timeline showing when these milestone events have occurred and are expected to occur

	Completing the operation plans further adds to the overall business plan.

Business Structure and other Set-up Elements

- Somewhere in your business plan you must indicate what legal structure your venture will take. Your financial statements, risk management strategy, and other elements of your plan are affected by the type of legal structure you choose for your business. For example, all partnerships should have a clear agreement outlining the duties, expectations, and compensation of all partners as well as the process of dissolution. *Please Note: Spreadsheet templates are formatted for corporations and will need to be formatted for other forms of businesses.*
    - Sole Proprietorship
    - Partnership
    - Limited Partnership
    - Corporation
    - Cooperative
- As part of your business set-up, you need to determine what kinds of control systems you should have in place, establish necessary relationships with suppliers and prior to your start-up, and generally deal with a list of issues like the following. Many of your decisions related to the following should be described somewhere in your business plan:
    - Choose name
    - Check zoning, equipment prices, suppliers, etc.
    - Choose location

- Arrange lease terms, leasehold improvements, signage, pay deposits, etc.
    - Get business license, permits, etc.
    - Set up banking arrangements
    - Set up legal and accounting systems (or professionals)
    - Order equipment, locks and keys, furniture, etc.
    - Recruit employees, set up payroll system, benefit programs, etc.
    - Train employees
    - Test the products/services that will be offered
    - Test the *systems* for supply, sales, delivery, and other functions
    - Decide on graphics, logos, promotional methods, etc.
    - Order business cards, letter head, etc.
    - Clearly communicate suppliers, why they are preferred, and set up necessary agreements
    - Buy inventory, insurance, etc.
    - Revise business plan
    - …. And many more things … including, when possible, attracting purchased orders in advance of start-up through personal selling (by the owner, a paid sales force, independent representatives, or by selling through brokers wholesalers, catalog houses, retailers), a promotional campaign, or through other means

Start-up

- What is required to start-up your business including the purchases and activities that must occur before you make your first sale?
- When identifying capital requirements for start-up a distinction should be made between fixed capital requirements and working capital requirements

Fixed Capital Requirements

- What fixed assets, including equipment and machinery, must be purchased so your venture can conduct its business?
- This section may include a start-up budget showing the machinery, equipment, furnishings, renovations, and other capital expenditures required prior to operations commencing
    - If relevant you might include information showing the financing required … fixed capital is usually financed using longer-term loans

Working Capital Requirements

- What money is needed to operate the business (separately from the money needed to purchase fixed assets) including the money needed to purchase inventory and pay initial expenses?
- This section may include a start-up budget showing the cash required to purchase starting inventories, recruit employees, conduct market research, acquire licenses, hire lawyers, and other operating expenditures required prior to starting operations
    - If relevant you might include information showing the financing required … working capital is usually financed with operating loans, trade credit, credit card debt, or other forms of shorter-term loans

Risk Management Strategies

- Include descriptions of the organization’s risk exposure
    - Enterprise – liability exposure for things like when someone accuses your employees or products you sell of injuring them.
    - Financial – securing loans when needed and otherwise having the right amount of money when you need it
    - Operational – securing needed inventories, recruiting needed employees in tight labour markets, customers you counted on not purchasing product as you had anticipated, theft, arson, natural disasters like fires and floods, etc.

- Always include descriptions of the planned strategies for managing each of the risks identified. Identify potential risk exposures, their consequences, risk potential, and mitigation strategies (Figure 8).
    - Avoid – choose to avoid doing something, outsource, etc.
    - Reduce – through training, assuming specific operational strategies, etc.
    - Transfer – insure against, outsource, etc.
    - Assume – self insure, accept, etc.

RISK EXPOSURE	RISK CONSEQUENCE	RISK POTENTIAL	MITIGATION
Fire, flood, or theft	Possibly devastating	Moderate	Purchase insurance and alarm system
Bad debt	Lost income and profit	Moderate	Credit checks, registered security, and legal contracts

Figure 8 – Risk Management Strategies (Illustration by Lee A. Swanson)

Completing a risk management plan further adds to the overall business plan.

Operating Processes

- What operating processes will you apply?
- Depending upon the type of business for which you are creating your plan you will need to describe different things:
    - Retail and wholesale operations
        - How will you ensure your cash is managed effectively?
        - How will you schedule your employees?
        - How will you manage your inventories?
        - If you will have a workforce, how will you manage them?
        - etc.
    - Service operation
        - How will you bill out your employee time?
        - How will you schedule work on your contracts?
        - etc.
    - Manufacturing operation
        - How you will manufacture your product (process flow, job shop, etc.?)
        - How will you maintain quality?
        - How will you institute and manage effective financial monitoring and control systems that provide needed information in a timely manner?
        - How will you manage expansion?
        - etc.

Facilities

- May include planned layouts for facilities

Organizational Structure

- May include information on Advisory Boards or Board of Directors from which the company will seek advice or guidance or direction
- May include an organizational chart
- Can be a nice lead-in to the Human Resources Plan

Human Resources Plan

- Key questions answered by human resources plans:
    - How do you describe your desired corporate culture?

    - What are the key positions within your organization?
    - How many employees will you have?
    - What characteristics define your desired employees?
    - What is your recruitment strategy? What processes will you apply to hire the employees you require?
    - What is your leadership strategy and why have you chosen this approach?
    - What performance appraisal and employee development methods will you use?
    - What is your organizational structure and why is this the best way for your company to be organized?
    - How will you pay each employee (wage, salary, commission, etc.)? How much will you pay each employee?
    - What are your payroll costs, including benefits?
    - What work will be outsourced and what work will be completed in-house?
    - Have you shown and described an organizational chart?

Recruitment and Retention Strategies

- Include how many employees are required at what times
- Estimate time required to recruit needed employees
- Estimate all recruitment costs including:
    - Employment advertisements
    - Contracts with employment agency or search firms
    - Travel and accommodations for potential employees to come for interviews
    - Travel and accommodations for interviewers
    - Facility, food, lost time, and other interviewing costs
    - Relocation allowances for those hired including flights, moving companies, housing allowances, spousal employment assistance, etc.

You might include a schedule here showing the costs of initial recruitment that then flows into your start-up expense schedules

Leadership and Management Strategies

- What is your leadership philosophy?
- Why is it the most appropriate leadership approach for this venture?

Training

- What training is required because of existing rules and regulations?
- How will you ensure your employees are as capable as required?
- In which of the following areas will you provide training for your employees?
    - Health and safety (legislation, WHMIS, first aid, defibulators, etc.)
    - Initial workplace orientation
    - Management
    - Financial systems
    - Sales
    - Contracts
    - Product features
    - Other

Performance Appraisals

- How will you manage your performance appraisal systems?

Health and Safety

- There may be legal requirements that should be noted in this section (and also legal requirements for other issues that may be included in other parts of the plan)

- Consider pursuing accreditation such as ISO 9000, if so, evaluate the costs, benefits, and time frame
- Employees may require WHMIS training or other training including machinery handling

Compensation

- Always completely justify your planned employee compensation methods and amounts
- Always include all components of the compensation (CPP, EI, holiday pay, etc.)
- How will you ensure both internal and external equity in your pay systems
- Describe any incentive-based pay or profit sharing systems planned
- You might include a schedule here that shows the financial implications of your compensation strategy and supports the cash flow and income statements shown later

Key Personnel

- May include brief biographies of the key organizational people

	Completing the human resources plan further adds to the overall business plan.

Marketing Plan

- What primary and secondary research have you done?
  - You must show evidence of having done proper research, both primary and secondary. If you make a statement of fact, you must back it up with properly referenced supporting evidence. If you indicate a claim is based on your own assumptions, you must back this up with a description as to how you came to the conclusion.
- Somewhere in your plan have you done an effective analysis of the economic environment relevant to your business?
  - It is a given that you must provide some assessment of the economic situation as it relates to your business. For example, you might conclude that the current economic crisis will reduce the potential to export your product and it may make it more difficult to acquire credit with which to operate your business. Of course, conclusions such as these should be matched with your assessment as to how your business will make the necessary adjustments to ensure it will thrive despite these challenges, or how it will take advantage of any opportunities your assessment uncovers.
- Somewhere in your plan have you done an effective assessment of the industry within which your venture will operate?
  - You must provide an assessment of the industry coupled with descriptions of how your venture will prosper in those circumstances. A common approach used to assess the industry is to apply Porter's (1985) five forces model.
  - If you apply the five forces model be certain to do so in the way in which it was meant to be used to avoid significantly reducing its usefulness while also harming the viability of your industry analysis. This model is meant to be used to consider the entire industry – not a subcomponent of it (and it usually cannot be used to analyze a single organization).
  - Your competitor analysis might fit within your assessment of the industry, or it might be best as a section within your marketing plan. Usually a fairly detailed description of your competitors is required, including an analysis of their strengths and weaknesses. In some cases your business may have direct and indirect competitors to consider. Be certain to maintain credibility by demonstrating that you fully understand the competitive environment.
  - Assessments of the economic conditions and the state of the industry appear incomplete without accompanying appraisals outlining the strategies the organization can/should employ to take advantage of these economic and industry situations. So, depending upon how you have organized your work, it is usually important to couple your appraisal of the economic and industry conditions with accompanying strategies for your venture. This shows the reader that you not only understand the operating environment, but that you have figured out how best to operate your business within that

situation.

- Have you done an effective analysis of your venture (see Organizational Analysis section below)?

	Completing the marketing plan further adds to the overall business plan.
	Primary and secondary data further add to the strength of the business plan.
	Providing marketing strategies to capitalize on market information is a winning formula.

Market Analysis

- The market analysis section usually contains customer profiles, constructed through primary and secondary research, for each market targeted. It also contains detailed information on the major product benefits you will deliver to the markets targeted.
- describe the methodology used and the relevant results from the primary market research done
- if there was little primary research completed, justify why it is acceptable to have done little of this kind of research and/or indicate what will be done and by when
- include a complete description of the secondary research conducted and the conclusions reached
- Who are your customers going to be?
  - Be sure to define your target market in terms of identifiable entities sharing common characteristics. For example, it is not meaningful to indicate you are targeting Canadian universities. It is, however, useful to define your target market as Canadian university students between the ages of 18 and 25 … or as information technology managers at Canadian universities … or as student leaders at Canadian universities. Your targeted customer should generally be able to make or significantly influence the buying decision.
  - You must usually define your target market prior to describing your marketing mix, including your proposed product line. Sometimes the product descriptions in business plans seem to be at odds with the described target market characteristics. Ensure your defined target market aligns completely with your marketing mix (including product/service description, distribution channels, promotional methods, and pricing). For example, if the target market is defined as Canadian university students between the ages of 18 and 25, the product component of the marketing mix should clearly be something that appeals to this target market.
  - Carefully choose how you will target potential customers. Should you target them based on their demographic characteristics, psychographic characteristics, or geographic location?
- Do you understand how your targeted customers make their buying decisions?
  - You will need to access research to answer this question. Based on what you discover, you will need to figure out the optimum mix of pricing, distribution, promotions, and product decisions to best appeal to how your targeted customers make their buying decisions.

Competition

- The competition section usually fully describes the nature of your competitors. This information might fit instead under the market analysis section.
- Describe all your direct competitors
- Describe all your indirect competitors
- If you can, include a competitor positioning map to show where your product will be positioned relative to competitors' products? Insure that the x-axis and y-axis are meaningful. Often times competitor maps include quality and price as axes. Unless you can clearly articulate the distinction between high quality and low quality, it may be more valuable to have more meaningful axes or describe your value proposition relative to your competitors in the absence of a positioning map.

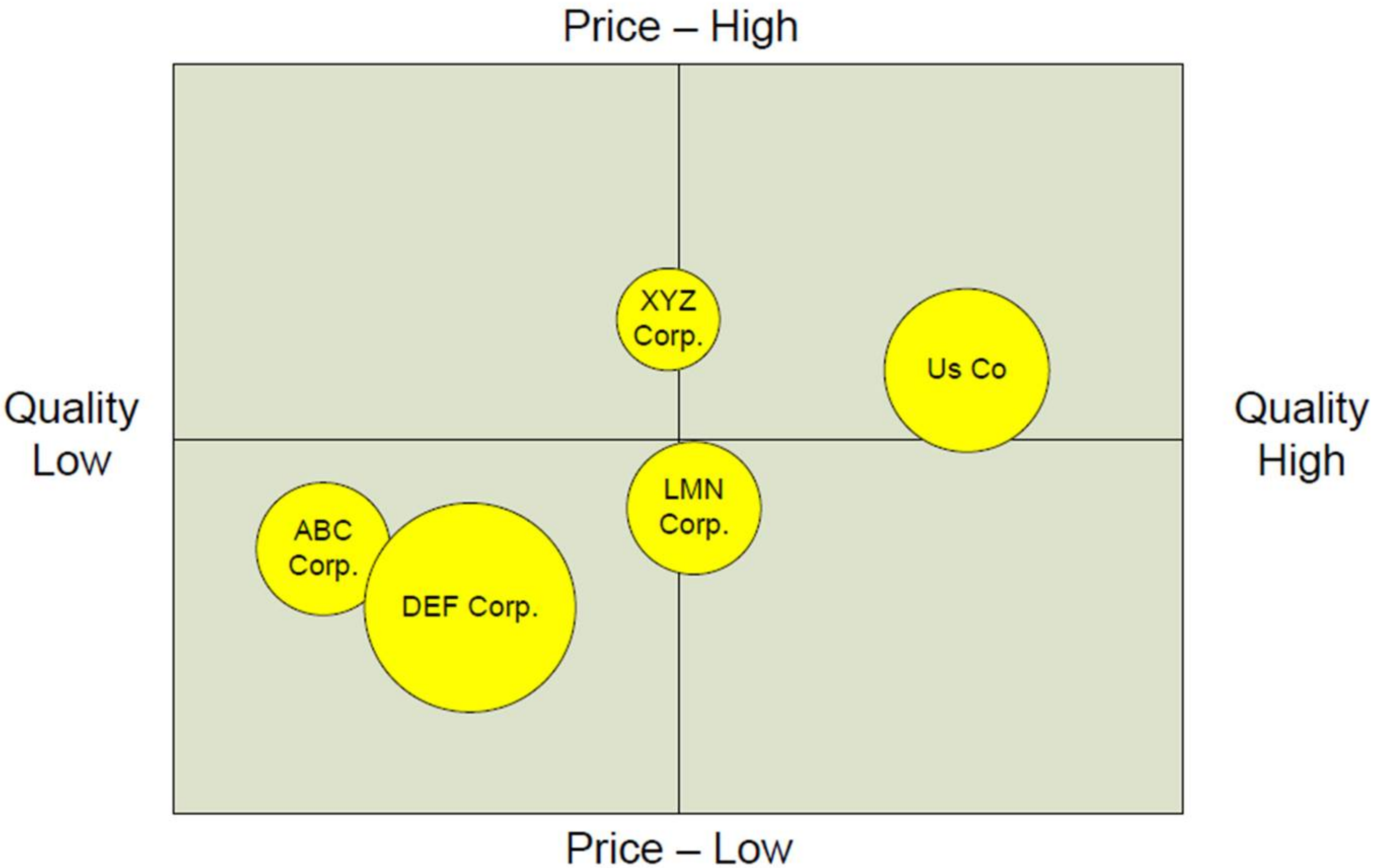
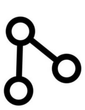


Figure 9 – Competitor Positioning Map (Illustration by Lee A. Swanson)

- What is your competitive advantage? What distinguishes your business from that of your competitors in a way that will ensure your sales forecasts will be met? What is your venture's value proposition?
    - You must clearly communicate the answers to these questions in your business plan in order to attract the needed support for your business. One caution is that it may sound appealing to claim you will provide a superior service to the existing competitors, but the only meaningful judge of your success in this regard will be customers. Although it is possible some of your competitors might be complacent in their current way of doing things, it is very unlikely that all your competitors provide an inferior service to that which you will be able to provide.

	Demonstrating a competitive advantage makes the business plan stronger.
	A competitor positioning map provides context as to where your venture fits in the competitive landscape.

Marketing Strategy

- The marketing strategy section is very important as this covers all aspects of the marketing mix including the promotional decisions you have made, product decisions, distribution decisions related to how you will deliver your product to the markets targeted, and pricing decisions.
- How do you plan to influence your targeted customers to buy from you (what is the optimum marketing mix, and why is this one better than the alternatives)?

Organizational Analysis

- This section might be positioned as a lead-in to your marketing strategy or it might be positioned elsewhere depending upon how your business plan is best structured.
- A common approach to analyzing an organization is to apply a SWOT analysis, but ALWAYS ensure this analysis results in more than a simple list of internal strengths and weaknesses and external opportunities and threats. A SWOT analysis should always prove to the reader that there are organizational strategies in place to address each of the weaknesses and threats identified and to leverage each of the strengths and opportunities identified.
- An effective way to ensure an effective outcome to your SWOT analysis is to apply a TOWS Matrix approach to develop strategies to take advantage of the identified strengths and opportunities while mitigating the weaknesses and threats. A TOWS Matrix is a tool to help with this. It evaluates each of the identified threats along with each of the weaknesses and then each of the strengths. It does the same with each of the identified opportunities. In this way strategies are developed by considering pairs of factors
- The TOWS Matrix is a framework with which to help you organize your thoughts into strategies. Most often you would not label a section of your business plan as a TOWS Matrix. This would not normally add value for the reader. Instead, you should describe the resultant strategies – perhaps while indicating how they were derived from your assessment of the strengths, weaknesses, opportunities, and threats. For example, you could indicate that certain strategies were developed by considering how internal strengths could be employed toward mitigating external threats faced by the business.

Product Strategy

- What is your product/service? Why will this particular product/service appeal to your targeted customers better than the alternatives?
- If your product or service is standardized, you will need to compete on the basis of something else – like a more appealing price, having a superior location, better branding, or improved service. If you can differentiate your product or service you might be able to compete on the basis of better quality, more features, appealing style, or something else. When describing your product, you should demonstrate that you understand this.

Pricing Strategy

- What are your pricing strategies? What makes these strategies better than the alternatives?
- If you intend to accept payment by credit card (which is probably a necessity for most companies), you should be aware of the fee you are charged as a percentage of the value of each transaction. If you don't account for this you risk overstating your actual revenues by perhaps one percent or more.
- What are your sales forecasts? Why are these realistic?
- Sales forecasts must be done on at least a monthly basis if you are using a projected cash flow statement. These must be accompanied by explanations designed to establish their credibility for readers of your business plan. Remember that many readers will initially assume your planned time frames are too long, your revenues are overstated, and you have underestimated your expenses. Well crafted explanations for all of these numbers will help establish credibility.

Distribution Strategy

- What are your distribution strategies? What makes these strategies better than the alternatives?
- If you plan to use e-commerce, you should include all the costs associated with maintaining a website and accepting payments over the Internet.

Promotions Strategy

- As a new entrant into the market, must you attract your customers away from your competitors they currently buy from or will you be creating new customers for your product or service (i.e. not attracting customers away from your competitors)?
    - If you are attracting customers away from competitors, how will these rivals respond to the threat you pose to them?

    - If you intend to create new customers, how will you convince them to reallocate their dollars toward your product or service (and away from other things they want to purchase)?
- Anticipate the responses competitors will have to your entrance into the market, especially if your success depends upon these businesses losing customers to you. If your entry into the market will not be a threat to direct competitors, it is likely you must convince potential customers to spend their money with you rather than on what they had previously earmarked those dollars toward. In your business plan you must demonstrate an awareness of these issues.
- In what ways will you communicate with your targeted customers? When will you communicate with them? What specific messages do you plan to convey to them? How much will this promotions plan cost?
- You should consider mapping out your promotional expenditures according to method used and time frame. Consider listing the promotional methods in rows on a spreadsheet with the columns representing weeks or months over probably about 18 months from the time of your first promotional expenditure. This can end up being a schedule that feeds the costs into your projected cash flow statement and from there into your projected income statements.
- If you phone or visit newspapers, radio stations, or television stations seeking advertising costs, you must go only after you have figured out details like on which days you would like to advertise, at what times on those days, whether you want your print advertisements in color, and what size of print advertisements you want.
- Carefully consider which promotional methods you will use. While using a medium like television may initially sound appealing, it is very expensive unless your ad runs during the non-prime times. If you think this type of medium might work for you, do a serious cost-benefit analysis to be sure.
- Some promotional plans are developed around newspaper ads, promotional pamphlets, printing business cards, and other more obvious mediums of promotion. Be certain to, include the costs of advertising in telephone directories, sponsoring a little league soccer team, producing personalized pens and other promotional client give-always, donating items to charity auctions, printing and mailing client Christmas cards, and doing the many things businesses find they do on-the-fly. Many businesses find it to be useful to join the local chamber of commerce and relevant trade organizations with which to network. Some find that setting a booth up at a trade fair helps launch their business.
- If you are concerned you might have missed some of these promotional expenses, or if you want to have a buffer in place in case you feel some of these opportunities are worthwhile when they arise, you should add some discretionary money to your promotional budget. A problem some companies get into is planning out their promotions in advance only to reallocate some of their newspaper advertisement money, for example, toward some of these other surprise purposes resulting in less newspaper advertising than had been intended.

Financial Plan

In addition to financial statements, your financial plan should include:

- Various funding options and exit strategies for potential investors
- Business valuation (be cautious not to over value your business)
- Break-even analysis

Business Valuation

There are a multitude of sophisticated business valuation methodologies. A rule of thumb for business valuations is a multiple of its earnings. For example, if the chosen multiple is five and the business' earnings before taxes are $55M, the business' valuation would be approximately $275M.

Break-Even Analysis

Break-Even Point = FC/(P-VC)

- FC = Fixed Costs
- P = Unit Price
- VC = Variable Cost

Example: If the business' total fixed costs are $1,000,000.00, it costs $5.00 to produce the widget, and the business *sells the widget for $7.00, the break-even point is 500,000 widgets.*

- It is nearly certain you will need to make monthly cash flow projections from business inception to possibly 3 years out. Your projections will show the months in which the activities shown on your fixed capital and working capital schedules will occur. This is nearly the only way to clearly estimate your working capital needs and, specifically, important things like the times when you will need to draw on or can pay down your operating loans and the months when you will need to take out longer-term loans with which to purchase your fixed assets. Without a tool like this you will be severely handicapped when talking with bankers about your expected needs. They will want to know how large of a line of credit you will need and when you anticipate needing to borrow longer-term money. It is only through doing cash flow projections will you be able to answer these questions. This information is also needed to determine things like the changes to your required loan payments and when you can take owner draws or pay dividends.
- Your projected cash flows are also used to develop your projected income statements and balance sheets.

Overview

Proforma Cash Flow Statements

Proforma Income Statements

Proforma Balance Sheets

Investment Analysis

Projected Financial Ratios and Industry Standard Ratios

Critical Success Factors (Sensitivity Analysis)

References

Appendices

List of Items a Business May Need to Purchase

Setup

- Business license
- Registration for name, etc.
- Domain name registration
- Initial product inventory
- Signage
- All the little things like curtains/blinds, decorations, microwave for staff room, etc.
- All the things need to run the business from day #1 (like cutlery, plates, cooking pots, table settings etc. for restaurants … like towels, soap, etc. for gyms … like equipment and so on for manufacturing and service places)
- Set up and testing of new facilities – new factories and offices do not operate at peak efficiency for some time after startup because it takes time for the new systems to kick into high gear
- Professional services needed
- Lawyer fees to make sure agreements are solid
- Graphic designer or design company needed to develop visuals
- Accounting firm needed to set up initial systems
- Insurance – maybe not a direct cost to this one to account for

Office

- Accounting system software
- Computer, printer, other things needed like scanner
- Office furniture

- Initial office supplies – paper, pens, etc.
- Telephones
- Internet / wifi
- Microwave and coffee maker and similar supplies for staff room or coffee room
- Bank fees – business banking is normally not free – might also need to have business cheques

Customer Interaction

- Cash register
- Loyalty cards / system

Production/Operations

- Safety equipment (fire extinguishers, AED)
- First aid
- Security systems
- Equipment maintenance
- Janitorial – and cleaning supplies
- Bathroom supplies – toilet paper, soap, towels
- Membership costs for various associations, including Chamber of Commerce, any professional associations for the relevant industry, etc.
- Subscriptions for things like important trade publications, etc.
- Shelving and storage systems
- Even when not full restaurant, but operations like coffee shops – still require equipment like dishwasher

Training

- Safety – prior to start-up and ongoing and for new employees

Hiring

- Ads, travel expenses – flights, hotels, taxi rides, meal allowances, etc. – to recruit people through interviews, meeting meals, set up with real estate agents, etc.

Promotions

- Website development (complex for e-commerce some capability for email exchanges, leaving comments, etc. ? simple for static information delivery)
- Costs for setting up and managing social media (can take a lot of an employee’s time)
- Grand opening costs

Property

- If buy then include property taxes and all utilities in cash flows and income statement and include building maintenance and maybe build up a reserve fund to pay for things like future roof repairs and needed renovations and upgrades
- If rent/lease, then include rental/least cost and whatever utilities are not included in rental/lease payment

Renovations

- Construction
- Plumbing
- Electrical
- Utility hookups
- Inspections
- Shelving
- Interior signage

- Fencing, parking lot, exterior lighting, other exterior things

Risk Management

- Insurance (lots of types – need to choose the types needed)
- Training costs
- Things like snow removal, deicing sidewalks, etc.

Chapter Summary

This chapter described the basic elements of a comprehensive business plan.

Chapter 5 – Making the Business Plan Realistic

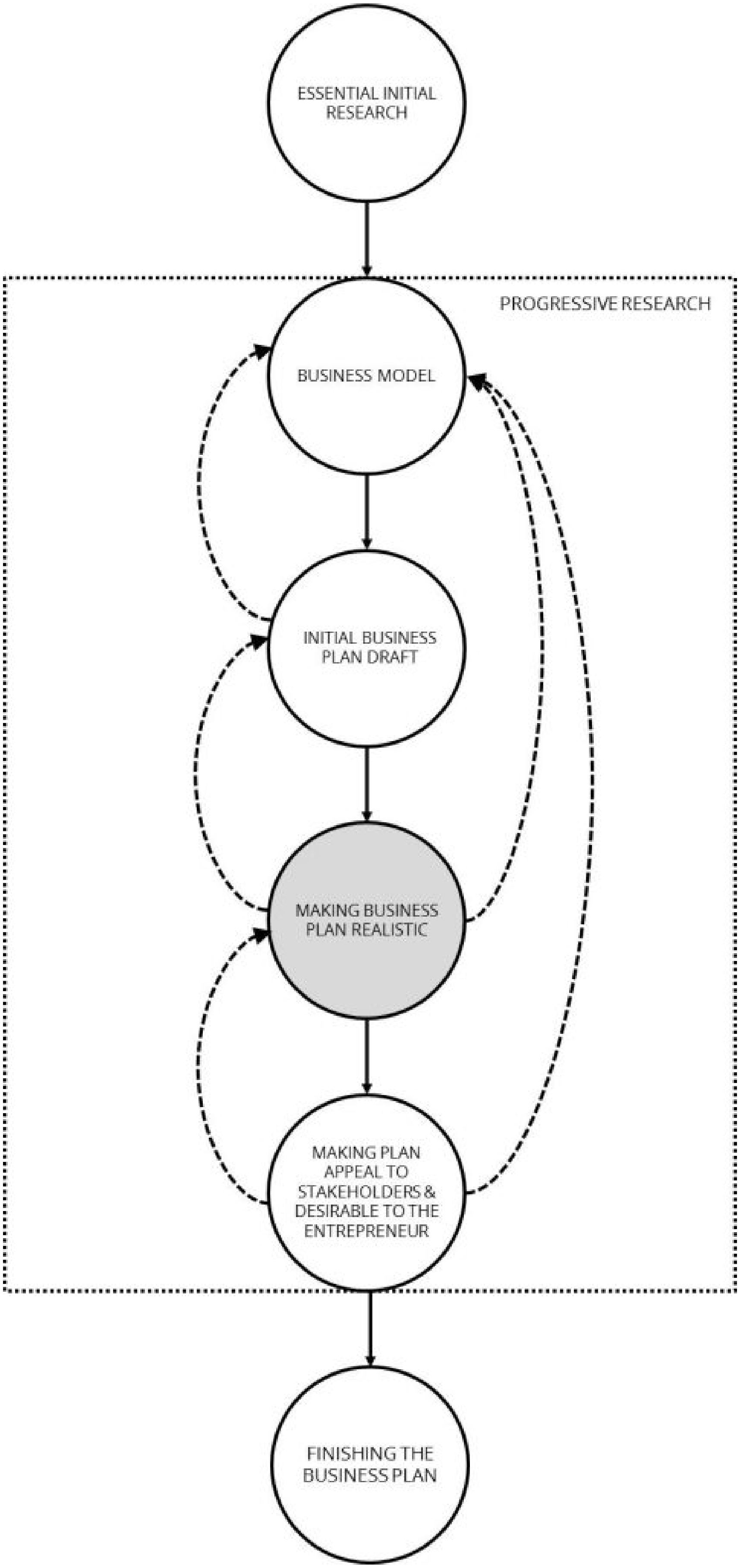
Learning Objectives

After completing this chapter, you will be able to:

- Develop the second draft of the business plan by applying revision methods to improve the realism of the first draft.

Overview

A first draft of a business plan will inevitably be unrealistic for a host of reasons. It is likely to include contradictions between sections of the written part. The financial and written parts will most likely not align, even though they must tell the same story, but in different terms. The sales projections might be unrealistic. The cash flow projections will probably be far from accurate. In general, work will be required to convert the first draft of the business plan into a *realistic* second draft.



ESSENTIAL INITIAL RESEARCH
PROGRESSIVE RESEARCH
BUSINESS MODEL
INITIAL BUSINESS PLAN DRAFT
MAKING BUSINESS PLAN REALISTIC
MAKING PLAN APPEAL TO STAKEHOLDERS & DESIRABLE TO THE ENTREPRENEUR
FINISHING THE BUSINESS PLAN

Figure 10 – Making the Business Plan Realistic (Illustration by Lee A. Swanson)

How to Make the Plan Realistic

Replace Assumptions with Factual and Expert Information

A first step is to replace the assumptions you included in your business plan and flagged with the distinct colored font (review the Writing the Draft Business Plan section starting on page 39) with information you got from a valid source. Of course, you establish your credibility as the writer and your business plan's credibility, always include the references to the sources you used.

Review and Revise Sales Projections

In concert with the next section on adjusting strategies to improve the realism of projected financial statements, business plan writers should review and revise their sales projections after they critically assess their realism.

When reviewing, and possibly revising sales projections, business plan writers should consider both the sales projection model they used and the assumptions they fed into the model to generate the monthly sales figures. Additionally, it is important to compare the resulting projected sales with industry norms and any available comparative data with similar companies.

Adjust Strategies to Make Projected Financial Statements Realistic

If you used the financial spreadsheet templates as they are meant to be used, you will not have typed a single number into your projected cash flow statements, your projected income statement, and your projected balance sheet. You should have entered all of your numbers into a set of schedules that, in turn, automatically transfer the relevant numbers to the projected statements through formulas.

The cash flow statement estimates all of the money flowing in and out of the venture in each month. The cash inflows include cash collected from cash sales during the month and accounts receivable collections resulting from sales made in previous months. They also include proceeds from any assets you sell, loan proceeds, and other cash investments made into your business.

The cash outflows occur whenever something is purchased, an expense is paid (including loan payments and taxes), and cash is invested somewhere such that it is no longer available to be used to pay current obligations.

The cash available at the end of each month is the previous month's cash balance plus all cash inflows minus all cash outflows (the exception might be the first month when the initial investments – and, possibly, initial sales – are made, and possibly some expenses are incurred or purchases made). When you complete your first business plan draft, you will inevitably have unrealistic cash balances at the end of some, if not all months.

You can never have a negative cash balance at the end of a month. If you are projecting negative balances, your planned venture cannot survive unless you do things like implement strategies to increase projected sales, seek new investments in your business, and reduce planned operating expense.

Likewise, *it is a signal of possible poor cash management strategies or overly optimistic sales forecasting if the ending cash balance in any month is too high*. Another consideration if your month ending cash balances are high is whether you have applied realistic assumptions. After all, it is very rare to stumble upon a business opportunity that generates high amounts of excess cash. If such an opportunity existed, other entrepreneurs would have or will be poised to enter the market and reduce the appeal of the perceived opportunity.

To eliminate negative cash balances and to manage cash so you don't have end-of-month cash balances that are negative or are too high, do the following.

Determine what range of end of month cash balances is realistic for your type of business. For example, you might decide that, for your type of business, your month end cash balances should always be between $8,000 and $12,000.

Work forwards from the first month that the ending balance falls out of that range. To do that, decide how to best manage your cash. You have several options, including the following (but be certain to make all of your changes in the schedules rather than on the projected statements in your financial spreadsheet templates).

- If you are short of cash, you might be able to increase cash inflows. For example, you could implement strategies (and, of course, include these in the written part of your plan) to increased projected sales at close to current planned prices, maintain projected sales levels while increasing prices, attract new investors to inject some cash in the business, use cash reserves to increase available cash, or to sell an asset that is no longer needed. Of course, you must be aware of the possible consequences from taking those actions. For example, increasing prices will lead to lower sales, and if the amount of the price increase is more than counterbalanced by the drop in sales, you might actually reduce the amount of cash you generate.
- *One of the ways just listed for increasing cash inflows when a new venture is short of money is to attract new investors to inject cash into the business. For this stage of business plan development, it is often best to focus on making the business plan realistic without worrying too much about where to secure the investments you need to start your business beyond the funding you are reasonably certain that you can get through personal money and from friends, family, and other ready sources (see the section on Starting Capital on page 76). Use this stage of development to help you determine the amount of money that you will need to secure from other sources, but adjust your plans and strategies to ensure that the amount of additional financing that you will need is realistic. It is in the next stage of business development that you will more seriously consider from what sources you can get the financing that you determined that you needed while in this stage of development.*
- If you are short of cash, you might be able to decrease cash outflows by implementing cost reduction strategies or reducing or deferring purchases. Again, all of these actions have consequences you must be aware of. For example, if you reduce your advertising expenses, you might suffer a large enough decline in sales to worsen your cash short-fall situation.
- If your projections show high cash balances in some projected high-sales months, some of that cash can be transferred to a cash reserve, used to pay down loans, used to purchase needed assets or to acquire resources to benefit the business, used to prepay expenses, and paid to investors as dividends.
- If projections show cash balances that are higher than is realistic, you should review your sales projections and your projected expenses and make any necessary adjustments to make them more realistic.

If your projected financial spreadsheet templates are set up effectively, your schedules should feed your numbers into your projected cash flow statement. From there, your projected cash flow statements should automatically populate your projected income statement and balance sheet.

Test the Realism of Projected Statements Using Financial Analysis Methods

The first steps to improving overall realism is to make your projected cash flow statement more realistic by (1) replacing as many assumed numbers in your schedules as possible with actual numbers; (2) by improving the realism of your planned strategies and sales and other projections, and (3) by adjusting your strategies and plans such that all month-end cash balances are within a target range. After that, you need to apply financial analysis methods, like ratio analysis, on the numbers in all of your financial statements to assess the realism of your numbers against industry standards and similar companies for which financial statements are available. That analysis should lead to further strategy adjustments to further improve the realism of the planned financial positions for your venture during its first five years of business.

Synchronize the Written and Financial Parts of the Plan

Finally, you will need to rewrite parts of your operations, human resources, and marketing plans – and possibly the written introduction to your financial plan – to reflect all of the changes you made and to ensure that the written part of your business plan tells exactly the same story as does the financial part.

Chapter Summary

This chapter addressed the issue of making the first draft of the business plan realistic. It suggests a process that includes replacing as many of your assumptions as possible with factual and expert information, all from valid sources and properly referenced to build and maintain your credibility and that of your plan. After that, review and revise the original sales projections to make them more realistic as informed by industry data and available numbers from companies similar to what you want your venture to be. Revise your strategies until all of the monthly closing balances in your cash flow statement fall within a realistic, reasonable, and predetermined target range. Perform financial analysis techniques to test the realism of your projected financial situation. Finally, rewrite your business plan so that the written and financial sections tell exactly the same story – one using words and the other using numbers.

Chapter 6 – Making the Plan Appeal to Stakeholders and Desirable to the Entrepreneur

Learning Objectives

After completing this chapter, you will be able to:

- Develop the third draft of the business plan by applying revision methods to further improve the *realism* of the second draft while also making it *desirable* to the entrepreneur and *appealing* to targeted investors.
- Describe the funding sources for start-ups.

Overview

This chapter deals with making adjustments to the second business plan draft to retain, and hopefully improve its realism, while also making it desirable to the entrepreneur and appealing to targeted investors. In some cases a business plan should also be made to appeal to other targeted stakeholders, like highly skilled employees who are needed, but who might not be easy to recruit unless they are offered a minority ownership position or unless they the reassurance from a well-written business plan a startup hoping to employ them has a realistic and desirable plan for moving forward.

Securing needed financing is one of the most important functions related to starting a business. This chapter describes some of the sources of financing available to startups.

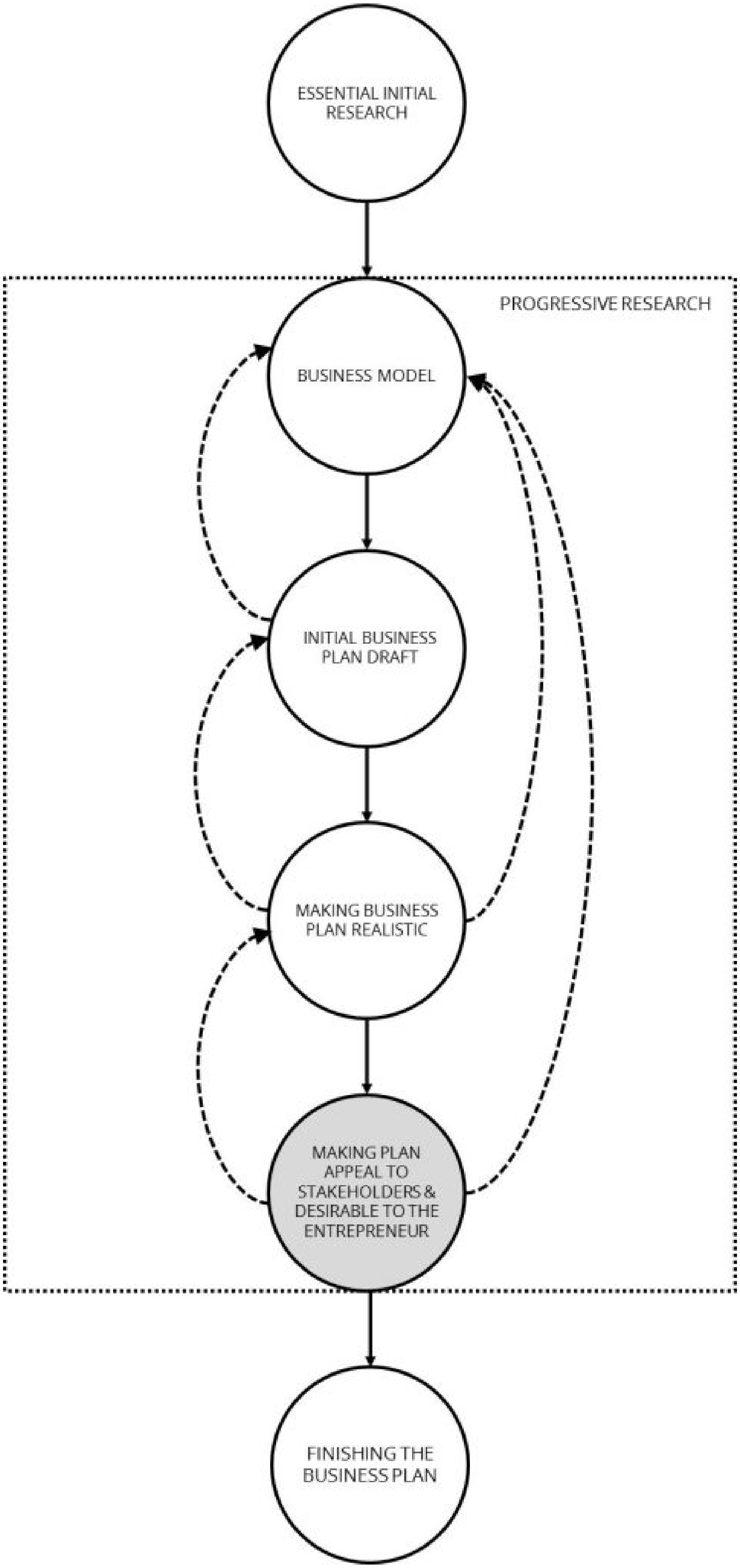

ESSENTIAL INITIAL RESEARCH
PROGRESSIVE RESEARCH
BUSINESS MODEL
INITIAL BUSINESS PLAN DRAFT
MAKING BUSINESS PLAN REALISTIC
MAKING PLAN APPEAL TO STAKEHOLDERS & DESIRABLE TO THE ENTREPRENEUR
FINISHING THE BUSINESS PLAN

Figure 11 – Making the Plan Appeal to Stakeholders and Desirable to the Entrepreneur (Illustration by Lee A. Swanson)

How to Make the Plan Appealing and Desirable

The second draft of your business plan should include realistic financial projections based on the plans outlined in the plan. As part of that exercise, you should have projected how much money you will require to start your business and to operate it over its first five years.

This stage of development focuses on the following tasks.

- Determine what your medium and longer term goals are for your business as they relate to what you want to get out of it. As you read through the following questions, consider that the answers you provide should guide the financing decisions you make now.
  - Do you want to start your business and rapidly grow its value so you can profit by selling it within a short period of time to an investor?
  - Do you plan to operate your business for the rest of your working life? If so, how long will that be, and what will you do with your business when you want to retire? Will you want to sell it to an investor for as high a price as you can when you retire? Will you want to pass control, and possibly ownership, to family members? Do you want to retain ownership and hire people to manage it for you after you retire? Might you want to offer ownership interests in your business to your employees over time so that they will be majority shareholders and will take control of its operations by the time you retire? What other plans do you have for your business when you retire?
  - Do you want to, or will you need to offer ownership interests in your business in order to attract partners or other stakeholders whose help you will need to make it thrive?
  - What other decisions should you make now to help guide the financing and other choices you face?
    - *Entrepreneurs must make the decisions required to make their ventures desirable to them. This includes choosing the right kinds of financing options.*
- Based on your goals for your business and on the amount of financing you require, identify the most desired sources of financing for your venture. You must consider how much control of your business you are willing to give up (and when you are willing to give it up), whether you expect to have adequate cash flow to be able to handle set obligations like loan payments, what financing sources will enable the growth and value accumulation you desire, and a host of other factors you need to consider to determine what financing methods will be best for you.
  - *An ideal business plan (1) is realistic in that it can be carried out, (2) clearly lays out plans that make the projected business outcomes desirable to the entrepreneur, and (3) is crafted in such a way that it is appealing to targeted investors so that they will provide the amount of money that is needed at the times it is needed.*
- Incorporate the needed elements in your business plan to attract your targeted investors and make them want to invest in your company.
  - It is not enough to simply identify what kinds of financing are most desirable to an entrepreneur. That entrepreneur's planned business must be structured in a way that entices targeted investors to actually invest in the business at the times the investments are needed. If a business plan writer is seeking a loan, they must include the loan payments in the cash flow statement, but they might also need to identify what assets they have to pledge as security for the loan. If instead they are hoping to attract an angel investor, they should do some research to identify potential investors who have invested in their kind of business. They should then acknowledge in their business plan the need for an exit strategy for angel investors and project how that exit strategy can materialize.
- Identify and analyze your venture's *critical success factors* by completing *what-if analyses* on your financial spreadsheets. Perform what-if analyses by making copies of your financial spreadsheets and changing some key numbers, perhaps like sales increase projections, to determine what happens if your projections are off. In cases where your venture is particularly vulnerable to the potential effects of changes to critical success factors, make needed changes to your goals, strategies, and plans in your business plan *to reduce your vulnerability to changes to the critical success factors*. Or, adjust your goals, strategies, and plans *to prepare for any changes that might occur to the critical success factors*.

As you do the above, simultaneously adjust your goals, strategies, and plans in the written and financial projection parts of your plan until (1) you are satisfied you are prepared to deal with issues that will affect your critical success factors, and (2) your projected cash flow statements, income statements, and balance sheets are realistic, consistent with healthy industry norms, and meet realistic expectations and aspirations for a healthy business.

Consider including three sets of projected financial statements in your business plan to reflect the following scenarios: most likely, optimistic, and pessimistic.

> Providing context is essential in making the business plan appeal to various stakeholders.

Financing a Startup

Starting Capital

Entrepreneurs almost always require *starting capital* to move their ideas forward to the point where they can start their ventures. Determining the *amount of money* that is actually needed is tricky because that requirement can change as plans evolve. Other challenges include actually *securing the amount desired* and *getting it when it is needed*. If an entrepreneur is unable to secure the required amount or cannot get the funding when needed, they must develop new plans.

Once a venture begins to make cash sales or it starts to receive the money earned through credit sales, it can use those resources to fund some of its activities. Until then, it must get the money it needs through other sources.

Bootstrap financing is when entrepreneurs use their ingenuity to make their existing resources, including money and time, stretch as far as possible – usually out of necessity until they can transform their venture into one that outside investors will find appealing enough to invest in.

Personal Money

Entrepreneurs will almost always have to invest their own personal money into their start-up before others will give them any financial help. Sometimes entrepreneurs form businesses as partnerships or as multi-owner corporations with other individual entrepreneurs who also contribute their own personal funds to the venture.

Love Money

Love money refers to money provided by friends and family who want to support an entrepreneur, often when they have no other ready source of funding after using as much of their own personal money as possible to support their start-up.

Grants and Start-up Prize Money

In some cases grants that do not need to be repaid might be provided by government or other agencies in support of new venture start-ups. Sometimes entrepreneurs can enter business planning or similar competitions in which they might win money and other benefits, like free office or retail space, or free legal or accounting services for a set period of time.

Debt Financing

From an entrepreneur’s perspective, the cost of debt financing is the *interest* that they pay for the use of the money that they borrow. From an investor’s perspective, their reward, or *return* on debt financing is the *interest* that they gain in addition to the return of the money that they lent to an entrepreneur or other borrower.

To provide some protection for the investor (lender) to enable them to accept an interest rate that is also acceptable for the entrepreneur (borrower), the borrower must often pledge collateral so that if they do not pay back the loan along with interest as arranged, the lender has a way to get all or some of the money they are owed. If a borrower defaults on a loan, the lender can become the owner of the property pledged as collateral. A key objective for an entrepreneur seeking debt financing is to provide sufficient collateral to get the loan, but to not pledge so much that they put essential property at risk.

When entrepreneurs borrow money they must paid it back subject to the terms of the loan. The loan terms include the specific interest rate that will be charged and the time period within which the loan needs to be repaid. There are several other terms or features of the loan that can be negotiated between lender and borrowers. One such feature is whether the loan can be converted to equity at a particular point in time and according to certain criteria and subject to specific terms.

Sometimes debt financing can be in the form of trade credit, where a supplier provides product to a business but does not require payment for a specific length of time, or perhaps even until the business has sold the product to a customer. Another form of debt financing is customer advances. This might involve a customer paying in advance for a product or service so that the businesses has those funds available to use to pay its suppliers.

Advantages of Debt Financing

One advantage of debt financing is that the entrepreneur does not sacrifice ownership when they take out a loan, and therefore lose some control of their venture.

Another advantage of debt financing is the certainty of the payments the borrower needs to make during the term of the loan. If the borrower takes out a loan for $20,000 over a 5-year term at a fixed interest rate of 6.2% with a monthly payment schedule designed to pay off the entire loan by the end of its 5-year term, they know that each month they must pay $389 and that over the 5-years they will have paid back the entire $20,000 loan amount plus a total of $3,340 in interest. With this certainty, the business can accurately budget its payback amount for this loan over the 5-years.

Yet another advantage of debt financing is that it allows companies to *trade on equity*. Trading on equity is a method to enhance the rate of return on common shareholders' equity by using debt to financing asset purchases, or to take other measures that are expected to cost less than the earnings generated by the action taken. For example, if a company borrows $20,000 at 6.2% interest and uses that money to purchase a machine it will use to increase its return on equity by 20%, then it is *trading on equity*. In this case the company is financially better off than it would be if it did not take out the loan. Of course, the inherent risk involved with this strategy is lowered when income streams are relatively stable.

Disadvantages of Debt Financing

A disadvantage of borrowing money is the need to report to those from whom you borrowed the money. This might be particularly true when lenders, often bankers, have interests or are subject to incentives that might not fully align with those of the borrower. For example, a lender will want assurances that they will get all of the money back that they lent, plus all of the interest owed to them during the term of the loan. A start-up entrepreneur, however, might struggle to generate the cash flow necessary to pay back all of the money owed according to the terms of the agreement.

Another disadvantage of borrowing is that the business's ownership of the property it pledged as collateral for the loan is placed at risk. It is also important to note that for many new ventures, a loan is only possible to acquire if the owner provides their *personal guarantee* that the money will be paid back as determined in the loan agreement, thus putting personal property at risk.

The biggest disadvantage to debt financing for start-up entrepreneurs is that there are a limited number of lenders who are interested and able to provide loans to businesses during their early stages.

Equity financing

From an entrepreneur's perspective, the cost of equity financing is the loss of some control over their venture as they must now share ownership of the business. From an investor's perspective, their reward in exchange for purchasing an ownership interest in the business is the potential to share in the anticipated future success of the business by possibly receiving dividends (a portion of the profit that is distributed to owners) and by possibly being able to sell their ownership interest to another investor (or back to the entrepreneur) for more than the amount they purchased that ownership interest for originally.

The protection for the investor, who might be a *shareholder* if the ownership interest is represented in the form of *shares* in the business, is in the influence they can exert in the company's decision making processes. This influence is normally proportionate to their share of the ownership in the overall business. Equity investors normally seek to earn a competitive return on their investment that is in line with the level of risk they assume by investing in the business. The riskier the investment, the higher the return the investor expects.

The following are some potential sources of equity financing for start-up entrepreneurs.

Equity Crowd Funding

Equity crowd funding is a relatedly new way for entrepreneurs to raise capital. This involves using online methods to promote equity interests in ventures to potential investors.

Angel Investors

Angel investors are wealthy individuals who on their own, or often along with other angel investors in a network – like the Saskatchewan Capital Network – invest in new ventures in exchange for an ownership interest in the business. Sometimes angels invest in companies in exchange for convertible debt, an investment that starts off as a loan, usually in the form of a bond, that they can exercise an option to convert to an equity interest in the company at a particular point in time for a pre-determined number of shares. Angel investors are generally less restricted in what kinds of investments they will consider than are venture capitalists, who are using other people's pooled money. Like venture capitalists, however, they normally undertake a rigorous *due diligence* process to determine whether to invest in the opportunities they are considering.

Venture Capital

Venture capital is raised when investors pool their money. The venture capital fund is then used to very carefully invest in existing, but usually young companies that are expected to experience high growth. The venture capital company does not expect to invest for long and it expects to generate a large return, for example, it might expect to invest in an opportunity for a period of up to five years and then get out of the investment with five times the money it originally invested. Of course, only some investment opportunities will generate the returns hoped for and others will return far less than expected.

Venture capitalists might exert some ownership control by influencing some business decisions in cases where they believe that by doing so they can protect their investment or cause the investment to produce greater returns, but they generally prefer to invest in companies that are going to be well run and will not require them to be involved in decisions. Venture capitalists might also provide some assistance, such as business advice, to the companies in which they invest.

A *venture round* refers to a phase of financing that institutional investors like venture capitalists provide to entrepreneurs. The first phase (sometimes following a *seed round* in which entrepreneurs themselves provide the start-up capital and then an *angel round* where angel investors invest in the company) is called *Series A*. Subsequent venture rounds are called *Series B*, *Series C*, and so on.

In general, because venture capitalists normally invest money contributed by investors and have an obligation to assume a limited amount of risk, they usually do not invest in start-up companies.

Due Diligence

Investors follow due diligence processes to assess the risk and potential return associated with the investments they are considering. As such, entrepreneurs should maintain a due diligence file or binder that they can quickly draw upon when a desirable potential investor expresses an interest in their venture.

A due diligence file or binder will include copies of many of the legal papers and other important documents that a venture has accumulated and that tell the story of the enterprise. These documents will include those related to incorporation, securities it has issued or is in the process of issuing, loans, important contracts, intellectual property documents, tax information, financial statements, and other important documentation.

Advantages of Equity Financing

One important benefit to equity financing is that it does not normally give rise to a requirement for a regular payback from cash flow. Unlike with debt financing, equity investments do not usually give rise to a regular encumbrance that can increase the difficulty a young company might have in meeting its regular monthly expenses.

Second, when a firm uses equity financing it does not need to pledge collateral, which means that the company's assets are not placed at risk in the same way as they are when used for collateral.

A potential advantage with equity financing is that, depending upon the form of financing and who the investors are, a firm might gain valued advisors. In addition, investors who exercise their ownership rights to have a say in the operations of the company, or who otherwise provide advice and mentorship to entrepreneurs starting ventures are usually highly motivated to help the company succeed. Investors expect to benefit only when the companies they invest in succeed, meaning that their financing incentives are aligned with those of the entrepreneur and other owners.

Disadvantages of Equity Financing

Equity financing is often more difficult to raise than is debt financing. Second, when they share ownership in exchange for investment into their business, entrepreneurs give up a portion of the value that they create. If things do not go as planned, entrepreneurs can lose control of their companies to their investors.

Potential Sources of Start-up Financing

- Personal sources (savings and other income) contributed by the business founders
- Extended personal sources (family, friends, employees, partners)
- Strategic Partners, including potential customers or potential suppliers who want to have access to a business like the one proposed (and therefore might fund part of its development). For example, a building owner (supplier) might help a business develop that it considers to be a desirable tenant. Another example is when a complementary business, like a hotel, might invest in a start-up, like a spa located next door, that might attract more business.
- Business Development Bank of Canada (BDC) and other institutions that specialize in supporting entrepreneurs
    - BDC calls itself "Canada's business development bank and the only financial institution dedicated exclusively to entrepreneurs" (Business Development Bank of Canada, 2016b, Who we are, para. 1).
    - Among the services provided by BDC is start-up financing for new ventures. They provide funding for the following:
        - Working capital to supplement an existing line of credit
        - Fixed assets
        - Fund marketing and start-up fees
        - A franchise purchase
        - Consulting services

(Business Development Bank of Canada, 2016a, Start-up financing, para. 4)

- Angel investors
- Customers (possibly)
    - They might place orders for services or products and pay for them up-front, thereby providing financing for the new business
    - They might want your business to succeed so it can support their business. For example, a general contractor (future customer) might help a new plumber get started if there is a shortage of plumbers affecting the building industry in the contractor's community
- Venture Capitalists (possibly)
    - These organizations acquire pools of money to invest, so they *differ from angel investors* in that those making the decisions are not investing their own money – this means they usually consider investment options that have shown some success already (which isn't usually the case in the start-up phase)
- Asset-Based Lenders (possibly)

    - Lend money secured by the assets of the borrower, like plant and equipment
    - Sometimes this can be done quite creatively. One example is when they might accept assets that will turn into money – like accounts receivable and inventories – as security to back up a loan.
- Small Business Investment Companies
    - U.S. term – developed to bridge the gap between when small businesses need money and the time later on when venture capitalists might provide financing to small businesses
    - SBICs are privately owned companies in the United States that are licensed by the Small Business Administration (U.S. Government) to supply equity capital, longterm loans, and management assistance to qualifying small businesses
    - Canadian equivalent = Community Futures Corporations
- Equipment Leasing Companies
- Suppliers through Trade Credit (possibly)
    - Supplier provides product now without demanding immediate payment
    - This supplier will provide the product to the retailer *on terms* so the retailer does not need to pay the supplier for perhaps 30 or 60 or 90 days
    - This provides the retailer with the possibility of selling the product and collecting the money from the customer before the retailer needs to pay supplier for it the product
- Factoring (possibly)
    - When a business sells its accounts receivable (its invoices) to a third party (called a factor) at a discount in exchange for immediate money
    - Differs from bank loan in 3 ways
        - The factor is interested in the value of the receivables … a bank is interested in the firm's credit worthiness
        - Factoring is not a loan … it is the purchase of a financial asset (the receivables)
        - A bank loan involves two parties (lender and borrower) … factoring involves three (the business, the factor, and those who owe the money)

Chapter Summary

After developing a first draft of a business plan, an entrepreneur will inevitably need to make some major adjustments to the business model and to the plans they developed to make it realistic. After that, the entrepreneur needs to shift their attention to maintaining and potentially further improving the realism of the plan while focusing on making it desirable to the entrepreneur and appealing to targeted investors. Part of this exercise is deciding upon the best type of financing that is available to the entrepreneur (if any) to ensure that they can meet their longer term goals for their business. This chapter described some of the sources of financing available to startups.

Chapter 7 – Finishing the Business Plan

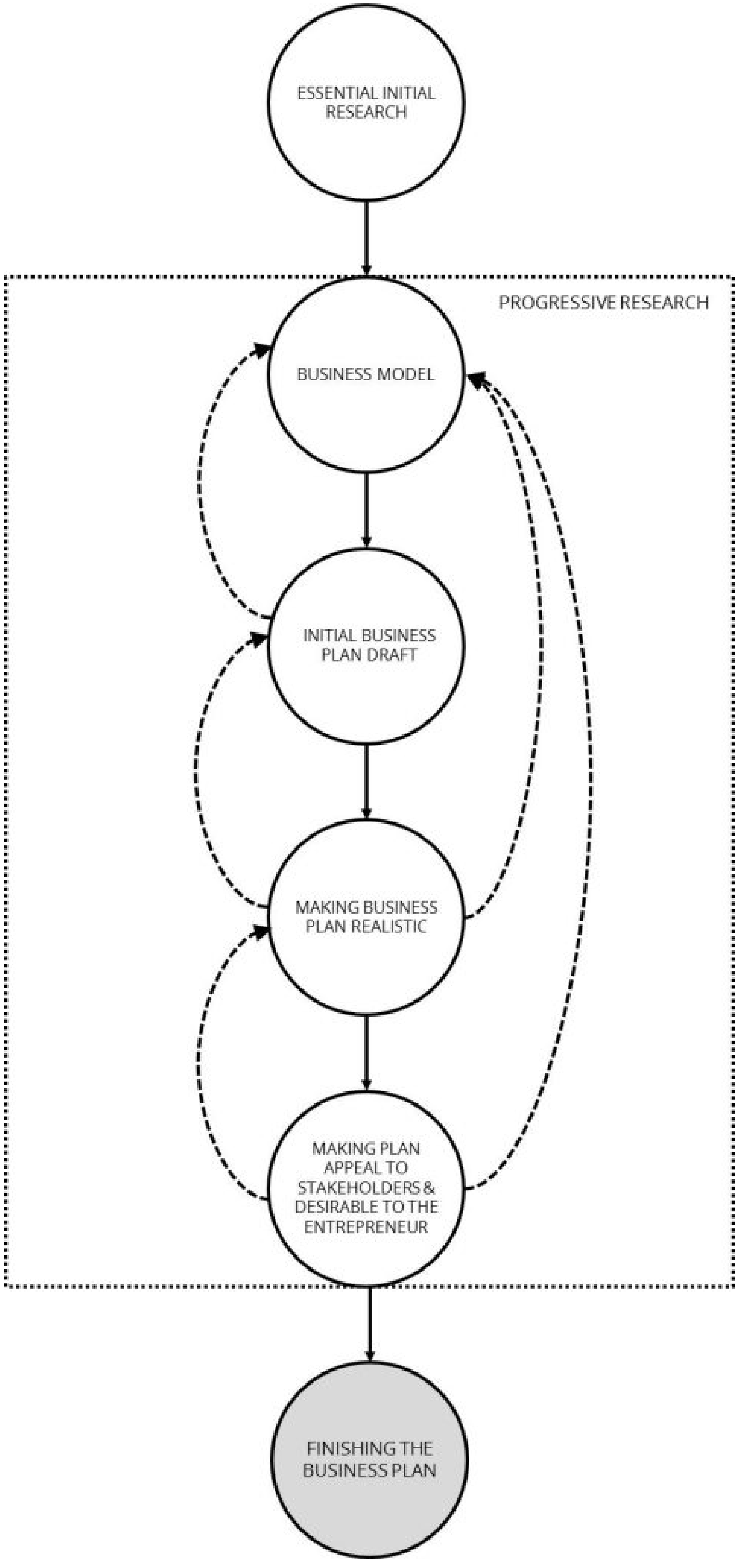
Learning Objectives

After completing this chapter, you will be able to:

- Develop the final draft of the business plan.

Overview

The previous stages of business plan development focused on (1) helping the business plan writer get started on the plan, (2) developing a reasonably complete and comprehensive first draft of the plan by focusing on developing the initial story without obsessing about its realism, (3) converting that into a second draft by adding *realism* to the plan, and (4) developing a third draft while preserving the *realism* and making needed changes designed to make the plan *appealing* to the entrepreneur and *desirable* to targeted investors. This stage is where the business plan writer puts the finishing touches on the plan to prepare it for use.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FINISHING THE BUSINESS PLAN

Figure 12 – Finishing the Business Plan (Illustration by Lee A. Swanson)

First Things Last

Finalize Major Goals

As contradictory as it might sound, it is only after the business plan is almost finished that the *Major Goals* section near the start of the plan should be completed. Replace the preliminary goals you have in that section with a limited set of goals, perhaps five to ten, which perfectly describe the outcomes you projected in certain sections of your plan. Write goals that will further improve the appeal of your plan for targeted investors and other important potential readers.

Your major goals should be substantive and relevant. They should also be written using a format designed to maximize their impact for targeted readers. The RUMBA formula (realistic, understandable, measurable, believable, and achievable) provides a useful guideline for developing major goals. The following is an example of a relevant major goal that follows that formula.

> *We will secure a $56,050 short-term loan in September, 2020 to finance inventory purchases needed to satisfy our projected increase in Christmas sales that year.*

Write your Executive Summary

The last part of your business plan that you should write is the *Executive Summary*. Unlike most other types of documents, the executive summary at the start of a business plan can be up to about three pages in length.

As the executive summary might be the first section that targeted readers go through, it is very important that it be written to appeal to them. It should provide those readers with information that will encourage them to seriously consider taking the desired action, like investing in the venture. If they are not interested by the contents of the executive summary, it is unlikely that they will read any of the other parts of the plan, and they won't act – usually by investing in the business – as the business plan writer hopes they will.

Polish it Up!

Thoroughly proofread the completed business plan and fix all errors before submitting it to anyone. It is usually best practice to have other people proofread your work as they will catch errors that you will miss.

Never underestimate the negative consequences that can occur from distributing poor quality work.

Write a Letter of Transmittal

A letter of transmittal is to a business plan what a cover letter is to a resume. A letter of transmittal should briefly introduce the business plan accompanying it to the intended recipient.

Chapter Summary

After all of the hard work involved with developing a high power business plan, it must be finished properly to have the intended impact with its targeted readers. Before distributing it to targeted investors and other recipients, a limited number of major goals should be included in the Major Goals section near the start of the plan. Those goals should be carefully crafted to appeal to intended readers. The final writing task is to develop an executive summary that will entice targeted readers to examine the rest of the plan in detail for the purpose of deciding whether to potentially take the action – usually to invest in the venture – desired by the business plan writer. After that, the plan should be thoroughly proofread and revised to ensure that all errors are eliminated before the plan is used. After writing a letter of transmittal to customize for all intended recipients and to introduce the plan, it can be put to use.

Chapter 8 – Business Plan Pitches

Learning Objectives

After completing this chapter, you will be able to:

- Deliver an effective business plan pitch.

Overview

Writing a good business plan will only get an entrepreneur so far. To achieve their goals, they must be prepared to effectively pitch their plan to targeted investors and other potential stakeholders. These are sometimes called *elevator pitches*, because an entrepreneur should be prepared to effectively deliver one in the length of time it takes to ride up a few floors in an elevator with a potential investor. The goal of a pitch is not to fully describe a business idea, but to be able to convince a potential investor in five minutes or less that they should meet with the entrepreneur further to learn more about the idea because they might want to invest in it.

The Business Plan Pitch

Your business plan pitch must be focused on what your targeted audience and business plan readers need to know. Usually your pitch will be designed to capture a potential investor's interest so that he or she will want to talk to you about investing in your venture. If that is the case, your pitch should follow a process similar that that described next.

Avoid getting into the trap of telling the potential investors too much about how your business works. Instead, spend your time telling them what they need to know to become interested enough to possibly invest in your venture. That means allocating your time almost equally on each of the following elements of your pitch script.

Describe the market problem that your venture solves.
- The problem you solve should be for an identifiable group of people or organizations who recognize that they have a problem and are willing to spend their money for a solution to the problem.

Describe how your venture solves the problem.
- Your solution to the problem should be better than the alternative solutions offered by your competitors or by those who suffer from the problem. It should also be a solution that cannot or will not be readily copied by existing or new competitors.

Explain how and why you and your venture are capable of solving the problem while also generating a profit.
- Your chances of being considered capable of delivering what you promise are enhanced if you have a strong team, relevant experience, or access to scarce or unique resources or networks.

Explain why you need the financing and anything else you want from the potential investors, like their expertise or access to their networks.
- Your opportunities to get the financing you need improve when you can show that the money will increase your capacity to achieve what you promise.

Describe why the investors should invest in your venture.
- Potential investors want to know how and when they will get their investment back and how much of a return they will earn on their money. You should be able provide them with an estimate of how much your venture is worth and will be worth in the future while telling them what that means for them.

	Solving a market problem is a winning formula.
	Demonstrating how the business solves a problem and makes money makes for a strong pitch.
	Providing context for individual investors and stakeholders is critical for their buy-in.

Chapter Summary

This chapter outlined a simple five step business plan pitch format. When entrepreneurs have a chance to engage with targeted investors, they usually have a limited amount of time to convince those investors to consider their investment opportunity. The purpose of the business plan pitch is to capture the attention and interest of targeted investors within a very short time. A successful pitch should result in an invitation by the investor for the entrepreneur to provide more information about the business because they might want to invest in it.

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Appendix A – Business Plan Development Checklist and Project Planner

Essential Initial Research

Societal Level

- □ Apply a PESTEL analysis to learn about the overall factors that might affect your business concept

Industry Level

- □ Apply a Porter’s (1985) Five Forces Model analysis to examine the particular industry in which you intend to operate

Market Level

- □ Apply a market-level analysis by answering a set of questions about the particular market within your chosen industry in which your business will reside

Firm Level

- □ Apply a SWOT analysis / TOWS Matrix to formulate and evaluate potential strategies
- □ Apply a VRIO framework analysis to analyze a firm’s strategy
- □ Analyse founder fit with venture idea
- □ Financial attractiveness: compare estimates for proposed venture to what is known about similar firms in the particular industry and market in which the venture will operate
- □ Financial attractiveness: analyse the firm’s projected margins (if possible)
- □ Financial attractiveness: do a break-even analysis (if possible)
- □ Financial attractiveness: do a pro-forma analysis (if possible – requires pro-forma financial statements)
- □ Financial attractiveness: do a sensitivity analysis (if possible)
- □ Financial attractiveness: do return on investment (ROI) projections (if possible)
- □ Financial attractiveness: determine the projected operating capacity of the venture and at how much of that capacity the firm will operate at certain time intervals until it reaches full capacity (if possible)
- □ Financial attractiveness: if possible and relevant, estimate the share of the market that the venture might capture and when it might reach various levels of market share. Note that the previous checklist item (projected operating capacity) is often a more relevant concern than market share.

The Business Model

- □ Use the Business Model Canvas or a similar tool to describe and analyse the proposed venture’s business model

Initial Business Plan Draft

Create Your Template

- □ Prepare a template by using the business plan outline to create headings Word from which to later automatically generate a table of contents

Insert Work from Essential Initial Research and The Business Model into The Business Plan Draft

You must decide between two separate ways to include the results from your societal, industry, market, and firm-level analyses in your business plan. The best choice is usually to *disburse the relevant parts of those analyses* *throughout the entire plan to support the decisions and strategies outlined in the plan*. An alternative choice is to include the results from all or some of the relevant parts of those analyses as their own sections in the business plan. The reason why the first option tends to strengthen the business plan more than the second is because it explicitly ties your analyses to the decisions influenced by those analyses.

- □ Integrate the relevant and important results from your societal, industry, market, and firm-level analyses into your plan, either as distinct sections of the plan or embedded into the other sections to support the decisions and strategies outlined in the plan
- □ Ensure that all analyses are fully and properly referenced in the business plan to establish and ensure your credibility as an entrepreneur, your plan's credibility and to meet ethical requirements to cite the sources for the information used

During the second stage of business plan development, you developed your business model. As there is no separate section in a business plan in which to specifically describe a business model, you need to incorporate your business model elements into the plan wherever they fit best. It will usually be fairly self-evident where the business model elements fit into a business plan. The important thing is to ensure that all of the elements of your business model are reflected in your business plan.

- □ Include each element of your business model in the appropriate parts of your business plan

Fill in All of the Sections of the Business Plan Draft

Draft Introduction

- □ Write a brief description of your business concept
- □ Write a brief description of the purpose for your business idea
- □ Write a brief history and description of the evolution of the business concept
- □ Write a vision
- □ Write a mission
- □ Write a values statements
- □ Write a *first draft* set of goals
- □ Avoid harming your plan's credibility by failing to indicate the sources for all of the information you include in your introduction. Whenever you make an assumption that you should later replace with a factual or expertly-based statement or number, flag the assumption by using a distinct colour font.

Draft Operations Plan

- □ Write an operations plan
- □ Ensure that all numbers included in the operations plan are a) sourced so a reader knows from where it came, or b) explained so they know how it was calculated, or c) flagged as being an estimate that will be replaced with a true number with a source
- □ Avoid harming your plan's credibility by failing to indicate the sources for all of the information you include in your operations plan. Whenever you make an assumption that you should later replace with a factual or expertly-based statement or number, flag the assumption by using a distinct colour font.

Draft Human Resources Plan

- □ Write a human resources plan
- □ Ensure that you show how you will earn a living while starting the business
- □ Ensure that all numbers included in the human resources plan are a) sourced, or b) explained, or c) flagged as being an estimate that will be replaced with a true number with a source
- □ Avoid harming your plan's credibility by failing to indicate the sources for all of the information you include in your human resources plan. Whenever you make an assumption that you should later replace with a factual or expertly-based statement or number, flag the assumption by using a distinct colour font.

Draft Marketing Plan

- □ Write a marketing plan
- □ Ensure that all numbers included in the marketing plan are a) sourced, or b) explained, or c) flagged as being an estimate that will be replaced with a true number with a source.
- □ Avoid harming your plan's credibility by failing to indicate the sources for all of the information you include in your marketing plan. Whenever you make an assumption that you should later replace with a factual or expertly-based statement or number, flag the assumption by using a distinct colour font.

Draft Financial Plan

- □ Plan how you will back up every number through one or both of the following:
- □ Explanations in the body of your plan, maybe along with your schedules, or
- □ Notes included with your financial statements
- □ Only insert a number for a particular item once (and flag this cell somehow – maybe by using a color to highlight it so you know which numbers are input directly and which appear by formula)
- □ Whenever a number is required more than once, ensure it is transfers forward by formula only
- □ Prepare all of the following schedules *that you will need* to feed numbers into your projected cash flow statements:
- □ Sales schedule, if you will sell more than one product
- □ Project schedule, if you will manage projects
- □ Cash from sales schedule, cash from receivables schedule, and accounts receivable schedule, if you will have accounts receivable
- □ Cash purchase schedule, credit purchase schedule, and accounts payable schedule, if you will have accounts payable
- □ Credit card collections schedule, if you will need to calculate your costs for accepting credit card payments from customers (you can normally consider credit card payments as cash payments in your cash flow statement)
- □ Inventory schedules, if you will have ending inventories
- □ Start-up cost schedule, if you will have start-up costs
- □ Capital cost allowance schedule or depreciation schedule, if you will purchase and sell capital equipment on which you will need to calculate depreciation
- □ Payroll schedule, if you will have payroll expenses
- □ Operating loan schedule, if you will need an operating loan
- □ Term loan schedule, if you will need a term loan, especially if you may make extra payments toward it before the term expires
- □ Promotions schedule, if you expect to use several promotional methods
- □ Prepayment schedule, if you expect to prepay insurance and similar expenses
- □ Other schedules that are needed
- □ Prepare projected cash flow statements
- □ Input the numbers from your schedules by formula into the projected cash flow statements. You might also discover the need to develop a schedule after you have first tried inputting the numbers directly into the projected cash flow statements.
- □ Very few numbers in your projected financial statements should be input directly – and each directly inputted number should be flagged using cell shading or another means so it is easier to fix any errors in the statements.
- □ Ensure that the written part and the financial part tell exactly the same story using the exact same numbers and sources.
- □ Note that that you will almost certainly have to estimate some numbers while preparing the projected cash flows. Immediately upon estimating the numbers, go to the written part of your plan and include them there.
- □ Prepare your projected income statements by formula only
- □ Calculate your taxes owing and feed these back into your projected cash flow statement.
- □ Calculate your retained earnings.
- □ Prepare your projected balance sheets by formula only
- □ Correct your statements until your balance sheet balances
- □ Avoid harming your plan's credibility by failing to indicate the sources for all of the information you include

in your financial plan. Whenever you make an assumption that you should later replace with a factual or expertly-based statement or number, flag the assumption by using a distinct colour font.

Making the Business Plan Realistic

At to this stage, your projected financial statements in your draft business plan are almost guaranteed to be unrealistic and undesirable. Your projected cash balances and profit levels will be unrealistic, either too high or too low. The original amounts you had planned to invest in your business or to acquire through investors will probably be inadequate. In general, your draft plan will have many weak areas and many holes to fill, but it should provide you with a great foundation upon which to build a realistic and desirable business plan.

The purpose of *Making the Business Plan Realistic* is to make your business realistic. You do this by adjusting your proposed business model and your plans and strategies as presented in both the written part of your plan and in the financial part.

- □ Replace as many of the assumptions (those items flagged with a distinct coloured font) as possible with factual and expert information and numbers while always indicating the sources for the new information and numbers.
- □ Review and revise the sales projections to make them more realistic by comparing the projections to industry norms and available comparative data with similar companies. Review and revise as necessary both the sales projections model used and the assumptions fed into the model to generate the monthly sales figures.
- □ Decide what the appropriate range of end-of-month cash balances is for your type of business.
- □ It is not possible to have a negative cash balance at the end of a month. *Eliminate any negative end of month cash balances* by taking steps to turn each of these into positive numbers, that fall within your target range, by adjusting one or more of the following:
- □ Planned loan amounts (operating and/or term loan amounts)
- □ Planned owner investment amounts (or draws from built up investment accounts)
- □ Planned amounts in schedules (increase prices, increase sales amounts, decrease expenses)
- □ It is also inappropriate to have an excessive cash balance at the end of a month because this would indicate poor cash management practices. *Eliminate any excessive end of month cash balances* by taking steps to reduce each of these numbers, so they fall within your target range, by doing one or more of the following:
- □ Use the excess money to generate more profits (expand your business, purchase an asset you need, etc.)
- □ Use the excess money to pay down operating loans (and possibly term loans)
- □ Invest the excess money in financial investments
- □ Distribute some of the cash as dividends or owner draws
- □ Adjust planned amounts in schedules (decrease prices, decrease sales amounts, increase expenses)
- □ Simultaneously adjust your goals, strategies, and plans in the written and financial projection parts of your plan for the purpose of making your projected financial statements realistic:
- □ Analyze your projected financial statements and develop plans to correct the elements that are unrealistic and undesirable. For example, if your planned start-up financing is too high to be realistic, you might choose to down-scale some elements for start-up. For example, on the expense side, you might plan to start with a smaller facility, fewer employees, less inventory, and different advertising methods. On the revenue side, you might project lower sales because of your smaller facility, fewer employees, and so on. You might also plan to finance some of your expansion through retained earnings rather than by taking out a large initial loan or by giving up a higher amount of ownership to an investor.
- □ Continually adjust the written and financial sections of your draft plan to reflect your new goals, strategies, and plans. This will be an iterative process since everything is connected and each change will have a ripple effect throughout your plan.
- □ Adjust the amounts in your schedules to reflect your planned changes (increase prices, increase sales amounts, decrease expenses)
- □ Use a series of ratio analyses as you incorporate your new goals, strategies, and plans.
- □ Continually compare your ratios to industry average ratios.
- □ Continually compare your ratios to what is expected and desirable for a business like yours.
- □ Continually adjust the written and the financial parts of your plan until your ratios are desirable and realistic

relative to industry standards.

Making the Business Plan Appeal to Stakeholders and Desirable to the Entrepreneur

You should now have a second full draft of your business plan. It should be much more realistic than your first draft, but is it unlikely to be desirable to you as an owner and appealing to your potential investors. The purpose of this stage is to retain, and possibly improve the realism of your plan while making it desirable and appealing.

- □ Determine what your medium and longer term goals are for your business as they relate to what you want to get out of it. Based on your goals and on the amount of financing you require, identify the most desired sources of financing for your venture and incorporate those into your plan to indicate how you will meet your financing needs.
- □ As you fulfill the following requirements, be certain to incorporate all of the needed elements in your business plan to attract your targeted investors and make them want to invest in your company.
- □ As you identify and analyze your critical success factors by completing what-if analyses on your financial spreadsheets, continue to simultaneously adjust your goals, strategies, and plans in the written and financial projection parts of your plan *until* (1) you are satisfied you are prepared to deal with issues that will affect your critical success factors, and (2) your projected cash flow statements, income statements, and balance sheets are realistic, consistent with healthy industry norms, and meet realistic expectations and aspirations for a healthy business.
- □ Use a copy of your spreadsheets and change some key numbers to see what happens. For example, you might discover that you are particularly vulnerable if your sales end up being less than you had expected (and/or challenged if sales end up being higher than expected). Sales levels, then, is one critical success factor.
- □ Determine what the impact would be on your business if the critical success factors are impacted in a way you had not planned on. For example, when you examine sales as a critical success factor, you might discover that if sales are 3% less than you had planned (maybe because of an economic downturn or the emergence of a new competitor), your entire profits evaporate. It might also be true that you will run into cash flow or capacity problems if your sales end up being higher than you are planning for.
- □ Decide whether you need to make adjustments to your goals, strategies, and plans in your business plan to reduce your vulnerability to changes to the critical success factors, or whether you can instead adjust your goals, strategies, and plans to prepare for any changes that might occur to the critical success factors. For example, you might decide to change the pricing, distribution, and promotions strategies in your business plan so that if you would still break even if your sales levels were 8% less than expected. Alternatively, instead of changing your marketing strategy in your plan, you could describe sales levels as a critical success factor and include a description of how and at what point you will implement another strategy if sales levels are not as expected, and describe what your strategy is.
- □ Decide how to present your analysis of your critical success factors.
- □ If appropriate for your business, you can include three sets of projected financial statements in your business plan: most likely, optimistic, and pessimistic.

Finishing the Business Plan

- □ Revise your goal section to make sure the goals are included that will best meet your purposes and will resonate with your target readers. Note that your goals will have changed dramatically between when you first wrote them and how they should look once the plan is completed. Although not required, it can be effective to follow each goal with a note about where in the plan your strategies are located for achieving that goal.
- □ Write your executive summary.
- □ Complete a proof read for the purpose of ensuring the written and financial parts of the plan are completely consistent
- □ Complete a proof read for the purpose of ensuring there are no spelling, grammar, formatting, calculation, or other errors in your plan. If required, have a skilled proof reader complete this task for you or with you.
- □ Write a letter of transmittal to later customize for the targeted readers to whom you will give your plan.

Prepare to Pitch and Present your Business Plan

- □ Prepare and practice your pitch. Be clear on why you are pitching your plan and customize it to meet those goals.
- □ Prepare a presentation using a tool like PowerPoint to use if you are asked to more formally present your plan.
- □ Make sure to always have business cards with you to give to those who express an interest in your business and who you want to connect with later.

Appendix B – Fashion Importers Inc. Business Plan

The following pages show a sample business plan, but its contents are more of a description about what is contained in each section that actual business plan data.

FASHION IMPORTERS INC.

BUSINESS PLAN

Owner: Samantha Peterson, 7603 Briar Way, Saskatoon, Saskatchewan, Canada, S6B 8G5

A typical business plan is made up of the following elements:

- an *executive summary*;
- the *front matter*, which usually includes a table of contents; list of tables; list of figures; and an introduction that explains the purpose for the plan, a description of the business concept, a vision, a mission, a set of values, and a list of the major goals;
- a description of the *operating environment*, although this description might be integrated into other parts of the plan;
- an *operations plan*;
- a *human resources plan*;
- a *marketing plan*;
- a *financial plan*, including projected cash flow statements, income statements, and balance sheets – and also including other relevant information like an investment analysis;
- a *reference list* to provide more detail on the published sources you used in your plan to help build its credibility; and
- *appendices* that might be useful for readers, but that contain information that is not needed in the body of the plan.

The written part of the plan tells the story in one form and the financial part of the plan must tell the exact same story in another form.

Executive Summary

1. Executive summaries can be longer in business plans than is normally the case with other documents. A general rule of thumb is that this section can be up to three pages in length.
2. Write your executive summary after you have written everything else for your plan.
3. In this section include information relevant to targeted readers as this is the place where they are most likely to form their first impressions of the business idea and decide whether they wish to read the rest of the plan.

Adhere to the ***ratchet effect*** when you write your executive summary by only including relevant information that helps establish your credibility.

Pay special attention to the ***framing*** in your executive summary by fully understanding for whom you are writing it and then appealing to their need for information.

Table of Contents

List of Tables

- Be certain that each and every table, figure, and appendix included in the plan is referenced within the text of the plan so the relevance of each of these elements is clear to the reader.
- Using the *references* feature in Word, list your tables in this section along with the pages on which they are located. Do the same for your figures as shown on the next page.

List of Figures

1. Introduction

- Describe your business concept.
- Explain the purpose(s) for your plan.
- Describe what your ***value proposition*** is. The value proposition outlines the benefits your venture promises to deliver. Note that you must be cognizant of from whose perspectives you are outlining the value proposition. A value proposition for customers generally indicates why your business provides something that customers will be willing to pay enough for to ensure that the venture can sustain itself financially. A value proposition for investors generally indicates why it should be appealing for them to invest in the business.

1.1. Business Concept

- If relevant, this subsection may include a description of the history behind your business idea and the evolution of your business concept.
- Describe things like why you named the venture as you did and why you wanted to start this kind of business. Maybe you wanted to start this business because, for example, you have special skills you wanted to apply (but don't duplicate material from the marketing and other parts).

> Pay special attention to the ***ratchet effect*** when you describe the business concept. Make it short and sweet and only include relevant information that helps establish your credibility.

- This section may be a good place in which to describe your *business model*. Expect that as you develop your business plan, your business model may need to change. For example, many business plans start out describing a business model that combines two or more business functions when it may be best to start with just one – for example, a manufacturing and retail operation might be best started out as only a manufacturing venture, or a store-based retail operation including online sales might be best started as only an online seller.

1.2. Vision

- A good vision concisely – using a very few memorable words – outlines what the owner intends for the venture to be. It is what the owner aspires for his or her venture to become in the future. It is not a description of what the business does at start-up.
- The best vision statements are written in a way that inspires the stakeholders associated with the venture to achieve great things through it.

1.3. Mission

- Mission statements should be very brief; a few sentences or a short paragraph.
- A mission statement indicates what your venture does and why it exists. It generally describes what the business does from the time when it starts-up. It might briefly describe the business strategy and philosophy.

1.4. Values

- Values statements describe the important values that will guide everything the business will do.
- They outline the personal commitments members of the organization must make, and what they should consider to be important.
- Values statements define how individuals associated with the venture behave and interact with each other.
- They should help the reader understand the type of culture and operating environment the owner intends to develop for the venture.

> Increase your plan's ***strength meter*** by ensuring that your values are reflected throughout your plan. You can do this in your plan by sometimes referring to them when you explain how and why you plan to implement certain strategies.

- If there are only one or two values statements, this section will look incomplete and probably strange. You should probably either have none or several values listed. An exception to this might be if there are two or three very important values listed along with an explanation as to why those particular ones are of primary importance for the venture.

1.5. Major Goals

- This section lists the major organizational goals.
- Each goal should be:
    - Specific, Measurable, Action oriented, Realistic, and Timely [SMART]
    - Realistic, Understandable, Measureable, Believable, and Achievable [RUMBA]

- Everything in your plan should align perfectly with these goals.
- Be sure to include ***real goals rather than means to achieve goals***. For example, the following might sound like goals: "hire our fifth staff member in November 2013" and "expand to a larger, 34,000 square foot facility in October 2015"; but these are means to achieve goals. While these sound like goals, it is rarely the case that an entrepreneur would consider it a goal to hire someone or to move to a larger facility. Instead entrepreneurs would consider the following to be a real goal (which might necessitate hiring the additional staff member) "achieve a $56,000 increase in sales during the November 2013 Christmas season over the previous Christmas season".

> Increase your plan's ***strength meter*** by indicating beside each goal where in your business plan a reader can look to read about the strategies planned for achieving each goal.

- Note that you should ***rewrite this section when you have completed everything except writing your executive summary***. You should do this so your goals accurately reflect all of the plans you described in your business plan.
    - Initial goals included in this section often serve to provide some direction to those planning the business, but these often change while the planning process occurs and as new information is unveiled and new ideas are written into the plans. These initial goals might end up becoming operating principles that guide the strategy development as the plan is being written.
    - The rewritten goals that will show up in your final business plan should be framed in a way that is meaningful to the targeted readers. They should also clearly reflect what is included in the final plan, which is why these should be rewritten when nearly everything else is finished.

> ***Frame*** your final set of goals in a way that is meaningful to the targeted readers.

- Sometimes it is useful to separate the goals into short-term goals and long-term goals.

2. Operating Environment

You might or might not have this section in your business plan. It might add value to have a section to summarize the findings from your societal-level, industry-level, market-level, and firm-level research. However, it might add more value to disburse the results from your analysis throughout your plan. See below for more thoughts on this.

When you develop the strategies for your venture and describe them in your business plan, it is very important that they be backed up with appropriate analyses.

To ensure that readers will view your plan as credible, you must perform each level of analysis and use the *results* from these analyses to help you develop and support the strategies you describe in the following sections of your plan. This proves to readers that you understand how external and internal factors might affect your venture and that you will have plans in place to deal with those factors.

> Use the ***magic formula*** when you present the results from your analyses. Doing this will increase your plan's ***strength meter***.

Note that your targeted readers should know that you did the analyses because it should be clear that you used the *results* from your analyses to guide your decision-making as you determined what strategies you will implement. It is the results from your analyses and what you do with them that are important, not necessarily the analyses themselves, so you might want to choose the first of the three options outlined next.

You have three choices in terms of how you incorporate operating environment analyses into your plan.

- 1. You can integrate the *results* from these analyses throughout your plan to support the decisions and strategies that you describe without the need to also present the analyses in supporting material.
- 2. You can integrate the *results* from these analyses throughout your plan to support the decisions and strategies that you describe while also including a supporting appendix showing the analyses that you did. Remember, though, that appendices should only contain information that you expect most of the readers to ignore.
- 3. You can integrate the *results* from these analyses throughout your plan to support the decisions and strategies that you describe while also ...
    - ... including a summary of your societal-level, industry-level, market-level, and firm-level analyses in an Operating Environment Section in your plan. If you take this approach, you should create useful links between the Operating Environment Section and the other parts of your plan, possibly by referring back to this section.
    - ... including a summary of one or some of the analyses in an Operating Environment Section of your plan and others in other sections of your plan where it makes the

most sense for them to be. For example, maybe it makes sense for the societal-level analysis to be in an Operating Environment Section, for the industry-level and market-level analyses to be in the Marketing Plan, and for the firm-level analysis to be in the Operating Plan.

How to Do the Analyses

1. *Societal-level trend analysis*

Apply the ***ratchet effect*** when you present the results from your analyses. *Only include* information on the trends that affect your business and the expected implications of those trends. Also, be certain to avoid missing a trend that a reader might assume will affect your business.

Societal-level trend analysis usually involves doing some research to do the following (note how the following applies the ***magic formula***).

- (a) figure out which political, economic, social, technological, ecological, and legal (PESTEL) factors will impact the development of your venture;
- (b) find out what the expected future states of those factors are (what the trends are) according to valid sources like the Conference Board of Canada and the Bank of Canada;
- (c) figure out how those trends will affect your venture; and
- (d) develop strategies to take advantage of those trends or to mitigate the expected challenges caused by those trends.

– For the ***political*** part of your analysis you should consider the current and the potential future political situations in the jurisdictions in which your venture will operate. Other factors you should consider include what legislation is being proposed that might affect your business.

– The ***economic*** part of the analysis should be based on well-regarded sources, like current information from the Bank of Canada. Likewise, all of the other parts should be based on valid and widely recognized sources of information.

– Most ventures are affected in some way by the following economic factors.

  - interest rate trends (affect borrowing rates for both your business and your business's customers and suppliers),
    - For example, if the Conference Board of Canada, Bank of Canada, and other valid sources indicate that Canadian interest rates might rise within one year of starting your business, your venture might be affected in several ways including the following.
    - Your cost of borrowing will increase. This might mean that you will have to take measures like reducing costs in other areas or increasing revenues –

maybe by increasing prices – to compensate for the additional cash outflows resulting from increased debt financing costs.

- Because of their increased debt servicing costs, your customers will have less money available with which to purchase your products. Plus, if you increase your prices in response to your increased interest costs, you might lose even more of your customers. This might mean that you will have to lower your sales projections.
- Your suppliers will pass their increased debt servicing costs on to you. This might mean that you will have to plan for increased costs for the goods and services you purchase from them.
- Interest rates in other countries might rise too. This might mean that your costs of purchasing goods and services from your international suppliers will increase.
- If rates rise enough, some of your suppliers might be forced out of business, which will have an impact on how available the goods and services are that you need to purchase.

> When you apply the ***ratchet effect*** (a) you focus on presenting the information that your targeted readers will value and (b) you strive to continually increase your credibility in your targeted readers' eyes.

- projected inflation rates (affects the prices you must pay for your inputs and might guide your plan for increasing the prices you will charge your customers),
- expected exchange rates (affects ventures that import or export inputs and products),
- economic growth rates, often as measured by expected GDP growth (some businesses thrive during economic growth periods, but are hit hard during recessions and other ventures are affected differently by economic fluctuations),
- population growth rates, demographic trends, and other economic trends (affect businesses when these trends impact the number of potential customers they will have and when the nature of the customers might change).

– For the ***social*** part of your analysis you should consider factors like population growth rates, population characteristics, and the social priorities of the communities in which your venture will operate.
– The part of your analysis focusing on the ***technical*** factors should consider, among other things, the current and expected manufacturing or service methods used, the communications trends, and trends in transportation technologies.
– For the ***ecological*** factors part of your analysis you should consider how the current and future state of the natural environment will affect your business.

- When considering the ***legal*** factors you should examine how the current and expected laws (domestic and international) will affect your business. Also consider the trends in the nature of litigation in the jurisdictions in which your venture will operate.

2. *Industry-level trend analysis*

- An ***industry analysis*** examines at the industry in which your business is positioned. A common approach is to use the Five Forces Model (Porter, 1985) to help assess the industry; but this tool alone is not sufficient.
    - A Five Forces analysis must be accompanied a description and analysis of the competitive environment and other components of the industry. Be certain to indicate how you expect that the industry trends and situations you identified will impact your venture.
- Porter's Five Forces framework (Porter, 1985) is an appropriate analysis tool – but not the only one available – for assessing an organization's place in an industry.

Using the Tool:

To use the tool to understand your situation, look at each of these forces one-by-one and write your observations on our free **worksheet** which you can download **here**.

Brainstorm the relevant factors for your market or situation, and then check against the factors listed for the force in the diagram above.

Then, mark the key factors on the diagram, and summarize the size and scale of the force on the diagram. An easy way of doing this is to use, for example, a single "+" sign for a force moderately in your favor, or "--" for a force strongly against you (you can see this in the example below).

Then look at the situation you find using this analysis and think through how it affects you. Bear in mind that few situations are perfect; however looking at things in this way helps you think through what you could change to increase your power with respect to each force. What's more, if you find yourself in a structurally weak position, this tool helps you think about what you can do to move into a stronger one.

This tool was created by Harvard Business School professor, Michael Porter, to analyze the attractiveness and likely-profitability of an industry. Since publication, it has become one of the most important business strategy tools. The classic article which introduces it is "How Competitive Forces Shape Strategy" in Harvard Business Review 57, March – April 1979, pages 86-93.

Source: Mind Tools (Mind Tools, 2012)

Consider how you should ***Frame*** the *results* from your industry-level trend analysis so that it is meaningful to the targeted readers. You might use these results primarily in the Marketing Plan part of your business plan to support and justify your strategies there. You should apply the ***Ratchet Effect*** to *add value*, which might mean avoiding using terms like

3. Market-level trend analysis

- A market-level analysis is usually used to support and justify the decisions you make and the strategies that you outline in the Marketing Plan part of your business plan. To do this analysis you need to figure out the answers to questions like the following. How attractive is the market that my venture will have access to? How large is the market that my business will have access to? What is its expected growth rate?
- This level of analysis is more specific to your venture's position than an industry-level analysis might be.

4. *Firm-level trend analysis*

- A firm-level analysis considers your venture itself. While you might have identified some opportunities and threats by doing the other levels of analysis, you can use a SWOT analysis to assess the current and near-term future state of your business and use that assessment to make decisions and to craft useful strategies.
  - A SWOT analysis includes considering the venture's strengths and weaknesses. These are considered to be internal to the organization because it should be able to add to its strengths and to reduce its weaknesses (and it might be susceptible to losing some of its strengths and gaining unwanted weaknesses).
  - The analysis also includes considering the threats and opportunities to which the venture is exposed. These are more external in nature because the venture can really only respond to threats and opportunities.
- A mistake that evaluators sometimes make is to consider a SWOT analysis to simply be an exercise that results in four lists that itemize the organization's strengths, weaknesses, opportunities, and threats. For a SWOT analysis to be useful, it should be accompanied by a TOWS Matrix assessment. This involves considering the factors identified in the SWOT exercise ***in pairs*** as a way to make decisions and to develop strategies.
  - For example, if a particular opportunity available to the venture is to secure a government grant to help pay for a green initiative, the assessor should consider how this opportunity is affected by each of the business's strengths (maybe it has someone with experience at writing grant applications) and weaknesses (maybe it does not yet have solid connections with government officials in the appropriate department), and how this opportunity might be negated by threats (maybe the grant money might not be available following a pending election).
  - In this example, this analysis might lead to specific strategies that might be written into the operations, marketing, and/or financial plan components of the business plan. One operations or financial plan strategy might be to use the person experienced at writing grant applications to submit the application by a certain date so it can be considered for funding prior to the funding potentially disappearing.

> When using your analyses, you should apply the ***Ratchet Effect*** to *add value* to your plan. This might mean briefly describing how you did your analyses that helped you make your decisions and develop your strategies, but without using jargon and terms that are not useful to your targeted readers.

3. Operations Plan

The following are some key questions that you should answer in the operations plan.

- How will your business be organized in a legal sense?
    - Will it be a sole proprietorship, partnership, corporation, or co-operative?
    - Will it be organized as a for-profit or a not-for-profit?
- What are your facility plans?
    - Where will your facility be located?
        - The answer to this might be expressed as a set physical location, or it might be expressed as a set of requirements and characteristics.
    - How large will your facility be and why must it be this size?
    - How much will it cost to buy or lease your facility?
    - What utility, parking, and other costs must you pay for this facility?
    - What expansion plans must be factored into the facility requirements?
    - What transportation and storage issues must be addressed by facility decisions?
    - What zoning and other legal issues must you deal with?
    - What will be the layout for your facility and how will this best accommodate customer and employee requirements?
- What constraints are you operating under that will restrict your capacity to produce and sell your product?
    - Given these constraints, what is your operating capacity? This might be expressed in terms of units of production, sales, contracts completed, or in other terms.
- What is the work flow plan for your operation?

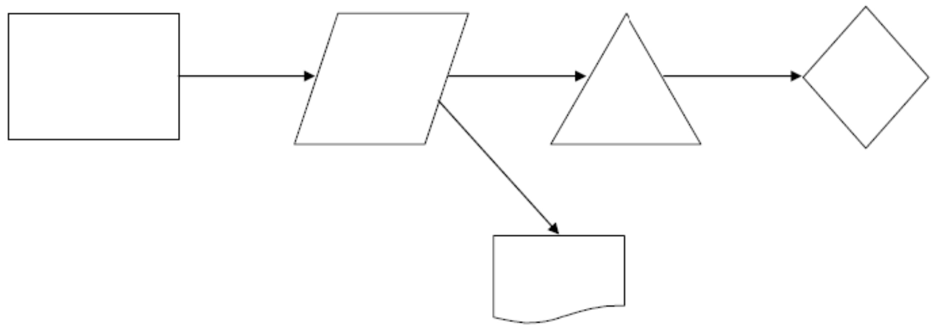

Figure 1. Workflow Diagram

– What work will your company do and what work will you outsource?

3.1. Operations Timeline

– It is often useful to include a timeline, in graphical or table form, showing when *milestone events* have occurred and are expected to occur.

– Milestone events are represented by the answers to questions like the following.

  - When will you make the preparations, such as registering the business name and purchasing equipment, to start the venture?
  - When will you begin operations and make your first sales?
  - When will you move your operations to a larger facility?
  - When will you offer a new product line?
  - When will you hire new key employees?
  - When will you begin selling your products internationally?

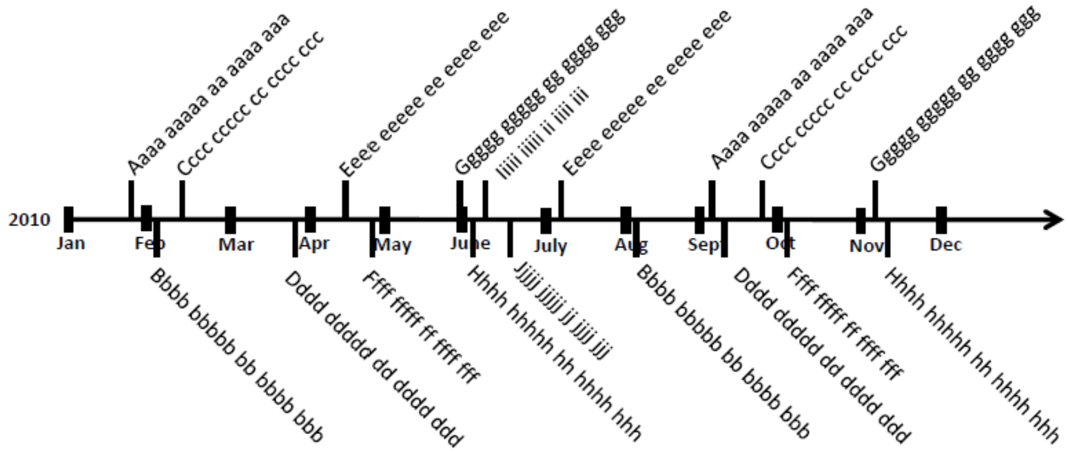

Figure 2. Operations Timeline – Sample 1

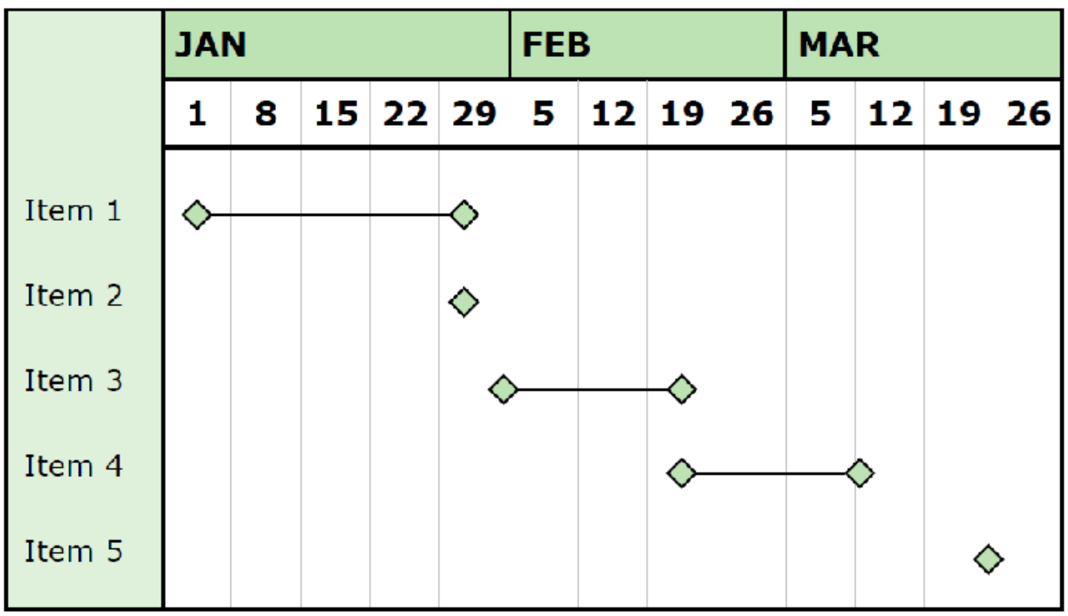

Figure 3. Operations Timeline – Sample 2

3.2. Start-Up

– What is required to start-up your business including the purchases and activities that must occur before you make your first sale?

- When identifying capital requirements for start-up you should distinguish between your *fixed capital* requirements and *operating capital* (sometimes called *working capital*) requirements.

3.2.1. Fixed Capital Requirements

- What fixed assets, including equipment and machinery, must you purchase so your venture can conduct its business?
- This section might include a start-up budget showing the machinery, equipment, furnishings, renovations, and other capital expenditures required prior to operations commencing.
    - If relevant you might include information showing the financing required. Fixed capital is usually financed using longer-term sources, like long-term loans.
- The best way to finance fixed capital requirements is often by attempting to match the financing term with the length of time the asset will be used by the company. Fixed assets generally last for a longer period of time, so they should be financed with longer-term loans or equity financing.

3.2.2. Operating Capital (Working Capital) Requirements

- What assets do you need to operate the business – separate from the money needed to purchase fixed assets – including the money needed to purchase inventory and cover initial expenses?
- This section might include a start-up budget showing the cash required to purchase starting inventories, recruit employees, conduct market research, acquire licenses, hire lawyers, and pay for the other things required prior to starting operations.
    - If relevant you might include information showing the financing required. Working capital is usually financed with operating loans, trade credit, credit card debt, or other forms of shorter-term loans.
- The best way to finance operating capital requirements is usually by attempting to match the shorter-term utility of the assets or operating expenses with a shorter-term financing method, like using a short-term loan available through a line of credit.
- See Table 1 for the Fashion Importers Inc. sample start-up budget.

Start-Up Costs - Fashion Importers Inc.

Fixed Capital Requirements		Source
Facility Renovations	8,200	Quote from ABC Contractors (date)
Shelving	3,380	From DEF Suppliers catalogue (date)
Computer Equipment and Software	6,430	Quote from GHI store (date)
Security System	5,300	Quote from JKL (date)
Signage	2,650	Estimate from MNO (date)
Office Furniture	2,600	From supplier catalogues (date)
Capital Total	28,560	
Operating Capital Requirements		
Rent Deposit	4,600	Estimate from PQR Property Managers (date)
Business Name Registration	125	
Incorporation Costs	4,250	
Operating Total	8,975	
Total Start-Up Costs	37,535	

Table 1. Start-up Costs

3.3. Risk Management Strategies

- Include descriptions of the organization's risk exposure in this section. The following categories can help you understand your risk factors, but you should probably not categorize your risks under these categories in your business plan. Keep your plan simple and straight forward.
    - *Enterprise* level risks include your liability exposure.
    - *Financial risk* assessment includes evaluating whether you can secure loans when needed.
    - *Operational risk* analysis includes determining whether you can secure the required inventories, and whether you can recruit needed employees in tight labour markets.
- Always include descriptions of the planned strategies for managing each of the risks identified. Four risk management strategies follow.
    - Avoiding – You can *avoid risks* by choosing to not do something, like choosing to not offer a delivery service to transport your products to your customers yourself.
    - Reducing – You might *reduce risks* by providing training or undertaking specific operational strategies designed to improve safety.
    - Transferring – Entrepreneurs might *transfer risks* by purchasing insurance (transferring the risk of financial loss to an insurer) or outsourcing some activities (transferring the risk to a contractor).

  - Accepting (assuming) – You might *accept risks* by self-insuring a vehicle fleet against physical loss. Note that you should probably still purchase liability insurance to protect against loss from negligence. You might also accept the risk of getting a stone chip in your vehicle's window by having a higher insurance deductible amount. Sometimes entrepreneurs choose to accept risks and simply choose to deal with any potential losses themselves when the costs of avoiding or transferring risks are high.

- In this or another section, you should describe your control processes. For example, you should describe how you will implement controls if your employees will:
  - handle cash generated as part of their work,
  - have access to your computer systems (customer lists, customer information, product information, financial information, etc.),
  - do work out of your view,
  - sign for incoming supplies or inventory,
  - communicate directly with customers, the media, and others.

3.4. Operating Processes

- What operating processes will you apply?
- What you will need to describe in this section will depend upon the type of business for which you are creating your plan.
  - Retail operation
    - How will you ensure your cash is managed effectively?
    - How will you schedule your employees?
    - How will you manage your inventories?
    - etc.
  - Service operation
    - How will you bill out your employee time?
    - How will you schedule work on your contracts?
    - etc.
  - Manufacturing operation
    - How you will manufacture your product (process flow, job shop, etc.?)

    - How will you source your raw materials?
    - etc.

- When you use charts like those that follow, always refer to them in the text of your plan so it is clear why they were included in the plan.
- It is also very important to format your charts correctly in your plan. They should generally not extend across more than one page. If the chart is so large that it must fall on two or more pages, be certain that the relevant labels and titles are included on all the pages.

Core clothing line	$300 initial inventory, monthly purchases at 45% of following month's projected sales revenues
Christmas specialty line	$500 initial inventory, monthly purchases at 50% of following month's projected sales
Specialty clothing lines	$2000 initial inventory, monthly purchases at 45% of following month's projected revenues
Premium clothing line	$3000 initial inventory, monthly purchases at 45% of following month's projected revenues
	Remember that previous year's ending inventory is next year's starting inventory **added to both** following year's first month's ending inventory **and** total)

Merchandise Purchases - Fashion Importers Inc.

	Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Oct-2010	Nov-2010	Dec-2010	Total
Core clothing line	2,550	3,150	2,340	2,070	2,160	1,980	2,340	3,353	3,753	4,298	3,713	2,250	33,956
Christmas specialty line	-	-	-	-	-	-	-	-	2,500	3,000	7,500	-	13,000
Specialty clothing lines	-	-	-	-	-	-	-	-	2,900	1,800	4,050	1,350	10,100
Premium clothing line	-	9,098	6,804	6,804	6,525	6,525	7,110	9,608	10,170	11,025	11,025	7,155	91,848
Total Monthly Merchandise Purchases	2,550	12,248	9,144	8,874	8,685	8,505	9,450	12,960	19,323	20,123	26,288	10,755	148,904

Merchandise Purchases - Fashion Importers Inc.

	Jan-2011	Feb-2011	Mar-2011	Apr-2011	May-2011	Jun-2011	Jul-2011	Aug-2011	Sep-2011	Oct-2011	Nov-2011	Dec-2011	Total
Core clothing line	2,588	3,623	2,691	2,381	2,484	2,277	2,691	3,855	4,316	4,942	4,269	2,588	38,704
Christmas specialty line	-	-	-	-	-	-	-	-	2,300	3,450	8,625	-	14,375
Specialty clothing lines	1,350	1,350	1,350	1,800	2,700	2,700	2,700	3,600	3,825	4,050	4,500	1,485	31,410
Premium clothing line	7,155	7,012	7,825	7,825	7,504	7,504	8,177	11,049	11,696	12,679	12,679	8,228	109,330
Total Monthly Merchandise Purchases	11,093	11,985	11,866	12,005	12,688	12,481	13,568	18,504	22,136	25,121	30,073	12,301	193,819

Merchandise Purchases - Fashion Importers Inc.

	Jan-2012	Feb-2012	Mar-2012	Apr-2012	May-2012	Jun-2012	Jul-2012	Aug-2012	Sep-2012	Oct-2012	Nov-2012	Dec-2012	Total
Core clothing line	2,976	4,166	3,095	2,738	2,857	2,619	3,095	4,434	4,963	5,683	4,910	2,976	44,509
Christmas specialty line	-	-	-	-	-	-	-	-	2,645	3,968	9,919	-	16,531
Specialty clothing lines	1,485	1,485	1,485	1,980	2,970	2,970	2,970	3,960	4,208	4,455	4,950	1,634	34,551
Premium clothing line	8,228	8,064	8,998	8,998	8,629	8,629	9,403	12,706	13,450	14,581	14,581	9,462	125,730
Total Monthly Merchandise Purchases	12,689	13,715	13,578	13,716	14,456	14,218	15,468	21,100	25,266	28,687	34,359	14,072	221,321

Merchandise Purchases - Fashion Importers Inc.

	Jan-2013	Feb-2013	Mar-2013	Apr-2013	May-2013	Jun-2013	Jul-2013	Aug-2013	Sep-2013	Oct-2013	Nov-2013	Dec-2013	Total
Core clothing line	3,422	4,791	3,559	3,148	3,285	3,011	3,559	5,099	5,708	6,536	5,646	3,422	51,186
Christmas specialty line	-	-	-	-	-	-	-	-	3,042	4,563	11,407	-	19,011
Specialty clothing lines	1,634	1,634	1,634	2,178	3,267	3,267	3,267	4,356	4,628	4,901	5,445	1,797	38,006
Premium clothing line	9,462	9,274	10,348	10,348	9,924	9,924	10,813	14,612	15,467	16,768	16,768	10,882	144,589
Total Monthly Merchandise Purchases	14,518	15,698	15,540	15,674	16,476	16,202	17,639	24,067	28,845	32,767	39,265	16,101	252,792

Table 2. Projected Merchandise Purchases for Years 1-4

Merchandise Purchases - Fashion Importers Inc.

	2010	2011	2012	2013	2014
Core clothing line	33,956	38,704	44,509	51,186	58,864
Christmas specialty line	13,000	14,375	16,531	19,011	21,863
Specialty clothing lines	10,100	31,410	34,551	38,006	41,807
Premium clothing line	91,848	109,330	125,730	144,589	166,278
Total Annual Merchandise Purchases	148,904	193,819	221,321	252,792	288,811

Table 3. Projected Merchandise Purchases Summary for Years 1-5

Core clothing line	45% of projected sales revenues
Christmas specialty line	50% of projected sales revenues
Specialty clothing lines	45% projected sales revenues
Premium clothing line	45% of projected sales revenues
	Remember that previous year's ending inventory is next year's starting inventory (**added to both** following year's first month's ending inventory **and** total)

Cost of Merchandise Sold - Fashion Importers Inc.

	Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Oct-2010	Nov-2010	Dec-2010	Total
Core clothing line	-	2,250	3,150	2,340	2,070	2,160	1,980	2,340	3,353	3,753	4,298	3,713	31,406
Christmas specialty line	-	-	-	-	-	-	-	-	-	2,000	3,000	7,500	12,500
Specialty clothing lines	-	-	-	-	-	-	-	-	-	900	1,800	4,050	6,750
Premium clothing line	-	-	6,098	6,804	6,804	6,525	6,525	7,110	9,608	10,170	11,025	11,025	81,693
Total Monthly Cost of Merchandise Sold	-	2,250	9,248	9,144	8,874	8,685	8,505	9,450	12,960	16,823	20,123	26,288	132,349

Cost of Merchandise Sold - Fashion Importers Inc.

	Jan-2011	Feb-2011	Mar-2011	Apr-2011	May-2011	Jun-2011	Jul-2011	Aug-2011	Sep-2011	Oct-2011	Nov-2011	Dec-2011	Total
Core clothing line	2,250	2,588	3,623	2,691	2,381	2,484	2,277	2,691	3,855	4,316	4,942	4,269	38,366
Christmas specialty line	-	-	-	-	-	-	-	-	-	2,300	3,450	8,625	14,375
Specialty clothing lines	1,350	1,350	1,350	1,350	1,800	2,700	2,700	2,700	3,600	3,825	4,050	4,500	31,275
Premium clothing line	7,155	7,155	7,012	7,825	7,825	7,504	7,504	8,177	11,049	11,696	12,679	12,679	108,257
Total Monthly Cost of Merchandise Sold	10,755	11,093	11,985	11,866	12,005	12,688	12,481	13,568	18,504	22,136	25,121	30,073	192,273

Cost of Merchandise Sold - Fashion Importers Inc.

	Jan-2012	Feb-2012	Mar-2012	Apr-2012	May-2012	Jun-2012	Jul-2012	Aug-2012	Sep-2012	Oct-2012	Nov-2012	Dec-2012	Total
Core clothing line	2,588	2,976	4,166	3,095	2,738	2,857	2,619	3,095	4,434	4,963	5,683	4,910	44,121
Christmas specialty line	-	-	-	-	-	-	-	-	-	2,645	3,968	9,919	16,531
Specialty clothing lines	1,485	1,485	1,485	1,485	1,980	2,970	2,970	2,970	3,960	4,208	4,455	4,950	34,403
Premium clothing line	8,228	8,228	8,064	8,998	8,998	8,629	8,629	9,403	12,706	13,450	14,581	14,581	124,495
Total Monthly Cost of Merchandise Sold	12,301	12,689	13,715	13,578	13,716	14,456	14,218	15,468	21,100	25,266	28,687	34,359	219,551

Cost of Merchandise Sold - Fashion Importers Inc.

	Jan-2013	Feb-2013	Mar-2013	Apr-2013	May-2013	Jun-2013	Jul-2013	Aug-2013	Sep-2013	Oct-2013	Nov-2013	Dec-2013	Total
Core clothing line	2,976	3,422	4,791	3,559	3,148	3,285	3,011	3,559	5,099	5,708	6,536	5,646	50,739
Christmas specialty line	-	-	-	-	-	-	-	-	-	3,042	4,563	11,407	19,011
Specialty clothing lines	1,634	1,634	1,634	1,634	2,178	3,267	3,267	3,267	4,356	4,628	4,901	5,445	37,843
Premium clothing line	9,462	9,462	9,274	10,348	10,348	9,924	9,924	10,813	14,612	15,467	16,768	16,768	143,170
Total Monthly Cost of Merchandise Sold	14,072	14,518	15,698	15,540	15,674	16,476	16,202	17,639	24,067	28,845	32,767	39,265	250,763

Table 4. Projected Cost of Merchandise Sold For Years 1-4

Cost of Merchandise Sold - Fashion Importers Inc.

	2010	2011	2012	2013	2014
Core clothing line	31,406	38,366	44,121	50,739	58,350
Christmas specialty line	12,500	14,375	16,531	19,011	21,863
Specialty clothing lines	6,750	31,275	34,403	37,843	41,627
Premium clothing line	81,693	108,257	124,495	143,170	164,645
Total Annual Cost of Merchandise Sold	132,349	192,273	219,551	250,763	286,485

Table 5. Projected Cost of Merchandise Sold Summary for Years 1-5

Core clothing line	Previous month's ending inventory plus Merchandise Purchases less Cost of Merchandise Sold
Christmas specialty line	Previous month's ending inventory plus Merchandise Purchases less Cost of Merchandise Sold
Specialty clothing lines	Previous month's ending inventory plus Merchandise Purchases less Cost of Merchandise Sold
Premium clothing line	Previous month's ending inventory plus Merchandise Purchases less Cost of Merchandise Sold
	Remember that previous year's ending inventory is next year's starting inventory (**added to both** following year's first month's ending inventory **anc**

Ending Inventory at Cost - Fashion Importers Inc.

	Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Oct-2010	Nov-2010	Dec-2010
Core clothing line	2,550	3,450	2,640	2,370	2,460	2,280	2,640	3,653	4,053	4,598	4,013	2,550
Christmas specialty line	-	-	-	-	-	-	-	-	2,500	3,500	8,000	500
Specialty clothing lines	-	-	-	-	-	-	-	-	2,900	3,800	6,050	3,350
Premium clothing line	-	9,098	9,804	9,804	9,525	9,525	10,110	12,608	13,170	14,025	14,025	10,155
Total Monthly Ending Inventory at Cost	2,550	12,548	12,444	12,174	11,985	11,805	12,750	16,260	22,623	25,923	32,088	16,555

Ending Inventory at Cost - Fashion Importers Inc.

	Jan-2011	Feb-2011	Mar-2011	Apr-2011	May-2011	Jun-2011	Jul-2011	Aug-2011	Sep-2011	Oct-2011	Nov-2011	Dec-2011
Core clothing line	2,888	3,923	2,991	2,681	2,784	2,577	2,991	4,155	4,616	5,242	4,569	2,888
Christmas specialty line	500	500	500	500	500	500	500	500	2,800	3,950	9,125	500
Specialty clothing lines	3,350	3,350	3,350	3,800	4,700	4,700	4,700	5,600	5,825	6,050	6,500	3,485
Premium clothing line	10,155	10,012	10,825	10,825	10,504	10,504	11,177	14,049	14,696	15,679	15,679	11,228
Total Monthly Ending Inventory at Cost	16,893	17,785	17,666	17,805	18,488	18,281	19,368	24,304	27,936	30,921	35,873	18,101

Ending Inventory at Cost - Fashion Importers Inc.

	Jan-2012	Feb-2012	Mar-2012	Apr-2012	May-2012	Jun-2012	Jul-2012	Aug-2012	Sep-2012	Oct-2012	Nov-2012	Dec-2012
Core clothing line	3,276	4,466	3,395	3,038	3,157	2,919	3,395	4,734	5,263	5,983	5,210	3,276
Christmas specialty line	500	500	500	500	500	500	500	500	3,145	4,468	10,419	500
Specialty clothing lines	3,485	3,485	3,485	3,980	4,970	4,970	4,970	5,960	6,208	6,455	6,950	3,634
Premium clothing line	11,228	11,064	11,998	11,998	11,629	11,629	12,403	15,706	16,450	17,581	17,581	12,462
Total Monthly Ending Inventory at Cost	18,489	19,515	19,378	19,516	20,256	20,018	21,268	26,900	31,066	34,487	40,159	19,872

Ending Inventory at Cost - Fashion Importers Inc.

	Jan-2013	Feb-2013	Mar-2013	Apr-2013	May-2013	Jun-2013	Jul-2013	Aug-2013	Sep-2013	Oct-2013	Nov-2013	Dec-2013
Core clothing line	3,722	5,091	3,859	3,448	3,585	3,311	3,859	5,399	6,008	6,836	5,946	3,722
Christmas specialty line	500	500	500	500	500	500	500	500	3,542	5,063	11,907	500
Specialty clothing lines	3,634	3,634	3,634	4,178	5,267	5,267	5,267	6,356	6,628	6,901	7,445	3,797
Premium clothing line	12,462	12,274	13,348	13,348	12,924	12,924	13,813	17,612	18,467	19,768	19,768	13,882
Total Monthly Ending Inventory at Cost	20,318	21,498	21,340	21,474	22,276	22,002	23,439	29,867	34,645	38,567	45,065	21,901

Table 6. Projected Ending Inventory at Cost for Years 1-4

Ending Inventory at Cost - Fashion Importers Inc.

	2010	2011	2012	2013	2014
Core clothing line	2,550	2,888	3,276	3,722	4,235
Christmas specialty line	500	500	500	500	500
Specialty clothing lines	3,350	3,485	3,634	3,797	3,977
Premium clothing line	10,155	11,228	12,462	13,882	15,514
Ending Inventory at Cost	16,555	18,101	19,872	21,901	24,226

Table 7. Projected Ending Inventory at Cost Summary for Years 1-5

Credit Card Charges		1.72%
% of sales paid for by credit card		75%

Credit Card Charges - Fashion Importers Inc.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2010	-	32	152	258	263	253	246	258	319	457	546	737	3,522
2011	388	322	329	336	354	369	360	375	470	605	685	843	5,435
2012	444	368	376	384	404	420	410	427	536	691	781	963	6,206
2013	509	421	431	440	462	479	468	487	610	788	892	1,101	7,087
2014	583	482	493	504	528	546	533	555	696	900	1,019	1,258	8,096

Table 8. Projected Credit Card Charges

3.5. Facilities

- You might include diagrams of the planned layouts for your facilities in this section.

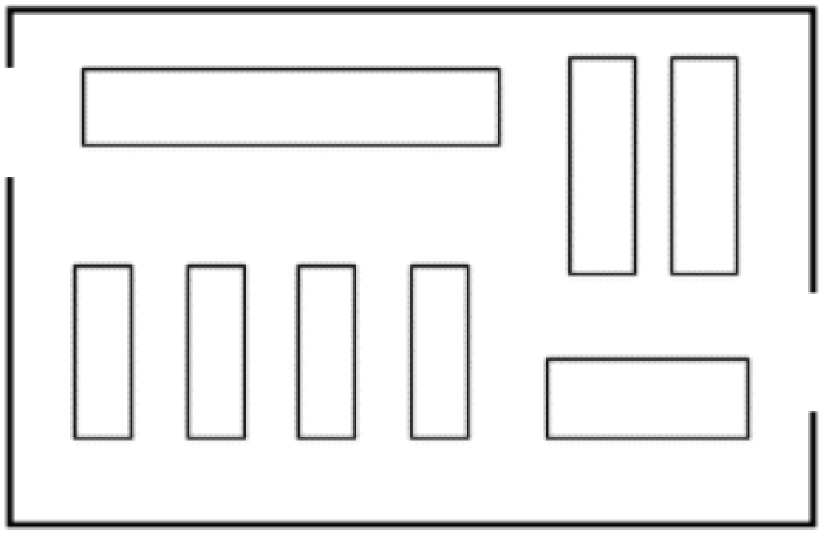

Figure 4. Retail Store Layout

3.6. Organizational Structure

- This section might be the best place to indicate what organizational form your business will take (sole proprietorship, partnership, corporation, or co-operative), and why.
- This section might include information on an Advisory Board or a Board of Directors from which the company will seek advice or guidance or direction.
- An organizational chart is often included in this section.

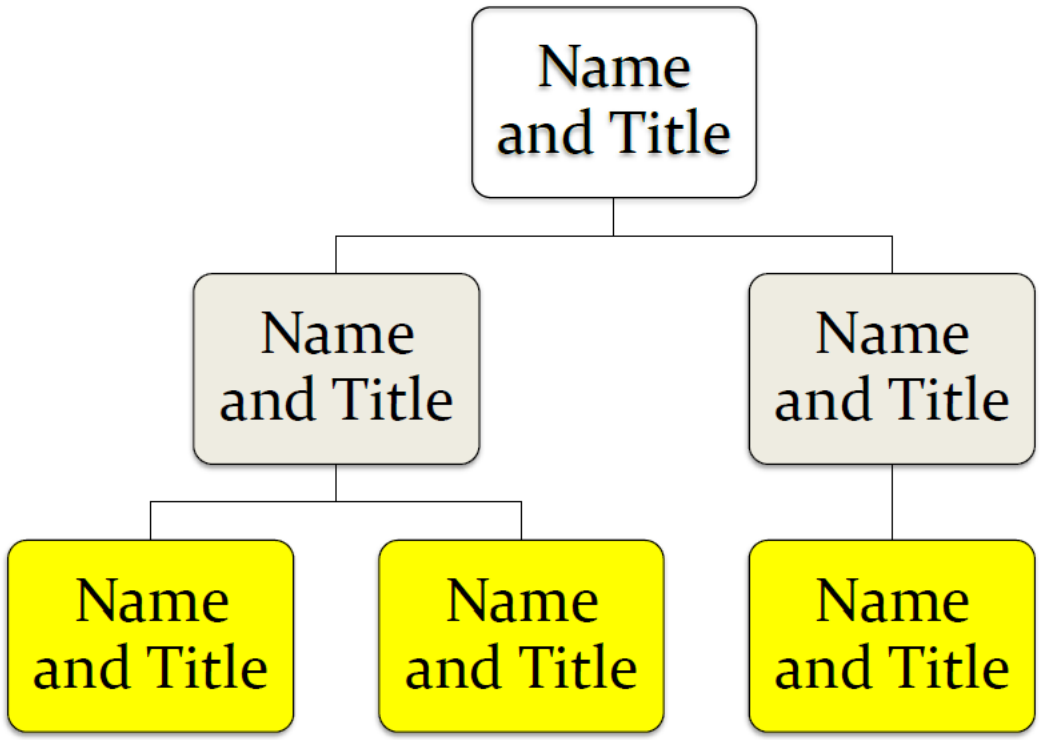

Figure 5. Organization Chart

- The organizational structure section can provide a nice lead-in to the Human Resources Plan.

4. Human Resources Plan

This part of the business plan is very important because some business plan readers place a great deal of weight on who the entrepreneurs are and with whom they are surrounding themselves.

Business plan writers often say what they want to achieve – often things like the best work environment, an appealing organizational culture, and a diversified workplace. By themselves these types of statements do not add much, if any value to a plan. Adding the reasons why they want to achieve these things will improve the plan, but it is only when writers detail *how they will achieve these things* that they will advance their credibility and provide information that readers will value.

The following are some key questions addressed in human resources plans.

- How do you describe your desired corporate culture?
- What are the key positions within your organization?
- How many employees will you have?
- What characteristics define your desired employees?
- What is your recruitment strategy? What processes will you apply to hire the employees you require?
- What is your leadership strategy and why have you chosen this approach?
- What performance appraisal and employee development methods will you use?
- What is your organizational structure and why is this the best way for your company to be organized?
- How will you pay each employee (wage, salary, commission, etc.)? How much will you pay each employee?
- What are your payroll costs, including benefits?
- What work will be outsourced and what work will be completed in-house?
- Have you displayed and described an organizational chart?
- What will be included in partnership agreements (can include a sample one in an appendix to the business plan if this would add value)
- What types of insurance systems will you have? For example, will you carry key person insurance coverage?

4.1. Recruitment and Retention Strategies

- Explain how many employees are required at what times.
- Estimate the time required to recruit needed employees.
- Estimate all recruitment costs including the following:
    - employment advertisements
    - contracts with employment agency or search firms
    - travel and accommodations for potential employees to come for interviews
    - travel and accommodations for interviewers
    - facility, food, lost time, and other interviewing costs
    - relocation allowances for those hired including flights, moving companies, housing allowances, spousal employment assistance, etc.
- You might include a schedule in this section showing the costs of initial recruitment. This schedule must then link directly with your start-up expense schedules.
- Note that many ventures start out without the need to hire and retain staff since the entrepreneur, along with a partner or a spouse, might intend to run the business on their own. In a case like this they should consider how to deal with situations like if they become sick and cannot come into work for a day (particularly if they operate out of a mall where they are required to be open every day).

4.2. Leadership and Management Strategies

- What is your leadership philosophy?
- Why is it the most appropriate leadership approach for this venture?

4.2.1. Training

- What training is required because of existing rules and regulations?
- How will you ensure your employees are as capable as required?
- In which of the following areas will you provide training for your employees (note that you may be required by law to provide some of the following types of training)?
    - Health and safety (legislation, WHMIS, first aid, defibulators, etc.)

- Initial workplace orientation
- Management
- Financial systems
- Sales
- Contracts
- Product features
- Other

4.2.2. Performance Appraisals

- What type of performance appraisal systems will you use?
- How will you manage your performance appraisal systems?

4.2.3. Health and Safety

- There may be legal requirements which should be noted in this section (and also legal requirements for other issues that may be included in other parts of the plan).

4.3. Compensation

- Always completely justify your planned employee compensation methods and amounts.
- Always include all components of compensation (CPP, EI, holiday pay, etc.).
- How will you ensure both internal and external equity in your pay systems?
- Describe any incentive-based pay or profit sharing systems planned.
- You might include a schedule here that shows the financial implications of your compensation strategy and supports the cash flow and income statements shown later.

4.4. Key Personnel

- You should usually include brief biographies of the key organizational people. They might be placed in this section or in an appendix.

5. Marketing Plan

- A formal marketing plan can be comprised of the following four major sections.
- Following the descriptions of the three major sections of a marketing plan, study the list of key questions that must be answered within a marketing plan in a business plan.

5.1. Market Analysis

- The ***market analysis*** contains customer profiles, constructed through primary and secondary research, for each market targeted. It also contains detailed information on the major product benefits you will deliver to the markets targeted.
    - Describe the methodology used and the relevant results from the primary market research you completed. If you did not do any primary research, justify why this approach was acceptable and indicate what research will be done and by when and by whom.
    - Include a complete description of the secondary research conducted and the conclusions reached.

5.2. Competitive Analysis

- The ***competition*** section fully describes the nature of your competitors. This section might be part of your market analysis if it makes more sense for you to include it there.
    - describe all your direct competitors
    - describe all your indirect competitors
- You should consider including a positioning (or perceptual) map, similar to that shown in Figure 6, to show where your product will be positioned relative to competitors' products.

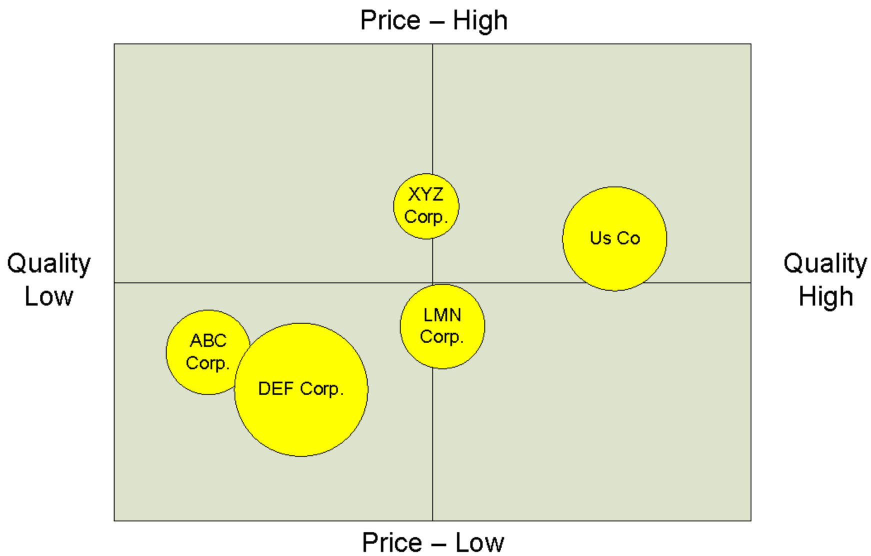

Figure 6. Positioning Map

5.3. Organizational Analysis

- An organizational analysis primarily uses the firm-level analysis (they are essentially the same thing), which is one of the four levels of analysis (societal-level, industry-level, market-level, and firm-level) used to help make decisions and develop strategies. This section can use the firm-level analysis to provide needed context in preparation for presenting the marketing strategy. While the societal-level and industry-level analyses are often placed early in the business plan to provide the needed big-picture context early, an organizational plan is often placed within the marketing plan part (or sometimes in the operations plan section).
- A common approach to analyzing a new venture is to apply a SWOT analysis, but *always* ensure this analysis results in more than a simple list of internal strengths and weaknesses and external opportunities and threats. A SWOT analysis should always prove to the reader that there are organizational strategies in place to address each of the weaknesses and threats identified and to leverage each of the strengths and opportunities identified. A TOWS Matrix is a tool available to help with this. It evaluates each of the identified threats along with each of the weaknesses and then each of the strengths. It does the same with each of the identified opportunities. In this way strategies are developed by considering pairs of factors.

5.4. Marketing Strategy

- The ***marketing strategy*** section is very important as this covers all aspects of the marketing mix including the promotional decisions you have made, product decisions, distribution decisions related to how you will deliver your product to the markets targeted, and pricing decisions.

5.4.1. Product/Service Strategy

- This section describes the strategic choices you are making relevant to your product or service. These strategies might describe elements like your planned quality levels relative to competing products and your plans for further product development. Refer to the list of *key questions that must be answered within a marketing plan* that starts on page 37 for insights into what your product strategies should address.

5.4.2. Pricing Strategy

- This section describes the strategic choices you are making relevant to the prices you will charge for your product or service. These strategies should usually be built upon the normal pricing strategies companies use like cost-plus pricing, penetration pricing, premium pricing, skimming, or any of a number of other pricing strategies you should research and consider for your business. Refer to the list of *key questions that must be answered within a marketing plan* that starts on page 37 for insights into what your pricing strategies should address.

5.4.3. Distribution Strategy

- This section describes the strategic choices you are making relevant to how you will distribute your product or service. You should consider the normal distribution strategies companies use like catalogue sales, retail store sales, online distribution, or any of a number of other distribution strategies you should consider using. Refer to the list of *key questions that must be answered within a marketing plan* that starts on page 37 for insights into what your distribution strategies should address.

5.4.4. Promotion Strategy

- This section describes the strategic choices you are making relevant to how you will promote your product or service. Refer to the list of *key questions that must be answered within a marketing plan* that starts on page 37 for insights into what your promotions strategies should address.

Some of the key questions that must be answered within marketing plans follow.

- Who are your customers going to be?
    - Define your target market in terms of identifiable entities sharing common characteristics. For example, it is not meaningful to indicate you are targeting Canadian universities. It is, however, useful to define your target market as Canadian university students between the ages of 18 and 25 … or as information technology managers at Canadian universities ... or as student leaders at Canadian universities.
    - Your targeted customers should be able to make or significantly influence buying decisions.
    - Make sure your defined target market aligns completely with your marketing mix (including product/service description, distribution channels, promotional methods, and pricing). For example, if the target market is defined as Canadian university students between the ages of 18 and 25, the product component of the marketing mix should clearly be something that appeals to this target market.
    - Provide a strong justification for targeting potential customers. It is usually a very weak approach to target customers on the basis of their demographic characteristics. Your business may be better off targeting potential customers based on psychographic characteristics.
    - There are important implications associated with where you will get your customers, so you must make it clear that you understand from where they will come. Remember that there are only two ways in which you can attract your customers:
        - You can steal them from other businesses they now patronize, or
        - You can create new customers who do not now purchase the product you want to sell. To do this, you need to convince them to re-allocate some of their money from something else they had planned to buy to your service or product instead.
- Prove that you understand how your targeted customers make their buying decisions. Tell the reader how you plan to influence them to buy from you.
- What is the optimum marketing mix, and why is this one better than the alternatives?
    - You will need to access, or conduct research to find out how your targeted customers make their buying decisions. Based on what you discover, you will need to figure out the optimum mix of pricing, distribution, promotions, and product decisions to best appeal to how your targeted customers make their decisions.

- What is your competitive advantage? What distinguishes your business from that of your competitors in a way that will ensure your sales forecasts will be met? What is your venture's value proposition?
    - You must clearly communicate the answers to these questions in your business plan in order to attract the needed support for your business. One caution is that it may sound appealing to claim you will provide a superior service as compared to the existing competitors, but the only meaningful judge of your success in this regard will be customers. Although it is possible some of your competitors might be complacent in their current way of doing things, it is very unlikely that all your competitors provide an inferior service to that which you will be able to provide.
- As a new entrant into the market, must you (a) attract your customers away from the suppliers they currently buy from, or will you be (b) creating new customers for your product or service? If you are attracting customers away from competitors, how will these rivals respond to the threat you pose to them? If you intend to create new customers, how will you convince them to reallocate their dollars toward your product or service?
    - Prove that you have anticipated the responses competitors will have to your entrance into the market, especially if your success depends upon these businesses losing customers to you.
    - If your entry into the market will not be a threat to direct competitors, it is likely you must convince potential customers to spend their money with you rather than on what they had previously earmarked those dollars toward. Explain in your business plan how you will do this.
- What is your product or service? Why will this particular product or service appeal to your targeted customers better than the alternatives available to them?
    - If your product or service is standardized, you will need to compete on the basis of something else – like a more appealing price, having a superior location, better branding, or improved service.
    - If you can differentiate your product or service you might be able to compete on the basis of better quality, more features, appealing style, or something else.
- In what ways will you communicate with your targeted customers? When will you communicate with them?
- What specific messages do you plan to convey to them? How much will this promotions plan cost?
    - Carefully consider which promotional methods you will use. While using a medium like television may initially sound appealing, it is very expensive unless your ad runs during the non-prime times. If you think this type of medium might work for you, do a serious cost-benefit analysis to be sure.

- You will likely develop your promotional plan around measures like the following. Remember to ***include the costs for all of the measures you use*** in your promotional plan in your business plan.
    - newspaper ads
    - promotional pamphlets
    - business cards
    - advertising in telephone directories
    - sponsorships (like purchasing uniforms for a little league soccer team)
    - personalized pens and other promotional client give-away items
    - donating items to charity auctions
    - printing and mailing client Christmas cards
    - doing the many things businesses end up doing on-the-fly
    - join the local chamber of commerce
    - join relevant trade organizations through which to establish important business connections
    - setting up and staffing booths at trade fairs to help launch the business
- Add some discretionary money to your promotional budget if you are concerned that some important promotional opportunities might arise during the year.
- You should consider mapping out your promotional expenditures in a schedule like that shown in Table 9. Make sure that this schedule links directly with you projected cash flow statement and from there into your projected income statements.
- Be careful to avoid ***killer phrases*** which only serve to make a reader believe you have not done your homework. Some of these are common in the marketing sections of business plans. For example, ***avoid including phrases like these*** "there is no target market" and "any money left over will be allocated to a marketing budget".

Promotional Plan - Fashion Importers Inc.

	Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Oct-2010	Nov-2010	Dec-2010	Total
Print - pamphlets	-	-	-	-	-	-	-	-	-	-	-	-	-
Print - posters	-	-	-	-	-	-	-	-	-	-	-	-	-
Print - fliers	342	-	-	-	-	-	-	-	-	-	-	-	342
Print - Business cards	39	-	-	-	-	-	-	-	-	-	-	-	39
Newspaper Star Phoenix	458	-	-	458	-	-	-	-	-	544	685	458	2,603
Newspaper Saskatoon Sun	-	-	-	-	-	-	-	-	-	-	-	-	-
Radio S'toon Media (CJWW, Magic 98.3)	1,265	655	380	-	-	-	-	-	-	380	380	380	3,440
Radio Rawlco (CKOM,C95,102FM)	1,482	737	421	-	-	-	-	-	-	421	421	421	3,903
Mail - direct	185	-	-	-	-	-	-	-	-	-	-	-	185
Mail - mass	-	-	-	-	-	-	-	-	-	-	-	-	-
Promo - special event	469	-	-	-	-	-	-	-	-	-	-	-	469
Promo - trade shows	-	-	-	-	-	-	-	-	-	-	-	-	-
Promo - web advertisements	-	-	-	-	-	-	-	-	-	-	-	-	-
Website development and maintenance	883	-	120	-	120	-	120	-	120	-	120	-	1,483
Directories - telephone and other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Promotions	5,122	1,392	921	458	120	-	120	-	120	1,345	1,606	1,259	12,463

Promotional Plan - Fashion Importers Inc.

	Jan-2011	Feb-2011	Mar-2011	Apr-2011	May-2011	Jun-2011	Jul-2011	Aug-2011	Sep-2011	Oct-2011	Nov-2011	Dec-2011	Total
Print - pamphlets	-	-	-	-	-	-	-	-	-	-	-	-	-
Print - posters	-	-	-	-	-	-	-	-	-	-	-	-	-
Print - fliers	342	-	-	-	-	-	-	-	-	-	-	-	342
Print - Business cards	39	-	-	-	-	-	-	-	-	-	-	-	39
Newspaper Star Phoenix	458	-	-	458	-	-	-	-	-	544	685	458	2,603
Newspaper Saskatoon Sun	-	-	-	-	-	-	-	-	-	-	-	-	-
Radio S'toon Media (CJWW, Magic 98.3)	1,265	655	380	-	-	-	-	-	-	380	380	380	3,440
Radio Rawlco (CKOM,C95,102FM)	1,482	737	421	-	-	-	-	-	-	421	421	421	3,903
Mail - direct	185	-	-	-	-	-	-	-	-	-	-	-	185
Mail - mass	-	-	-	-	-	-	-	-	-	-	-	-	-
Promo - special event	469	-	-	-	-	-	-	-	-	-	-	-	469
Promo - trade shows	-	-	-	-	-	-	-	-	-	-	-	-	-
Promo - web advertisements	-	-	-	-	-	-	-	-	-	-	-	-	-
Website development and maintenance	883	-	120	-	120	-	120	-	120	-	120	-	1,483
Directories - telephone and other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Promotions	5,122	1,392	921	458	120	-	120	-	120	1,345	1,606	1,259	12,463

Table 9. Promotional Plan Years 1-2

- What are your sales forecasts? Why are these realistic?
- Your sales forecasts should be done on at least a monthly basis and linked directly with your projected cash flow statement. The projections must be accompanied by explanations indicating upon what assumptions and facts they were based. This is required to establish their credibility for readers of your business plan.
- Many readers will initially assume your planned time frames are too long, your revenues are overstated, and you have underestimated your expenses. Well crafted explanations for all of these numbers will help establish credibility.
- See Table 10 for an example of a month-by-month summary of projected sales per product line.
- Table 11 is an example of a year-by-year summary of projected sales.
- Since the assumption made for Fashion Importers Inc. was that some sales will be made on credit, Table 12 summarizes the projected cash and accounts receivable collections from sales on a monthly basis by product line. Table 13 shows a year-by-year summary of these collections. This is an important table in that this data feeds into the projected cash flow statement. The previous tables showing the projected sales cannot be used to calculate cash flow, but are needed to determine revenue for the projected income statements.

Core clothing line	Feb 2012 launch, steady sales in year 1, 15% sales increase over corresponding month fromprevious year
Christmas specialty line	Nov 2012 launch, seasonal sales in Oct ($4,000), Nov ($6,000), Dec ($15,000), 15% increase over corresponding month from previous year
Specialty clothing lines	Oct 2010 launch, monthly with seasonal peaks Oct/Nov/Dec higher, 10% increase over corresponding month from previous year starting in year 3
Premium clothing line	Mar 2010 launch, 15% increase over corresponding month from previous year

Projected Sales - Fashion Importers Inc.

	Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Oct-2010	Nov-2010	Dec-2010	Total
Core clothing line	-	5,000	7,000	5,200	4,600	4,800	4,400	5,200	7,450	8,340	9,550	8,250	69,790
Christmas specialty line	-	-	-	-	-	-	-	-	-	4,000	6,000	15,000	25,000
Specialty clothing lines	-	-	-	-	-	-	-	-	-	2,000	4,000	9,000	15,000
Premium clothing line	-	-	13,550	15,120	15,120	14,500	14,500	15,800	21,350	22,600	24,500	24,500	181,540
Total Monthly Projected Sales	-	5,000	20,550	20,320	19,720	19,300	18,900	21,000	28,800	36,940	44,050	56,750	291,330

Projected Sales - Fashion Importers Inc.

	Jan-2011	Feb-2011	Mar-2011	Apr-2011	May-2011	Jun-2011	Jul-2011	Aug-2011	Sep-2011	Oct-2011	Nov-2011	Dec-2011	Total
Core clothing line	5,000	5,750	8,050	5,980	5,290	5,520	5,060	5,980	8,568	9,591	10,983	9,488	85,259
Christmas specialty line	-	-	-	-	-	-	-	-	-	4,600	6,900	17,250	28,750
Specialty clothing lines	3,000	3,000	3,000	3,000	4,000	6,000	6,000	6,000	8,000	8,500	9,000	10,000	69,500
Premium clothing line	15,900	15,900	15,583	17,388	17,388	16,675	16,675	18,170	24,553	25,990	28,175	28,175	240,571
Total Monthly Projected Sales	23,900	24,650	26,633	26,368	26,678	28,195	27,735	30,150	41,120	48,681	55,058	64,913	424,080

Projected Sales - Fashion Importers Inc.

	Jan-2012	Feb-2012	Mar-2012	Apr-2012	May-2012	Jun-2012	Jul-2012	Aug-2012	Sep-2012	Oct-2012	Nov-2012	Dec-2012	Total
Core clothing line	5,750	6,613	9,258	6,877	6,084	6,348	5,819	6,877	9,853	11,030	12,630	10,911	98,047
Christmas specialty line	-	-	-	-	-	-	-	-	-	5,290	7,935	19,838	33,063
Specialty clothing lines	3,300	3,300	3,300	3,300	4,400	6,600	6,600	6,600	8,800	9,350	9,900	11,000	76,450
Premium clothing line	18,285	18,285	17,920	19,996	19,996	19,176	19,176	20,896	28,235	29,889	32,401	32,401	276,657
Total Monthly Projected Sales	27,335	28,198	30,477	30,173	30,480	32,124	31,595	34,373	46,888	55,558	62,866	74,149	484,216

Table 10. Projected Sales for Years 1-3

Projected Sales - Fashion Importers Inc.	2010	2011	2012	2013	2014	2015
Core clothing line	69,790	85,259	98,047	112,754	129,668	149,118
Christmas specialty line	25,000	28,750	33,063	38,022	43,725	50,284
Specialty clothing lines	15,000	69,500	76,450	84,095	92,505	101,755
Premium clothing line	181,540	240,571	276,657	318,155	365,878	420,760
Total Annual Projected Sales	291,330	424,080	484,216	553,026	631,776	721,917

Table 11. Projected Sales Summary for Years 1-6

Core clothing line	50% cash, 30% 30-days, 20% 60-days, interest collections on late payments equal defaults (cancel each other out)
Christmas specialty line	100% cash
Specialty clothing lines	100% cash
Premium clothing line	50% cash, 50% 30-days, interest collections on late payments equal defaults (cancel each other out)

Projected Cash and Accounts Receivable Sales Collections - Fashion Importers Inc.

	Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Oct-2010	Nov-2010	Dec-2010	Total
Core clothing line	-	2,500	5,000	5,700	5,260	4,820	4,560	4,880	6,165	7,445	8,767	8,658	63,755
Christmas specialty line	-	-	-	-	-	-	-	-	-	4,000	6,000	15,000	25,000
Specialty clothing lines	-	-	-	-	-	-	-	-	-	2,000	4,000	9,000	15,000
Premium clothing line	-	-	6,775	14,335	15,120	14,810	14,500	15,150	18,575	21,975	23,550	24,500	169,290
Total Monthly Projected Collections	-	2,500	11,775	20,035	20,380	19,630	19,060	20,030	24,740	35,420	42,317	57,158	273,045

Projected Cash and Accounts Receivable Sales Collections - Fashion Importers Inc.

	Jan-2011	Feb-2011	Mar-2011	Apr-2011	May-2011	Jun-2011	Jul-2011	Aug-2011	Sep-2011	Oct-2011	Nov-2011	Dec-2011	Total
Core clothing line	6,885	6,025	6,750	6,555	6,049	5,543	5,244	5,612	7,090	8,562	10,082	9,957	84,353
Christmas specialty line	-	-	-	-	-	-	-	-	-	4,600	6,900	17,250	28,750
Specialty clothing lines	3,000	3,000	3,000	3,000	4,000	6,000	6,000	6,000	8,000	8,500	9,000	10,000	69,500
Premium clothing line	20,200	15,900	15,741	16,485	17,388	17,032	16,675	17,423	21,361	25,271	27,083	28,175	238,734
Total Monthly Projected Collections	30,085	24,925	25,491	26,040	27,437	28,575	27,919	29,035	36,451	46,933	53,065	65,382	421,337

Projected Cash and Accounts Receivable Sales Collections - Fashion Importers Inc.

	Jan-2012	Feb-2012	Mar-2012	Apr-2012	May-2012	Jun-2012	Jul-2012	Aug-2012	Sep-2012	Oct-2012	Nov-2012	Dec-2012	Total
Core clothing line	7,918	6,929	7,763	7,538	6,956	6,374	6,031	6,454	8,153	9,846	11,594	11,450	97,006
Christmas specialty line	-	-	-	-	-	-	-	-	-	5,290	7,935	19,838	33,063
Specialty clothing lines	3,300	3,300	3,300	3,300	4,400	6,600	6,600	6,600	8,800	9,350	9,900	11,000	76,450
Premium clothing line	23,230	18,285	18,102	18,958	19,996	19,586	19,176	20,036	24,565	29,062	31,145	32,401	274,544
Total Monthly Projected Collections	34,448	28,514	29,165	29,796	31,353	32,561	31,807	33,090	41,519	53,548	60,574	74,689	481,062

Projected Cash and Accounts Receivable Sales Collections - Fashion Importers Inc.

	Jan-2013	Feb-2013	Mar-2013	Apr-2013	May-2013	Jun-2013	Jul-2013	Aug-2013	Sep-2013	Oct-2013	Nov-2013	Dec-2013	Total
Core clothing line	9,105	7,968	8,927	8,669	8,000	7,331	6,935	7,422	9,376	11,323	13,334	13,168	111,557
Christmas specialty line	-	-	-	-	-	-	-	-	-	6,084	9,125	22,813	38,022
Specialty clothing lines	3,630	3,630	3,630	3,630	4,840	7,260	7,260	7,260	9,680	10,285	10,890	12,100	84,095
Premium clothing line	26,715	21,028	20,818	21,802	22,996	22,524	22,053	23,041	28,250	33,421	35,817	37,261	315,725
Total Monthly Projected Collections	39,450	32,626	33,375	34,101	35,835	37,115	36,248	37,723	47,306	61,113	69,165	85,342	549,399

Projected Cash and Accounts Receivable Sales Collections - Fashion Importers Inc.

	Jan-2014	Feb-2014	Mar-2014	Apr-2014	May-2014	Jun-2014	Jul-2014	Aug-2014	Sep-2014	Oct-2014	Nov-2014	Dec-2014	Total
Core clothing line	10,471	9,163	10,266	9,969	9,200	8,430	7,975	8,535	10,783	13,021	15,334	15,143	128,291
Christmas specialty line	-	-	-	-	-	-	-	-	-	6,996	10,494	26,235	43,725
Specialty clothing lines	3,993	3,993	3,993	3,993	5,324	7,986	7,986	7,986	10,648	11,314	11,979	13,310	92,505
Premium clothing line	30,722	24,182	23,940	25,072	26,445	25,903	25,361	26,497	32,488	38,434	41,189	42,851	363,084
Total Monthly Projected Collections	45,186	37,338	38,199	39,034	40,969	42,319	41,322	43,019	53,918	69,765	78,996	97,539	627,604

Table 12. Projected Cash and Accounts Receivable Sales Collections for Years 1-5

Projected Cash and Accounts Receivable Sales Collections - Fashion Importers Inc.

	2010	2011	2012	2013	2014
Core clothing line	63,755	84,353	97,006	111,557	128,291
Christmas specialty line	25,000	28,750	33,063	38,022	43,725
Specialty clothing lines	15,000	69,500	76,450	84,095	92,505
Premium clothing line	169,290	238,734	274,544	315,725	363,084
Total Annual Projected Collections	273,045	421,337	481,062	549,399	627,604

Table 13. Projected Cash and Accounts Receivable Sales Collections Summary for Years 1-5

Year End Accounts Receivable - Fashion Importers Inc.

As at end of month:	Dec-2010	Dec-2011	Dec-2012	Dec-2013	Dec-2014
Sales for year	291,330	424,080	484,216	553,026	631,776
Less collections for year	(273,045)	(421,337)	(481,062)	(549,399)	(627,604)
Plus previous A\R	0	18,285	21,028	24,182	27,809
Equals accounts receivable	18,285	21,028	24,182	27,809	31,981
A\R by formula	18,285	21,028	24,182	27,809	31,981

Table 14. Projected Year End Accounts Receivable For Years 1-5

- What are your distribution strategies? What makes these strategies better than the alternatives?
    - If you plan to use e-commerce, you should include all the costs associated with maintaining a website and accepting payments over the Internet.
- What are your pricing strategies? What makes these strategies better than the alternatives?
    - If you intend to accept payment by credit card (which is probably a necessity for most companies), you should be aware of the fee you are charged as a percentage of the value of each transaction. If you don't account for this you risk overstating your actual revenues by perhaps one percent or more.
- What primary and secondary research have you done?
    - You must show evidence of having done proper research, both primary and secondary.
- Be very careful how you phrase your statements.
    - If you make a statement of fact, you must back it up with properly referenced supporting evidence.
    - If you indicate a claim is based on your own assumptions, you must back this up with a description as to how you came to the conclusion.

- Unless you are stating something that is clearly common knowledge (but then you need to determine whether you need to make the statement), ***never make a statement without backing it up***.

– Have you done an effective ***analysis of the economic environment*** relevant to your business?

  - It is a given that you must provide some assessment of the economic situation as it relates to your business. For example, you might conclude that the current economic crisis will reduce the potential to export your product and it may make it more difficult to acquire credit with which to operate your business. Of course, conclusions such as these should be matched with your assessment as to how your business will make the necessary adjustments to ensure it will thrive despite these challenges, or how it will take advantage of any opportunities your assessment uncovers.

– Have you done an effective ***assessment of the industry*** within which your venture will operate?

  - You must provide an assessment of the industry coupled with descriptions of how your venture will prosper in those circumstances. A common approach used to assess the industry is to apply Porter's (1985) five forces model.

  - If you apply the five forces model, be certain to do so in the way in which it was meant to be used. If you do not, you will significantly reduce its usefulness while also harming the viability of your industry analysis. This model is meant to be used to consider the entire industry – not a subcomponent of it.

  - Your ***competitor analysis*** might fit within your assessment of the industry (or it might be best as a standalone section). Usually a fairly detailed description of your competitors is required, including an analysis of their strengths and weaknesses. In some cases your business may have direct and indirect competitors to consider. Be certain to maintain credibility by demonstrating that you fully understand the competitive environment.

  - Assessments of the economic conditions and the state of the industry are not sufficient alone.

– Your business plan must include organizational strategies you designed to take advantage of the economic and industry situations you described in your economic and industry analyses. You must demonstrate in your business plan that you not only understand the operating environment, but that you have figured out how best to operate your business within that context.

  - ***Assessments of the economic conditions and the state of the industry are not sufficient alone***.

– Have you done an effective analysis of your venture?

6. Financial Plan

It is nearly certain you will need to make monthly cash flow projections for five years from business inception. This is nearly the only way to clearly estimate your working capital needs and, specifically, important things like the times when you will need to draw on or can pay down your operating loans and the months when you will need to take out longer-term loans with which to purchase your fixed assets. Without a tool like this you will be severely handicapped when talking with bankers about your expected needs. They will want to know how large of a line of credit you will need and when you anticipate needing to borrow longer-term money. It is only through doing cash flow projections will you be able to answer these questions. You also need this information to determine things like any needed changes to your required loan payments and when you can take owner draws or pay dividends.

Your projected cash flows enable you to develop your projected income statements and balance sheets.

6.1. Overview

- You should introduce the financial plan section of your business plan with a comprehensive overview that describes how you developed this section.

6.1. Proforma Income Statements

Projected Income Statements - Fashion Importers Inc.

For the 12 Months Ending December 31

	2010	2011	2012	2013	2014
Sales (excluding PST and GST)	291,330	424,080	484,216	553,026	631,776
Less: Credit Card Charges	(3,522)	(5,435)	(6,206)	(7,087)	(8,096)
Less: Cost of Merchandise	(132,349)	(192,273)	(219,551)	(250,763)	(286,485)
Gross Profit	155,459	226,371	258,460	295,176	337,194
Expenses					
Wages and Salaries	76,500	106,995	142,664	177,695	186,580
Benefits	9,110	13,651	18,259	21,180	22,239
Rent	27,600	28,428	29,281	30,159	31,064
Utilities	5,796	5,970	6,149	6,333	6,523
Telephone and Internet	2,760	2,843	2,928	3,016	3,106
Security Monitoring	516	531	547	564	581
Business Insurance	7,068	7,351	7,645	7,951	8,269
Office Supplies	420	441	463	486	511
Custodial and Maintenance	3,480	3,584	3,692	3,803	3,917
Travel and Accommodations	4,200	4,326	4,456	4,589	4,727
Shipping	7,931	10,621	12,128	13,852	15,826
Licenses, memberships, and fees	1,035	1,087	1,141	1,198	1,258
Marketing and Promotions	12,463	12,463	12,463	12,463	12,463
Depreciation Expense	4,114	6,746	4,432	3,094	2,261
Start-up Expenses	8,975				
Total Expenses	171,968	205,038	246,248	286,385	299,325
Income before Interest and Taxes	(16,509)	21,333	12,212	8,791	37,870
Loan Interest	2,732	2,835	2,786	1,264	535
Income before Taxes	(19,240)	18,498	9,426	7,527	37,334
Loss carry forward	-	(19,240)	(743)	-	-
Taxable amount	(19,240)	(743)	8,683	7,527	37,334
Taxes at 35%	-	-	3,039	2,634	13,067
Net Income	(19,240)	18,498	6,387	4,892	24,267

Table 15. Projected Income Statements

6.2. Proforma Balance Sheets

Projected Balance Sheets - Fashion Importers Inc.
As at December 31

	2010	2011	2012	2013	2014
Assets					
Current Assets					
Cash	37,209	48,860	44,911	36,836	45,872
Accounts Receivable	18,285	21,028	24,182	27,809	31,981
Merchandise Inventories	16,555	18,101	19,872	21,901	24,226
Prepaid Expenses					
Other Current Assets					
Other Current Assets					
Total Current Assets	72,049	87,989	88,965	86,546	102,078
Fixed Assets					
Equipment	28,560	28,560	28,560	28,560	28,560
Less: Accumulated Depreciation	(4,114)	(10,860)	(15,292)	(18,386)	(20,647)
Other Fixed Assets					
Other Fixed Assets					
Other Fixed Assets					
Total Fixed Assets	24,446	17,700	13,268	10,174	7,913
Total Assets	96,495	105,689	102,233	96,719	109,992
Liabilities					
Current Liabilities					
Accounts Payable	4,703	5,408	6,219	7,152	8,225
Current Portion of Debt	10,010	10,654	11,339	12,068	
Other Current Liabilities					
Other Current Liabilities					
Other Current Liabilities					
Total Current Liabilities	14,712	16,062	17,558	19,220	8,225
Long-Term Liabilities					
Bank Loans	36,024	25,370	14,031	1,963	1,963
Other Long-Term Liabilities					
Other Long-Term Liabilities					
Other Long-Term Liabilities					
Other Long-Term Liabilities					
Total Long-Term Liabilities	36,024	25,370	14,031	1,963	1,963
Total Liabilities	50,736	41,432	31,589	21,183	10,188
Shareholders' Equity					
Capital Stock	65,000	65,000	65,000	65,000	65,000
Retained Earnings	(19,240)	(743)	5,644	10,536	34,804
Other Owners' Equity					
Total Shareholders' Equity	45,760	64,257	70,644	75,536	99,804
Total Liabilities and Shareholders' Equity	96,495	105,689	102,233	96,719	109,992

Table 16. Projected Balance Sheets

6.3. Proforma Cash Flow Statements

Projected Cash Flow Statement - Fashion Importers Inc.

	Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Oct-2010	Nov-2010	Dec-2010	Total
Cash at Month Start	$ -	$ 29,760	$ 11,907	$ 2,973	$ 31,307	$ 30,027	$ 28,242	$ 25,450	$ 21,386	$ 13,910	$ 12,486	$ 14,484	
Cash Inflows													
Cash from Sales and Receivables	-	2,500	11,775	20,035	20,380	19,630	19,060	20,030	24,740	35,420	42,317	57,158	273,045
Loan proceeds	20,000	-	3,000	34,000	-	-	-	-	-	-	4,600	-	61,600
Equity investment	65,000	-	-	-	-	-	-	-	-	-	-	-	65,000
Total Month Cash Inflows	$ 85,000	$ 2,500	$ 14,775	$ 54,035	$ 20,380	$ 19,630	$ 19,060	$ 20,030	$ 24,740	$ 35,420	$ 46,917	$ 57,158	$ 399,645
Cash Outflows													
From schedules													
Merchandise Inventory Cash Purchases	1,275	7,399	10,696	9,009	8,780	8,595	8,978	11,205	18,842	19,423	26,580	13,421	144,201
Credit Card Charges	-	32	152	258	263	253	246	258	319	457	546	737	3,522
Wages and Salaries	5,850	5,750	5,950	5,850	5,950	5,950	5,950	5,950	5,850	8,150	7,950	7,350	76,500
Benefits	679	663	694	679	694	694	694	694	679	1,031	1,000	909	9,110
Loan Principal	285	286	272	3,789	778	782	786	790	794	798	778	5,430	15,567
Loan Interest	104	103	117	292	273	269	265	261	256	252	272	268	2,732
Equipment Purchases													
Expenses													
Rent	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	27,600
Utilities	483	483	483	483	483	483	483	483	483	483	483	483	5,796
Telephone and Internet	230	230	230	230	230	230	230	230	230	230	230	230	2,760
Security Monitoring	43	43	43	43	43	43	43	43	43	43	43	43	516
Business Insurance	589	589	589	589	589	589	589	589	589	589	589	589	7,068
Office Supplies	35	35	35	35	35	35	35	35	35	35	35	35	420
Custodial and Maintenance	290	290	290	290	290	290	290	290	290	290	290	290	3,480
Travel and Accommodations	350	350	350	350	350	350	350	350	350	350	350	350	4,200
Shipping	70	407	588	495	483	473	494	616	1,036	1,068	1,462	738	7,931
Licenses, memberships, and fees	-	-	-	550	-	80	-	-	-	-	405	-	1,035
Marketing and Promotions	5,122	1,392	921	458	120	-	120	-	120	1,345	1,606	1,259	12,463
From Income Statement													
Taxes at 35%	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Start-up													
Rent Deposit	4,600												4,600
Business Name Registration	125												125
Incorporation Costs	4,250												4,250
Facility Renovations	8,200												8,200
Shelving	3,380												3,380
Computer Equipment and Software	6,430												6,430
Security System	5,300												5,300
Signage	2,650												2,650
Office Furniture	2,600												2,600
	-	-	-	-	-	-	-	-	-	-	-	-	
Total Month Cash Outflows	$ 55,240	$ 20,352	$ 23,710	$ 25,701	$ 21,660	$ 21,415	$ 21,851	$ 24,094	$ 32,216	$ 36,844	$ 44,919	$ 34,433	$ 362,436
Cash at Month End	$ 29,760	$ 11,907	$ 2,973	$ 31,307	$ 30,027	$ 28,242	$ 25,450	$ 21,386	$ 13,910	$ 12,486	$ 14,484	$ 37,209	

Table 17. Year 1 Projected Cash Flow Statement

Projected Cash Flow Statement - Fashion Importers Inc.

	Jan-2011	Feb-2011	Mar-2011	Apr-2011	May-2011	Jun-2011	Jul-2011	Aug-2011	Sep-2011	Oct-2011	Nov-2011	Dec-2011	Total
Cash at Month Start	$ 37,209	$ 35,355	$ 31,731	$ 28,245	$ 25,180	$ 23,496	$ 23,195	$ 21,747	$ 23,868	$ 26,054	$ 27,573	$ 28,392	
Cash Inflows													
Cash from Sales and Receivables	30,085	24,925	25,491	26,040	27,437	28,575	27,919	29,035	36,451	46,933	53,065	65,382	421,337
Loan proceeds	-	-	-	-	-	-	-	6,000	4,000	-	-	-	10,000
Equity investment	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Month Cash Inflows	$ 30,085	$ 24,925	$ 25,491	$ 26,040	$ 27,437	$ 28,575	$ 27,919	$ 35,035	$ 40,451	$ 46,933	$ 53,065	$ 65,382	$ 431,337
Cash Outflows													
From schedules													
Merchandise Inventory Payments	10,924	11,539	11,925	12,160	12,796	12,584	13,024	16,486	21,583	24,316	30,410	15,367	193,114
Credit Card Charges	388	322	329	336	354	369	360	375	470	605	685	843	5,435
Wages and Salaries	8,348	8,138	8,558	8,348	8,558	8,558	8,558	8,558	8,348	10,868	10,553	9,608	106,995
Benefits	1,050	1,018	1,083	1,050	1,083	1,083	1,083	1,083	1,050	1,437	1,388	1,243	13,651
Loan Principal	811	815	819	823	828	832	836	809	793	797	801	11,047	20,010
Loan Interest	240	236	231	227	223	218	214	241	258	253	249	245	2,835
Equipment Purchases													
Expenses													
Rent	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369	28,428
Utilities	497	497	497	497	497	497	497	497	497	497	497	497	5,970
Telephone and Internet	237	237	237	237	237	237	237	237	237	237	237	237	2,843
Security Monitoring	44	44	44	44	44	44	44	44	44	44	44	44	531
Business Insurance	613	613	613	613	613	613	613	613	613	613	613	613	7,351
Office Supplies	37	37	37	37	37	37	37	37	37	37	37	37	441
Custodial and Maintenance	299	299	299	299	299	299	299	299	299	299	299	299	3,584
Travel and Accommodations	361	361	361	361	361	361	361	361	361	361	361	361	4,326
Shipping	601	635	656	669	704	692	716	907	1,187	1,337	1,673	845	10,621
Licenses, memberships, and fees	-	-	-	578	-	84	-	-	-	-	425	-	1,087
Marketing and Promotions	5,122	1,392	921	458	120	-	120	-	120	1,345	1,606	1,259	12,463
From Income Statement													
Taxes at 35%	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Month Cash Outflows	$ 31,939	$ 28,549	$ 28,977	$ 29,105	$ 29,121	$ 28,876	$ 29,367	$ 32,914	$ 38,264	$ 45,414	$ 52,245	$ 44,914	$ 419,686
Cash at Month End	$ 35,355	$ 31,731	$ 28,245	$ 25,180	$ 23,496	$ 23,195	$ 21,747	$ 23,868	$ 26,054	$ 27,573	$ 28,392	$ 48,860	

Table 18. Year 2 Projected Cash Flow Statement

Projected Cash Flow Statement - Fashion Importers Inc.

	Jan-2012	Feb-2012	Mar-2012	Apr-2012	May-2012	Jun-2012	Jul-2012	Aug-2012	Sep-2012	Oct-2012	Nov-2012	Dec-2012	Total
Cash at Month Start	$ 48,860	$ 46,374	$ 41,397	$ 35,542	$ 31,046	$ 31,925	$ 32,826	$ 34,377	$ 38,162	$ 40,097	$ 41,626	$ 42,331	
Cash Inflows													
Cash from Sales and Receivables	34,448	28,514	29,165	29,796	31,353	32,561	31,807	33,090	41,519	53,548	60,574	74,689	481,062
Loan proceeds	-	-	-	-	4,000	3,300	4,500	9,500	6,000	1,000	1,000	-	29,300
Equity investment	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Month Cash Inflows	$ 34,448	$ 28,514	$ 29,165	$ 29,796	$ 35,353	$ 35,861	$ 36,307	$ 42,590	$ 47,519	$ 54,548	$ 61,574	$ 74,689	$ 510,362
Cash Outflows													
From schedules													
Merchandise Inventory Payments	12,495	13,202	13,646	13,894	14,581	14,337	14,843	18,779	24,629	27,761	34,746	17,598	220,510
Credit Card Charges	444	368	376	384	404	420	410	427	536	691	781	963	6,206
Wages and Salaries	11,080	10,749	11,411	11,080	11,411	11,411	11,411	11,411	11,080	14,333	14,057	13,230	142,664
Benefits	1,458	1,407	1,508	1,458	1,508	1,508	1,508	1,508	1,458	1,716	1,674	1,547	18,259
Loan Principal	863	867	872	876	860	847	828	783	756	755	753	30,894	39,954
Loan Interest	188	183	179	174	190	203	222	267	294	296	297	293	2,786
Equipment Purchases													
Expenses													
Rent	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	29,281
Utilities	512	512	512	512	512	512	512	512	512	512	512	512	6,149
Telephone and Internet	244	244	244	244	244	244	244	244	244	244	244	244	2,928
Security Monitoring	46	46	46	46	46	46	46	46	46	46	46	46	547
Business Insurance	637	637	637	637	637	637	637	637	637	637	637	637	7,645
Office Supplies	39	39	39	39	39	39	39	39	39	39	39	39	463
Custodial and Maintenance	308	308	308	308	308	308	308	308	308	308	308	308	3,692
Travel and Accommodations	371	371	371	371	371	371	371	371	371	371	371	371	4,456
Shipping	687	726	751	764	802	789	816	1,033	1,355	1,527	1,911	968	12,128
Licenses, memberships, and fees	-	-	-	606	-	88	-	-	-	-	447	-	1,141
Marketing and Promotions	5,122	1,392	921	458	120	-	120	-	120	1,345	1,606	1,259	12,463
From Income Statement													
Taxes at 35%	-	-	760	-	-	760	-	-	760	-	-	760	3,039
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Month Cash Outflows	$ 36,934	$ 33,491	$ 35,020	$ 34,292	$ 34,474	$ 34,960	$ 34,756	$ 38,805	$ 45,584	$ 53,019	$ 60,869	$ 72,109	$ 514,311
Cash at Month End	$ 46,374	$ 41,397	$ 35,542	$ 31,046	$ 31,925	$ 32,826	$ 34,377	$ 38,162	$ 40,097	$ 41,626	$ 42,331	$ 44,911	

Table 19. Year 3 Projected Cash flow Statement

6.4. Investment Analysis

- The investment analysis part of your business plan is the section in which you will provide a comprehensive assessment of your business, mainly based on your projected financial statements.

6.4.1. Projected Financial Ratios and Industry Standard Ratios

Ratio Analysis - Fashion Importers Inc.

						Industry Averages
Liquidity Ratios	**2010**	**2011**	**2012**	**2013**	**2014**	**2005**
Current Ratio (Times)	4.90	5.48	5.07	4.50	12.41	1.60
Quick Ratio (Times)	3.77	4.35	3.94	3.36	9.47	N/A
Efficiency Ratios						
Average Collection Period (Days)	53.11	47.11	47.11	47.11	47.11	N/A
Accounts Receivable Turnover (Times)	6.87	7.75	7.75	7.75	7.75	7.60
Inventory Turnover (Times)	8.21	10.92	11.36	11.77	12.16	2.60
Fixed Asset Turnover (Times)	11.92	23.96	36.49	54.36	79.84	213.30
Total Asset Turnover (Times)	3.02	4.01	4.74	5.72	5.74	N/A
Leverage Ratios						
Debt Ratio	52.6%	39.2%	30.9%	21.9%	9.3%	80.0%
Debt to Equity Ratio	110.9%	64.5%	44.7%	28.0%	10.2%	60.0%
Times Interest Earned Ratio (Times)	(6.04)	7.52	4.38	6.95	70.77	2.10
Profitability Ratios						
Gross Profit Margin	53.4%	53.4%	53.4%	53.4%	53.4%	49.1%
Operating Profit Margin	-5.7%	5.0%	2.5%	1.6%	6.0%	4.7%
Net Profit Margin	-6.6%	4.4%	1.3%	0.9%	3.8%	4.2%
Operating Income Return on Investment	-17.1%	20.2%	11.9%	9.1%	34.4%	4.8%
Return on Total Assets	-19.9%	17.5%	6.2%	5.1%	22.1%	9.9%
Return on Equity	-42.0%	28.8%	9.0%	6.5%	24.3%	17.2%

Sales Growth

Sales (year over year % change)	2010-2011	45.6%
	2011-2012	14.2%
	2012-2013	14.2%
	2013-2014	14.2%

Table 20. Projected Financial Ratios

- The industry averages shown in the preceding table came from Stats Link Canada (2009). These are shown for illustrative purposes only. You will need to secure the industry average ratios relevant to the business described in your business plan.

6.4.1. Break-Even Analysis

6.5. Critical Success Factors

- You should identify the factors that, if they were to change, would most affect the plans you presented in your business plan. You can do this by manipulating some of the factors in your spreadsheets to see what the implications would be. For example, if your business plan shows the venture will be profitable after two years in business, how would this change if sales were five percent lower than projected?
- One common approach is to include three sets of financial projections; pessimistic, most likely, and optimistic.

7. References

Mind Tools. (2012). Porter's five forces: Assessing the balance of power in a business situation. Retrieved from http://www.mindtools.com/pages/article/newTMC_08.htm

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Stats Link Canada. (2009). Financial performance indicators for Canadian business. Retrieved from http://www.gdsourcing.ca/FPI-Small.PDF

8. Appendices

8.1. Appendix 1. Owner Biographies

8.2. Appendix 2. Product Pictures

Business Plan Excel Template

Click the following link to access the Business Plan Excel Template. If it doesn’t open, please try another browser.

Business Plan Development Guide Spreadsheet Templates v7 April 2017