

Preparing a Business Plan

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Moncton, Petitcodiac, Port Elgin, Riverview and Salisbury

INTRODUCTION

A business plan is a description of your business, including its products or services, its markets, the people involved and your financing needs. A well prepared business plan will not only assist you in plotting a course for your company - it can also serve as a vital sales tool. Lenders receive numerous requests for funding; therefore, to attract their attention, your company and its products or services should be presented in a complete and professional manner. A well completed business plan prepared with the information needs of the lender in mind will demonstrate your planning ability, and your general competence as a manager.

We hope you will find this discussion useful.

BUSINESS PLAN OUTLINE

THE EXECUTIVE SUMMARY

A brief description of your product or service and target market

A brief description of the management team

A summary of your financial projections

The loan amount requested, the type, and purpose

COMPANY AND INDUSTRY

Type of legal entity

The date and province of incorporation

The principals

Business purpose and highlights of progress to date

Current status and prospects for the industry

Competitors

Economic, social, technological, or regulatory trends

Environmental issues

SERVICE/PRODUCT

Description

Research and development

Proprietary features

Future development

MARKET

Market definition

Market size

Market trends

Competition

MARKETING

Estimated sales and market share

Strategy

Price point

Sales and distribution

Service and warranty policies

Advertising, public relations and promotion

OPERATIONS

Location
Plant and equipment
Manufacturing processes
Labour

MANAGEMENT

Organization
Key management
Board of Directors
Professional Advisors

OVERALL SCHEDULE

Completion dates for major aspects of the plan

CRITICAL RISKS AND PROBLEMS

Negative factors
Plans to minimize impact of the negative factors

FINANCIAL INFORMATION

Source of funds
Use of funds
Future financing
Current financial statements
Financial projections
Personal financial statements

HOW TO PREPARE A BUSINESS PLAN

The organization and content of a business plan should consist of the following:

EXECUTIVE SUMMARY

Many lenders prefer to review a concise summary of a business plan so they can decide their level of interest. Therefore, your objective in the summary is to convince the reader to study your plan further. Your summary should describe all key elements of your business plan in one or two pages and should include the following information:

- A brief description of your project and market
- A brief description of the management team
- A summary of your financial projections
- The amount of money you wish to borrow, in what form, and for what purpose

COMPANY AND INDUSTRY

The purpose of this section is to provide a lender with background information on your company and to describe the nature and current condition of your industry. It should include information on:

YOUR COMPANY

- Is your company a proprietorship, a partnership, or a limited company
- The date and province of incorporation
- The principal(s) and what role she or he has played in bringing the business to where it is today
- The business purpose and highlights of progress to date, including major developments such as the introduction of a new product.

THE INDUSTRY

- Your view of the current status and prospects for the industry
- The principal competitors in the industry and how they are performing, including growth in sales, profits, and current market share
- The effect of major economic, social, technological, or regulatory trends on your industry
- The impact of your activity on the environment. How is it positive? If potentially harmful, how is it resolved?

SERVICE/PRODUCT

Your objective in this section is to completely and concisely describe your product or service, along with any proprietary features and future development plans. It should include the following information:

- Profile of the company's product or service in detail indicating its nature and application. Include material such as engineering studies, photographs, and selling brochures.
- Research and development work to be completed before your product or service is placed on the market.
- Discuss any market studies completed. Clearly indicate the costs and time required to achieve a marketable service or product.
- Proprietary features such as patents, trade secrets, registered trademarks and any other factors that have allowed, or could allow you to obtain an advantageous position in your industry.
- Future development, including plans for extension of your present product or service, and development of new or related services or products.

MARKET

Your objective in this section is to demonstrate to a lender that you understand your market and can achieve your sales target. It should include the following information:

- Target market, describing the potential customers, their locations, their interest in the service or product, and the seasonality of their purchases. If the company has a track record, discuss how its service or product has been received in the marketplace. It is important to discuss any negative reactions along with your present or planned actions to overcome the negative reactions.
- Market size, based on a review of statistical data and from discussions with potential distributors, sales representatives and customers.
- Market trends, including growth potential. Market projections should be made for at least three years and should **CLEARLY STATE THE ASSUMPTIONS USED**, including major factors such as industry trends, new technical developments, and new or changing customer needs.
- Major competitors should be named and discussed. Compare your service or product with your competitors on the basis of price, performance, service, warranties, and other important features. Review the strengths and weaknesses of your competitors. If they are doing well, explain why you expect to succeed. If they are doing poorly, explain why you expect to succeed. If there are no competitors, discuss the possible development of competition and from whom it is likely to come.

MARKETING

Your objective in this section is to provide projections of sales and market share, and to demonstrate to the lender that your marketing plan will achieve the projections. It should include the following:

ESTIMATED SALES AND MARKET SHARE

- Provide an estimate of sales and market share (units and dollars).
- Base this estimate on your assessment of your customers and their acceptance of your product, your market size and trends, and the competition.
- Provide copies of any market studies you have conducted.
- Identify any major customers who have made or are willing to make purchase commitments. Include letters of commitment.

STRATEGY

- Targeted customers (initial and later)
- Methods of identifying and contracting potential customers
- Service or product features that will be emphasized

PRICING

- Prices to be charged for your services or products
- Comparisons to competitors' prices
- Market acceptance of your price
- Pricing strategy to maintain and increase your market share
- Prices and relative to variable costs
- Justify pricing that is above or below your major competition

SALES AND DISTRIBUTION

- Discuss how you plan to sell and distribute your service or product
- If a distributor or sales representative will be used, describe how she or he will be attracted, compensated, and what geographic areas will be covered
- If a direct sales force will be used describe how it will be organized and controlled. This should include the number and location of sales personnel and the commission and/or salary they will receive

SERVICE AND WARRANTY POLICIES

- Discuss the importance of these to your customers
- Policies and methods for handling service problems

ADVERTISING, PUBLIC RELATIONS AND PROMOTION

- Plans to bring your product to the attention of prospective customers
- Trade show participation
- Trade magazine advertisements
- Promotional literature

OPERATIONS

Your objective in this section is to describe how the service will be delivered or how the product will be manufactured, including location, plant and equipment, manufacturing processes, and labour.

LOCATION

Describe the location of the business including the advantages and disadvantages of the site considering such items as:

- proximity to suppliers
- foot traffic
- parking
- wage rates
- labour unions contracts
- labour availability
- proximity to customers
- access to transportation
- provincial and municipal laws (including zoning)

PLANT AND EQUIPMENT

- Facilities in use or to be acquired
- For facilities in use, provide copies of any equipment or real estate appraisals
- Future plant and equipment needs, based on sales projections
- The cost of additional capacity and its timing

MANUFACTURING PROCESSES

- Manufacturing processes necessary to produce your product
- Method of manufacture
- Quality control, production control, and inventory control procedures
- Raw materials or components (including source, cost, and related contracts)
- Organization and control of purchasing function
- Breakdown of fixed manufacturing costs
- Breakdown of variable unit costs by product

LABOUR

- Indicate whether there are enough qualified people locally to manufacture your product
- Address the type of training needed and the costs to your company.

MANAGEMENT

The experience, talent and integrity of your management team are of primary concern to a lender. Before agreeing to finance your company, a lender will conduct a thorough reference check of each member of your team. Accordingly, this section of the business plan should describe the following:

ORGANIZATION

- What the key management roles will be
- Who will fill each position
- How the individuals' talents complement each other
- A completed Personal Financial Statement for each partner or shareholder. (See Exhibit "A" for sample format)

KEY MANAGEMENT

- The duties and responsibilities of each individual
- Career highlights of each individual (Attach a resume)
- The weaknesses of the management team
- Each individual's compensation and ownership
- Each individual's monetary contribution to the project

BOARD OF DIRECTORS

- Identify board members
- Explain how the members can benefit the company
- The members' investment in the company, if any

PROFESSIONAL ADVISORS

Properly selected professional advisors can help you to establish the credibility of your business venture. Therefore, it is important to state the legal, accounting, public relations, advertising, banking, and other professionals you have selected for your company.

OVERALL SCHEDULE

A well prepared and realistic schedule is critical to the company's success as it indicates the ability of management to plan the company's development. Therefore, a schedule should be prepared that shows completion dates for major aspects of the business plan.

CRITICAL RISKS AND PROBLEMS

The development of a business involves risks and problems, and it is best to identify these negative factors and discuss them in a forthright manner. To determine the risks and problems that require discussion, you should determine which business plan assumptions or potential problems are most critical to the success of the venture. Then, describe your plans for minimizing the impact of unfavourable developments in each risk area.

FINANCIAL INFORMATION

Your business plan should describe the type and amount of funding you are requesting. In addition, you will need current information on the company's present financial status and financial projections. If your company has already begun operations, you must include current financial statements. If you are starting a new company, prepare detailed financial projections.

This section of your business plan should cover the following information:

SOURCE OF FUNDS

- You should state how much money you need and where it comes from.

Example:

Cash (in ASCU)	\$40,000
Shareholder Equity	10,000
Family Loan	5,000
Term Loan	<u>15,000</u>
Total Funds	\$70,000

USE OF FUNDS

- How you plan to use the funds should be consistent with your financial projections.

Example:

Machinery	\$30,000
Inventory	15,000
Advertising	5,000
Non-recurring Start up expenses	<u>20,000</u>
Total Funds	\$70,000

FUTURE FINANCING

- You should also explain, clearly and concisely, anticipated future funding. Do you want capital investment in stages, or all at once? If you seek staged capital financing, when will you require the future funding and what are the milestones for reaching that point?

CURRENT FINANCIAL STATEMENTS

If the company has a track record, provide financial statements for the last three years from inception. You should also provide:

- Detailed breakdowns of income statement categories
- Operating statistics and explanations of unusual fluctuations
- An analysis of your company's income tax status including details on tax loss carry-forwards, investment tax credits, or any other tax incentives available

FINANCIAL PROJECTIONS

You should provide three-years of:

- cash flow projections (refer to Preparing a Cash Flow)
- profit and loss projections
- proforma balance sheet

If your company has a track record, the projections should be on a quarterly basis for the first year and annually thereafter. Otherwise, the projections should be on a monthly basis for the first year, a quarterly basis for the second year, and annually thereafter. When making financial projections, it is important to explain your assumptions.

The assumptions you should include are:

- Sales increases by unit and total dollar volume and product mix
- Gross margin in total and by product line
- Accounts receivable collection period
- Accounts payable payments period
- Inventory turnover
- Useful life of assets and related depreciation schedules
- Capital expenditures
- Interest rates on debt and the projected amortization period
- Interest income on temporary investments of excess funds
- Effective income tax rate

Your financial projections and your funding request must be keyed to your market expectations. You should begin your financial projections with a sales forecast. Many first time entrepreneurs make the mistake of starting at the manufacturing cost level and assume that the marketing department can sell everything they make for a profit. Starting with a sales forecast will also help you define how much cash you will have coming from operations and when it will come in. This is essential to forecasting cash flow and determining how much equity and debt capital you will require until the company generates a positive cash flow.

PERSONAL FINANCIAL STATEMENT

A personal financial statement should be completed for all shareholders as well as any individual who will be giving a Personal Guarantee to the lender. Refer to exhibit "A" for a sample form. The personal financial statement will list your personal assets and personal debts. Include name of lender and account numbers related to personal debts.

SUMMARY

In summary, your plan should describe:

- Your company and industry
- The service or product
- The market and marketing approach
- How the service will be delivered or how the product will be made
- Who is involved in the company
- How much money the company needs and what it will do with it

By following these guidelines, you will be able to provide a lender with a plan that is well prepared and persuasive in conveying your potential as a manager to operate a successful business.

Best of luck and much success in your enterprise!