Bank Trust Wealth Management

How to Write a Business Plan

CANADIAN WESTERN BANK

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Why write a business plan?

If you're a typical entrepreneur, you're an action-oriented person who wants to get things done. You may be concerned that taking the time to write a business plan will interfere with getting your business up and running. Or your business may be moving so quickly that you feel your business plan will be out of date by the time it's written.

Your business plan is an essential tool for building and growing a business. It serves two purposes: it helps you get funding and it solidifies your business ideas.

If you need to get financing or are seeking investors for your business idea, your business plan is the document they will use to assess the viability of your idea. It is designed to build confidence with your funder that you have a solid business proposal.

Writing a business plan is a learning process. During this process you will identify what you know and the areas where you may need help. It's a detailed test run on paper.

This up-front investment in learning will save you money and ultimately it will save you time. You will be able to plan for problems instead of trying to fix problems once the business is operating.

Plans aren't a fool proof road map to the future, nor are they set in stone once they're done. What matters is that you come out of the planning process knowing what you're selling, to whom, and how you're going to make money doing it. Down the road your plan will give you a yardstick for measuring your success. And as your business grows, your plan can help you develop new strategies and tactics.

Scope and format

Determine your start date and the length of your plan. Most business plans are written for three years, but some funders want five years. If you work in a rapidly changing industry, like the tech industry, a one to two year plan may be sufficient. If you intend to apply to a particular funder or investment program, know their requirements before you start. Get a copy of any applicable guidelines and follow them.

Every business is different and your plan must be tailored to your business and industry. Therefore, some of the following questions or suggestions will not apply to your business. Use what makes sense for you.

Most business plans will include the five key sections below. An explanation of what should be included in each section will be overviewed in this guide.

1. Executive summary

    - A quick overview of the key sections of the plan

2. Business overview

    - Identifies the need for the business and why it's a good idea.
    - Product, service and location information

3. Strategic objectives

    - Vision and mission statements
    - Goals and objectives
    - SWOT (strengths, weaknesses, opportunities and threats) analysis

4. Business operations

    - Industry overview and market research
    - Competitors
    - Marketing strategies
    - Business processes
    - Management and staffing – organizational structure
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    - Three year projected annual cash flow statement
    - Pro-forma Balance Sheet
    - Business ratios

6. Key team member overview
    - Introduce key team members, partners, board members
    - Highlight relevant experience and why they'll help make the business successful

7. Additional materials appendices (additional information)
    - Industry and market references
    - Demographic research
    - Résumés
    - Floor plan (if appropriate)

Content

1. Executive summary

This short introduction should sell your business concept in one or two pages. The point of this section is to quickly present the most important features of your business idea. It should be written with confidence and enthusiasm. Think of this as your "elevator pitch" to get someone interested in your business idea. It should include:

- A brief statement of what your business is and why you are the right person to start this business
- Key selling features of your product or service
- The market potential for this product
- Why your business is uniquely competitive
- What you are seeking (e.g. loan or investor financing)
- Key financial points

TIP

As the business owner you are selling yourself. Be sure to include the strongest skills and experience you bring to this project.

2. Business overview

Background

If you're starting a business, explain why you are starting this business and why now. Why are you the ideal person to run this business?

If you are expanding or changing the direction of an existing business, describe when the business was started and why this is the right time for changes.

Include details of the legal structure of the company, e.g. "The Company is registered as a corporation in the province of British Columbia and owned 100% by Ms. L Smith."

Product and location

Why will customers buy your products or services? Describe your product in detail, especially its advantages over other existing products in the marketplace. What are your product's unique features? What will you offer in terms of quality, price, customer service or warranties? If you plan to improve or expand your product, or offer additional products and services in the next three to five years, outline your strategy.

In many cases your location and facilities will be a key contributor to the success of your business. Start at a high level, examining the province or region.

- Are you located in a rapidly growing region or a mature market?
- How does that contribute to your success?
- Is your business location convenient for customers or suppliers?

Provincial and local governments maintain websites with economic information that can support your business case. Think about including maps that show demographics of target neighbourhoods or regions, shipping routes or other supporting details.

Your business location and the facility where you will operate your business are critical information for funding decisions.

Answer these questions:

- Is the facility going to meet all of your needs?
- Are you building or leasing?
- How much work will be required to make the facility support your production and service needs?
- Do you have the knowledge and resources to manage a build or lease fit-up?
- Is this an interim facility—do you intend to expand or relocate within the period of time covered by this plan?
- Is the location and facility you have chosen accessible and does it project the image you need for success?

3. Strategic objectives

Your vision is where you want to go, your mission is how you will get there and your goals and objectives are what you will do to achieve your vision.

EXAMPLE

John Doe is a professional engineer who has run various midstream operations for 25 years. Fred Smith is an expert in process engineering, asset development and project development, with a proven track record of successfully leading multi-million dollar midstream start-ups. They have identified a need for a full-service midstream company to introduce a new business model that will meet future LNG pipeline requirements. This new full-service operation model will expedite LNG exports when pipelines are built and have the potential to expand to oil and gas sites across the world.

Vision and mission statements

When writing a statement, keep it broad and simple, so you and your team members can easily remember it. Aim for 25 words or less.

Your vision is where you want to go. The statement should be similar to what you would tell your friends about the future of your business. It’s probably one short sentence such as:

> I want to be recognized as the leader for customer service in the well-head parts and supply industry.
>
> I want to be the largest distributor of devices in the province.

Your mission is how you’ll get there. Again think of what you would say to a friend. It might be something like:

> All of my staff will be trained to listen closely to our customers and empowered to deliver on-the-spot solutions.
>
> Everyone in this industry has a good product, but we will excel in prompt delivery, reliability, and outstanding after-sales support.

Goals and objectives

Goals are measureable and usually derived from your financial statements. They say what you want to achieve. Goals should be SMART: specific, measurable, attainable, relevant and time-bound.

Specific	What exactly do you want to achieve?
Measurable	How will you know you have achieved it?
Attainable	Is it actually possible?
Relevant	Can you actually do it?
Time-bound	When do you want to achieve it?

An example of a good SMART goal would be:

> Achieve a positive cash flow by the end of Year 1, with gross sales of $1 million.

Your objectives are the strategies you will use to reach your goals. Some examples could be:

Build, equip and staff the operational facility, with a target opening date of December 1, 2014.

Stock full inventory and establish efficient distribution networks by the end of the first year to enable full volume sales.

SWOT analysis

Your SWOT analysis is the time to critically review your business idea. This tool will help you clearly identify your strengths, weaknesses and opportunities as well as the threats to your businesses.

- Your **strengths** help you take advantage of opportunities, they are the reasons you will succeed.
- Your **opportunities** are why you expect your business to be a success. Unmet marketplace needs are classic opportunities. Your strengths will help open the door to new opportunities.
- Your **weaknesses** give you information on where external help, service or advice is needed.
- Your **threats** are the external or internal forces that could cause a
  - problem. This may include concerns such as
- potential increases in business rates, a shortage of materials or labour, or cash flow limitations.

PESTLE analysis

You might also want to perform a PESTLE Analysis to identify the Political, Economic, Social-Demographic, Technological, Legal and Environmental influences that can affect your business.

- **Political** influences include things such as a change in government and any potential legislative or tax shifts or decisions to either regulate or de-regulate an industry.

- **Economic** influences include economic downturns or growth, the stability of exchange rates, employment levels and access to a skilled labour force, and trends such as the growth of the digital economy and globalization.

- **Socio-demographic** changes such as growing communities and changing income levels, as well as shifts in age, income levels, education and social mobility and immigration levels are important influences to consider.

- **Technological** factors include new technologies that could affect your business or industry and remote workforce opportunities.

- **Legal** factors include any legal requirements for your business, or risk of legal action against your business or the industry and how they impact your costs, operations and reputation.

- **Environmental** factors include weather, climate or climate changes that may impact your business. It also includes the environmental impacts of your business or industry and potential risks as a result of those impacts.

Implementation plans

Your implementation plan is your timeline for taking action on all the steps/details needed to take your business from concept to full operation.

Implementation planning can be complex and the full detail does not need to go in your business plan. Just ensure that all major tasks and deadlines are highlighted.

4. Business operations

Industry overview

Assume the financial advisor or investor you are approaching is not familiar with your industry. Provide a brief general overview. How big is this industry? Size can be defined in many ways including sales, number of units sold, number of producers and/or total employment. Highlight any statistics you have on recent industry growth, especially in your geographic region.

Industries can be divided into segments. Divide your industry into key product segments, highlighting the size and characteristics of the segments in which your business will compete.

Customers

Customers also fall into segments. Divide the market into customer groups. Identify the size and characteristics of those groups. You may want to group key markets by type of customer, geography or other characteristics.

Outline the research that you did to support your business case. Have you surveyed current and potential customers, interviewed peers or competitors, attended industry conferences, read reports or done market surveys?

Competitors

Identify a short list of key competitors with products or services similar to yours and identify any indirect competition. For key competitors, provide a brief description of each business in terms of location, products and services, marketing strategies, and market position.

Answer the questions:

- What advantages do you have over these key competitors? What disadvantages?
- How will you set your prices?
- How does your pricing compare with the marketplace?
- Do you have other advantages in terms of products, location or customer service?

Marketing strategies

Your marketing plan starts with your customers. Identify your customers by age, gender, income, location or other attributes. If your customers don't fall into a category based on those attributes, identify what behaviour or belief connects them to your product or service. If you have several core markets for your product, profile each of them.

Outline your overall strategy for how you will reach your customers. Include your core message for each target customer segment and identify how you will promote your product. Some types of promotion to consider include:

- Paid advertising via print, radio or television
- News items or interviews in media and industry publications
- Publications such as brochures and flyers
- Your website, which may include interactive features or online sales
- Sales calls
- Booths or demonstrations at events and trade shows
- Social media
- Customer loyalty programs and other promotions
- Word of mouth via industry contacts and satisfied customers

TIP

Your Unique Selling Proposition (USP) is the reason you will succeed. It is what you do better or can provide more efficiently than competitors in your industry. A marketing company can help you to develop a brand strategy and marketing plan to highlight your USP.

Business processes and operations

Outline your manufacturing and distribution processes. Describe how your products and/or services are produced. Include the resources used and the process. Identify and describe any key suppliers. You may wish to include photos or charts to illustrate this.

Once produced, how is your product distributed? If you're relying on retail or wholesale partners, describe them.

If sales are a key part of your business provide information on the processes. If you rely on online sales, describe how packaging and mail outs are completed. If you're a wholesaler, talk about how customers order and pay for your products and what arrangements are made for shipping. If you're in the resource industry, you need to describe how customers place and pay for your product or service.

Be sure to note all regulatory and licensing requirements that will apply to your business. This ranges from procuring a municipal business license or meeting health and safety requirements to complying with national and international standards such as Workplace Hazardous Materials Information System (WHMIS) and International Organization for Standardization (ISO). If you are applying for patents, copyrights, or trademarks, describe them here.

Management and staffing – organizational structure

Your management team is crucial to the success of your operation. Start by describing your organizational structure, outlining key positions and their responsibilities. Include reporting structures as well. You can use an organization chart to illustrate reporting structures.

Describe your background, skills and your role in the organization. If you have partners or key managers committed to your business, include information about them and have résumés available.

Outline your staffing needs.

- How many employees will you start with? How will this change over the duration of your plan?
- What training do they require?
- How will you find, hire and retain employees?

Risk analysis

Identify what your biggest risks will be and how you will mitigate them. Risks include physical hazards, market risks and competition. One factor that new business owners may overlook is their own role in the business. Consider who your back-up is if you should suffer a sudden illness or accident.

Your SWOT and PESTLE Analysis can help you identify risks and develop strategies to minimize them.

5. Financial statements

This is the heart of your plan. It is where you prove that your business concept is viable. Your financial statements are based on forecasts. This is where your financial projections and the strategic components of your plans come together.

Consult with a financial advisor or business accountant to help you with this section if required. You want to be sure your forecasts are realistic and that they are aligned with your goals and objectives.

Key documents in your financial statements include:

1. Pro-forma Income Statement with supporting assumptions:
    - Sales forecasts
    - Cost of Goods/Cost of Sales forecasts
    - Overheads/operations assumptions
    - Administrative/wages assumptions
2. Cash flow forecasts
3. Balance Sheet

1. Pro-forma Income Statement

The Pro Forma Income Statement projects the revenues and expenses of your business over a given period of time. Other terms for this are budgeted income statement or Income/Revenue Statement Forecast. There are three things that need to be predicted to forecast your income statement: your sales, the cost of goods sold and your operational costs.

Sales forecasts
The sales forecast is probably the most difficult part of the business to estimate. It is important to remember that a sales forecast is not a guess; it's a goal you set for your business to achieve. It must reflect your business strategies and objectives.

Your sales forecast is based on the price of the products or services you plan to sell and the number of units you expect to sell. If the business is broken down into logical departments or categories, forecast the revenue in each area for the total sales forecast.

Cost of Goods Sold forecasts
The cost of goods sold depends on the level of sales and the cost of equipment, materials and staffing. In some businesses the wages of employees or contractors are considered part of the cost of sales.

Overhead/operations assumptions

Your overhead and operations assumptions detail the costs of running your business in areas such as:

- Facilities (leasing or construction), utilities, maintenance and janitorial fees
- Insurance and vehicle leasing
- Banking
- Taxes
- Business licensing and permits,
- In some business dividend payments, management and executive salaries are calculated in this area.

Administrative/wages assumptions

These may be annual or ongoing costs and include items such as:

- Outsourced services such as lawyers, accountants, business analysts, and communications and media relations specialists.
- Specialized service providers like website developers and computer systems contractors.
- Marketing costs could be included here or in a section on its own, depending on your business and strategy.
- Depending on the type of business you operate, you may include wages for administrative staff here or you might include wages for all employees.

2. Cash flow forecasts

A cash flow forecast is one of your most important financial tools. Your cash flow shows if and when you will run out of the cash needed to run your business. Calculate all receipts and disbursements for your business on a monthly basis. This forecast allows you to take action before problems occur. Strategies might include restructuring your supplier payments or doing "what if" calculations before taking on new projects.

3. Balance Sheet

Your Balance Sheet is the overall picture of your business' financial stability. It divides your financial information into three categories: assets, liabilities and equity to show your business' net worth at a particular point in time.

TIP

Do not under-estimate your start-up costs and the amount of cash flow it will take to get through the first year of business.

6. Key team member overview

Investors and lenders will want to see that you have a strong team to support your success. These key team members could be partners, suppliers, advisory board members, mentors and key staff members. Highlight their experience and why they will be key to your success. It's particularly important to identify who you've engaged to help with your business when you're entering a business or market where you don't have much experience or knowledge.

7. Additional information

Add important information that supports your business case into appendices at the end of your business plan. You do not want to include everything in your plan or it will get very long and the reader may lose interest. Make supporting information available to potential investors or funders on request. Examples of information you might want to include could be résumés of the management team, equipment quotes, engineering drawings, floor plans or industry forecasts.

EXAMPLE

Karen Karpentry, CPA has been retained as our accountant from ABC Professional Services. Karen has 25 years experience working with start-up companies in the energy sector.

Now what?

Your business plan is your key document for funders, whether you are looking for financing, grants, private investors or a public offering. It also gives you a yardstick for measuring your success on a monthly, quarterly or annual basis.

Business plans contain a great deal of confidential and valuable information, so most entrepreneurs are cautious about showing their plan to anyone other than their bank or potential investors. However, it's very valuable to have your material critiqued before it's finalized.

The first source of review is professional advisors, such as your accountant or architect, who can be trusted to maintain professional confidentiality. The next most common reviewer is a peer in your industry whose opinion you respect. They can give you helpful feedback on the viability of your concept.

It can also be helpful to get a review from a colleague with business experience who doesn't know your industry. Your plan may be read by a potential funder or investor who doesn't have a background in your field and the business case must be clearly understandable. If you're concerned about confidentiality you can draft a non-disclosure agreement with your advisors.

Your business plan is a living document that can be used to review your progress against the goals you identified. A frequent review of your plan is a good practice for measuring your progress and implementing any necessary changes.