

A Guide to Preparing A Business Plan and Cash Flow



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Revised February 2018

What is a Business Plan?

A business plan helps you determine if your business is likely to be viable, and focuses your efforts to improve your chances of success. As you prepare your plan you will get the answers to key questions: Is my business viable? What are the strengths and weaknesses of my business? Who are my customers, and how do I plan to get them to buy from me? Who are my competitors? What skills will I need to properly run this business?

There are four major components to any business plan which include a description of the business, market research, management, and financial projections.

1) Description of the Business

The description of your business includes your products, your customers, your marketing plan, and your competition.

a) Your Products and/or Services

Your products include the goods or services you will provide. Concentrate on grouping your major types of products rather than listing every single item. It is crucial that you have a clear understanding of the different kinds of products you offer (or plan to offer) because this will help you identify who your customers are.

b) Your Customers

Your customers are the people who will buy your products. This section should also include an explanation for why your customers will buy your product.

Who are your customers? What do they want? Why do they buy your type of product or service? What need does it fulfill? What problem does your product fix? For each of your products/services, consider your:

Main Customers- people who will use your products/services the most, and will provide the majority of your sales.

Secondary Customers- people who will buy your products/services, but will not be your main customers.

For many firms, 80% of the sales come from 20% of the customers!

c) Your Marketing Plan

Your marketing plan includes how you will tell your customers to buy from you based on who your customers are. There are a few things to take into consideration when describing your marketing plan.

Your Market Area- Where do your customers live? Are you appealing to people in your community? Can you draw on several communities in a region? Will you be actively selling to people across Northern BC? Focus your attention on your main market areas. Further, you should assess whether you have a primary and secondary market depending on the product you sell.

Demand for your Products- For each of your main types of products (the goods you sell or services you provide), is your market growing, shrinking or stable? Do you expect any major changes in the demand for your types of product in the near future? (within five years?) Focus on the overall demand for your types of products, not the demand for your business.

Marketing Strategy- How will you tell your customers about your products and convince them to buy from you? Your marketing strategy is more than just advertising, it is where you will promote your products and your firm while trying to create a perception of value among your customers. This could include areas such as customer service, discounts, special sales, charities/ cause your business supports and advertising. Include the strategies you will use, the advertising planned and sales tools (discounts, coupons, etc.).

Price- How do your prices compare with those of your competitors? Keep in mind three things:

- If your products are *more expensive* than your competitors, why will your customers be willing to pay extra price?
- If your products are *cheaper* than your competitors, can that affect the way that customers view the value of your products?
- If your products are *the same* as your competitors, do you have other plans to set yourself apart from the rest?

Location- Your location can be a vital part of your success, depending on the kind of business you are in.

d) Competitors

Who are your competitors? Are they expanding? Are new competitors starting up or moving into your market? Is the market saturated?

Look closely at your competitor's niche. Are they appealing to certain types of customers? Are they focusing on certain features of their products? Why do people buy from them? This info can give you many ideas how to set your company apart from the crowd and create your own niche.

Advantages & Disadvantage of your Products- What advantages do your products offer compared with the products of your competitors? What are the disadvantages, relative to those available through your competitors?

Your Company's Strengths/ Weaknesses- What are the strengths of your company (not your products), compared with your competitors? What are the weaknesses, compared with your competitors?

Your Plans to Overcome Weaknesses/Disadvantages- How will you overcome your weakness, or the disadvantages of your products? What are your plans to improve your weak areas? This is a crucial area, and one that should be looked at very closely.

2) Market Research

Market research plays a very important part in determining whether your business idea is viable. If properly done, it should help you answer very important questions such as:

- Will the customers buy your product?
- Are they interested in the benefits your products offer?
- What features are important to them? Why do they buy?
- Where do they look when deciding to buy?
- How much will they buy?
- What prices do they expect to pay?

You may wish to consider checking the following areas:

- The customers themselves
- Firms providing similar products in similar markets
- Trade and Business Associations
- Statistics

Market surveys should be brief, asking 4 – 6 questions and taking less than 5 minutes.

3) Management

The management section of your business plan describes the skills and abilities of the people who will be setting the direction for the company. All businesses require skills in organization, sales, customer relations, crisis management, marketing and technical areas. In the management section, outline your skills and experiences in the following areas:

Technical- Your ability to provide the service or make the good.

Marketing & Promotion- Your background selling products (Sales) and your exposure to using advertising or promoting products (Promotion)

Financial & Administrative- You background handling books, tracking cash etc (Financial Management) and your experience managing many details at the same time (Organization & Administration)

Weaknesses do not mean that you shouldn't consider going into business. Everyone has weaknesses. However, they are an indication that you should make plans to deal with these weak areas – don't ignore them.

4) Company Structure

In this section, you describe your business.

Name and Address- If you have not committed to a specific location yet, put down the expected site.

Company Structure

- Proprietorship-a business owned, managed and controlled by one person
- Partnership-a business where two or more people share ownership
- Limited company-a company that is legally separate from its owners
- Co-operative

Status- Are you starting a brand new business? Are you taking over an existing business? Expanding your current business? Refinancing your existing debts?

Price of Purchase/ Expansion- If you are already in business and plan to expand, give details about the costs of the expansion. If you are planning to purchase an existing company, how much is the price?

Reason for Unprofitability/Decline- if the business has been operating at a loss, what are the reasons?

Your Plans for Change- What will you do differently? What changes will you be making to the business?

5) Your Production Plan

In this section of your business plan, outline how you will make your product.

Facility Required- What special facilities do you require to make your product or provide your service? Will you be operating out of your home? If not, where will you be located?

Delivery of Products/ Supplies- Who are your suppliers? Have you made arrangements for ensuring that your supplies arrive when needed?

Staffing Requirements- What staff and skills will you need to hire? Will you need staff for sales, management, technical or other function?

Technical Innovation in your Field- Are you in a field where technology is rapidly changing? If so, how can this affect you?

Age of your Equipment- If you need equipment to make goods or provide your service, how old is it? Could changing technology turn your equipment obsolete? Does it look like new regulations might force you to change your equipment or give advantages to your competitors? Can your equipment adjust to meet these changes?

6) Not-So-Minor Details

Business are affected by many regulations and these cannot be ignored.

Licenses and Permits:

- Business Licenses- Do you have your current license from the local government?
- Name Registration- Have you registered your company's name with the Provincial Registrar of Companies?
- GST or PST- Have you registered?
- Revenue Canada- Do you have an Employer Registration number?
- WCB (WorkSafeBC)- Do you require an assessment number?
- Zoning- Which zoning regulations apply to your business? How will you be affected?

Insurance- What type of insurance will you need? How much does it cost? Show the costs in Cash Flow in the financial section.

Administration- Who will handle your bookkeeping, year-end accounting/taxes, legal matters?

7) Financials

The financials portion of your business plan should include all the details of how much money you will need to get the business off the ground and keep it going. Below are a few things to consider while completing your financial section.

Start-Up Costs- include any equipment, supplies/ inventory, and renovations that need to be purchased or completed before officially opening the business.

Business Loan- Do you require a business loan? Include financial projections that show the viability of the business and the ability to repay the loan or investment. Lenders will also want to know what assets are available to secure their investment, in case things don't go as expected.

Other Lending Options- The three F's may be useful in sourcing funding to get your business up and running; Family, Friends and Fools.

Cash Flow

Included in your financial section should be a cash flow spreadsheet. The key to remember in preparing a cash flow is that you are not trying to determine a profit or loss yet- you are trying to predict the timing of cash in or out of your bank account.

When preparing your cash flow, keep in mind the following points:

- ***Don't spread costs evenly over the year.*** If insurance costs \$1,200 per year and is payable in May, put the whole \$1,200 in that month. Do not put in \$100 each month.
- ***Remember the timing of collections on account receivable.*** If you offer 30-day terms, show the cash received in the month following the sale.
- ***Take the time to do it right.*** The cash flow is an important first step in preparing your entire financial forecast. Most of the data collected here is used on balance sheet and income statement forecasts also.

Cash In- Estimate cash flowing into your business. Don't forget any credit terms you may provide. For example, if you agree to a payment in 30 days, a sale in January will show up as cash to you in February, under the line "Accounts Receivable".

Cash Out- Expenses are listed in detail in the cash flow spreadsheet. However, they fall into several categories.

- Cost of Goods- relates directly to the forecasted cash sales and is usually a percentage of sales
- Labour/ Staff Costs- reflects the number of employees, including wage rates and employee deductions you are responsible for (EI, CPP, WCB, Vacation pay, etc)
- Marketing Expenses- these are your costs for advertising, promotion and so on.
- Facilities Expenses- includes the costs of your store/shop and any equipment required to provide your product. This covers areas such as rent paid for a store/shop/warehouse, improvement/upgrades to your store, purchase/rental of equipment and so on.
- Borrowing Costs- the cost to repay any loans that your business may require.

The remainder of this document can serve as a worksheet to start writing your business plan.

1) Description of Your Business

a) Your Product or Service

Product #1:

Product #2:

b) Your Customers

Product #1: _____

Product #2: _____

Price:

Location:

d) Competitors

Major Competitors

	Store/Product	Main Focus/"Niche"
A		
B		
C		
D		

Your Products

Advantages	Disadvantages

Your Company

Strengths	Weaknesses

Your Plans to Overcome Weaknesses/Disadvantages

2) Market Research

What kind of market research did you do?

What did your research tell you?

3) Management

Technical:

Marketing (Sales):

Marketing (Promotion):

Financial:

Organization & Administration:
