

OCRI | **ENTREPRENEURSHIP CENTRE**

ONTARIO SECONDARY SCHOOL BUSINESS PLAN COMPETITION 2009



STUDENT GUIDE

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WHY WRITE A BUSINESS PLAN?

A business plan presents many challenges and opportunities for an entrepreneur. This is your chance to test your idea on paper.

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

A business plan acts as a detailed feasibility study

If you want to assess whether your ideas could turn into your dream business, a business plan is a good start. It provides a detailed checklist of the internal evaluation of your business. If you believe that your idea would make a successful business, the business plan will provide an organized way to conduct your investigation.

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

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

A business plan prepares you

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

A business plan provides an organized implementation plan

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

A business plan expands business options

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

A business plan can determine contingency plans

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

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

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

WHERE TO BEGIN

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

FORMAT

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

THE COMPONENTS OF THE BUSINESS PLAN

1. Executive Summary
2. Business Overview
3. Marketing Plan
4. Operating Plan
5. Financial Plan
6. Appendices and Exhibits

THE EXECUTIVE SUMMARY

The Executive Summary is a brief description of your business (1-2 pages maximum). Although it appears first, the summary should always be written last. It serves to grab the reader's attention and compel him/her to learn more about your venture. The executive summary should highlight key elements of the business plan, including:

- Objectives of the business through a mission statement
- The business structure (sole proprietorship, partnership or incorporated company)
- Key personnel and how they will make the business succeed
- Description of the product/service and how its distinguishing features will fulfill a want/need in the market place
- Description of the industry (including history, trends and size)
- An overview of the market and potential within your estimated market share, as well as an assessment of the competition
- Funds invested in the business to date and an outline of additional financing required including sources and terms of financing
- Summary of financial projections indicating anticipated return on investment (ROI)

BUSINESS OVERVIEW

The company profile is a snapshot of your business and who is involved in it.

The Business:

- What business am I in?
- What are my products/services?
- Who are my customers?
- What is it that makes my product/service distinct, original and better than my competitors?
- What is the current business environment in the industry (growth, recession, expansion, etc.)?
- What is my business name?
- What is the business structure (sole proprietorship, partnership or corporation)?
- Who are the owners and what role do they play within the organization? What is their background, strengths, weaknesses, etc.?
- Why is the business going to be successful?

The Background:

- What is the business history (start date, highlights of progress, idea origin, etc.)?
- Information on all milestones, achievements or setbacks of the business?
- Outline previous financing information and outstanding debt.
- Current ownership details regarding your business.

MARKETING PLAN

An effective marketing plan will be the cornerstone of your success as an entrepreneur. The classic elements included in a marketing strategy revolve around what are known as the 4 P's: Product, Price, Promotion and Place. However, before addressing these elements, proper research needs to be done. This will aid you in defining the need you wish to fulfill with your product or service, the target market you are going to reach and your marketing objectives.

MARKET RESEARCH

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

There are two types of information you can gather:

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

You may wish to survey potential customers over the telephone, in face-to-face meetings, through a mail survey or through email. However you conduct the research,

begin by writing out all the questions you need answered and testing your questionnaire on a few potential customers before you start your research.

Survey Tips...

Mail Survey

- Always enclose a self-addressed, postage paid return envelope
- Include a letter introducing yourself and purpose of survey
- A better response rate can be achieved if a reminder telephone call or a second letter follows the mail survey

Telephone Survey

- Statistically speaking, response rates tend to be higher when women conduct telephone surveys
- Statistics also show that Monday and Wednesday, between 6:00 PM and 8:00 PM are the ideal times to contact the general public

Face-to-face Survey

- Must stay consistent in surveying approach in order to achieve the best results
- It may be a good idea to go to a mall to conduct the survey
- Avoid the use of a sales pitch

Sample Survey

Hello, my name is Sonia Smith. I'm conducting a survey to determine the potential demand for a Student Painting Service in the North Bay area. Do you have time to answer a few questions?

1. Do you contract student painters on a regular basis?

Yes _____

No _____

If no, why _____

If no, go to question 5.

2. Which one(s) do you contact?

All Student Painters _____

College Pro Painters _____

Student Paint Pro _____

Other (please specify) _____

3. Are you satisfied with the service provided?

Yes _____

No _____

If no, why? _____

4. On average, how much do you spend on a student contractor on a per hour basis?

\$0 to \$10 _____

\$11 to \$15 _____

\$16 to \$20 _____

\$21 to \$25 _____

\$25 + _____

5. Would you support a new student painter service in North Bay and area?

Yes _____
 No _____
 Maybe _____

If no go to question 7.

6. Under what conditions would you consider supporting a new student painter service?

Quality _____	Price _____
Selection _____	Availability _____
Service _____	Cleanliness _____

The following questions are completely optional.
 You do not have to answer them.

7. What age category do you fall into?

Under 19 _____
 20-29 _____
 30-45 _____
 46-60 _____
 Over 61 _____

8. What is your families' income level?

\$20k - \$29k _____
 \$30k - \$39k _____
 \$40k - \$49k _____
 \$50K + _____

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

- Enterprise Renfrew County
- Internet
- Government Agencies
- Journals, News Papers and Magazines
- Libraries, Etc.

COMPETITIVE ANALYSIS

Investigate the competition. This is an important step in the process of defining your marketing strategy. You need to know what you are up against in terms of competition.

The factors you need to examine include:

- Who can you expect to compete with?
- What market need do they fulfill?
- What specific attributes of the product or service do they fulfill?
- What is their track record and reputation?
- At what price do they sell their product or service?
- What is the quality of their product or service?
- What has been the key to their success in the marketplace?

TARGET MARKET

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

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

MARKETING OBJECTIVES

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

THE 4 P'S

The content for the marketing plan will serve to substantiate all financial projections and forecasts for the business. Often referred to as “The 4 P’s” the marketing plan is an examination of place, price, promotion and product. It provides an opportunity to identify, improve and initiate marketing strategies.

Product

- It is important to outline the unique ability of your company's product/service, which will satisfy the needs of the marketplace
- Specific benefits of the product/service
- Ability to meet needs
- Competitive advantages
- Description of product/service and its current position within the product life cycle
 - Introduction
 - Growth
 - Maturity
 - Decline
- Existing or pending copyrights, trademarks or patents

Pricing

In structuring your own pricing strategy, ensure that you have considered the following:

- Competitor pricing
- Direct/indirect costs
- Prices you plan to charge, typical gross and net margins for each product/service
- Profitability
- Financial justification

Customer needs...

What are they willing or not willing to pay?

How do they view additional features and benefits?

What kind of cost savings might interest them?

- Break Even Analysis
 - Identifies the sales level (units or dollars) required to cover the overhead expenses of a business based on a certain price and gross margin level.
 - Units to Break-Even =
$$\frac{\text{Fixed costs}}{\text{Unit selling price} - \text{Unit variable costs}}$$

Place

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

What you should include:

- Where it is?
- What are the costs associated with the location?
- What is the marketing importance of the location?
- Residential vs. commercial location
- Is there potential for growth at the location?
- What is your method of distribution (original manufacturer, retailer, distributor, direct)

Promotion

You must decide how you will generate awareness of your product/service among potential customers. Employing the following promotional activities could potentially generate awareness:

- Public relations and community involvement
- Tradeshows
- Sales incentives
- Promotional literature
- Media (television, radio, newspaper, magazine)
- Internet
- Direct mail
- Telemarketing
- Personal selling, Etc.

OPERATING PLAN

In describing the facilities, resources and process you plan on using to operate your business, remember to consider the entire business process and how these factors will be incorporated into each. This section of your business plan outlines information on your suppliers, your manufacturing process, relevant regulations and your human resources: all of the details necessary for you to efficiently run your business.

- Determining a physical location:
 - Advantages/disadvantages
 - Traffic flow
 - Zoning

- Parking
 - Visibility
 - Lease or purchase agreements
- Facilities and equipment:
 - Lease, buy or rent?
 - Size
 - Physical condition
 - Technology
- Description of employees:
 - Full-time or part-time
 - Contract or seasonal
 - Union or non-union
 - What they bring to the business
 - Their role in the business
- Inventory costing and controls (i.e. supplies, opening inventory requirements):
 - Your suppliers
 - Materials needed
 - Products needed to run your business
- Description of manufacturing process (if applicable):
 - Information on production method
 - Resources needed to ready the product for sale
 - Where your product is in the development cycle
 - Time requirements
- Plant overhead:
 - Labour and materials cost and availability
 - Transportation and shipping
 - Proximity to customers and suppliers
 - Taxes
 - Municipal laws and regulations
 - Utilities

FINANCIAL PLAN

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

The financial section of the business plan will help you and potential investors or financiers estimate how much will be required as well as an estimation of sales with corresponding profit levels. This process will force you to think through the various scenarios that may arise throughout the sources of business and the respective responses to each.

- Start-up costs:
 - List all expenses needed to get the business ready for opening day
 - One time expenses and operating expenses

- Financing requirements (current and future):
 - Amount of money required
 - What the money is for
 - Your repayment plan
- Financial statements:
 - Cash flow
 - Balance sheet
 - Income statement

BALANCE SHEET

The balance sheet shows the financial picture of a business at a given point in time. It is a snapshot of what the business owns and owes. It can consist of:

- **Assets:** this includes anything of value that is owned or owed to the business.
 - **Current Assets**
 - **Cash:** includes money on hand
 - **Petty Cash:** a fund for miscellaneous expenses
 - **Inventory:** includes raw materials, work in progress, finished goods for resale
 - **Accounts Receivable:** amounts owing from customers in payment for merchandise or services on account
 - **Prepaid Expenses:** Goods, benefits or services a business buys or rents in advance, for example insurance protection, office supplies, and office rent
 - **Other** - other resources that can be converted into cash within 12 months of the date of the balance sheet
 - **Fixed Assets:** these include all resources the business owns, rents or leases for its own purposes:
 - **Land**
 - **Building**
 - **Equipment**
 - **Furniture**
 - **Automobile/vehicles**
 - **Other**
 -
- **Liabilities:** This includes anything that is owed by the business.
 - **Current Liabilities:**
 - **Accounts payable:** amounts owed to suppliers
 - **Interest payable:** accrued fees due on any credit or loans
 - **Payroll:** salaries and wages currently owed
 - **Taxes Payable:** amounts estimated by an accountant to have been incurred during the accounting period
 - **Other**
 - **Long Term Liabilities**
 - Money owed over a period exceeding 12 months, including mortgage payments and contract payments

- **Owner's Equity:** Assets – Liabilities. For an individual, the excess of assets over liabilities is most likely to come from savings and any additional contributions to income that they have received.
- **Total Liabilities and Owner's Equity:** The sum of these two amounts must always equal the Total Asset

Financial Plan: Balance Sheet			
Simple Simon's Pies			
Balance Sheet at December 31, 2002			
ASSETS		LIABILITIES	
Cash	\$3200	Bank Loan	\$5000
Inventory	\$1000	Owed to family	\$4000
Equipment	<u>\$5800</u>		
Total	\$10000	OWNER'S EQUITY	
		Simon's Equity	<u>\$1000</u>
		Total	\$10000

INCOME STATEMENT

The income statement provides you with an overall profitability summary for a period of time and will determine your tax liability for the year. This statement is a valuable planning tool. The projected income statement estimates all sales, revenue, direct, indirect and administrative expenses (including depreciation, interest expenses, and taxes payable) and demonstrates the profit or losses of the business. It usually consists of:

- **Sales:** determine the total number of sales you realistically expect to generate each month
- **Cost of Sales:** the key to calculating the cost of sales is that you do not overlook any costs that you have incurred (inventory, transportation, labour, etc.)
- **Gross Profit:** total sales - total cost of sales
- **Gross Profit Margin:** the gross profit is expressed as a % of total sales. It is calculated by dividing the Gross Profit figure by the Total Sales
- **Variable Expenses:**
 - **Wages:** includes base pay plus overtime
 - **Payroll expenses:** includes paid vacation, sick leave, workplace safety insurance, employment insurance, and Canada pension plan
 - **Supplies:** purchases for use by the business
 - **Advertising**
 - **Travel:** includes use of personal car for business, parking, meals, etc.
 - **Professional fees:** includes lawyers, accountants, bookkeepers etc.

- **Fixed Expenses:**
 - **Rent**
 - **Depreciation:** amortization of capital assets
 - **Utilities:** water, heat, light, etc.
 - **Insurance:** Fire or liability on property or products
 - **Interest:** paid on service charges and outstanding loans etc.
- **Total Expenses:** variable expenses + fixed expenses
- **Net Profit or Loss (Before Taxes):** subtract total expenses from gross profit
- **Taxes:** include inventory and sales tax, excise tax, real estate tax, etc.
- **Net Profit or Loss (After Taxes):** subtract taxes from net profit (before taxes)

Financial Plan: Income Statement		
Simple Simon's Place		
Income Statement		
For the Year Ended December 31, 2002		
Sales		\$60000
Cost of Goods Sold		<u>\$15000</u>
Gross Profit		\$45000
Variable Expenses		
Wages	\$5000	
Supplies	\$5000	
Advertising	\$1000	
Fixed Expenses		
Rent	\$6200	
Utilities	\$4800	
Total Expenses		<u>(\$17000)</u>
Net Profit/(Loss) before taxes		\$28000
Taxes		<u>(\$4000)</u>
Net Profit/(Loss) after taxes		\$24000

CASH FLOW STATEMENT

Your cash flow projections are shown on a chart that outlines the cash coming in and the cash going out of the business on a monthly basis. It shows how much cash your business will have at the end of each month. This statement will help you determine whether or not the business is viable and will help you to make good decisions such as when to purchase equipment or hire staff.

It may consist of the following:

- **Cash Receipts:** sources of cash
 - **Sales:** refer to sales forecasting method below
 - **Loans**
 - **Owner's Equity Investments:** represents the value an owner has in his or her business. Owner's personal funds available to the business.
 - **Other**
- **Total Receipts:** sum of all cash receipt accounts
- **Cash Payments:** uses of cash such as expenses to be paid and start-up costs
 - **Business Registration:** licensing, permits, name registration, etc.
 - **Inventory Purchases:** purchase of items meant for resale or for use in product manufacturing
 - **Wages:** base pay plus overtime (if any)
 - **Payroll Expenses:** includes paid vacation, paid sick leave, health insurance, unemployment insurance, CPP contributions, etc.
 - **Outside Services:** This could include outside labour and/or material for specialized or overflow work, including subcontracting
 - **Supplies (Office and Operating):** Items purchased for use in the business but are not destined for resale
 - **Repairs and Maintenance:** Including large occasional expenditures such as painting or decorating
 - **Advertising**
 - **Car, Delivery and Travel:** if your own personal car is used, include the expenses (parking, mileage, fuel, etc.)
 - **Rent**
 - **Telephone**
 - **Utilities:** water, gas, electricity
 - **Insurance:** includes insurance policies covering the business property, products and patrons (theft, fire, liability), in addition to the workplace safety and insurance
 - **Taxes:** property taxes, PST, GST, excise tax, etc.
 - **Interest:** remember to add interest on loans as it is incurred
 - **Other Expenses (Specify):** this includes unexpected expenditures
 - **Miscellaneous (Unspecified):** small expenditures for which separate accounts would not be practical
 - **Loan Principal Payment:** includes all the payments related to loan, including vehicle and equipment purchases
 - **Capital Purchases (Specify):** non depreciable expenditures such as equipment, building purchases on time payment
 - **Owner's Withdrawals:** should include payments for such things as owner's income tax, social security, health insurance, executive life insurance premiums, etc.
- **Total Payments:** sum of all cash payment accounts
- **Opening Cash Balance:** total, cumulative cash surplus or deficit for the business up to the beginning of this particular month. This number is the closing cash balance of the previous month. There is no amount that appears in the opening cash balance of the first month of the cash flow forecast because the business has yet to register either a surplus or a deficit.

- **Net Cash Movement (End of Month):** Total Receipts – Total Payments, this amount represents the cash surplus or deficit. This amount will affect the opening cash figure of the following month. This amount is added or subtracted (surplus or deficit) to the opening cash balance figure of the current month in order to calculate the closing cash balance.
- **Closing Cash Balance:** Opening Cash Balance + Net Cash Movement

Financial Plan: Cash Flow
Year 1

	Month 1	Month 2	Month 3	Month 4	Month 5	Total
Cash Receipts						
Sales	1,000	1,200	1,500	1,800	2,300	7,800
Loan	5,000					5,000
Total Receipts	6,000	1,200	1,500	1,800	2,300	12,800
Cash Payments						
Rent	1,000	1,000	1,000	1,000	1,000	5,000
Supplies	1,000	500	600	650	700	3,450
Payroll	600	600	600	600	600	3,000
Total Payments	2,600	2,100	2,200	2,250	2,300	11,450
Opening Cash Balance		3,400	2,500	1,800	1,350	1,350
Net Cash Movement	3,400	(900)	(700)	(450)	0	
Closing Cash Balance	3,400	2,500	1,800	1,350	1,350	1,350

ESTIMATING SALES

The yearly sales figure must be allocated to each month of your first year. You must consider a variety of different factors:

- What are similar businesses generating in sales revenue, (investigate industry trend information)?
- Can you develop the same clientele base as your competitors in your first year?
- Is your business seasonal or affected by special events, for example: Christmas?
- Is your estimate reasonable in terms of the value of the products you sell? For example, if the maximum value of your product is \$10, is it reasonable to assume you will sell \$20 000 in a month? This would represent 100 items sold a day.
- What did your survey results suggest? What, on average, did the surveyed participants say they would spend and how often?
- What is your promotional plan? Will this increase your sales for any particular month?
- What are your competitors doing? Are they having major promotions? Will this affect your sales?

Throughout the financial plan, it is important to outline all assumptions that will be made pertaining to financial projections and forecasts. It is also very useful to include a sensitivity analysis for all forecasts (i.e. 1. Conservative, 2. Expected, 3. Optimistic) that shows variances in projections have been considered and incorporated throughout the plan. Also remember that your financial projections are of a confidential nature and discretion is advised when circulating such information.

APPENDICES AND EXHIBITS

Documents containing information relevant and pertinent to the business plan can be added as reference material in this section. Such documentation should be added only if its value adds to the overall project/plan.

Include exhibits such as:

- Marketing studies
- Customer surveys
- Advertisements/Brochures
- Patent information
- Photographs or sketches of your product or service
- Resumes of key executives
- Letters of reference/support

***Material taken from the Blue Sky Regional Business Self Help Office 2000-2001 Business Plan Competition Guide and the University of Ottawa Business Plan Challenge Teacher's Guide.