Start Smart:

a basic guide to business planning

Vancity

Make Good Money™

This guide book is brought to you by Vancity's microfinance team.

The information in this guide does not cover all the details related to planning for every type and size of business. The use of this guide does not guarantee your business plan will automatically be met with a positive lending decision. We offer this information to provide a general overview of what Vancity's microfinance team looks for in business plans that we receive. Depending on the complexity of your business, you may want to seek independent, professional, legal or accounting advice as you develop your plan. And, it's always a good idea to get a third party business advisor to review your plan. This guide is also available on our website as a series of podcasts. In addition, there is a fillable form to accompany this guide on our website.

For more information about **Vancity's Microfinance Program** contact **604.709.6930** or **microfinance@vancity.com** or visit **vancity.com/microfinance**

Table of Contents

Welcome

Congratulations: you've got a great business idea. You're convinced that your idea will be a winner and fill a void in the marketplace – and of course – you'll make lots of money. All you need now is cash to get your business started.

Perhaps you have already invested your own savings. Maybe you're getting some additional investments from family or friends, but you still need help getting your business off the ground.

At Vancity, we've loaned millions of dollars to thousands of business members so we've learned some things about what to look for in a successful business plan.

A business plan is a written document that describes your business goals and how you will achieve those goals. It also communicates why your business is special, how you will be successful, and how you will manage the risks.

The money we lend belongs to our members, so we must keep them in mind when we consider your business plan. You need to show us that your great business idea is realistic and that you have the skills and experience to manage a business.

In many cases, business owners have already given their idea a lot of thought. The next step is writing it down. The process of writing a business plan can help you to think through all aspects of your business and increase your chance of success.

You need a business plan if you want to bring partners or investors into your business. And, lenders like Vancity require you to have a business plan so we can see that you have researched and planned for key areas of your business including marketing and financial planning.

It's best to write your business plan yourself. As the owner and operator of your business, you are the best person to set goals and implement your plan.

We created this guide to help you think through the elements of a good business plan. You can use this guide to create your own business plan document.

Online resources are provided at the end of this guide.

Now, let's get started.

"The first question I always ask is, "do you have a business plan?" If the answer is no, it tells me the business owner has more work to do before we talk about loans and financing."

Morgan,
Vancity Microfinance Team

Evelyn loved animals and had worked at a doggy daycare for several years. After seeing the increased demand, she decided to start her own doggy daycare business.

Evelyn enjoyed taking care of the dogs, and their owners loved her approach, but she was not able to manage the financial end of her business. She did not know how much she needed to charge her clients or what her actual expenses were each month. Even though she offered a quality service, Evelyn's business ended up failing.

Getting started

Ownership of your business

We need to know about the ownership of your business, so please provide details in your plan.

Typically, a business falls into one of these categories:

- sole proprietorship
- partnership
- incorporation
- co-operative

If you are not sure which ownership structure is right for your business, you can read about the pros and cons of different models online at Small Business BC. If you are a group of individuals working on a business idea, you can read more about starting a co-operative online at the BC Co-operative Association.

In addition,

- if you have a business partnership, do you also have a partnership agreement?
- if you have an incorporated business, are there shareholders who own more than 25% of the business?
- if you are planning to start a co-operative enterprise, describe how members will participate in governing the co-operative and the share purchase structure?

Describe the ownership structure of your business.

Business sector

Make sure to describe your primary product or service and if you are planning any future products or services. It is helpful to include the nature of your business (for example retail, manufacturing or service). You could also include the North American Industry Classification System (NAICS) number that corresponds to your type of business. The codes can be found online at Statistics Canada.

Use the code that best describes your primary business activity.

Your customers or clients

Who are your customers? Are they primarily other businesses or consumers or both?

Note what type of customers you anticipate in your business plan.

Market and marketing

A marketing plan is one of the most important elements in your business plan.

Just because you open a business does not mean you will have customers. You need to make sure your customers reach your door – and that's where your marketing plan comes in.

Your marketing plan should clearly show what you're selling, who is going to buy it, why they will buy it and how you are going to reach your customers.

Here are a few tips before you tackle this section of your business plan.

- explain what you are selling in plain language: this may seem obvious but many business plans leave us wondering what your product or service is and why anyone will buy it.
- describe who your customers are and why they will buy your product.

> *"When it comes to marketing, I like to remind people there is no such thing as the general public. Just because a lot of people drink coffee doesn't mean all coffee drinkers are your target market. You need to be specific about who will buy your coffee and why."*
>
> Pardeep,
> Vancity Microfinance Team

- show us that you know your industry: what are the trends and opportunities?
- be creative and think through a variety of ways you will reach your market and ideal customer.

Develop a marketing plan that will help your business succeed.

About your product or service

Think about your primary products or services. What is different or unique about what you are offering?

This is particularly important if your business will have lots of competition: you need to be unique. Why will customers want what you are offering?

Describe the main features and benefits of your product or service.

Market research

Market research is the first step in developing an outstanding marketing plan. Your market research should answer the following questions.

- who is your ideal customer and what do you know about them (their profile)?
- what is your target market?
- what is the market potential in your industry and what is your realistic share?
- who is your competition?

You can often answer these questions through a combination of primary and secondary research.

Primary research is original research that a small business owner undertakes to assess a potential market. This could include conducting surveys, focus groups or interviews with target customers. **Secondary research** is information that is publicly available from existing sources like Canada Business Network.

Research can help you figure out if your business can reach enough of your target market to be successful.

Include market research in your plan.

Target market

Your target market is a specific group of customers who have something in common with each other.

You could describe this group based on demographic traits. Perhaps they are within the same age range or belong to the same cultural group.

You can also describe individuals in your target market in terms of a shared behaviour. Perhaps they have the same purchasing habits, share the same hobbies or shop at the same stores.

At the very least, your target market should need or want your product or service. And you should be able to describe some attributes they have in common.

Lily was an experienced masseuse when she set out to open her own massage studio. She selected a location that was close to a number of other similar health care businesses.

Lily's business lender was concerned that there was too much competition within a short distance of her studio. By identifying her potential market, her unique service and how her competitors were already attracting her ideal customers, she was able to address her lender's concerns. Today, Lily's business is thriving.

What is your target market?

Market potential

Market potential is the size of the entire market for your product or service. Market potential is often calculated at a provincial or national level. It can also be calculated for smaller areas like neighbourhoods or business districts.

For most small businesses the market potential is a specific area or region; for example, a shopping district that serves a residential neighbourhood.

What is your market potential?

Dave decided to open a coffee shop in a high rent area of the downtown core. In his business plan, he identified the entire downtown population of adults as his target market.

Dave's research showed that within several blocks of his location there were nineteen direct and indirect competitors selling coffee. Dave had more work to do to figure out his competitive advantage and what would draw customers to his business.

Market share

Your market share is the part of the market potential your business aims to serve. It can be difficult to realistically estimate the market share for a start-up business but it is still important to try.

What is your market share?

Your ideal customer

Once you have conducted research about your target market, you should be able to describe your ideal customer.

- what are the values, opinions, attitudes, interests, and lifestyles of your ideal customer?
- where are your ideal customers located?
- what are the purchasing patterns of your ideal customer?
- what are the hobbies and recreational activities of your ideal customer?
- what will motivate your ideal customer to purchase your goods or services?

Include a description of your ideal customer.

Your competition

Most businesses have competitors. **Direct competitors** are businesses that sell the same product or service to your target market. **Indirect competitors** are businesses that offer a similar product or service to your target market. For example, a corner store may not be a coffee shop but if it sells coffee it is an indirect competitor for a nearby coffee shop.

It's helpful to use a SWOT analysis to think about your competitor's strengths and weaknesses. SWOT stands for strengths, weakness, opportunities and threats. Links to a SWOT analysis can be found in the resource section of this guide.

Knowing more about your competition will help you develop smart marketing strategies.

Describe your direct and indirect competition.

Competitive advantage

Your value proposition is a compelling description of why a customer should buy your product or service. And it is an important part of your competitive advantage.

- what makes your business special?
- why would customers choose your product or service?
- why is your product or service better?

What is your competitive advantage?

Industry trends and market risk

Another important area to consider is trends within your industry. There can be positive and negative trends that could affect your business.

- what are the key trends in your industry?
- are there regulatory, environmental or technological changes underway in your industry?
- is your industry growing and what are the reasons?

Market risk refers to the possibility of lower than expected sales due to reasons outside of a business owner's control. For example, changes in the value of the Canadian dollar or a change in the demand for your product could be considered market risks.

Describe the industry and external risks to your business success.

Marketing plan

Once your research is done, and you've identified your market and ideal customer, it's time to write a marketing plan.

A marketing plan should describe your ideal customer, your target market and your competition. But most importantly, you should describe how you will reach potential customers with a compelling message that will motivate them to buy your product or service. This is where strategies come in.

What is your marketing strategy?

Marketing tactics

Tactics are the specific ways you will implement your marketing strategy. They could include your website, print materials, social media, signage, advertising and other marketing tactics.

- thinking about your ideal customer and target market, what tactics will reach them?
- do you have a tagline or slogan that communicates your competitive advantage and values?

Describe the tactics you will use to reach your target market and ideal customer.

Marketing budget

Your marketing plan should include a budget to implement your marketing tactics. List the expenses associated with implementing your marketing plan. You can add this budget to your cash-flow forecast. We'll get to cash-flow a bit later in this guide.

Always include a budget for marketing in your plan.

Management and operations

Management

No business owner is an expert on everything. We want to see that you have put a great team together to help you – particularly when you are starting up. Your business plan should describe your team, and the skills and experience that team brings to round out your own.

If you will be the only person running your business, how will you be able to handle the different areas of your operations? Describe the skills, experience and education you bring to your business.

Do you have a business mentor or advisor? Be sure to include information about their role in your business.

If there are gaps in skills or experience on your team, think about ways you can fill them. Are there areas where you will need to bring in experts or get training?

Describe your business management plan.

Location

There are a few things to think about when you are deciding where to locate your business.

- are you close to your target market and do you need to be?
- are you sharing this location with another business?
- do you have a lease agreement for the premises; and, if so, what are the terms?
- is your business accessible by car and public transit?
- what is the volume of foot traffic (if applicable)?
- what are your hours of operation?

If you are a retail business, you can mention your location in your marketing plan as well. But don't go out and rent a location before you have everything in place to launch your business – including loans from investors like Vancity.

Describe where your business will be located and why.

Production process and delivery

Don't assume that people who read your plan know about your industry. Explain:

- how will you scale-up production?
- who are your suppliers?
- will you need to keep an ongoing inventory of products and/or supplies?
- how will you deliver your product or service to your clients?

If needed, describe the steps involved in the production of your product or service.

Anar hired a family member to renovate her newly-leased hair salon space. Unfortunately, when the building inspector arrived, Anar discovered the work did not meet local bylaw standards.

Since she had already spent her budget on the renovations, she had to find more money to redo the work. The second renovation delayed the opening of her business and set her back financially.

Regulatory requirements

No two businesses are the same but most need to have a few licenses or permits to operate.

Does your business require licenses or permits? You can find this out at Small Business BC or by calling the business license department of your municipal government.

Describe what is required for your business.

Contingency plan

Can your business go on without you? Even temporarily? What if you get sick: who will run your business? Do you need to consider obtaining disability insurance or critical illness insurance?

It's good to put some thought into a few strategies that will get you through a temporary absence from your business.

Explain your contingency plan.

Risks to your management and operations

All businesses face both internal and external risks to their operations.

While it may sound odd, thinking through these risks and how you will deal with them is an important part of business planning.

Describing risks and how you will deal with them reassures potential lenders and investors that you have a plan to mitigate business risk.

We've learned that you should pay special attention to financial, legal, and operational risks.

Common areas of business risk include:

- cash-flow shortfall
- excessive debt
- price point
- quality control
- lack of expertise or skills on the part of owner and/or employees
- complacency
- technology
- security
- reputational
- competition
- economic factors
- unreliable suppliers or contractors
- rising cost of supplies or contractors
- decrease in demand for product or service

Make sure to include some of the key management and operational risks for your business.

"Successful business owners don't build their business alone. They surround themselves with expert people and advisors who will support them in developing their business."

Puneet,
Vancity Microfinance Team

Financial planning

Before approaching Vancity for a business loan, you need to know how much money you need.

We want to see how much you need, not how much you want. There is a difference. We also want to see what you need it for. For example, are you buying equipment or paying salaries?

We invest the financial assets of our members so we want to know that you understand all the expenses and revenues in your business. We look closely at how businesses we lend to plan to repay those loans. Your financial plan should show how you will generate enough revenue to cover expenses and pay back your loans.

Financial planning, particularly for a start-up business, involves making realistic assumptions. That means listing every expense your business will incur from your rent to staff to equipment and inventory. Be prepared to explain how you arrived at your calculations.

The more details you can provide, the more likely you will be prepared for the ups and downs of business ownership.

The next section will guide you through the financial planning that will get you off to a good start.

Start-up costs

Start-up costs are expenses you must incur to start your business. In some instances they are one-time costs but some may be the first of ongoing costs like maintaining inventory, paying license fees or lease agreements.

Examples of start-up costs include:

- equipment purchases
- inventory purchases
- rent and/or lease-hold improvements
- legal fees
- technology costs (like a website or a data base for inventory management)
- advertising and marketing (like your logo design or signage)
- patents, licenses or permits

Describe in detail how much you need to start your business and for what purpose.

Pricing strategy

All business owners want to make a profit. Accurately pricing your product or service is one of the most important factors in determining whether or not you will make a profit. There can be many things to consider. Here are a few starting points.

- what is your competition charging?
- are there standard mark-up formulas in your industry?
- how much will your customers pay?
- what are the real costs that go into your product or service?
  - variable costs could include raw materials, labour and transportation.
  - overhead is your fixed costs like rent, insurance, taxes – things that may not be directly related to production but must be paid to stay in business.

Describe your pricing strategy.

Sales forecast

It can be challenging to forecast sales for a start-up business but it's important to make a careful estimate. Your sales forecast is also an important part of your cash-flow forecast.

When calculating your sales forecast, keep in mind your production capacity – can your operations support your sales goal?

Hanif and Marcus planned to open their own fresh juice bar near a busy transit hub. In the process of developing their business plan, they visited nearby outlets that sold similar beverages. The business partners counted the number of customers who visited those outlets over the course of a day.

They could then accurately estimate how many sales their new business could expect, and how much their products should sell for in order to break-even.

Other things to consider:

- explain how you calculated your sales forecast.
- is your business seasonal: do you anticipate more or less revenue at different points in the year?
- how many customers or clients will you have?
- how many transactions over a month, a year?
- is your sales forecast tied to marketing or sales initiatives?

**See page 25 for our sales forecast tutorial.*

Describe your anticipated sales on a monthly and annual basis.

Break-even analysis

A break-even analysis calculates the volume of sales a business must generate to pay the expenses associated with running the business. The break-even point occurs when total revenues are equal to total expenses. A break-even analysis includes both overhead (like rent and utilities) and variable costs (costs that change as you increase or decrease production or payroll costs) throughout the year.

Provide a break-even analysis in your business plan.

"In my experience, many people don't understand the difference between term loans and lines of credit and when and how to use them. This is why your cash-flow forecast is so important. Do you need short-term financing to pay bills in a low season or a term-loan to buy equipment?"

Aaron,
Vancity Microfinance Team

Accounts payable and receivable

Your approach to accounts payable and receivable can have a big impact on your cash-flow. In this section you should describe the method and timing of your accounts payable and accounts receivable.

- how much time will you give your customers to pay you (for example on delivery, 30 days, 60 days)?
- how will you deal with aging receivables and do you have a plan for discounting those receivables?
- how long will it take you to pay your suppliers?
- can your customers pay online or via e-transfer?

Describe how you will handle your accounts.

Cash-flow forecast

Your cash-flow forecast is one of the most important parts of your business plan.

A cash-flow forecast tracks your business income and expenses month-by-month. It shows times during the year where your cash requirements increase and decrease as income and expenses flow through your business. An accurate cash-flow forecast helps you understand your financing needs.

> *"Your cash-flow forecasts should convince us that your business will make enough to pay your business expenses and repay the loan."*
>
> Anne, Vancity Microfinance Team

If you plan to apply to Vancity for a small business loan, we want you to provide three different cash-flow forecasts looking at cautious, realistic and optimistic scenarios. We also want to see that you have projected two years of business operation in your cash-flow forecast. Make sure to provide monthly and annual totals.

Refer to your sales forecast, break-even projections and marketing budget for the figures you need to include in your cash-flow forecast.

Here are a few more tips:

- use a spreadsheet program to build your cash-flow forecast.
- set up 12 columns for a 12 month forecast.
- list expected revenue from all sources, expected expenses and what cash remains at the end of each month, and use as many rows as you need for every detail.
- include payments for any start-up loans you hope to receive.
- adjust your cash-flow for seasonality.
- be as accurate as you can and make notes about your assumptions in the forecast.

Provide three versions of a two-year cash-flow forecast that project cautious, realistic and optimistic income scenarios.

**See page 26 for our cash-flow forecast tutorial.*

Personal budget

An important consideration for all start-up business owners is how you will pay yourself.

Developing a personal budget will help you determine how much you must earn from your business (or other sources) in order to maintain your standard of living while you are establishing your business.

Make sure to include your personal budget.

Financial risk

All businesses face some financial risk; just opening for business every day poses some degree of risk.

Think about the unique financial risks to your business success. The risks could be internal or external to your business.

Thinking through these risks and how you would deal with them is an important part of business planning. It does not discourage potential lenders and investors. Dealing with risks in your business plan reassures the lender that you have thought about every detail of your business and are prepared to manage risk.

Make sure to describe at least three areas of financial risk.

"As a member-based, financial co-operative, we want to invest in enterprises that share our values in important areas like the environment and community partnerships. In addition to showing financial viability, explain how your business values align with ours."

Catherine,
Vancity Microfinance Team

The owners of a successful indigenous cultural and eco-tourism business found themselves struggling to pay the bills even though sales were good. At the end of their second year in business, the owners decided to apply for a term loan. Before considering their application, the lender asked for a business plan with a cash-flow forecast.

The cash-flow forecast revealed that by adjusting for the seasonality of their business and adding a small line of credit, their cash-flow problems would be solved.

Business plan summary

"At Vancity, we are very interested in hearing about how your business idea will have a positive impact on the communities where our members live and work. Tell us about your vision."

Ashley, Vancity Microfinance Team

In this section of your business plan all the work comes together. The summary is the first thing we read and should go at the beginning of your business plan document.

Summarize the most important parts of your plan and include some additional information.

We care about your vision, mission and values. We want to hear about what inspires you and what you hope to achieve. Tell us about your goals and what drives you.

We also need to know that you understand your business and have thought about the risks.

Here are the top ten topics to cover in your summary:

1. Vision, mission and values

Together, your vision, mission and values express your passion about your business and what sets you apart to potential customers.

Your vision communicates what you want to accomplish. Your mission explains how you will get there. And your values say how you will do what you do.

Tell us a compelling story about your vision and mission – make it jump off the page.

2. Business goals and objectives

What does business success mean to you? It could be financial self-sufficiency or perhaps it's building business equity. We all have different ideas about what success looks like.

- what are your business goals?
- where will your business be in one year?
- where will it be in three years?

Give some thought to your business goals and objectives and include this in the summary.

Laneway Cafe is a local restaurant committed to sourcing local ingredients while offering their guests distinctive and delicious food. They are also enhancing the community by hosting neighbourhood dinners and free board game nights.

Laneway Cafe is an excellent example of how a business aligned its operation to its vision and created genuine value that successfully reaches its target market.

3. Community impact

Tell us about how your business will positively impact the community. For example, will your business provide jobs in the local economy, produce green products or services, or improve individuals' health? We want to hear about ways your business will make a difference.

4. Marketing plan

Describe why your business is special and why customers will buy your product or service.

Summarize the most important aspects of your market research and marketing strategy.

5. Management and operations plan

Summarize your management, production and delivery strategies. Describe some long-term and short-term risks to the success of your business and ways you can minimize those risks.

6. Financial plan

Your financial plan should include:

- start-up costs
- pricing strategies
- sales forecast
- break-even analysis
- accounts payable and receivable approach
- three versions of your cash-flow forecast
- personal budget

Deborah and Rob developed an exciting new business as organic farmers. On weekends they sold their produce at local farmers markets. The business was going so well, both partners quit their jobs and expanded their business.

In the second season, their primary crop failed. The cost of restoring the crop was estimated at $80,000 – an expense they could not afford. Unfortunately, they had not considered what they would do in a worst-case scenario.

Make sure your financial plan clearly shows how you will generate enough revenue to pay your expenses and pay back any loans.

7. Personal investment

At Vancity, we want to see that you have enough confidence in your business to risk your own money or equity before we invest our members' money. How much will you be investing in your business?

Do you have other investors for your business? Will a friend or relative be investing in your business? If so, list the individuals and the nature and amount of their investment.

8. Financing request

If you plan on applying for a loan from Vancity, we require that your business plan be reviewed by an independent third party business advisor such as Small Business BC or the Women's Enterprise Centre, or that you attend an entrepreneur training program.

Before making your request consider:

- what type of financing do you need?
- how much financing do you need?
- what will you use the funds for?
- how will your business benefit?

Visit our website to find out more about types of small business loans we offer. Include your financing request in your summary.

9. Back-up plan

Every business owner wants to succeed. But sometimes there are events or circumstances that make it impossible for you to continue your business. We need to know that you have considered what you will do if you must close or transition out of your business at some point in the future.

- how will you repay business loans if your business fails?
- how will you support yourself if your business falls short of sales goals or your costs are higher than expected?

10. Current opportunities

Do you have a customer or an opportunity waiting? Make sure to describe pending or signed contracts, purchase orders, letters of intent to purchase, quotes or supplier letters in your business plan.

> *"In a recent Aboriginal Business & Entrepreneurship Skills Training session, an entrepreneur talked about preparing for a long journey with the right provisions and equipment, knowledgeable guides, and a clear destination, while accepting that the route may change as the trip unfolds – we agreed, that's a business plan."*
>
> Stewart, Vancity Manager, Indigenous Partnerships

Congratulations

You've learned more about what goes into writing a great business plan. Hopefully this guide will help you to write a plan that will be your roadmap to success.

Just remember, writing a business plan is not an end in itself. You should treat your plan as a "living document" – not just something you keep on a shelf and bring out only when you need financing. It's a document you will reflect back on to ensure you are on track and meeting your goals.

As a values-based financial co-operative, Vancity is committed to transforming how banking is done so we can help our members and their local communities thrive financially, socially and environmentally.

"I get so excited when a member brings us a great business idea – I really want them to be successful."

Lindsey,
Vancity Microfinance Team

We offer a variety of lending options to help you get your small business off the ground and, through our microfinance program, we do things differently. Instead of looking at your credit history and net worth, we look at ambition, character and determination. We are focused on the future, your potential and what you can achieve.

So remember, we do require that you have a business plan that has been reviewed by an independent business advisor. And you must include three realistic cash-flow forecasts. 'If you are an entrepreneur with a disability, we can provide some coaching support to bring your business plan to completion.

We want your business to be successful and have a powerful, positive impact on our community. And we'd like our relationship with you to begin before you encounter a problem and before you need a loan.

We'd be happy to talk to you before you begin. Call us.

Contact Vancity's microfinance program
604.709.6930 • microfinance@vancity.com

Glossary

Term	Definition
Accounts payable	Bills or debts for goods or services that a business has yet to pay.
Accounts receivable	Bills or debts for goods or services a business has not received yet.
Balance sheet	A financial list that includes the liabilities and assets at a specific point in time.
Break-even	The point at which a business is earning enough to pay all of its expenses.
Break-even analysis	A formula to determine at which point a business will start making money.
Budget	An estimate of expenses and income over a specific amount of time.
Cash-flow statement	A statement that shows cash flowing into and out of the business over a specific period of time.
Competitive advantage	A reason why a customer chooses one business' offering over another.
Co-operative	An incorporation where the member-owners govern and run the business. Members share in the profits and losses, but may also make decisions regarding the business and management.
Demographic	A group of people that share one or more traits.
Direct competition	Businesses that offer the same goods or services.
Financial co-operative	A member owned and operated financial institution, acting on behalf of its members.
Financial self-sufficiency	A business which does not need outside capital input to operate or expand.
Fixed costs	A cost that does not change when production increases or decreases.
Formula	A set of rules used to determine the solution to a problem.
Ideal customer	The person who would be most likely to need/desire your product or service.
Incorporation	The legal process of creating a business entity.
Indirect competition	A business that competes with another business that sells a product which meets the same need, but is not the same product.

Term	Definition
Lease agreement	A contract that grants the lessee the rights to use a property for a set period of time. The lessee may have agreed upon rights to modify the property to suit their needs.
Market-based pricing	A technique used to set prices based on what the market will support. The product or service is priced based on factors like what others are charging, perceived value, and customer needs.
Market potential	Market potential is the size of the entire market for your product or service.
Market risk	The possibility that an investor will lose capital due to fluctuations in the market.
Market share	Your market share is the part of the market potential your business aims to serve.
Marketing plan	Strategies and tactics a business follows to motivate customers to purchase their goods and services.
Mission statement	A statement about the business' purpose.
Partnership agreement	A type of agreement between multiple legal entities that allow profit and liability sharing in a business.
Pricing	The cost for a good or service as determined by the business providing it.
Pricing strategies	Any one of many formulas for determing the price of a good or service. Many factors can be considered including costs, competition, and market conditions.
Primary research	Original data collected directly from the source.
Product benefit	A product benefit is how your product or service will benefit the purchaser or user.
Product feature	Features are the attributes of your product or service.
Production capacity	The maximum good and/or service that can be provided assuming every variable is perfect.
Sales forecast	The amount of sales a business expects to achieve based on their current strategies and market conditions.

Term	Definition
Secondary research	Research or data gained from second-hand sources, usually already organized and synthesized in some way.
Sole proprietorship	A type of business ownership where a business is run under a single individual's ownership, not separated into a different legal entity.
Start-up costs	Costs that are related to starting the business, often one-time fees or expenses paid in the beginning to get the business running.
SWOT analysis	SWOT stands for strengths, weaknesses, opportunities and threats. Strengths and weaknesses are internal aspects of your business that you can control. Opportunities and threats are external and are not within the business owner's control.
Target market	A specific part of the market a business aims to serve. Target markets can be divided into very specific groups, often using customers' demographics.
Value proposition	A summary of why a customer should want the good or service a business is offering.
Values statement	A statement of the business' beliefs and priorities.
Variable costs	Costs that change the more services or goods are produced.
Vision statement	An outline of the ultimate goals of the business. A vision statement is often aspirational.

Sales forecast tutorial

For retail businesses:

- Write down the number of days you expect to work or be open for business in an average month.
- Next, figure out the average number of sales you plan to make each month.
- Next, write down the average value of each sale.
- Now, multiply the average number of monthly sales by the average value of each sale.

For service businesses:

- Write down the number of hours you expect to bill in an average month.
- Now, multiply the average number of billable hours in a month by your hourly rate.

For manufacturing and other non-retail product businesses:

- Write down the number of items you expect to produce and sell in an average month.
- Next, multiply the average number of monthly sales by the average value of each sale.

You will need to make a few adjustments to account for seasonality and invoicing. If you anticipate monthly sales will vary throughout the year you should increase or decrease your sales revenue in those months.

For instance, if you sell ski equipment, sales could decrease by 80% during the summer.

If you will be invoicing your customers, think about the time-lag between when you issue the invoice and when you will be paid.

For instance if you receive 50% of your sales in January but the other 50% will be invoiced and will likely be paid in February, you need to figure out the average number of days between sending the invoice and receiving the payment.

- Finally, adjust your monthly sales to account for time lags and payments on invoices.

The result represents your total average monthly sales, and can be entered into the cash-in section of your cash-flow forecast.

That's average number of sales X average value of sales (adjusted for seasonality) = monthly sales forecast

Cash-flow forecast tutorial

Even successful businesses sometimes have trouble with cash-flow, meaning occasionally they can find themselves short on cash – which is why preparing a cash-flow forecast is so important.

Your cash-flow forecast will tell you if or when your business might face challenges – such as paying bills. This will enable you to act early to avoid such situations.

Alternatively, if your cash-flow forecast shows that you will have a surplus of cash one month, it will allow you to plan ahead and invest in areas of your business to help it grow.

What is a cash-flow forecast?

A cash-flow forecast tracks how money moves in and out of a business on a month-to-month basis.

Your cash-flow forecast is made up of just three areas:

- cash-in forecast
- cash-out forecast
- a calculation of what is left at the end of each month – your available cash on-hand

If you have a history with your business you should have at hand:

- details of where and how much money you've spent in the past year related to your business
- bank statements and credit card statements
- any invoices you've written with the amount and the month you billed
- bank statements to verify every deposit you've made for your business
- your last tax filing which should include your total earned income

If you don't have a history with your business you should research trends in your industry and your marketing goals. This is where the information in your marketing plan can be very helpful.

If you are using your cash-flow forecast to apply for a loan, we'll want to see your assumptions, so be prepared to back up your numbers with reliable and up-to-date information.

Cash-in forecast

The first step to completing your cash-flow forecast is the cash-in estimate. This consists of all the money, including what you have currently invested, in your business. The cash-in forecast is broken into two parts: starting-cash position and monthly sales.

Your starting-cash position is the amount of money you currently have in the credit union or that you have earmarked for your business such as personal savings.

Starting cash also includes:

- the value of your existing inventory
- the amount of any deposit you have paid on a lease
- equipment fixtures and furnishings
- your own personal investments into the business

Your monthly sales is the total amount of money you expect your business to make each month.

If you have a business history, you can base your cash-flow on previous sales numbers. However, if your business is new, you need to find a method to calculate your monthly sales.

Cash-out forecast

Your cash-out forecast includes all the things your business is spending money on.

Cash-out is usually broken into two areas:

- fixed expenses (also called overhead)
- variable expenses

Not all of the following examples will apply to your business. Just be sure to use the expenses your business will incur.

Fixed expenses could include:

- rent for your business premises
- telephone and internet
- insurance
- loan payments
- lease payments for equipment or a vehicle

Variable expenses include costs you incur to produce goods or services and other expenses that vary from month-to-month.

Variable expenses could include:

- transportation, which could include repairs, parking and gas
- promotional expenses like advertising or business-related meals and entertainment
- employee wages and benefits
- memberships and fees to organizations
- cost of goods such as inventory or raw materials
- professional fees like legal or accounting

Periodically, your business may make purchases including:

- equipment or machinery
- furniture or fixtures
- a vehicle

Cash on-hand

Cash on-hand is the difference between your total cash-in forecast and your total cash-out forecast.

That's it. All that's left to do now is to calculate your cash-flow forecast.

Calculation

Now you can calculate your cash-flow forecast and find out how your cash position looks on a month-by-month basis.

The Cash-flow Calculation

1. your starting cash position
2. plus your cash-in
3. minus your cash-out
4. equals your cash on hand at the end of the month

That's starting cash + cash-in – cash-out = cash on hand

If you are using a spreadsheet program you can use formulas to automatically calculate your cash balance at the end of each month. See page 30 for an example.

Business planning resources

Aboriginal Business & Entrepreneurship Skills Training (BEST)

Aboriginal BEST is a free training series for Aboriginal people interested in becoming self-employed or starting their own businesses.

aboriginalbest.com

BC Co-operative Association (BCCA)

BCCA provides resources for groups of individuals about how to start and manage a co-operative enterprise.

bcca.coop

Canada Business Network

The Business Network offers resources to plan all aspects of your business and is a good source for industry sector data.

canadabusiness.ca

Community Futures

Community Futures supports entrepreneurship in rural BC. Visit the website to find local offices.

communityfutures.ca

Futurpreneur Canada

Futurpreneur provides free online planning tool with tutorials and links to resources.

Visit futurpreneur.ca

Indigenous and Northern Affairs Canada Aboriginal Business and Business Ownership Development (ABED)

ABED provides a range of services and supports for Aboriginal business owners.

aadnc-aandc.gc.ca

Service Canada

Service Canada provides business guides for Aboriginal people, newcomers to Canada and people with disabilities.

servicecanada.gc.ca

Small Business BC

Small Business BC is a key resource centre for comprehensive small business information and services.

smallbusinessbc.ca

Tale'awtxw Aboriginal Capital Corporation (TACC)

TACC provides small business support services to Aboriginal peoples (Status Indians, Metis and UNN members) within traditional Coast Salish Territory, northern Vancouver Island and Lil'wat.

tacc.ca

Vancity Business Resource Centre

Vancity resources include videos, SWOT tools, business planning tips and our business canvas worksheet.

vancity.com/BusinessBanking/ResourceCentre/

Women's Enterprise Centre

Women's Enterprise Centre assists women in starting and growing businesses in BC.

womensenterprise.ca

Cash-flow forecast example

You can modify your cash-flow forecast by changing scenarios – like your sales projections and monthly expenses. In addition to identifying your cash needs, a cash-flow forecast can help you price your products or services accurately.

When you calculate the actual cost of running your business and producing your goods or services, you can see if your business will be profitable in the long-term.

Figures here are examples		January	February	March	April	May	June	6 month total	*This example shows 6 months but your forecast should anticipate 1 and 2 years of operation*
Step 1	**Starting cash position**	0	3,050	2,830	3,435	2,440	2,520	14,275	This row is your cash-on-hand at the start of each month. It is the same amount as your cash on-hand at the end of the previous month.
Step 2	**Cash-in**								
	Income from receivables								
	Product / service sales 1	500	500	1,750	1,250	1,250	1,250	6,500	These rows are examples of how to track your anticipated revenues from sales.
	Product / service sales 2	1,250	1,250	1,250	1,500	1,500	1,500	8,250	Customize by adding rows that reflect your business and sales targets.
	Product / service sales 3	1,000	1,375	1,625	625	625	625	5,875	
	Units sold / hours billed	*110*	*125*	*185*	*135*	*135*	*135*	850	This example assumes the selling price for each unit is $25.
	Other income (specify)					250		250	This could include refunds, one-time asset sales or rentals.
	Owner's equity investment	2,000						2,000	Include your own investment in your business such as savings.
	Loan proceeds	5,000						5,000	Include the loan proceeds you anticipate receiving.
	Total cash-in	**9,750**	**3,125**	**4,625**	**3,375**	**3,625**	**3,375**	**27,875**	This row adds your cash-in from revenue sources at the end of each month.
	Total cash available	**9,750**	**6,175**	**7,455**	**6,810**	**6,065**	**5,895**	**42,150**	This row adds your starting-cash to your cash-in each month.
Step 3	**Cash-out**								
	Fixed expenses								Fixed expenses are usually the same each month.
	Rent / Lease	1,800	600	600	600	600	600	4,800	However, some fixed expenses, like rent, can be higher in some months.
	Telephone	150	150	150	150	150	150	900	
	Insurance	600						600	Some expenses can be paid annually but should be shown in the month the expense will be incurred.
	Loan payments		220	220	220	220	220	1,100	Use Vancity's online loan calculator to figure out monthly payment amounts.
	Other expenses (specify)								Customize by adding additional rows to include your own fixed expenses.
	Variable expenses								Variable expenses are expected to change each month.
	Cost of goods sold	550	625	925	675	675	675	4,125	This example assumes the direct cost of producing each item sold is $5.
	One time purchases	2,600						2,600	This could include equipment, furniture or technology.
	Labour costs / payroll	500	500	800	600	500	500	3,400	Labour costs can vary with seasonality or the quantity of goods or hours billed.
	Advertising		250	250	250	250	250	1,250	Make sure to adjust all variable expenses for seasonality.
	Accounting & legal				375			375	Always show annual expenses in the months you expect to pay them.
	Repairs & maintenance					350		350	
	Other expenses (specify)			75		50		125	Customize by adding additional rows to include your own variable expenses.
	Total fixed and variable expenses	6,200	2,345	3,020	2,870	2,795	2,395	19,625	This row adds your fixed and variable expenses each month.
	Owners' withdrawal	500	1,000	1,000	1,500	750	750	5,500	Be sure to include how much you hope to draw from your business monthly and annually.
	Total cash-out	**6,700**	**3,345**	**4,020**	**4,370**	**3,545**	**3,145**	**25,125**	Total cash-out totals your fixed and variable expenses and owners' withdrawals.
Step 4	**Cash on-hand (end of month)**	**3,050**	**2,830**	**3,435**	**2,440**	**2,520**	**2,750**	**17,025**	This row subtracts your total cash-in from cash-out at the end of each month and shows your anticipated profit-loss position each month.

Vancity
Make Good Money™

Banking is just the beginning

As an established, member-owned, full-service financial institution, one of our greatest strengths is our ability to connect communities. When you bank with Vancity you:

- plug your organization into almost 70 years of relationship building experience
- join a family of co-operators dedicated to community well-being
- gain access to subject matter experts in established and emerging industries
- connect to multiple networks across multiple sectors
- play an active role in building a better community.

Our commitment to you

We're stewards of the money our members place with us and are accountable for our decisions and actions. Please review our Ethical Principles and our Annual Report to see how we're leading by example and expertise to effect positive change.

Be in touch

Visit us online at **vancity.com/business** to learn more about how we can help your business.

Drop in to one of our community branches and ask to speak with a business specialist.

Call us at 604.877.7000, 250.519.7000 or toll-free in Canada and the US at 1.888.Vancity (826.2489) to discuss your banking needs.

Western Economic Diversification Canada

Credit Union