



# The Business Planning Process

## INTRODUCTION

This guide will take you through the process of writing a business plan for a small or medium sized business. A business plan is important because it provides a framework that enables you to make effective business decisions to maximize the probability of success of your company. Even if you have a plan in your head, a written business plan is still important because it communicates your plan to potential investors and creditors who can supply needed capital to your business. It also provides you with a clear and concise guide for running your business and making decisions related to it.

Writing a thorough business plan takes time and research, but it is well worth the effort. Without a plan you are putting your time and your money at risk. Most businesses fail because they have not done enough planning or have not planned correctly. Many entrepreneurs use the excuse that they lack the necessary expertise to write a formal business plan. This is a weak excuse. If you are capable of starting and growing a successful business, then you are capable of articulating your plan to do so. You are better to take the time and do the planning and the research yourself for your business, than to attempt to operate your business without a plan. True there will be costs associated, but a failed business is far more costly.

### OVERVIEW OF THE BUSINESS PLANNING PROCESS:

1. Concept Development
2. Concept Testing
3. Strategy Formulation
4. Business Plan Writing
5. Strategy Review and Implementation

## 1. CONCEPT DEVELOPMENT

The concept development stage of the business planning process begins with a business idea. A business idea is a way to generate profits by satisfying a currently unsatisfied customer need. Once you have a business idea you need to develop it by making it more specific. For example, your business idea may be to generate profits by providing customers a healthy alternative to Fast Food in a particular area. You could make this more specific by selling vegetarian food or healthy sandwiches that are made quickly to order. Once you have a specific business idea, you then continue to develop the concept by conducting market research to determine who your customers are going to be and what criteria they use to make buying decisions. Market research is a critical step in the business planning process. Research will be needed in order to conduct your market analysis and to do your marketing plan. You should not attempt to write your business plan or to develop your strategy until you have conducted extensive and thorough market research. Most lenders or investors, including Women's Enterprise Centre, do not lend money to people who have not done sufficient market research for their business idea. You can use the information gleaned from your market research to tailor your product or service to

appeal to target customers. For more information on how to conduct market research see the guide on our website<sup>1</sup>.

## 2. CONCEPT TESTING

Once you have developed your business concept, you need to conduct further research to determine whether or not it is viable. This research includes industry research, research on competitors, suppliers, distributors, government regulations, special interest groups, economic conditions, political conditions, and any other factors that are relevant to your specific business. Your research should provide you with the ability to forecast your costs and your revenues with reasonable accuracy. From this you can determine the potential profit of your business, and how much money you will need up front for financing. You might find that your concept is not as profitable as previously expected. If this is the case you may need to go back to the drawing board and modify your business concept to make it more profitable.

## 3. STRATEGY FORMULATION

If your concept testing reveals a potential profit level acceptable to you, then you will need to develop a strategy to turn that potential profit into actual profit. An effective business strategy begins with an analysis of the internal and external factors affecting your company. This is sometimes called a SWOT analysis because it deals with strengths, weaknesses, opportunities and threats. The internal analysis focuses on your company's strengths and weaknesses relative to your competitors, while the external analysis focuses on competitive opportunities and threats, as seen in the following example:

### **Strengths:**

1. Low Costs
2. Innovative Product
3. Loyal Clientele

### **Opportunities:**

1. Untapped Market Segment
2. Poorly Managed Competitor
3. Increased Demand for Your Product

### **Weaknesses:**

1. Lack of Skilled Staff
2. Limited Product Line
3. Inexperienced Management

### **Threats:**

1. Aggressive Competitor
2. Economic Recession
3. Changes in Regulations

Once you have completed the internal and external analysis, then you should have the knowledge needed to develop an effective business strategy.

A business strategy is a long-term plan to use your company's strengths to take advantage of market opportunities and to neutralize competitive threats. It should also enable your company to minimize its weaknesses and to build on its strengths. The following is an example of the use of SWOT analysis to develop a business strategy:

You own a small firm that provides bookkeeping services.

### **Strengths:**

1. Your Ten Years of Accounting Experience
2. Well-Mapped Business Plan
3. Industry Contacts

### **Weaknesses:**

1. Personal Time Constraints
2. Limited Funding
3. Internal Staffing Problems

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<sup>1</sup> Women's Enterprise Centre's Market Research Guide  
[http://www.womensenterprise.ca/library/market\\_research/MarketResearch.pdf](http://www.womensenterprise.ca/library/market_research/MarketResearch.pdf)

**Opportunities:**

1. Increased Need for Bookkeeping Services
2. Faltering of Local Competitor
3. Merger With Another Competitor

**Threats:**

1. Low Price Competitor Enters Market
2. Economic Recession
3. Changes In Bookkeeping Regulations

A strategy that takes these factors into account could be to focus on promoting those services that are not provided by the low-cost service providers, such as monthly report preparation and payroll, while using your training and experience as a selling point. You could also try to generate publicity for your business or promote it through word of mouth versus attempting to appeal to a mass audience. This strategy minimizes the impact of the competitive threat from the low cost providers, and saves you money on advertising costs. The idea, again, is to build on your strengths to take advantage of a market opportunity. Your time is limited but you have extensive expertise and are well established in the business community. You could market higher-end services. Charging a higher price communicates the quality of your services while limiting client volume. It also enables you to compete more on the basis of skill, excellent customer relations and innovative services; rather than trying to compete with price against low-cost competitors. You will appeal to a clearly defined niche market, thereby reducing the amount you need to spend on advertising and promotion.

**4. BUSINESS PLAN WRITING**

Once you have developed a business strategy based on a well-researched business concept and a detailed SWOT analysis, the next step is to translate your strategy into a written business plan.

Formats of business plans vary depending on the intended audience of the plan, the nature and size of the company, and the business training of the person who writes the plan; nonetheless, virtually all written business plans contain certain key elements. As a bare minimum, your finished business plan should include (in order) the following:

1. Executive Summary
2. Table of Contents
3. Description of the Business
  - Categorization
  - Mission & Goals
  - History
  - Management
  - Company Structure
  - Company Size and Location
4. Description of the Product or Service
5. Market Analysis (including a summary of your market research)
  - Industry Analysis
  - Competitive Analysis
  - Market Research
  - Target Market

6. Marketing Plan
  - Positioning
  - Marketing Mix (4 Ps)
7. Operational Plan
  - Production (or procurement)
  - Inventory Management
  - Human Resources
  - Action Plan
8. Financial Plan
  - Historic Financial Statements
  - Financial Projections
  - Financing Requirements and Capital Purchases
  - Break Even Analysis
  - Accounts Payable and Receivable
9. Risk Analysis and Contingency Planning
  - Competitive Reaction
  - External Risks
  - Internal Risks
10. Supporting Materials
  - Resume, Appendices, etc.

Note that the order in which these business plan elements are *completed* is not the same as the order in which they *appear*. The table of contents, for instance, would obviously have to be done at the end after the lengths of the other sections were determined. The executive summary is often easier to do last after you know what will be in your plan. It is also generally easier to formulate mission statements and goals after you have done the market and financial analysis sections of your plan.

## **Description of the Business**

### *Business Type*

The first part of your plan should be a description of your business. You begin by categorizing your business as retail, manufacturing, wholesale, or service. Most businesses fall within one of these major categories, but some may span two or more categories. For example, some furniture companies may sell via both wholesale and retail channels.

### *Mission & Goals*

The mission statement should encompass the primary long-term objectives of your company. It should be as specific and concise as possible and should be no more than one or two sentences. As the mission is a key element of your business plan, the time horizon for these objectives should be the same as the time-horizon of your business plan. After stating the mission, this section should then list the most important goals for your business in the next year. These goals should be even more specific than your long-term goals, and ideally should be precise and quantitative.

### *History*

If your business is a start-up then you should list reasons why you are starting the business and why you think that it will succeed. If you are writing a plan for an existing business then you should describe briefly the history of the business in terms of when it started, who started it, why it was started, any major changes that occurred in the nature of the business or its structure (i.e. incorporating the business, taking on new partners, etc.)

### *Management*

This section lists those persons involved in the management of the business including the owner(s) and directors that might be involved in decision-making. It describes the duties and responsibilities of each of the members of the management team and lists their relevant skills and entrepreneurial or industry experience. An analysis as to how these skills and experience can be best used in the business is beneficial.

### *Company Structure*

This section describes the structure of the company in terms of proprietorship, partnership, limited partnership, or corporation. It also details the ownership of the company including all directors and all major shareholders or partners.

### *Company Size and Location*

This section describes the location of your company's facilities including whether they are residentially, commercially, or industrially based, and where they are located relative to your customers, your suppliers, and your distributors. It also describes the size and nature of your facilities and the estimated number and type of employees.

## **Product or Service Description**

This section should describe the key features and benefits provided by your product(s) or service(s) to your customers. It should also describe any intellectual property protection that you may have in place on your product or service. These would include trademarks, industrial designs, copyrights or patents. For further information on intellectual property contact the Canadian Intellectual Property Office<sup>2</sup>.

## **Market Analysis**

### *Industry Analysis*

This section describes the industry in terms of size (number of companies, total revenue generated, etc.). It also discusses factors related to the growth potential of the industry, such as changes in population or changing demand for the industry's product. Also included in this section are barriers to entry, standards and regulations that affect the industry, and typical costs and profit margins. Industry trends, including opportunities and threats should also be discussed.

### *Competitive Analysis*

This section provides a detailed description of your main competitors, including size, location, products/services and market share. It should also discuss the similarities and differences between your product/service and those of competitors, your competitors' relative strengths and weaknesses and your competitive advantage. For example, your competitive advantage could be that you are more efficient than your competitors because you have lower production

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<sup>2</sup> Canadian Intellectual Property Office - Place du Portage I, 50 Victoria Street, Room C-229, Hull, Quebec, K1A 0C9 Phone: (819) 997-1936 Fax: (819) 953-7620 E-mail: cipo.contact@ic.gc.ca 8:30 a.m. to 4:30 p.m. (EST) Monday to Friday

costs. It could also be that you have better quality products than your competitors or that you have an innovative product or service that your competitors cannot easily duplicate. An established base of loyal customers is also a competitive advantage. Do not assume that because your product or services are somewhat unique in the marketplace you have no competition. Consider competition in light of consumer needs and the alternatives available to meet those needs.

### *Market Research*

This section is a summary of all the information you gathered to in order to determine that there is a demand for your product or service. It is arguably the most important part of your plan and should form the basis for all of your business plan and strategy. Also, potential investors or lenders will be very interested in the accuracy and completeness of this research and will not provide financing for businesses that cannot demonstrate sufficient market demand to make the business successful. For these reasons, this is a particularly important section for start-up businesses with no track record, or for those businesses expanding into new products/services.

The actual research conducted will fall into two categories: secondary research, and primary research. Secondary research is information from second-hand sources such as books, magazines, internet, government sources, or industry research industries. Primary research is information that you collect firsthand including personal interviews and discussions, internet surveys, telephone surveys, mail surveys, focus groups, etc. For more information on market research and its uses please refer our guide on market research<sup>3</sup>.

### *Target Market*

This section identifies and defines your customer segments. A customer segment is a group of customers defined in terms of common characteristics such as location, age, gender, income, family size, family life cycle, occupation, education, social class, lifestyle, personality, buying behaviour, benefits sought, purchase occasion and motivation, usage frequency, or other relevant criteria.

Once you have broken down the overall market into segments you need to assess which segments represent the most potential in terms of sales and profits for your business. Those segments will form your target market. Include a discussion of the criteria on which the various segments base purchase decisions. Describe why you will appeal to a particular market niche, the size of your market, and your anticipated market share. Discuss whether you plan to take market share away from particular competitors or to increase the size of the market by attracting new buyers. Outlooks for the market segments, including trends such as increasing size or income levels should also be identified.

## **Marketing Plan**

### *Positioning*

Product positioning describes what you are selling and to whom you are selling it. Examples of positioning include: a high end fashion tie for male business executives, chips in a convenience store for impulse buyers, bread in a grocery store for low income consumers, a computer accessory for engineers, etc. These examples of positioning can be grouped into categories such as luxury item, impulse buy, necessity, specialty item, etc. The 4 Ps of the

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<sup>3</sup> Women's Enterprise Centre's Market Research Guide  
[http://www.womensenterprise.ca/library/market\\_research/MarketResearch.pdf](http://www.womensenterprise.ca/library/market_research/MarketResearch.pdf)

marketing mix (product, place, promotion, and price) should all be consistent with product or service positioning.

### ***Marketing Mix (The Four P's)***

#### ***Product***

Product strategy is made up of all decisions regarding the product or service itself. The core product is defined in terms of the primary benefit it provides. The actual product includes tangible features such as color, shape, size, packaging, etc. The augmented product includes additional features such as delivery, credit terms, or warranty. The way you position should dictate the actual features of your product. For example, if you are selling camping equipment to an upscale, younger market, then you might want to include recycled materials or other features that appeal to this environmentally conscious group. Packaging decisions are also important, as customers often buy based on the look of the package. You want a package that will catch the attention of your target market. In terms of the augmented product, service policy, warranties and other product/service add-ons must also be consistent with positioning strategy.

#### ***Place (or Distribution)***

Distribution strategy includes all aspects of how your product is routed from your business to your customer, where your product or service will be sold as well as where and how it will be delivered. You need to identify intermediaries in your distribution network, such as wholesalers, distributors, etc. Choosing a channel of distribution often follows from the type of product or service. For instance, Starbucks coffee is only sold in Starbucks stores, whereas toilet paper is sold in virtually all grocery stores, drug stores, and department stores. Delivery is also based on your positioning, as well as your transportation costs. If you are selling high priced items that are low weight, where convenience is a factor (i.e. a pizza shop), then delivery is a viable option.

One distribution channel that is becoming increasingly common is selling direct to consumers via the internet. It provides them with a new level of convenience and may result in increased sales.

#### ***Promotion***

Promotional strategy is concerned with attracting the attention of your target market, getting them interested in your product, getting them to desire your product, and getting them to take action and buy it. An acronym to help you remember that is AIDA, which stands for attention, interest, desire, and action.

Promotional techniques include different forms of media advertising, direct mail, internet promotion, media publicity, press releases, trade shows, and other non-price-related means of reaching your target market. Your promotional plan should include the timeframe over which you will conduct various types of promotion or advertising and a discussion as to how you will communicate the benefits of your products or services to your target market in a way that is meaningful to them. That is, in a way that connects their needs to your offerings. Your promotional plan outlines the actual tools you will use to do this and estimate the associated costs over at least the next year. You should also describe how you would measure the effectiveness of your promotional efforts. For example, you could use customer surveys to find out how they learned about your product or service.

Part of promotion is sales effort. In discussing sales, quantifiable sales targets should be set for unit sales over various time frames (i.e. day, month, year). If you have sales staff, you assign responsibility for periodic sales targets to them. A compensation scheme that motivates sales persons to maximize their efforts is also important.

### *Price*

Effective pricing strategy enables your business to cover its costs and to generate profit while motivating customers to purchase your products or services. Firms often lose money by charging the wrong amount for their products or services. Factors influencing the price you should charge include perceived value of your product, the prices that your competitors are charging, and the costs that you have to incur. As a minimum you should at least charge more for your product than you must pay out in direct costs otherwise you will lose money on each sale. In the long run you must also charge enough to cover your overhead costs or your business will not be able to break even. Your pricing should reflect your positioning relative to your competitors. For further information on pricing contact the Women's Enterprise Centre and ask for our guide on pricing.

## **Operational Plan**

### *Production (and/or procurement)*

Specify the process by which your product is made or sourced or, in the case of a service business, how the service will be performed, including necessary preparation. You should specify the production requirements, capacity, and manufacturing time (or service delivery time). Describe the materials and facilities, including size and type of space needed (i.e. manufacturing, warehouse, administrative) and necessary equipment. Specify the location of suppliers, delivery times and methods of shipment. Describe any processes and standards for product improvement, research & development and quality control. Be sure to determine the ceiling for your capacity. That is, how much product/service you can produce with your current resources - physical and human.

### *Inventory management*

Specify how the inventory will be managed. Describe what types of inventory you will have (i.e. raw materials, work in process, finished goods) and how much you will keep in stock. Decide when you will order and in what quantities you will order, bearing in mind lead times for order processing and delivery; methods of shipment; storage costs for inventory; payment terms; and most importantly, sales volumes. How fast will your inventory turn over (ie. how many times per year)? Inventory costs can be significant and having capital tied up in inventory can be very damaging to the cash flow of a small business. Turning inventory over fast and keeping levels low can result in huge benefits, so long as you can meet your customers' supply expectations. For further information on inventory management see the Women's Enterprise Centre's guide on inventory management or contact the American Production and Inventory Control Society (APICS)<sup>4</sup>.

### *Human Resources (Staff) Management*

This section should outline the number of staff you require, including subcontractors. It should describe the qualifications for each job category, discuss labour availability, wages and benefits, training, personnel policies and workers compensation issues. Attracting and maintaining skilled workers is the main goal of human resource management. Other goals include compliance with government regulations and cost minimization. According to Bernhard

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<sup>4</sup> APICS Okanagan Chapter - PO Box 1685 Station "A", Kelowna, BC, V1Y 8M3

Lieberman, there are seven major keys to building a winning employee team: providing continual feedback to employees; managing employee perceptions of management and of the company; sharing information about company goals and plans with employees; focus on team problem solving; focus on employee decision making; encouraging employee input into the hiring process; and, creating compensation schemes that reward employees for adding value to the firm. For further information on Human Resource Management contact the Women's Enterprise Centre's service planning department.

### *One-Year Action Plan*

Your action plan outlines your hours of operation, licenses and permits required, regulatory issues such as potential environmental impacts, business insurance required, etc. Include a one-year action plan detailing the operational steps required to achieve this year's production and sales goals. This should be as specific as possible and outline the key actions to be undertaken, and their timing.

## **Financial Plan**

As important as the qualitative aspects of your plan may be, they will not tell you if your business is likely to be profitable. For this reason, accountants and financial analysts look primarily at the financial aspects of a plan when making lending or investment decisions. A financial plan should include historic financial statements (if applicable), financial projections, financing requirements, a break-even analysis and a discussion of accounts payable/receivable.

### *Historic financial statements*

Existing businesses should provide balance sheets and income statements for the last three years of operation, as well as for the most recent interim period. Historic cash flow statements are also very important to potential suppliers of capital.

### *Financial projections<sup>5</sup>*

Financial projections should be completed for reasonable best case, worst case and expected case scenarios. Such variations are required for a proper evaluation of business risk.

1. You must include monthly cash flow projections, for a minimum of 12 months, based on your unit sales forecasts per month and corresponding costs of goods and operational expenses. Note that it is not enough to take your annual revenue and cost projections and divide them by 12. Nor can you determine your approximate costs and then estimate revenues based on what you need to cover those costs. Your projections should be estimated month-by-month and should be based on what your market research suggests will really happen and on when you predict money will be received or spent.
2. You must include projected income statements for the first and second full fiscal years of the business.
3. You must include a starting balance sheet

### *Financing requirements and capital*

Summarize the type and amount of financing required, use of funds, and proposed repayment terms. List all major equipment required with associated costs, based on quotes/estimates from reliable sources.

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<sup>5</sup> For further information on financial projections contact the Women's Enterprise Centre and ask for our free file: "Cash Flow/Break-Even" accompanied by Excel spreadsheets for cash flow analysis. Also inquire about Women's Enterprise Centre's Financial Understanding & Management Self Study Guides, which will be available for a fee.

### *Break-even analysis*

Break-even is the number of units and/or revenues you need to cover all of your costs in a given period. It is most often calculated for the first year of operations.

Breakeven formulas:

- 1. Break even units = Fixed costs/ (price per unit - variable cost per unit)**
- 2. Break even in dollars of sales = Break even units X selling price per unit**

Note: variable costs are costs like direct materials, direct (ie. production or service) labour and sales commissions. Fixed costs are costs like manager's salaries or office rent - costs that are the same month-to-month and do not vary with production and sales.

Break-even example:

You own a company that manufactures tents. The materials for 1 tent cost \$10 and the labour to make 1 tent is 1/2 hr at \$10/hr. You sell the tents to a wholesaler for \$30. Your total fixed costs for your first year of operation are \$20,000. How many tents do you need to sell to break-even? How many dollars in sales do you need to break even? In this example your variable costs per unit would be \$15 (\$10 for material and \$5 for labour).

$$\text{Break-even units} = \$20,000 / (\$30 - \$15) = \$20,000 / \$15 = 1,333.33$$

Since we cannot sell 0.33 of a tent we round up. We will need to sell 1334 tents to break-even in the first year.

Break-even dollars = 1334 tents x \$30/tent = \$40,020 of sales required to break-even in the first year.

### *Accounts Payable and Receivable*

Existing business should include a current schedule of aged accounts payable and accounts receivable. New businesses should include a discussion of policies surrounding payables and receivables. These policies are important as they affect the timing of cash flows. Make sure to take them into account when doing your cash flow projections. Like inventory control, collection of accounts receivable is imperative to small business survival. You probably won't have the cash reserves to finance your customers' purchases.

### **Risk Analysis and Contingency Planning**

A small business is inherently risky. Just as small size provides for quick reaction and flexibility in the marketplace, it also allows little room for error. Only a small percentage of businesses survive beyond the first few years. You need to assess the possible risks to your business and develop contingency plans to deal with them quickly. Ultimately, what will you do in the event of cost overruns or sales shortfalls? What protection can you build in now to deal with those risks? General statements like "sell more," "increase advertising," or "spend less" are not enough when you find yourself short of rent money. Three specific categories of risk are dealt with here: competitive reaction, external risks, and internal risks.

#### *Competitive Reaction*

This section seeks to determine the anticipated reactions by competitors to your product, service or marketing activity. Describe the potential reactions and how they might affect your

sales and profitability. Describe what actions you will take to manage the various possible competitor reactions. State your plan for dealing with each contingency.

#### *External risks*

Identify key external risk factors for your industry and market. Possible risk factors include economic downturns, weather and climate changes, emergence of new competitors, supplier problems, product or service obsolescence due to technological change, political instability or change, changes in customer demand, etc. Develop and describe the actions you will take to manage and to mitigate each of these identified risks.

#### *Internal risks*

Identify the main internal risk factors that would negatively impact your business. Possible factors include sales projections not realized, cost overruns, key staff turnover, legal issues, computer or equipment malfunction, fire, theft, etc. Describe how you will minimize these risks and how you will deal with the potential negative impacts if they occur.

### **Supporting Materials**

Supporting materials that should accompany your business plan or be including as appendices to your plan may include:

- Additional financial projections or historical financial statements
- Statistical tables from your research
- Photographs or samples of your product
- Resume(s) of owners and/or key members of the management team
- Letters of intent or letters of support
- Copies of required licenses/permits
- Appraisals for property and equipment
- Copy of partnership agreement or shareholders' agreement
- Corporate charter
- Corporate brochures
- News articles about your company
- A sample of any surveys or questionnaires conducted

### **Executive Summary**

The executive summary is a sales document for your plan. Very often potential investors or lenders have dozens of plans to review and are too busy to read your entire plan. They will rely on the executive summary to judge the overall plan and determine whether or not the business warrants a closer look. You need to convince them in a short piece (generally no longer than one page) that summarizes the key points covered in your plan, including a description of your company and product or service, a list of your key competitive advantages, and your proposed sources and uses of funds. A well-written executive summary can be a key to success. Even with a good plan, if your summary is not persuasive you may not achieve your desired results.

## **STRATEGIC REVIEW AND IMPLEMENTATION**

### **Strategic Review**

After completing, but before implementing your plan, you should review your strategy. Is it still the best possible strategy given your research and analysis? If not, you need to go back to the strategy formulation stage and perform a new SWOT analysis. Try a new strategy and do new financial forecasts based on that strategy. The more strategies you evaluate the more likely you are to find one that works. There is no point in implementing a plan that is based on a mediocre business strategy.

### **Implementation**

Once you have completed strategic review and finalized your business plan, you need to take certain actions to implement it. A good plan, poorly implemented, is almost as bad as no plan at all. You need to stick to your plan and do what it takes to make your business successful. This doesn't mean you should never deviate. Remember that flexibility and responsiveness are small business assets. It does mean, however, that you should follow the plan as long as it makes sense to do so. You cannot afford scattered direction and effort.

It is helpful to have a written schedule of the key actions that need to be performed to get the business started and established; or, for an existing business, that must be accomplished over the next year. These actions could include negotiations regarding supplier terms, lease agreements, and client contracts. They could also include recruiting and hiring staff, arranging for advertisements, registering and licensing the business, issuing shares, setting up computer systems, etc. Your action plan can easily incorporate these things and be used as your guide.

For more resources to Start or Grow Small Business, visit our website at [www.womensenterprise.ca](http://www.womensenterprise.ca) or call 1.800.643.7014.