Venture Development

BASICS

A Workbook

Canadian Centre for Community Renewal

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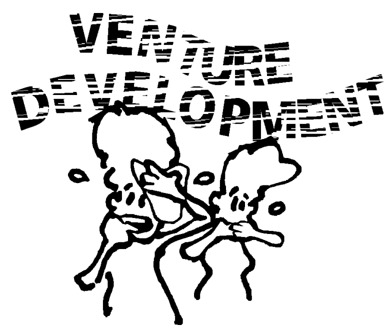
Introduction

Building a community economy is a complex undertaking. Extensive planning is essential, much of it with input from the community at large. Organizations must be shaped which can develop successful ventures, yet remain accountable to the community. Furthermore, the ventures which generate profits and jobs have to respect the environment upon which we all depend.

Not an easy task—but not as complicated as some people make it out to be either! The whole matter of venture development has become especially shrouded in mystery over the years. Determining the suitability and viability of business opportunities, as well as getting businesses up and running, are responsibilities often "left to the experts."



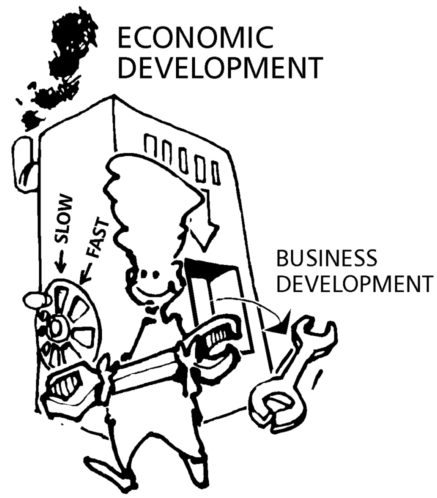
Venture development is of central importance to any strategy that seeks to build an economic base controlled by the community. At bottom, venture development is the process through which business opportunities are identified, screened, selected, planned, and implemented. A difficult process? Certainly! But not one beyond the understanding of ordinary people.

This workbook, another in the Westcoast Series on Community Economic Development, introduces readers and workshop participants to the fundamentals of venture development. It is designed to help people overcome fears about the language of business and instead become familiar with the basic steps and processes involved in establishing successful businesses.

The venture development principles which a community should observe also apply to the individual who wishes to start and run a business. Entrepreneurs need to understand the process just as thoroughly as community development corporations do. This workbook is designed to assist those interested in venture development from both a community economic development perspective and a small business perspective.

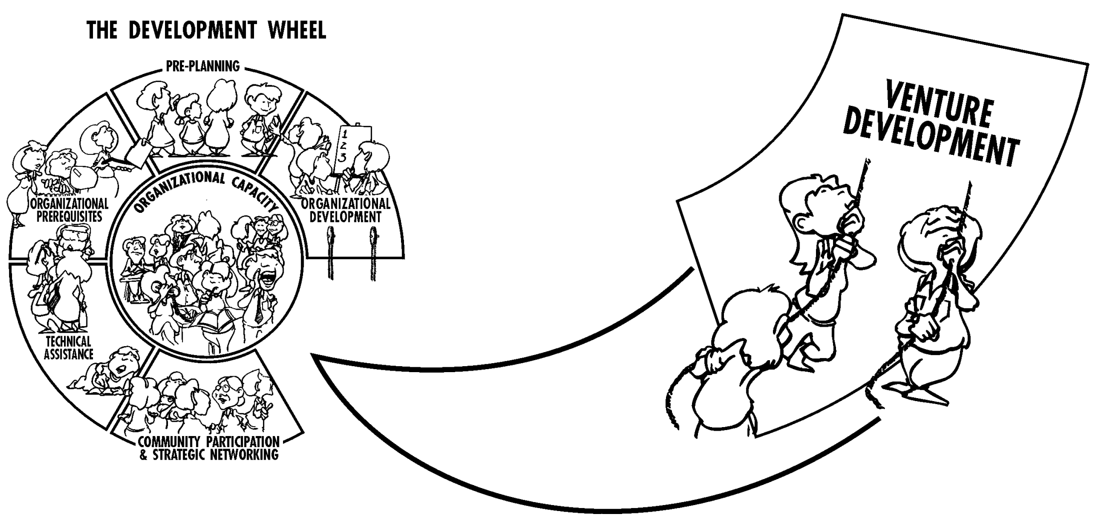
Community Economic Development (CED): The Role of Venture Development

A recent Economic Council of Canada case study defines economic development in terms consistent with the CED approach: “Economic development is the process of creating institutions that *do* business development—not business development itself.” Bill Hatton, Chief Executive Office of Kitsaki Development Corporation, one of the most successful Indian development corporations in Canada, put the same point more graphically. “If business development is a wrench,” says Hatton, “economic development is the machine which makes the wrench.”*



In brief, CED builds the organizational skills, resources, and energy—the “machine”—which can get businesses and other projects started and keep them moving. Moreover, the development process enhances, and in return is enhanced by the community’s capacity to participate and benefit from its own development. CED, in other words, is accountable to the community.

The central importance of venture development to the success of a CED strategy cannot be overstated. Whether you are creating new wealth through ventures owned and controlled by a development corporation, assisting community-based business through provision of loans and business advice, or training people to fit into rapidly changing workforce, understanding the basics of venture development is going to help you do your job better. (See Appendix 1 for an introduction to the Development Wheel, which depicts how Venture Development and the other components of CED planning interrelate.) **



* Both quotations are taken from Decter and Kowall, *A Case Study of the Kitsaki Development Corporation, La Ronge Indian Band, La Ronge, Saskatchewan* (Ottawa: Economic Council of Canada, 1989).

** For a detailed treatment of the Development Wheel’s application to CED planning see *The Development Wheel: A Workbook to Guide Community Analysis & Development Planning* (Native Edition), Port Alberni: Westcoast, 1990.

The Workbook and Facilitators Manual

This workbook will be useful to individual business people as well as to organizations involved in any of a number of approaches to CED.

The major portion of the workbook is broken into ten chapters, each of which focus on key aspects of venture development. They guide the reader through an exploration of the attitudes, policies, and detailed planning that make for business success. Appendix 1 introduces the CED planning framework known as the Development Wheel. Appendix 2 explains a venture development learning activity based on the hypothetical community of "Deep River." Appendix 3 demonstrates the application of venture selection criteria in a First Nation community.

Like other books in the Westcoast CED series, the materials in this workbook stand on their own. At the same time, they are designed to support a venture development workshop which can be tailored to run 1-5 days. Those interested in the workshop can also order the *Venture Development Basics: Facilitators Manual* which provides detailed information about workshop design, timing, learning activities, and other resources.

The Workshop

A primary goal of this workbook is to assist participants in venture development workshops. For example:

- ❏ community members who are considering the establishment of an independent business or who currently occupy or are moving towards management positions in community enterprises
- ❏ current or potential members of economic development committees, or boards of community enterprises or development corporations who have limited experience in business.
- ❏ economic development staff or other staff who must play a counselling role to community members considering or starting businesses.

In Westcoast's experience, many of the people in the first two categories have very limited experience and knowledge when it comes to starting and running successful businesses. Although many have clear ideas about the businesses they are after, they lack the "language" of business (markets, products, customers, competition, profit and loss, equity, balance sheets, etc.). Nor do they have or a clear understanding of the realities of the business world. Committee and board members also need a basic understanding of business planning in order to evaluate proposals and monitor evolving businesses.

Many economic advisory staff have a good knowledge of business principles (although there is a great variation in the amount of academic training and experience they have). But advisers often fail to use their technical knowledge in ways which are useful to people with very limited business experience.

The goal of the Venture Development Basics Workshop is

> To introduce the basic tools and knowledge necessary for understanding how to implement an effective venture development process.

The following objectives describe what participants should be able to do by the end of the workshop:

1. Describe the major steps in the venture development process.
2. Define the main advantages and disadvantages of getting into business and the main methods for entry into business.
3. Identify the key entrepreneurial characteristics that support business success.
4. Understand and apply venture selection criteria.
5. Identify and understand the steps in business planning, including the steps involved in collecting the data, making the decisions, and forecasting the results.
6. Demonstrate familiarity with the structure, relationship, and content of balance sheets, profit and loss statements, and cash flows.
7. Demonstrate a basic understanding of computer spreadsheet models and their application in business planning.

2

Do You Really Want to get into Business?

Do you *really* want to get into business? This question deserves far more consideration than it often receives from individuals, community-based organizations (CBOs), and First Nations (FNs) interested in business. The result of this oversight can be costly.

Our recommendation to aspiring entrepreneurs and business-minded CBOs and FNs is to seriously think through the advantages and disadvantages of "doing business" before you travel far down that road.

An article below called "So You Want to Start a Business" lays out the risks and some of the major problems that small businesses face. Although the author directs his comments to the individual entrepreneur, most are also relevant to community-owned businesses.

The remainder of this chapter examines the advantages and disadvantages of getting involved in business from the perspective of the individual businessperson, the CBO, and the First Nation. (For the sake of clarity, the reader should assume that the CBO is involved in the service field and sees business as a possible avenue to deal with funding cutbacks.)

So You Want to Start a Business?

By GEORGE MASON, from *Pacific Business News,* April 2, 1979

"Be your own boss" is the theme of publications, ads, trade shows, books, and seminars. It's all made to sound so simple.

We'd guess as many as one out of four people working for wages has a secret desire to go into business for him/herself. The desire is fuelled by illusions and false assumptions.

The greatest illusion is that being "your own boss" means what it implies. Going into business, however, transforms a person from having one boss to having several—customers, creditors, government, and quite often, employees. There is no such thing as being free to do what you damn well please without being answerable to someone.

The faultiest assumption is that because someone else has succeeded in the line of business you want to pursue, then surely you, too, will succeed. If that were true, then we would not find that 80% of all new businesses fail within the first five years of start-up. Success is far less assured when you follow the leader than when you are the leader. Of course, once the leader, it becomes increasingly difficult to maintain the lead as others nip at your coattails.

There are dozens of reasons why so many new businesses falter and fail. Among the more common are improper knowledge of the market, poor price-setting, incorrect sales forecasting, weak or non-existent business plans, poor self-discipline and failure to realize the need to turn cash fast.

Most people assume that "being your own boss" means less work. Silly thought! It means longer hours and more pressure. It means an extraordinary amount of self-discipline.

Many also assume that being "an expert" in the field is a prerequisite. Fact is that most highly successful entrepreneurs entered fields in which they were not expert, not even half expert. They became successful because they were generalists rather than specialists. They knew they could learn the essentials and could hire whatever expertise might be required.

The bulk of failures we've seen over the years have had a common weakness—too much haste, not enough reflective thinking. Produce the product, worry about the market later. Make the sale, worry about collecting somewhere down the line. Give the product or service away and then figure out what price is right for profitable results. Just get started fast; somehow it will all work out. Nine times out of ten it doesn't.

Running a business is a blend of many disciplines. Good salesmanship is one, but so is an understanding of the economics of revenue and expense, the intricacies of customer relations, the cost of inventory and money, the vicissitudes of the marketplace, the nature of the competition, promotion and advertising, cash management, personnel selection and supervision, long range planning, and a willingness to grapple with paperwork—among other things.

Heads of small business (up to 50 employees) have to spend three-fourths of their time on very unglamorous details and nagging problems in order to survive. They are forced to do distasteful things, like dunning customers for past-due receivables, settling employee dissentions, firing incompetent help, listening to customer complaints, and keeping things on schedule, including tax payments.

Anyone can start a small business. Keeping it alive is where most fail. After five, seven or ten years it may be possible for the entrepreneur to relax a bit and survey his/her accomplishments. Then, again, it may be that his/her success has done nothing more than attract an unusual amount of competition. At which point survival is again threatened and the pressure of staying alive again comes into play.

Those who aren't ready for the unexpected, who can't take unnerving distractions, who are relatively inflexible, or who don't thrive on risk-taking, would be well advised to avoid venturing into the maelstrom of "being your own boss".

It really isn't what it appears to be from the outside.

Advantages and Disadvantages of "Doing Business"

Advantages

1. BEING YOUR OWN BOSS

Individual entrepreneurs typically relish their freedom to make their own decisions. Independence is a key goal.

CBOs are often dependent for their funding on outside agencies, especially the government. In times of cutbacks and restraint, many organizations are actively seeking ways to lessen their dependence on government. This is often done in order to increase the organization's ability to make decisions without reference to government program criteria.

First Nations are struggling for self-government all over the country. Many recognize that self-government without an economic base does not necessarily translate into a capacity to truly govern themselves.

2. FINANCIAL WEALTH

Individual entrepreneurs typically get into business with the expectation of making more money. An efficiently-run business can generate a higher income than salaried employees receive.

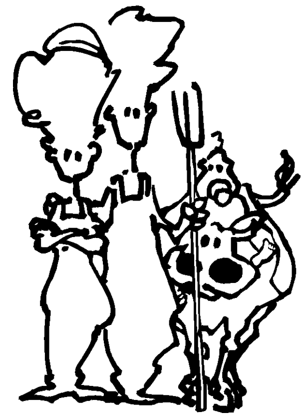
CBOs want to increase their financial base in order to gain access to funds which can be applied to the needs of their constituency without restriction.

First Nations are increasingly concerned with generating wealth. Businesses which generate a profit are crucial to building economic self-reliance. Profit is also key to the building the capital base which fuels ongoing investment in economic development.

3. SECURITY FOR THE OWNER AND CHILDREN, OR CBO

Some *individual* entrepreneurs build well-run, profitable businesses in order to establish the security they need. Such a business can also provide family members with a future source of employment and income.

In a climate of restraint, *CBOs* are often motivated to think about business as a way of increasing the security of the organization and thus its capacity to fulfil its mandate.



4. OPPORTUNITY FOR SERVICE

Although not often thought of as a primary motivation for going into business, there are *individuals* who are turned on and committed to such ideals as providing people with quality products, serving particular needs, and creating jobs.

CBOs often put service high on their list of priorities. Successful CBOs in the business world often begin by building businesses that are somehow related to the needs and interests of their constituency.

First Nations almost always link their efforts in business development to the need to increase the present and future security of their members in terms of income, jobs, and training.

5. DESIRE FOR POWER

Some *individuals* enjoy the power or influence that comes with being a business leader.

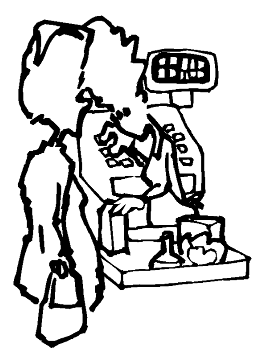
Many *CBOs* think of business as being one means of empowering their constituency. Some CBOs (particularly those concerned with basic issues of poverty) see business development as a way of increasing their influence in the broader corridors of the community power structure.

Many *First Nations* are explicitly interested in the relationship between venture development, the building of an economic base, and the power and influence that comes with owning and controlling resources.

6. OPPORTUNITIES FOR CREATIVITY

Individual entrepreneurs are creative and innovative people. Developing new enterprises fulfils their needs.

The same can be said of *community entrepreneurs,* the key people in CBOs and First Nations who undertake the many tasks necessary to plan and establish successful ventures.



Disadvantages

1. RISKING THE LOSS OF ASSETS

An *individual* entrepreneur must take risks. Profit-making entails risks of losing money. Failure in business may also lead to loss of security and status in the community.

CBOs and First Nations face the same risks. In addition, if a CBO or First Nation loses money, other programs and assets can be put at risk. Their resources may be reduced in order to cover the losses of failed businesses. The whole capacity of the CBO or Band government to meet its mandate may be endangered.

2. LONG WORKING HOURS

Individual entrepreneurs work extremely long hours, usually without vacations. This is especially true for people who are running new businesses.

CBOs and *First Nation governments* often underestimate the time and energy it takes to plan, start, and develop a profitable business. The tasks of business development can make demands on organizational resources beyond the capacity of the CBO or First Nation to manage. This places the business and other programs and services at risk.

For these reasons, it is crucial that CBOs and First Nation governments select ventures that are worth the effort. It can take as much time and effort to deal with a convenience store and gas bar as it does to run a larger business. Since many CBOs and First Nations have little experience, management issues also need very close attention. Joint ventures need to be considered as strategy for increasing management and business skills.

3. UNSTEADY INCOME

Income fluctuates. *Individuals* who are starting a new business may not earn any money for months. Even after the business is established there may be slow periods when they have to draw on personal savings.

The same reality faces *CBOs* and *First Nations.* Given the realities of developing a new business, there cannot be any expectation of quick returns. CBOs which expect business revenues to offset cutbacks in other funding must understand that a business often spends more money than it makes in its first few months. It is also important to recognize that businesses must reinvest profits if they are to grow and stabilize. Trying to withdraw income too quickly from a business is tantamount to eating one’s young.

3

Have You Got what it takes to be Successful in Business?

"Technical training is important, but it accounts for less than 20% of one's success. More than 80% is due to the development of *one's personal qualities*, such as initiative, thoroughness, concentration, decision, adaptability, organizing ability, observation, industry and leadership."

Dr. C.P. Koch

Every new venture requires an *entrepreneur*. If you are that person then you are the most important asset of the business. Whether you are an individual entrepreneur, or a CBO activist in CED, or a key person in an Indian First Nation, your performance will make the difference between success and failure.

Entrepreneurial characteristics are often thought of being confined to business. Not so. Business is one application of entrepreneurial skills. Running a CBO or organizing a First Nation's development corporation are also arenas within which entrepreneurial qualities are essential.

The first step is to recognize the qualities of the entrepreneur.

In this chapter we present a list developed by Hawaii's Entrepreneur Development Corporation (formerly known as HETADI), one of the world's leading entrepreneur training organizations. The list has been adapted by Westcoast to some extent but the basic values and characteristics cited by HETADI remain the same.

It is important that the individual entrepreneur and community entrepreneur or organization take a realistic look at themselves by comparing their attitudes and practices with those listed. We have also adapted a very basic self-assessment tool which will help you to identify your entrepreneurial strengths and weaknesses.

The 25 Basic Characteristics of Entrepreneurs

Note that most of the characteristics listed here do not apply to the business world alone. If you are with a CBO or First Nation government, think of each of the entrepreneurial characteristics in terms of your organization and/or the key person(s) in your organization.

1. DRIVE AND ENERGY

Successful entrepreneurs can work for long hours and for extended numbers of days. They seem tireless and reflect energy and enthusiasm about what they do.

2. SELF-CONFIDENCE

Entrepreneurial people and entrepreneurial organizations believe in themselves and what they are doing. They believe in their capacity to achieve the goals they set. They believe they are masters of their own fate.

3. LONG-TERM INVOLVEMENT

They are builders who clearly believe that long-term results are what count. Entrepreneurs tend to reinvest. One business leads to another business. They are not “get in and get out” artists after a quick buck.

4. MONEY IS NOT AN END IN ITSELF

Contrary to some popular images of the greedy businessman, entrepreneurs view money, profits, and net worth not as ends, but as a measuring stick, a means by which they check how they are doing. Money is a means to the end of starting and building businesses.

5. PERSISTENT PROBLEM-SOLVING

Successful entrepreneurs strive to overcome hurdles and solve problems. Difficulties do not overwhelm them. They are extremely persistent problem-solvers. They are also realistic about what they can and cannot do, however.

6. ABILITY AND COMMITMENT TO SETTING GOALS

They have the ability and commitment to set clear goals for themselves and/or their organizations. They tend to set high, challenging, but realistic goals. They are action-oriented, doers who want to achieve concrete results. They tend to hate wasting time or being late.

7. MODERATE RISK-TAKING

Are entrepreneurs gamblers? Do they roll the dice? A common misconception of risk taking is that it is the same as gambling. But does a gambler control the role of the dice? No! Entrepreneurs are risk-takers but they are not careless. They calculate their chances. Since they are long-term builders, they prefer moderate and challenging risks where moderate returns are attainable. In short, they are not impulsive fortune-seekers.

8. ATTITUDE TOWARDS FAILURE

Entrepreneurs attribute failure only to those people who fail to learn from their mistakes. They regard failure as an opportunity to learn, to better understand a situation and to avoid a similar problem in the future. They know how to accept setbacks in business. They are not afraid of failing. They are more concerned with succeeding.

9. SEEKING AND USING FEEDBACK

As high achievers, entrepreneurs are concerned with their performance. They want to know if they are doing well. They constantly seek information and clues about their work. They learn from their errors, they welcome constructive criticism and advice, and they constantly try to use the feedback to improve their performance. Entrepreneurial people often enjoy competitive sports and games.

10. TAKING INITIATIVE AND SEEKING PERSONAL RESPONSIBILITY

Entrepreneurs are not armchair critics that place responsibility for events on the doorsteps of others. They are self-motivated and self-reliant. They actively seek out situations in which they can take personal responsibility for the success or failure of an activity. They enjoy taking leadership when needed. They want to get things done.

11. WILLINGNESS TO USE OTHER RESOURCES

Entrepreneurs are not afraid of the phrase “I don’t know.” They know how and when to seek help and advice. While they are very self-reliant they are also realistic about their own shortcomings. This attitude is related to the fact that most entrepreneurs are not specialists or experts, but generalists. They know they can learn the essentials and hire experts as required.

12. COMPETING AGAINST THEIR OWN SELF-IMPOSED STANDARDS

Successful entrepreneurs compete with themselves. They run against their own internal standards. They run against the clock, rather than the other runner. They are most interested in improving their performance. They are competitive, but not purely for the sake of beating the other guy.

13. MASTERS OF THEIR OWN FATE

Successful entrepreneurs do not believe that success or failure depends on fortune or luck. They believe they control their own lives and their business.

14. TOLERANCE OF AMBIGUITY AND UNCERTAINTY

If you want a high level of security or like routine you should probably stay out of business. Perhaps you would be better as a manager. In contrast to professional managers, entrepreneurs are able to cope with modest to high levels of uncertainty. Entrepreneurs don't give job security and permanency the priority that managers do.

15. INDEPENDENCE AND INDIVIDUALITY

They want to be their own boss—to do their own thing in their own way and at their own pace. They relish their freedom and the right to be different and unique.

16. OPTIMISTIC

Do you think the cup is half empty or half full? Do you see the doughnut, or do you see the hole? Entrepreneurs are optimistic. However, their optimism is not based on unjustified hope or illusions. Rather, it rises from of their self-confidence.

17. INNOVATIVE AND CREATIVE

Seeking new ways to do things or solve problems is the hallmark of entrepreneurship. While managers prefer competence and efficiency, entrepreneurs give priority to creative and innovative paths or opportunities.

18. GETS ALONG WELL WITH OTHERS

Entrepreneurs are interested in people. They understand that managing people is the key to success. They capitalize on the talents of others and know how to motivate them. Teamwork is a vital word in their vocabulary.

19. FLEXIBLE

They can roll with the punches. They can shift gears in order to adapt to changing circumstances. They are flexible and tend to be opportunistic.

20. HIGH NEED FOR ACHIEVEMENT

The need to achieve is fundamental to understanding the minds of entrepreneurs. They have a commitment to excellence and the process of attaining it. They are motivated much more by the need to achieve than by a need for relationships or by the desire for power.

21. PROFIT-ORIENTED

Entrepreneurs believe in and accept profits. They believe that profits are a key measure of business success. However, it is important to remind ourselves that profit (or money) is considered a means to an end. The end is to build businesses. Entrepreneurs may take some of it but there is a common pattern of re-investment of profits.

22. PERSISTENT, PERSEVERANT, DETERMINED

"Stick-to-it-iveness" is a very common trait among entrepreneurs. Yet they do not endlessly bang their heads against brick walls. They know when to let go and to walk away from an unwise and unproductive activity or decision.

23. INTEGRITY

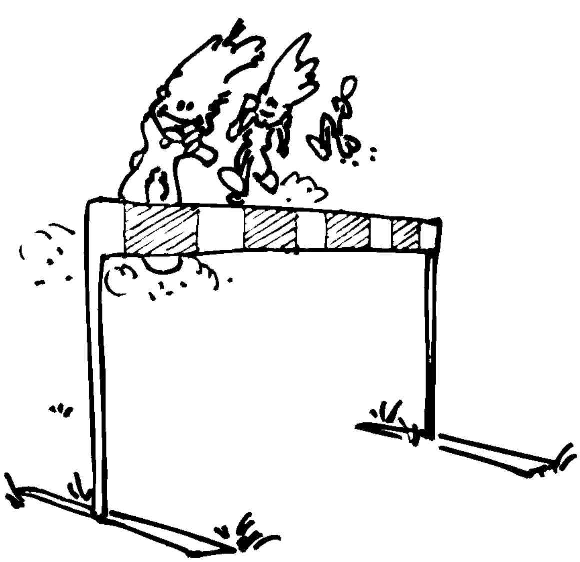
They know that you can't be a crook and succeed in the long term. Honesty is still the best policy. A reputation of dishonesty and unreliability is fatal. Building a reputation for integrity is key. If mistakes are made, they need to be dealt with openly.

24. FORESIGHTFUL, PERCEPTIVE

Entrepreneurs tend to be visionary. They can see ahead. While they rely on facts, they also rely their intuition.

25. LIKES CHALLENGES

If you like a challenge and tend to see problems as opportunities you are entrepreneurial.



Self-profile of Entrepreneurial Characteristics

Listed below are the characteristics of successful entrepreneurs and entrepreneurial organizations. On a scale from 1 to 10 (low to high), rate yourself or your organization. Be honest. If you are from the same organization as someone else, do the exercise individually, and then compare your answers.

	SELF-RATING Myself	My Organization	ENTREPRENEURIAL CHARACTERISTIC
1.	______	______	Drive and energy
2.	______	______	Self-confidence
3.	______	______	Long-term involvement
4.	______	______	Money is not an end in itself
5.	______	______	Persistent problem-solving
6.	______	______	Goal setting
7.	______	______	Moderate risk taker
8.	______	______	Failure as opportunity
9.	______	______	Use of feedback
10.	______	______	Takes initiatives and seeks personal responsibilities
11.	______	______	Use of outside advice, criticism
12.	______	______	Competing against self-imposed standards
13.	______	______	Masters of own fate
14.	______	______	Tolerance of ambiguity and uncertainty
15.	______	______	Independence, individuality
16.	______	______	Optimistic
17.	______	______	Innovative and creative
18.	______	______	Gets along well with others
19.	______	______	Flexible
20.	______	______	High achiever (need for achievement)
21.	______	______	Profit-oriented
22.	______	______	Persistent, perseverant, determined
23.	______	______	Integrity
24.	______	______	Foresightful, perceptive
25.	______	______	Likes challenges

Rated for ____________________ Rated by ________________________ Date ____________

Source: MLDC/HETADI Pre-Business Workshop, HETADI, 1980, p. 21.

4

Which Businesses Make Sense? Systematic Venture Selection

This chapter commences with an overview of the venture development process, written from the broad, community perspective as might be relevant to a community development corporation. This outline is followed by a more detailed discussion of venture selection criteria, again from the perspective of a CBO or First Nation.

We do not overlook venture selection from the perspective of an individual, however. The chapter concludes with an examination of the assessment of personal goals and capability, which helps people choose the business that best suits their individual values and interests.

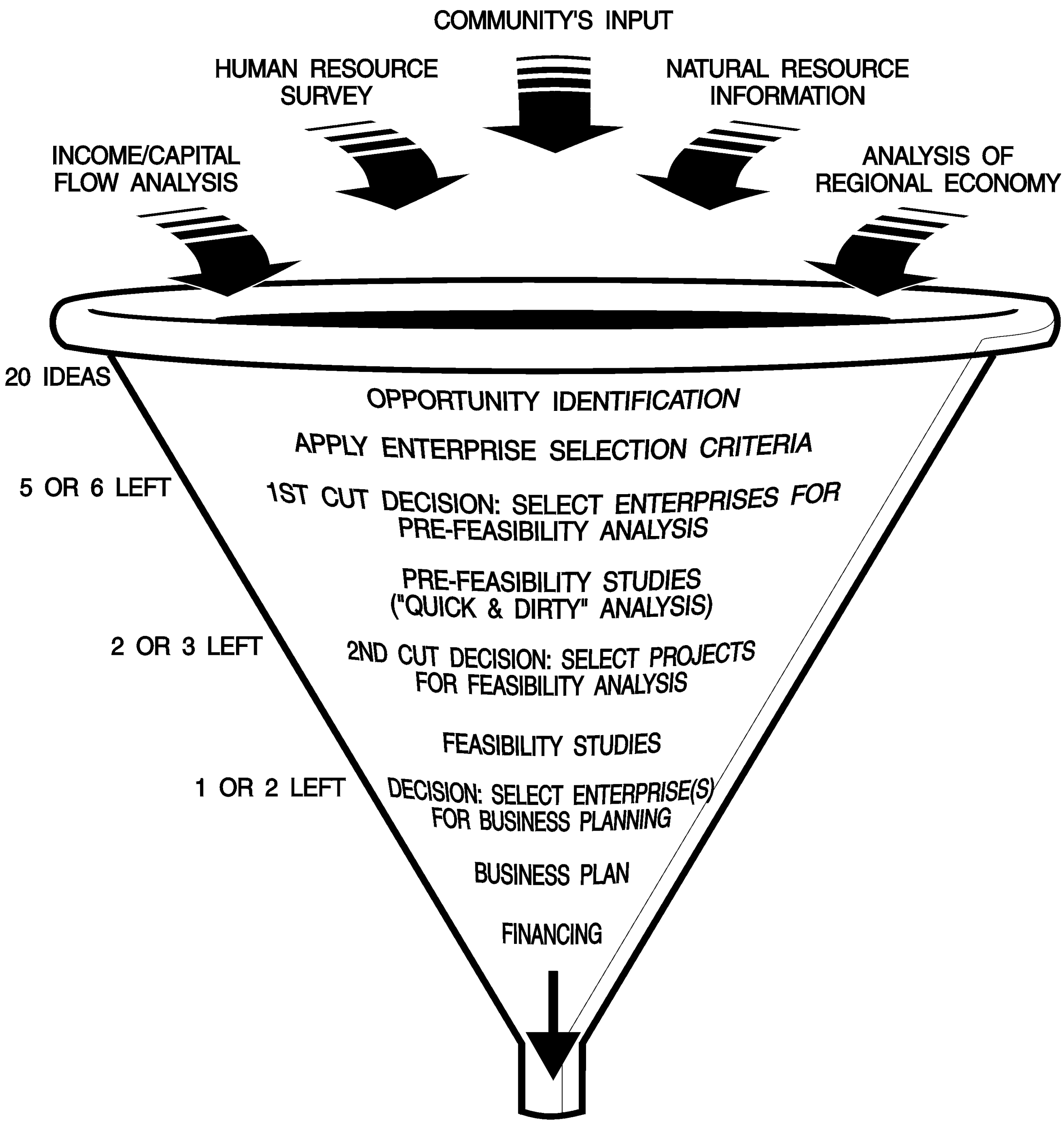
An Overview of the Venture Development Process

Venture development is a screening process which systematically separates the best business opportunities from other, less promising ones. It enables planners progressively to sharpen their focus and concentrate resources on a locality's most viable business opportunities.

The diagram on the page opposite compares venture development to a funnel. In the funnel several screens are stacked on top of each other. The top screen is quite coarse. It holds back "the gravel." Thereafter, the screens get finer and finer, until only the finest grains will pass through the mesh at the bottom. Those "fine grains" are the community members' most viable business opportunities.

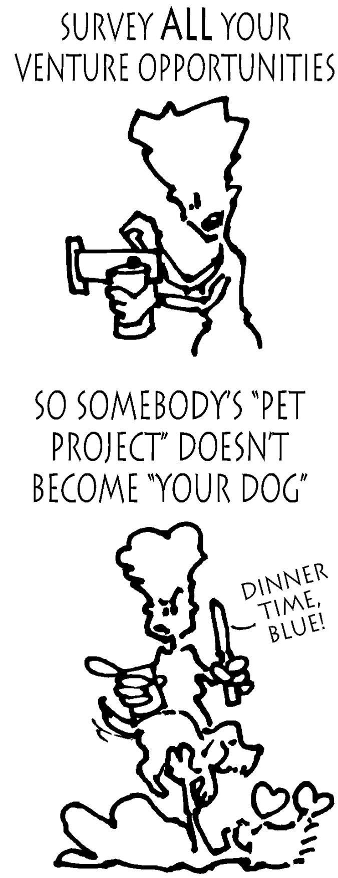
The "screens" of the venture development funnel are in fact the policies, research, and decision-making procedures of a venture development system.

The Venture Development "Funnel"



Opportunity Identification

Communities often become fixated with a single, flawed business idea. The darling of some influential person, this venture consumes all kinds of time, energy, and money, but offers few benefits. To avoid this sorry situation, conduct a systematic and broad review of opportunities before devoting any resources to detailed planning. A community cannot do everything. So it should choose to do things which fit with community priorities and can help build organizational capacity.



Application of Venture Selection Criteria

Each venture opportunity or idea is evaluated according to the venture selection criteria. This does not need to be a detailed or precise evaluation. It should be based on data that is readily available. Often a little homework plus what is already known by community decision-makers is sufficient for the initial cut. Be sure to spell out in advance the procedure for the application of the criteria, who will be involved, and how decisions will be made.

One systematic method of evaluating venture possibilities is to assign points under each criterion (see the example on page 23). The rating scale could range from "zero" (when a venture does not meet the criterion) to "five" (this criterion is one of the venture's strengths). The total of the points assigned to each venture will give a rough idea of which ones best meet local needs and intentions. The ventures with the lowest ratings can then be eliminated.

Working through the venture selection process in a systematic manner is also an important opportunity to develop the decision-making effectiveness of the board or Band Council.

The 1st Cut

The application of the criteria in this manner leads to a selection of the best five or six venture opportunities. This is the first decision point. It represents a recognition that planning costs money and time. Conserving scarce resources and making good investments in planning requires a progressive selection of priorities based on increasingly detailed research.

Pre-Feasibility Analysis

The five or six "short-listed" venture opportunities now undergo the closer scrutiny of a pre-feasibility study. This level of analysis does not have to cover every aspect of the venture in great detail. Remember, we are gathering information and doing analysis *to the extent appropriate to what we are going to decide.* Pre-feasibility analysis roughly estimates each venture's possibility for success, and thus indicates which ventures warrant full-fledged *feasibility* study. Pre-feasibility analysis asks why a venture *won't* work, rather that why it will. It helps eliminate some ventures from further consideration.

To do this, pre-feasibility studies look at five aspects of business feasibility: the product or service, market, competition, organization, and finance. It is a "quick and dirty" level of analysis which should take 2-10 days for all but the most complex kinds of business.

This level of analysis is a perfect opportunity for training Band personnel. If technical assistance is necessary, structure the contract to ensure that the skills related to pre-feasibility analysis are transferred.

The 2nd Cut

This is the second decision point in the venture development process. The best two or three venture opportunities are selected and the rest are eliminated. The venture selection criteria can be used again to review the results of pre-feasibility analyses. The worthiness of the venture opportunities can be compared by listing the pros and cons of each on separate sheets of paper.

It is crucial to involve the key decision-makers in this process. The first experience with this decision-making process may be frustrating at times, but it is worth it. There is no substitute if organizational capacity is to be built; and without organizational capacity there is no such thing as self-reliance.

Feasibility Analysis

Whereas pre-feasibility analysis helped decide which venture opportunities make sense, the feasibility study looks at the same five topics in detail: product or service, market, competition, organization, and finance. This level of analysis explores options for operating the venture and determines if the business makes financial sense. In short, feasibility analysis asks, "Will this venture make a profit?"

Selection of Venture(s) for Business Plan

Take time to assess carefully the feasibility study completed for each venture opportunity. This, again, is an excellent opportunity to hone critical decision-making skills and to train leaders in general business matters. Don't miss it. Council or board members need to understand the purpose of feasibility studies and how to interpret the results. Hire outside assistants if necessary.

The decision made at this point is whether to invest in the final stage of business preparation: the development of a business plan. The feasibility study will provide most of the information needed to prepare a business plan. However, there are important differences in the two documents.

Business Planning

The feasibility study discusses different ways that the business might operate and whether it is a worthy investment from a financial point of view. The business plan describes the way the business will actually operate.

A good business plan takes 240-300 hours minus some of time spent on the feasibility study. That's why a step-by-step venture development process makes sense. Who has the time, staff, and money to write a business plan for every venture opportunity, if one plan takes 6-8 weeks to complete?

A Closer Look at Venture Selection Criteria from a Community Perspective

The overview of the venture development process shows how important a policy decision venture selection criteria are. Well-set criteria can save time and money. How?

Venture selection criteria should flow from and reflect the mission, strategic goals, and assessment of key factors which will guide local economic development. Well-set criteria enable a CBO, First Nation, or development corporation to select ventures which integrate the factors crucial to the community's economic development strategy. Note how the Development Wheel framework makes venture selection a basic policy issue to be addressed right at the front end of the organizational development process (see Appendix #1).

Outlined below is a set of questions that you can use when formulating venture selection criteria.* Note that there are three categories of questions. The first category will help your First Nation government, CBO, or development corporation judge the extent to which a particular venture will build organizational capacity. The second category ensures that the business perspective is not forgotten. The final category focuses on venture's ability to contribute to the community or to your organization's constituency.

VENTURE SELECTION CRITERIA FROM THE DEVELOPMENT ORGANIZATION'S PERSPECTIVE

Does the proposed venture

- ❏ provide for development organization involvement in decision-making?
- ❏ develop the development organization's capacity to undertake increasing economic development responsibilities?

* Linda M. Gardner, *Community Economic Development Strategies: Creating Successful Businesses*. 3 Vols. (Berkeley, Ca.: National Economic Development and Law Center, 1983).

- ❏ fit into the community's overall economic development strategy?
- ❏ lead to significant training and experience for corporate staff?
- ❏ generate sufficient revenues and profits for the organization so that investment in other activities is possible?
- ❏ maximize the development organization's financial benefits from rents, royalties, interest, securities, shared profits, and assets?

VENTURE SELECTION CRITERIA FROM A BUSINESS PERSPECTIVE

Does the venture have a demonstrated market for its goods or service?

- ❏ Is the market growing?
- ❏ Can a sufficient share of the market be captured by the business?
- ❏ Does the venture require an initial capital investment that will require large debt financing?
- ❏ Is the organization willing to accept shared ownership of the venture if equity financing is necessary?
- ❏ In case of venture failure, will the organization be saddled with a large debt, unused and unusable buildings and equipment, and consequent unemployment?
- ❏ Does the venture have special labour or licensing requirements?
- ❏ Will the business break even within a reasonable period?
- ❏ Will the business generate a profit?
- ❏ Does the business require substantial re-investment to maintain or expand its stability and profitability?

VENTURE SELECTION CRITERIA FROM A COMMUNITY PERSPECTIVE

Does the proposed venture

- ❏ provide for community involvement in decision-making?
- ❏ address the unique needs and circumstances of community members?
- ❏ achieve community ownership of resources to ensure that there is increasing control over their use and resulting income?
- ❏ purchase local goods and services?
- ❏ capture social service program expenditures and income transfer payments?
- ❏ provide needed goods and services?

- ❏ provide possible links that can provide existing community businesses with new opportunities?
- ❏ improve community member employment and work skills and add to the overall availability of quality jobs?
- ❏ create a favourable impression upon outside business interests and financial institutions so that outside participation in CED is encouraged?
- ❏ have significant opportunities for community members to assume the responsibilities of managers and directors?
- ❏ create environmental pollution, causing problems with noise, air, odour, and health quality?

There are many examples of venture selection criteria which development organizations have actually used. An example developed by the National Economic Development Law Centre in California is found on the page following. It evaluates ventures on the basis of not only profitability, but of potential long-range benefits for the organization and the community. This includes realization of long-term employment and long-term social, educational, training, and other local benefits.

The criteria used by one First Nation have been reprinted in Appendix 3 of this workbook. Another example can be found in the first chapter of *Take Charge! How to make economic development work for your Band* (Port Alberni, 1988).

The NED&LC Model of Venture Selection Criteria

VENTURE OPPORTUNITIES / SELECTION CRITERIA	Employs low-income community members	Requires low start-up costs	Located in the community	Will break even within one year	Does not compete with existing community businesses	Stops leakage of community money	Uses existing organization assets	Uses existing organizational expertise	Provides needed community services or products	Total
Day-care centre										
Bakery										
Employment Agency										
Re-cycling centre										
Construction re-hab company										
Grant writing venture										
Weatherization company										
Home health agency										
Storm window manufacturing										
Handicraft distribution company										

Key
0 = venture does not satisfy the criterion
5 = venture strongly satisfies the criterion

Note: This model developed by the National Economic Development and Law Centre, 1950 Addison St., Berkeley, California, USA 94704

Venture Selection Criteria from an Individual's Perspective

Infatuation is a problem commonly suffered by individuals who aspire to start their own business. They fall in love with their own business idea. The same can also happen to CBOs and First Nations. Falling in love with your business idea is a bad idea. "Love is blind," as the saying goes, so lovers tend to overlook the faults of their business idea, instead of subjecting it to really hard-nosed evaluation.

After all, selecting a business may be one of the most important decisions a person ever makes. It should be approached carefully and logically. Say your market research shows the idea you are hooked on is not feasible, for example. Is that the end of your business career? Not likely, if you are entrepreneurial. It makes sense to have a second choice and still more sense to have a third and a fourth. It is easier to switch if you have alternatives that match your goals, skills, and capabilities.

This section should help you look at your personal goals and capabilities. If you are a business counsellor, the exercise of leading people through this section can be helpful early in the counselling process.

Assessing your Goals

The first thing you have to do is assess your goals. What do you want out of being a business person? It is important to be as open and honest as possible in your answers to the questions list below. When you are finished, summarize and priorize your goals on the chart found on page 26.

A. ANNUAL INCOME

How much do you want to earn after your business is running smoothly?

a. While it may be tempting to set your goal high, do not overstate it—be realistic.

B. PERSONAL DEVELOPMENT

a. Contributing something worthwhile to the community

b. Building a business that will provide for your family

c. Travelling and seeing the world

d. Utilizing your skills and education to the utmost

e. Retiring early to do the thing you always wanted to do

FIND A BUSINESS THAT SUITS YOUR GOALS, SKILLS, & CHARACTER

C. STATUS

There are high status and low status businesses, e.g., garbage collecting would not be as high a status as stock brokering.

a. Some people don't care about status, but others do.

D. WORK CONTENT

This refers to the types of work you enjoy most or least.

a. Do you enjoy paper work?

b. Do you enjoy selling to customers?

c. Do you enjoy working with your hands? Outdoors?

E. PEOPLE CONTACT

Do you enjoy working alone? With other people?

F. HOW MUCH

This refers to whether you want to go into business:

a. Permanent full-time

b. Eventual (5-10 years) part-time

c. Eventual absentee ownership

G. WORKLOAD

This deals with business hours or how much time you want to or can work.

a. Over 70 hours, 6 days per week?

b. 55-60 hours, 5-6 days per week?

c. 40-45 hours, 5 days per week?

H. TRAVEL

Travel away from home.

a. More than 60%, 30-50% or less than 30%.

I. LOCATION OF BUSINESS

Community distance one-way.

a. Less than 5 minutes by car? 15-20 minutes?

J. MARRIAGE

Will your spouse be enthusiastic about the business?

Many wives or husbands swiftly lose heart when their husbands or wives spend three nights a week and every week-end on starting a new business or project. The strain on the marriage can be severe.

Business Selection Criteria: "What do you want to get out of being a business person?"

INSTRUCTIONS

In the left hand column, rank each in order of preference from 1 to 10 (1 being the most preferable) and fill in the appropriate blanks under "Goals".

PRIORITIES   GOALS

_______ **Annual Income** _____$10-20,000 _____$20-40,000 _____$40-60,000 _____$60-80,000 _____$80-100,000 _____over $100,000

_______ **Personal Development** 1. ______________________________

2. ______________________________

_______ **Status** _____Important _____Moderately Important _____Not Important
(check one)

_______ **Work Content** _____Work with hands _____Alone _____Manufacturing _____Paper work _____With people _____With mgmt
(check preferences)

_______ **People Contact** _____Customers _____Suppliers _____Employees _____Personal selling
(check preferences)

_______ **How much?** _____Permanent full-time _____Eventual (5 to 10 years) part-time _____Eventual absentee ownership
(check one)

_______ **Work Load** _____Over 70 hours, 6 days a week _____55-60 hours, 5-6 days a week _____40-45 hours, 5 days a week
(check one)

_______ **Travel away from home** _____More than 60% _____30-35% _____Less than 30%
(check one)

_______ **Location** ______Less than 5 minutes by car _____15-20 minutes _____Over 30 minutes
(check one)

_______ **Marriage** _____Enthusiastic support _____Moderate support _____Lukewarm
(check one)

From MLDC/HETADI Pre-Business Workshop (HETADI, 1980), p. 40

Assessing Your Capabilities

The second thing you have to do is do an honest assessment of your capabilities. The basic factors to take into account are identified in the checklist which follows.

A. HEALTH AND PHYSICAL

Do you have any health or physical limitations which will limit the type of business activities you can engage in?

a. It would be wise to anticipate 5 or 10 years into the future.

B. EDUCATION

This refers to your formal education or courses that you have taken that can be useful to your new business.

C. EMPLOYMENT

This refers to your employment experience.

a. Summarize all your relevant experiences or job capabilities.

b. The more business experience you have, the better.

D. NON-EMPLOYMENT ACTIVITIES (HOBBIES, BACKGROUND, ETC.)

This refers to skills developed in non-work activities such as hobbies, volunteer work, etc.

a. Being president of a board/organization may provide some meaningful and relevant skills.

E. INVESTMENT

How much of a personal investment can you make? Since this determination involves calculating your own net worth, do that too.

Matching Goals and Capabilities with Business Selection

Now it is time to bring all this together. Take the following steps:

1. Write down as many business ideas as you can that hold some interest for you. Remember, this is not a test for business feasibility quite yet. We want you to consider options from the perspective of your personal goals and your assessment of your own capabilities. Transfer these ideas to the chart on page 29, "Do You Match Your Business?"

2. Make sure you have established your goals and ranked them in order of priority. (See the chart on page 26, “What Do You Want to get out of being a Businessperson?”)

3. Now, on page 29 write down your businesses. Mark “yes” or “no” if your business selection matches your goal. Be honest. You can only fool yourself. After you have done this, make sure you pay attention to how each idea meets each of your goals, especially those to which you gave the highest priority.

4. The last four columns of the chart on page 29 refer to your capabilities (physical health, education, etc.). Mark “yes” or “no” in these columns if your business selection fits your capabilities.

5. When you are finished, add up the number of times you answered “yes,” and the number of times you answered “no.” The selection with the most number of “yeses” (14 is a perfect score) would be your first choice. In case of a tie, add in the value of the goal ranking to your score.

The best option should next be tested according to venture selection criteria. By following this process, your pre-feasibility, feasibility, and business planning work has the best chance of being done efficiently and coming up with results that maximize your personal interests and preferences.*

* This self-assessment and business selection process is adapted from *MLDC/HETADI Pre-Business Workshop* (HETADI, 1980), p. 36-39, which in turn derives from Kenneth J. Albert, *How to Pick the Right Small Business Opportunity* (1977).

Do You and Your Business Match? (adapted from MLDC/HETADI Pre-Business Workshop, HETADI, 1980, p. 41)

INSTRUCTIONS

1. Brainstorm all of the possible types of business you have thought of starting and list them in the far left column.
2. If a business satisfies all of the goals you set out for Business Selection Criteria (p. 26), put the word “yes” in the first ten columns across the page.
3. The rest of the columns ask if you have the personal and financial capability to get into that business. Answer “yes” or “no.”
4. Total the “yes” responses entered for each business in the far right-hand column. The more “yes” responses, the closer the fit between you and your business.

	BUSINESS SELECTION CRITERIA										CAPABILITIES				
Possible Type of Business	**Income**	**Personal Development**	**Status**	**Work Content**	**People Contact**	**How Much**	**Workload**	**Travel**	**Location**	**Marriage**	**Health**	**Education**	**Job Skills**	**Investment Capital**	**TOTAL**
1. Bar	yes	yes	no	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	13
2. Retail Store	yes	yes	yes	no	no	yes	yes	yes	yes	yes	yes	yes	yes	no	11
3. Auto Repair	yes	yes	yes	yes	no	yes	yes	yes	yes	yes	no	yes	yes	yes	11
4.															
5.															
6.															
7.															
8.															
9.															
10.															
11.															
12.															

5

Ways of Getting into Business

Having decided as an individual or a community to undertake a particular kind of business, how to go about it? There are many different ways.

Options for Establishing the Business

To establish ourselves in any particular kind of business we can:

- ❑ design, plan, and build a new business from scratch.
- ❑ purchase a franchise.
- ❑ purchase an existing business.

Building from Scratch

"Building from scratch" means designing the product or service you wish to sell; defining your market; and then selecting and acquiring the equipment, buildings, staff, and materials you need produce and sell the product. This approach gives you maximum control over how the business will be run. It may allow you to take advantage of new technology or second-hand equipment. In terms of dollars, this may be the least expensive way to start, assuming new technology and buildings are not prohibitive. In terms of time and effort, however, it is the most demanding. It is also the riskiest, since nothing has been tested in the market.

Franchising

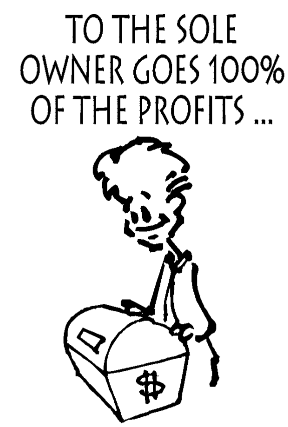
By securing a franchise for a particular product or service, you gain a well-designed and tested product and operating system. You may also get support in training and management. If the product has a recognized name, market entry will be easier. The franchise limits what you can do, however, and may oblige you to purchase supplies from the parent. These supplies may be cheaper or more expensive than alternatives. You may also have to pay a franchise fee (sometimes many thousands of dollars) or commit yourself to the regular payment of royalties.

Buying an Existing Business

Buying part or all of an existing business is a very common way for new people to get into business. This approach allows a quick start, because the prior owner has already gone to the effort of building up a clientele and establishing an operating system. The main disadvantages have to do with the profitability of the business. If it's so great, why is the owner selling? You could be buying into a bad location, a poor market, or getting old, worn equipment. How much more than the value of the real assets (land, building, equipment, inventory) are you being asked to pay? (In other words, how much are you paying for the "name" alone?) Always check carefully the owner's reasons for selling and try to negotiate a part-share purchase, a management contract, and a non-competition agreement.

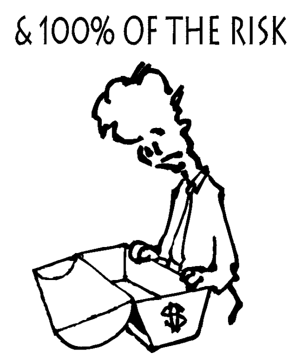
Options for Ownership

There are several ways to structure the ownership of the new business.



Sole Ownership

An individual or an organization (like a Band Council or a development corporation) can be the sole owner of a business. This gives them *100% of the profits and 100% of the risks* in case of a loss. If owned by an individual, this can be an unincorporated *sole proprietorship*, or it can be an *incorporated company* registered as a business federally or provincially. If owned by a community organization, the business is usually incorporated. Registering the business as an incorporated company limits how much you stand to lose personally if the business fails (although institutions that lend money usually want a personal guarantee). There may be significant tax advantages to not being incorporated, particularly for Indians living on reserve.



Shared Ownership

Any combination of individuals, community organizations, and outside individuals or companies can split the ownership of a new company. A *joint venture* can be structured as an unincorporated partnership (with a *partnership agreement* to determine the conditions and rights), or as an incorporated company in which each partner has a specified percentage of the *shares* (units of ownership). An agreement must be made between the partners as to who will contribute cash, resources, equipment, expertise, or other resources to the new business, and how much. It will also specify who will be a member of the board of directors, and therefore a decision-maker. (This usually depends on the percentage of ownership.)

The agreement will also indicate how profits will be allocated, and may allow for changes in this distribution over time. It may set the terms under which one partner will be bought out with the profits over a number of years, for example. In a joint venture with an existing owner, a *management contract* may also be concluded to govern the short-term running of the business by the existing owner and the training of management provided by the new partners. This contract may also guarantee that the experienced partner will not create a competing business for a specified period of time.

6

The Business Plan: Step 1

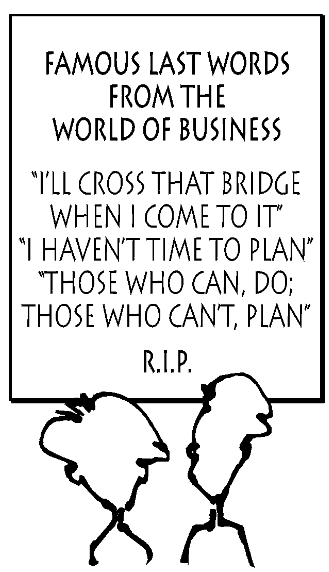
Data Collection & Business Definition

We have introduced you to a progressively more rigorous and detailed examination of business opportunities. In doing so, we have been concerned with using scarce time, talent, and money wisely within the venture development process. In the First Cut, venture selection criteria pinpoint the business opportunities which warrant preliminary ("quick and dirty") analysis. Armed with this information, planners conduct the Second Cut: they decide which opportunities deserve a comprehensive *business plan.*

The next four chapters are an introduction to the information, analysis, and decisions which go into a business plan. By the end of Chapter 9 you won't have *completed* a business plan, but you will have a much better idea of *how* to complete one.

What is a Business Plan?

- ❏ a *written* document
- ❏ prepared by *you*
- ❏ which describes your *goals* and
- ❏ *ways* to *achieve* them
- ❏ within a *specific time period* (usually 3 years)



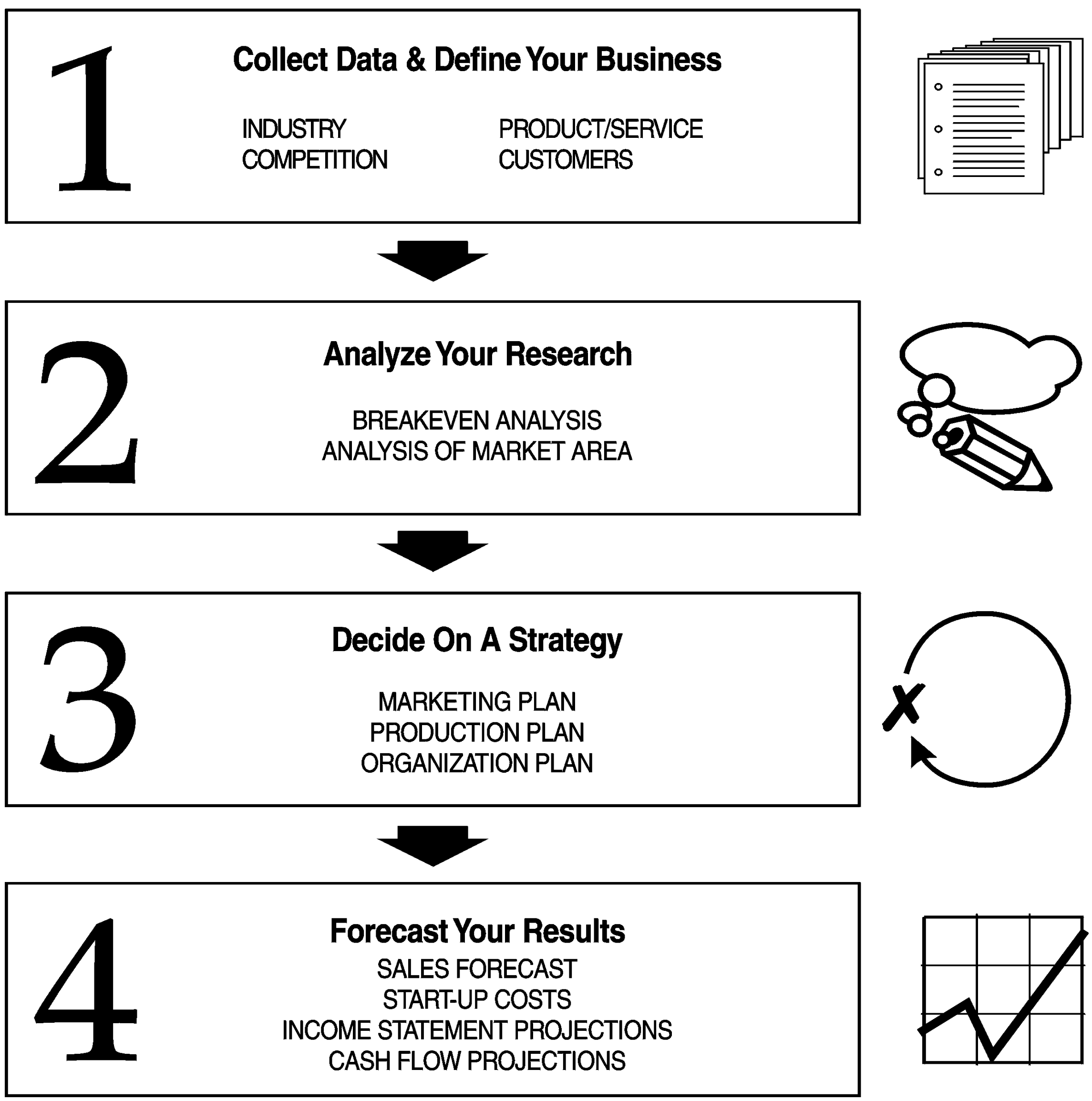
What is a Business Plan for?

- ❏ it alerts us to all the things which are crucial to a successful business.
- ❏ it forces us to make a lot of important decisions in advance, when there's plenty of time to think.
- ❏ it tests our own and our partners' commitment to a business.

- ❑ it gives us a chance to think an idea through, and to see if it can be turned into the facts and figures required by lenders.
- ❑ it permits us to make a $10,000 mistake and then erase it.

Many managers figure they are too busy with today's problems to worry about tomorrow's. To them, planning is a luxury which they just cannot afford. Wise entrepreneurs, by contrast, use planning to control the risks they decide to take. It is a necessity the business cannot do without. Entrepreneurs know it takes far less time and energy to plan than it does to face the future without a plan.

Making a business plan is a 4-step process.



Know Your Industry

What is an Industry?

An industry is a group of businesses which work and compete with one another to provide a certain range of products or services. A big industry may embrace a number of industrial segments. You could consider beverages, or even frozen fruit juices as segments of the food industry, for example. It is often hard to figure out what is an industry and what is not. For a decision, simply refer to the industrial classifications found in business directories and government statistics. Otherwise, let the businesses in question decide. If they have an industrial association or publish an industry journal, so be it.

Industries can be very complex. Generally, they consist of a several stages of production, distribution, and sale, ending with the end-user's consumption of a good or service. At each stage there are competing producers which other businesses supply with materials and services.

Industry Flow Chart

Materials ⇒ Raw Material Producer ⇐ Services
⇓
Distributor
⇓
Materials ⇒ Components Producer ⇐ Services
⇓
Distributor
⇓
Materials ⇒ Consumer Product Producer ⇐ Services
⇓
Distributor
⇓
Materials ⇒ Retailer ⇐ Services
⇓
Materials ⇒ Customer ⇐ Services
⇓

To define and plan your business you have to know where it fits industrially. In which industry (or industries) does it play a part? What part does it play?

Why study the industry?

Knowing your industry can spare you and your business a lot of time and money. You will be able to plan with a much clearer idea of the gaps which your business can fill. If you stay in touch, you will be able to adapt more readily to changes in your industry over the years. The industry in which you play a part is a valuable source of information about:

- ❑ current production techniques and new technology
- ❑ capital and equipment requirements, and standards of labour and productivity
- ❑ major influences and trend-setters in the industry
- ❑ new products or refinements
- ❑ methods and contacts in packaging, transportation, distribution; names and locations of agents and outlets
- ❑ availability and sources of material, supplies and services
- ❑ market trends and competition with other products, including imports

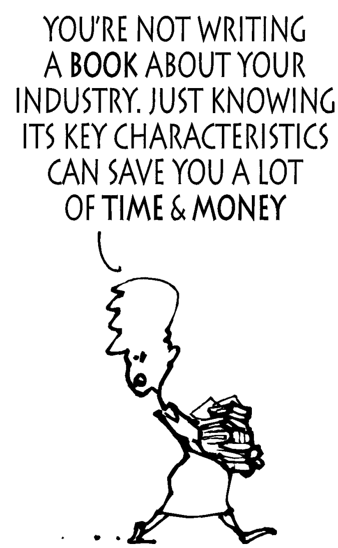
For sources of information about your industry, see page 74.

What information should you collect?

You are not trying to become an "industry expert," nor are you writing a book. Find out the key characteristics of the industry and focus your attention on their trends and outlook. Also gather information specific to your business' products, equipment, suppliers, and distributors.

Key characteristics

- ❑ the number, size, and position of businesses in the industry , particularly in the segment and region in which you will operate. Is the average size of firms rising, as ownership concentrates in fewer hands? Are lots of little firms springing up all over? Why?
- ❑ is the industry *capital-intensive:* does it require a lot of equipment and little labour? Is the industry *labour-intensive:* does it require a lot of labour and little equipment? Perhaps it is neither. Is new technology changing this relationship? How?
- ❑ what is "normal" in terms of delivery, payment, mark-ups or commissions?
- ❑ what is "normal" in terms of volume, waste, quality, and profit? Is this changing? What is the outlook for the industry?



Know Your Product or Service

What business are you in?

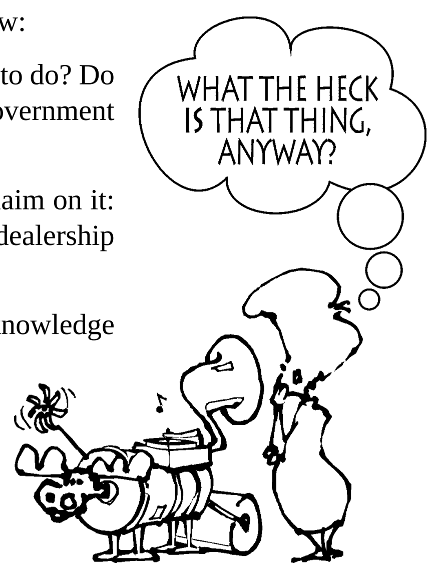
You cannot begin a business plan until you know exactly what your business is. You have to gather information, decide on the features of your product or service, and then describe them clearly. Your industry and market research may help you to decide which features are possible and will sell. You must know:

- ❏ Is it a product (something you make), a service (something you do), or a combination of the two?
- ❏ If it is a product, what does it look like? What will it do? What is its size and weight? What is it made of? How durable is it?
- ❏ If it is a service, what exactly are you offering to do for the customer, and for how long?
- ❏ What quality and guarantee will you provide for the product or service?
- ❏ Is the product or service subject to government regulation? If so, do you meet the standards?
- ❏ Is it a standard product or service, or will it be customized to buyers needs? (Will it come in a range of sizes and colours, for example?)
- ❏ How will it be packaged? Will it come with instructions? Will you install it and provide other help after sale?

What is the present state of the product/service?

To support the development of your business, people have to know where the proposed product or service is "at." They will want to know:

- ❏ Is the product ready to sell, or is there development work to do? Do you have a sample or prototype of the product? If government standards apply, have you received any official approval?
- ❏ Are you the owner of the product? Have you any legal claim on it: patents, copyrights, trademarks, franchise agreements, or dealership contracts (in process or finalized)?
- ❏ Have you special equipment, materials, licenses, or knowledge which are crucial to production and delivery?



What makes it competitive?

To gain and keep a market, your business will have to have something which sets it apart from the competition. Describe its advantages:

- ❑ qualities or characteristics which your product or service has, and competitors don't.
- ❑ additional services you will provide, which others don't.
- ❑ the likelihood that others can copy your special features.

For sources of information about products and services, see page 75.

Know Your Customers

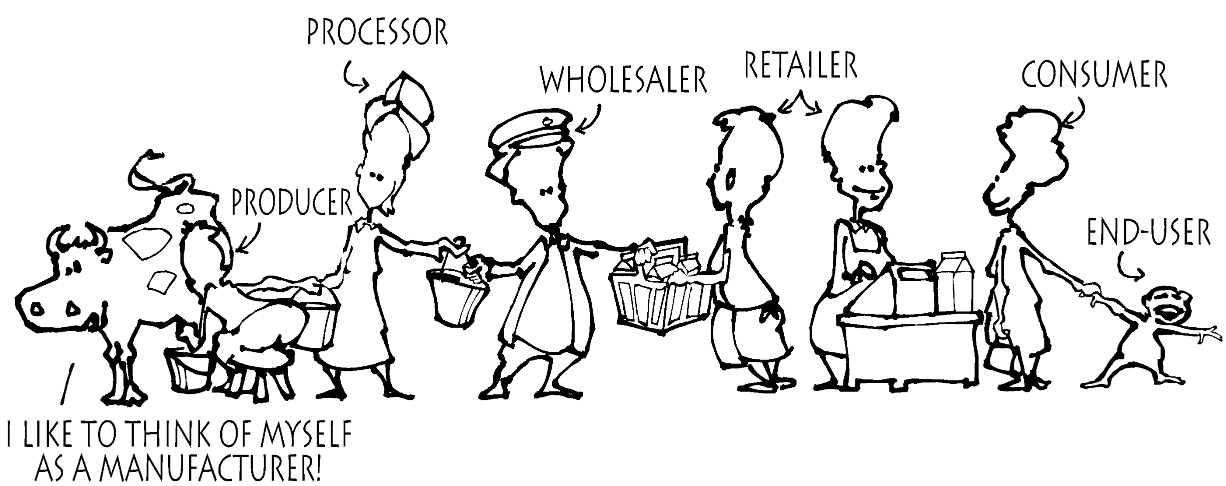
Who are you selling to?

Customers are those who decide to pay you for your product or service. They may not be the same as the *end-user,* who uses your product or receives your service. Are customer and end-user the same in your case? If not, design your product or service to suit the customer, but also keep the expectations and preferences of the end-user in mind.

Next, decide if you are selling to particular *institutions* (other businesses, public agencies, brokers, distributors) or to *consumers* (members of the general public). Who are your potential customers within the group? *When, where, why,* and *how* do they buy?

Institutional Customers

If you are selling to manufacturers, wholesalers, retailers, agencies, and other institutions, the list of potential customers is limited. Decide which type of institution would want your product/service. Then see how many exist in your market area and who they are. From this list, decide which ones would be.



- *primary customers:* large, frequent buyers which would give you the bulk of your business.
- *secondary customers:* consistent buyers of smaller volumes.
- incidental, infrequent, or low-volume customers.

For each group (especially the first), research *how much* they are likely to buy and *when.* Is their demand for the product or service stable, growing, or declining? *What are the most important qualities they look for in a product?*

- price?
- mark-up, profit potential, or commission?
- ability to deliver and time of delivery?
- product quality and reliability?
- packaging and promotion?
- follow-up services, guarantees, refund policy?

Find out how the purchasing procedure works:

- who makes the decision to purchase?
- do they base their decision on bids? If so, what are the rules for submitting a bid? How do you get on the bidders list?
- do they have several suppliers for each product, or just one?
- what is the minimum quantity they will order? How fast a delivery do they require? What happens if a supplier is not able to deliver enough, or to deliver in the time requested?
- what are the terms of sale and delivery? Do you get paid in advance, on delivery, after 30-60 days, or when the product sells? Who provides the promotional material, display hardware, and demonstration stock?

For sources of information about institutional customers, see page 75.

Consumers

Who buys/uses my product?

Know your product's ultimate purchasers and end-users—your consumers—whether you sell to institutions, or to the public directly. To deliver a product that will sell, you have to understand your consumers and their preferences. Dealers, distributors, retailers, etc. may be able to give you some pointers. You will have to do some initial research yourself, however. You may also want to re-check the market from time to time.

If you are selling to the public, you cannot list all the names of your potential customers, as you can with institutions. There are just too many people. Still, you can list the characteristics of that fraction of the public to which you are appealing. You will then be in a position to estimate how many potential customers you have in a particular area. Find out which characteristics a lot of your consumers will have in common:

- ❑ *Sex:* is the buyer/user usually male, female, or does it make no difference?
- ❑ *Age:* what age groups are likely to buy or use your product?
- ❑ *Economic status:* how well off are your consumers likely to be? what kinds of jobs will they hold down?
- ❑ *Ethnicity:* does the product appeal to persons from certain cultural backgrounds?
- ❑ *Lifestyle:* are your customers likely to be rural or urban residents? tenants or home-owners? sport-, music-, or art-lovers?
- ❑ *Education:* does the product require a certain level of education? Does it appeal to people with a certain level of education?

What are their buying habits?

You may find that you have several "types" of potential customers. How much and how frequently does each type buy? How numerous is each likely to be in your market area? In light of this information, try to classify each type as a primary or secondary customer.

Get to know the things which influence the customers' decision to buy. What do the customers look for in a product? When they are most likely to buy it? Where are they most likely to look for it? Do their buying habits change with age, income, family size, or some other factor?

Here are some common reasons for making a purchase:

- ❑ confidence in the product or seller
- ❑ quality of the product
- ❑ good selection of kinds, styles, colours, etc.
- ❑ service before and after sale
- ❑ price (under 15% of customers say "price" is an important factor)

Style, appearance or taste, convenience, durability, ease of use, special features, and availability may also influence the decision to buy.

Good customer research should pinpoint the features which customers look for in your type of product. You may also want to find out where they get their information about the product (TV? magazines? newspa-

pers?). How is their decision influenced by these advertisements and articles?

How many potential customers are there?

At this point, you should also start to define your market area, size, and trends. Estimate the number of each of type of customer in the areas you intend to serve. Find out whether this number is stable, growing, or getting smaller. This information may be based on general population figures, or on counts of people frequenting particular areas.

For sources of information about consumer research, see pages 76-80.

Know Your Competition

You will always have some competition. Too much competition is an unnecessary risk, of course. In this case, it may be better to undertake another venture. By and large, competition is *healthy* and *desirable,* even for a new venture. In fact, you should know your competitors at least as well as you know your customers.

In the words of one entrepreneur: “The rewards in business come from beating out the competition. The best way to do that is to know who they are and how they operate.” Unfortunately, many entrepreneurs never want to know much about their competition — until it is too late.

Who Are Your Competitors?

You have two types of competitors. *Direct* competitors are those who offer the same product or service which you offer. *Indirect* competitors provide products or services which can to some extent act as substitutes for yours.

For a chicken grower, for example, other chicken producers are direct competition. Meats and other protein sources are indirect competition.

Make a list of your competitors. Include their names, addresses, and the type of business they do. For your direct competitors, also make a note of any non-competing products and services which they may sell.

Analyzing the Competition

Make a list of the competitive businesses which have started up in the past year or two. Then list the competitors which have gone out of business in the same period. What are the reasons for these start-ups and failures? Is there a factor or situation which explains the optimism of the new businesses? Did the failed businesses have the benefit of that factor or situation?

Now estimate the sales and profits of each of your competitors. Rate them in terms of price, quality of product or service, facilities, advertising, promotion, and sales.

- ❑ what prices do they charge? What is the quality of their merchandise? How much advertising or promotion do they do?
- ❑ what extra services do they offer? Are their terms of sale liberal? is their location expensive, moderate, or cheap?
- ❑ are their production processes and equipment modern? Are their employees well-trained and well-paid?

Now try to figure out if there is some link between profits and methods of operation. Do the most profitable firms operate in a similar manner? Do you find that the prosperous firms have similar pricing, serving, selling, and production methods?

Compare Yourself with Your Competition

Having done all that preparation, you are now ready for the big question: how well does the business you propose stack up against the ones already in place?

List and explain the advantages which your products and services enjoy in terms of price, performance, quality, durability, visibility. Why will your method of operation be successful? Is it similar to that of the competition? If so, prove that you can apply the old method more efficiently or effectively than your competitors. If you cannot prove that, prove instead that the market is large enough to support everybody.

Perhaps you plan to operate in a manner completely different from that of the competition. Why is no-one else operating in this way? Have they not seen the opportunity? Do they know something which you don't?

Competitors Can Be An Asset

A short essay by Anthony Pellegrino

"If only I had no competition. Could I make a fortune!" Sound familiar? It should. It's probably the favourite daydream of every businessman. And daydream it should remain, for without competition there would be no challenge to improve products, services, and yourself.

The smart businessperson knows that competitors are the catalyst and the impetus that make him strive to do better. He has learned how to cash-in on his competitors. Here are a few ways you can make your competitors work for *you*.

1. Master your field. Learn all you can about the product, service,

industry you are involved in. Visit your competitor's display rooms, visit trade shows, join business associations, read professional journals. Learning is an endless activity, and the more you know about your business, the more confident you will be.

2. Pinpoint your competitor's weaknesses and strengths. You can learn of them by talking to his customers, testing his product yourself, reading his sales literature, and finding out what services he offers.

3. Pinpoint your weaknesses and strengths. How do they compare to your competitors? Are your services better? Is price your only advantage? Why should customers prefer you? Search out all facets and be honest with yourself.

4. Use competition as a lever. By knowing who and what your competition is and how it operates, you can use it to your advantage. You will be able to anticipate objections from customers who have seen competitors' products and prices. The fact that a customer knows about your competitors should be a buying signal to you. Use it wisely and you will get the order.

5. Increase your enthusiasm and self-confidence. Visit a competitor's store or display room and re-affirm your belief in the products and services you offer. An old friend once told me: "There's no better way to put *sell* into your business than to remind yourself from time to time just what it is you are selling. An excellent way to do this is to look over competitive products and see precisely how your own are superior."

6. Learn from your competitor's mistakes. By keeping your eyes and ears open, you learn of these mistakes. Get into the habit of asking yourself, "What lesson can I learn from his mistakes?"

7. Borrow ideas. Know the success patterns of your competitors, and don't be afraid to borrow the good points. You may even be able to improve on them with some of your own. Progress and profits are built by doing better than anyone else.

8. Never speak ill of your competitors as individuals or as businesses. Also, never knock their product. Acknowledge your competitors' existence, then proceed to show your customers the benefits of your product. Show him how your service is far superior. Your confidence and genuine enthusiasm will win the customer to your side. Concern yourself in how you can better help your customer. Bad-mouthing competitors only cheapens you.

There are other ways you can use your competition to your advantage.

The few mentioned above are intended to stimulate you into thinking about how to benefit from what appears as a disadvantage at first. A good motto to remember may be: "To do better what others do well."

Your average small businessman or -woman sees the competition simply as someone to take business away from. Instead, he or she should consider how they all can help the market grow.

When you take a few accounts away from competition, they take some away from you. Soon, all the competitors are doing is swapping accounts. Sales costs increase, emotions run high, and profits go down. It is senseless for small companies to fight among themselves when they have enough battles on their hands with all their other problems.

Small business operators are not professional enough about this. They usually hate their competitors' guts and, in many cases, will not even talk to them. This is stupid because emotions should never supersede good judgment.

When an industry becomes absorbed in fighting within itself over customers and market shares, it takes its eyes off the goal of industry growth which can best be achieved by customer-oriented rather than competition-oriented marketing. In plain words, spend more time in studying how to better service for your customers and how to expand the range of potential customers who are not currently using your services. Find ways to broaden the market. Do not spend time worrying about your competitors' customers. You should be building business, not destroying it.

A new look at your competitors along the lines described here will prove what successful businessmen have always known: competition, properly harnessed, can work for — not against — you. I once saw the following engraved on a plaque in the office of a business associate:

A SALUTE TO COMPETITORS

"My competitors do more for me than my friends do; my friends are too polite to point out my weaknesses, but my competitors go to great expense to advertise them.

My competitors are efficient, diligent and attentive; they force me to search for ways to improve my products and service.

My competitors would take my business away from me, if they could; this keeps me alert to hold what I have.

If I had no competitors, I would be lazy, incompetent, inattentive; I need the discipline they enforce upon me.

I salute my competitors; in the final analysis, they have been good to me. God bless them!"

To study your competition, the sources of information and methods are very similar to those you use to research your industry and customers. The main difference is that many competitors will find your inquiries threatening. You will therefore have to do your work more discretely. See page 81.

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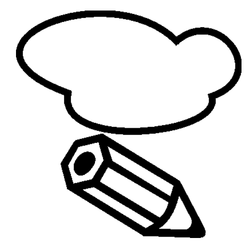
The Business Plan: Step 2

Analyzing Your Business Research



By now you have done the basic data-gathering and research on your industry, product, customers, and competition. It is time for a "quick and dirty" assessment of your proposed business: the *preliminary analysis*. In light of the information at hand, is the business likely to succeed? This is a good thing to know before you go to all the trouble of detailed business planning. This may also be an opportunity to pinpoint weaknesses in your proposal. You then might be able to set matters right with some further research, or by re-defining your product or market.

Keep in mind that the preliminary analysis is just a brief test of your business proposal. It is no substitute for the detailed *Forecast of Results* which is Step 4 of your business planning. That step involves sales forecasts, projected profit and loss statements, and a detailed projection of cash flow.

The preliminary analysis has two parts. *Breakeven analysis* looks at the level of business needed to make a profit. *Market analysis* looks at the ability of your market to support sales of your product.

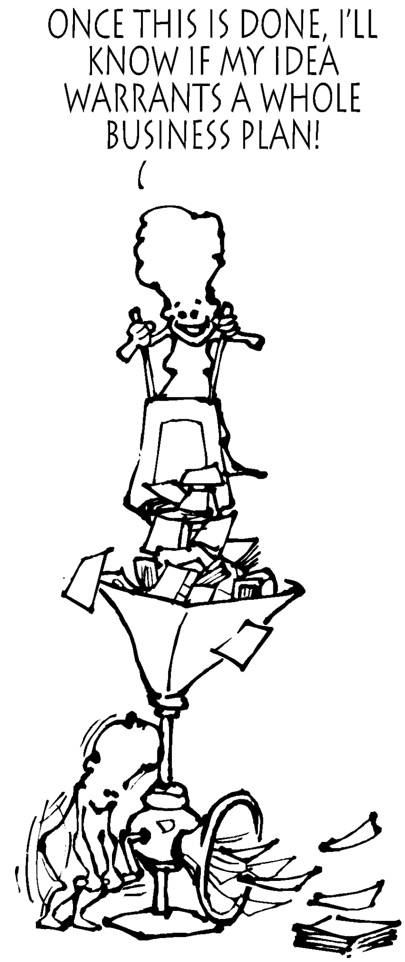
Breakeven Analysis

This is where your calculate *how much you have to sell to make a profit.* You base it on rough, but realistic estimates of costs which your product and industry research have lead you to expect. You need to estimate:

1. **Gross profit (contribution) per unit sold**: the difference between what you expect to sell the product for (the price) and the cost of buying or producing it. The cost of the product includes:

- ❑ the purchase price of raw materials and other items you bought in order to make the product.

- the cost of packaging and shipping.
- the cost of the labour needed to produce the item or to provide the service sold (the *cost of labour per unit*).



To get the cost of labour per unit, you may have to take the cost of a batch then divide by the number of units in the batch.

For example: 6 people at $100 per day are expected to produce 50 units, so the unit labour cost is $600 divided by 50, or $12.

If you are re-selling items which you have bought, the profit per unit depends on your mark-up.

For example: your mark-up is 40% on each item. In other words, what you buy for $1, you sell for $1.40. Your "gross" profit is 40 divided by 140, or 28.6 cents for every dollar of goods sold. Your units can be dollars of sales. (We say that is your "gross" profit per unit because you have yet to subtract the costs of labour, packaging, etc. to find your "net" profit.)

2. **Fixed Costs**: the underlying costs of being in business, even if you don't sell anything. Estimate them for a specific period (usually a year). Then you will know how much you will have to sell over that period to be profitable.

Fixed costs include:

- management salaries
- overhead costs (fuel, maintenance, repairs, rental of facilities and equipment)
- the estimated annual cost of your plant and equipment (projected total cost divided by years of life). This is also known as *depreciation.*

3. **Breakeven Volume**: the volume of business needed to cover fixed costs. To find the breakeven volume, divide total annual fixed costs by the gross profit per unit. If you sell more than this you will make a profit. (Your profit will equal the profit per unit, times the number of units you sold above the breakeven point.) If you sell less, you will have a loss.

You can use the same formula to find the estimated profit or loss at other volume levels. Then you can draw a graph to show the impact of the volume of sales on the business.

AN EXAMPLE

A small manufacturer of leather gloves makes the following estimate:

- leather and fittings are $5 per pair
- a production crew of 5 earning a total of $450 per day will produce 100 pairs of gloves ($4.50 per pair)

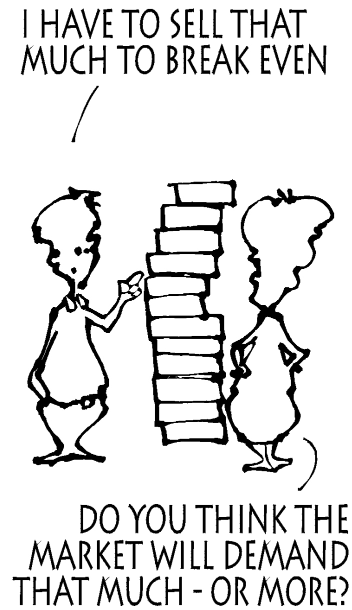
- ❑ packaging and shipping will be 50 cents a pair

Unit cost is $5 + $4.50 + $.50 = $10 per pair

- ❑ if the gloves sell for $15, the gross profit per pair is $5
- ❑ the equipment costs $75,000 and should last 10 years.
  Annual cost = $7,500
- ❑ annual costs for rent, a manager, a bookkeeper, and other overheads are estimated at $80,000

Breakeven volume is $87,500 divided by $5, or 17,500 pairs of gloves per year.

Sales of 20,000 pairs would mean 20,000 - 17,500 = 2,500 pairs over breakeven. 2,500 times 5 = $12,500 profit
Sales of 16,000 pairs would mean 17,500 - 16,000 = 1,500 pairs under breakeven. 1,500 times 5 = $7,500 loss



Market Size Analysis

In this section, you will estimate the demand you can expect for your product or service. The analysis is based on the information you gathered in your market research. There are four steps to market analysis.

1. Define the *geographical area* in which you intend to do your selling. Be specific. Limit your market to the areas (census units, political divisions) for which you actually gathered information. After the market analysis you may want to increase or decrease the size of the market area.
2. Estimate the market's *size* (the amount you could possibly sell in the market area in one year). You can do this in one of two ways:

- ❑ start with your different types of potential customers. Find out how many there are of each type in the market area you defined. Estimate the purchases (in units or $) you might expect such-and-such a customer to make in a year. Multiply that figure by the number of customers of that type. Add together the estimated sales for each type to get the total market size. If you are selling to institutional customers whom you can list by name, the whole process is much easier. Simply total the purchases you might expect from each customer.

- ❑ start with research data which describes the spending habits of different sorts of people on recreation supplies, hardware, kitchenware, etc. Find out how much your potential customers spend on the category into which your product falls. Then estimate how much of that spending is likely to be for your type of product.

To this point, many of your figures may in the form of percentages. Use your data on the income of your potential customers to convert these percentages into dollars. Total the estimated amounts which each group of potential customers might spend on your type of product. The final figure will be your total market size.

AN EXAMPLE

The leather glove manufacturer intends to sell in northern British Columbia. Secondary research on population shows that there are 25,000 families in this part of B.C. with incomes over $40,000 per year. 50,000 have incomes of $20-$40,000. 40,000 families have an income of less than $20,000.

Other research has shown that those with over $40,000 in income buy 1 pair per year. The middle-income group buys on average 1 pair every 3 years. Just 10% of low-income families buy leather gloves, and at a rate of only one pair every 5 years.

The estimated market (in pairs bought per year) is:

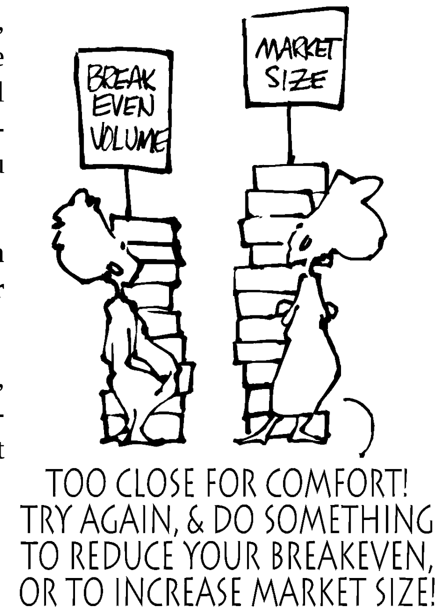
High Income	25,000
Middle Income (50,000 divided by 3)	16,667
Low Income (40,000 divided by 10 = 4000, 4000 divided by 5)	800
Total Estimated market	42,500

3. You have your market area and annual market size. Now you can assess market *trends:* the change in the size of your market over the next few years.

What rate of growth in your market did your research lead you to expect? If it was 3% in 5 years, multiply your market size by a factor of 1.03 (that is, the market in 5 years will be 103% of what it is this year). If you expect a growth rate of 11.5%, multiply your estimated market size by 1.15. Note that rates of growth may differ between different types of customer and different geographical areas.

4. Make a reasonable guess of the *share* of the market which your business can expect to command.

Look at the number and size of the businesses competing for your market (including yourself). If you have 4 competitors which are about your size, don't expect to get more than 1/5 or 20% of the market. If some competitors are larger, adjust for that in your estimate. Your potential share may also vary by customer type or area. Finally, apply this percentage to the market size which you calculated in Step 2. That will give you an estimate of your *potential market* in dollars.



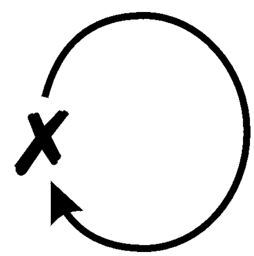
Compare your potential market with the breakeven volume which you calculated earlier. Be sure there is potential for growth for your business.

If there is a lack of potential, go back and review your estimates of prices, costs, and market areas. Make what changes you can. Repeat the preliminary analysis. If you still get an unfavourable result, your business is not likely to succeed.

8

The Business Plan: Step 3

Deciding on a Strategy



In the preceding section you got a rough idea of *what* your business can achieve. You found, hopefully, that there is a market to which you can sell your products and services. Now you must decide *how* you are going to make this achievement. How can you operate your business so that you actually capture your potential share of the market?

As you draw up your strategy, take in account the decisions which you made during the preliminary analysis. If, for instance, you decided that you will sell through wholesalers, you will now explain how and why you are going to do so.

There are many topics which can be included in this section. To simplify matters, the most common ones have been put into four groups. First, you need to complete a general marketing plan. (How will you sell your products and services?) Second, determine your production plan. (How will you make or obtain your products and services?) Third, decide on an organizational plan. (What actions must be taken? Who shall do what?) You then make up a schedule for carrying these plans out, or whatever contingency plans you have in case of problems.

Over-all Marketing Strategy

To begin, briefly describe your over-all approach to selling your product or service. What image do you want to convey to potential buyers? Different businesses will use different approaches. As you plan, you may take into consideration a number of factors. Among the most critical are location, selling and distribution, servicing, warranties, packaging, advertising, pricing, are credit. Once this is done, briefly explain why you chose that particular over-all strategy.

LOCATION

If you found in your market research that location is important to the success of businesses in your market, discuss your choice of location. (If location is not important, simply deal with it in the Production Plan.) Discuss the effect of location on your business. Describe the location you chose, and explain how you made the selection.

SELLING AND DISTRIBUTION

Describe the methods you will use to sell and distribute your product or service. Will the company use its own sales persons? or will it use sales representatives and distributors? If you plan to use the latter, describe how they will be selected, when they will start, and the areas which they will cover. Explain your sales strategy in as much detail as you can.

SERVICING, WARRANTIES, AND PACKAGING

Although this section applies mainly to products, it may be important to certain services as well. Describe the importance of servicing or warranties to your product. How do you intend to handle servicing problems? What do you plan to charge for service calls? Will service be a profitable or a breakeven operation? Describe the kind and term of any warranties to be offered. Will service will be handled by your company's servicemen, by agencies, dealers, distributors, or by returning things to the factory?

Packaging may be required to protect the product during distribution, or to help sell it at point-of-purchase. Describe the packaging program.

ADVERTISING AND PROMOTION

Describe the ways you will use to bring your products or services to the attention of potential customers. Outline your plans for participating in trade shows, for radio, print, or TV ads, for direct mailings. How do you plan to prepare and distribute promotional literature? If you have a promotional campaign in mind, present its schedule and costs. Include any free publicity which you will create, and how you intend to do it. If advertising will be a big part of your company expenses, show how and when you will incur these costs.

PRICING

Pricing your product or service right is one of the most important decisions you will have to make. Your price will have to enable you to make a profit, penetrate the market, keep up with the competition, and pay yourself and employees. In short, your price will keep you in business. Discuss the price(s) to be charged for your product or service. Compare your pricing with that of your competition. Is the margin between price and costs large enough to give you a profit, but small enough to make you competitive?

Explain how the price you set will enable you to :

- ❏ get the product or service accepted.
- ❏ maintain and increase your market share in the face of competition.
- ❏ produce profits

Justify any price increases over your competitor's items. If you intend to charge a lower price than your competitor, explain how you will do this and still maintain a profit. (Your advantage may lie in lower labour costs, lower overhead, or lower material costs.) Describe any discount you intend to offer for prompt payment or for purchases of large volumes. If you plan to offer credit, explain the terms.

Production Plan

LOCATION AND FACILITIES

For some businesses, the location is the single most important consideration. For others, location is significant, but not of overriding importance. For a few businesses, location is unimportant, so the lowest-priced location is acceptable.

To determine your location, first decide what is important in your site selection. (Must it be close to a highway, railway, or school playground?) Next, compile a list of possible sites. Screen out all the ones which are obviously inadequate. (Zoning, the state or the cost of the site may disqualify some of the options). Finally, make a choice after a study of the sites remaining on your list.

PRODUCTION METHODS AND EQUIPMENT

This element of the Production Plan describes the actual process you will use to make your product. Briefly explain the whole process, then supply a detailed description of the steps, equipment, and people involved. For some businesses, it may be a good idea to specify the time which each step takes. You may also find that a chart is a good way to explain your process of production.

MATERIALS AND SOURCES OF SUPPLY

List the materials you will require for production, and where you intend to obtain them. Where appropriate, you should list several suppliers. For the more common materials, there is no need to be specific about the supplier. If you will require nuts and bolts, a reference to "hardware store" is enough.

Organizational Plan

FORM OF BUSINESS ORGANIZATION

Is your firm a sole proprietorship, a partnership, or a limited liability company? Explain your choice of organization.

KEY PERSONNEL

Name the key employees in your business, their positions, and qualifications. You may wish to attach a r)sum) for each, in addition to a short explanation of the person's accomplishments, failures, and suitability for his/her position. If the business is a company, identify the directors and list their qualifications as well. Include job descriptions which define each person's duties and responsibilities. If the firm is large, established one, add an organizational chart.

MANAGEMENT ASSISTANCE AND TRAINING NEEDS

Describe the strengths and weaknesses of hour management team. Discuss how you intend to compensate for any weaknesses or lack of experience and skills. Supply details of the kind, extent, and timing of any management or technical training that your business may require during its first 3 years.

COMPENSATION AND OWNERSHIP

What salary is to be paid to each key person? How does it compare with the last salary he/she received? If your business is to be a partnership or a company, what share of the ownership shall the key personnel have? If your business is a company, have you in mind any share options or bonus plans for good performance?

STAFFING PLAN AND NUMBER OF EMPLOYEES

List the type and number of employees which you intend to hire. Will they be part-time or full-time? Describe your staffing plan for the next two years. Remember, this list does not include management personnel.

SUPPORTING PROFESSIONAL SERVICES

List the legal, accounting, advertising, banking, consulting, and other professional services which you will make use of. Describe their qualifications, your reasons for selecting them, and the specific tasks which they will do.

Over-all Strategy and Plans

Prepare a schedule to explain the major steps which you will take to start your business, when you will take them, and how they interconnect. First list your objectives, and outline the steps you will take to reach them. Your list may start with "completing my business plan," "making my first sale," or "incorporation," and end with your third or fifth year of business. Show the deadlines for each objective, but try to be realistic.

Critical Risks and Assumptions

Your last task is to think of some the risks and problems which you may encounter as your business proceeds. Discuss their probability, the damage they could cause, and the measures you will take to prevent or overcome them.

Try to limit yourself to problems over which you can have some control. "Economic recession," for example, is a very real risk for everyone, but not one which your plant can tackle. On the other hand, your business may be one which is more sensitive than most to such uncontrollable factors. Falling tariff barriers in your industry may be something which you should take into account in your contingency plan, for example.

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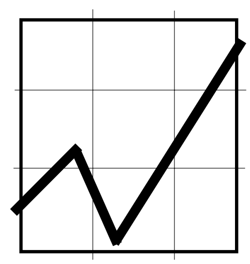
The Business Plan: Step 4

Forecasting Your Results



Having completed the business plan decision-making process, we are in a position to assess the implications of all our decisions. We will now be able to estimate the impact of our decisions, measured in terms of dollars. This will tell us how viable this business is likely to be.

Operating businesses measure the success of their performance with *financial statements.* These are produced by an *accounting system* which records information about the financial impact of an action, like selling an item, paying a bill, or ordering more material. The money involved in every action is recorded twice, once as a debit and once as a credit, so debits and credits must always be equal. This process of checks and balances is known as *double-entry bookkeeping,* and it ensures that the information reported in the statements is accurate.

To project the expected results of a business plan, bookkeeping or an accounting system are not necessary, but an understanding of financial statements is. Later, as the business gets established, an accounting system will be required to produce the regular financial statements which owners and managers use to trace the business' performance. A new business often uses an accountant or a business services firm to set these up. Several computer systems now available make this job quite easy.

Results are projected in the form of financial statements because:

- ❏ they provide the type of information which accurately describes how well a business is doing.
- ❏ the financial institutions you may wish to approach for funding understand this format and expect it.
- ❏ they make it easy to compare actual results to plans once the business gets started.

What are financial statements?

Financial statements are reports (mostly numbers) which describe the performance and status of a business. There are three common statements which are related but serve different purposes.

THE BALANCE SHEET

The balance sheet is a report which summarizes the overall financial status of a business at *one point in time*. It shows what the business has or is owed (*assets*) and what it owes to others (*liabilities*), including a measure of what is owed to the owners (*equity*). This is the most accurate measure of what the business is actually worth. It is called a balance sheet because *assets must equal liabilities.* Think of it this way: if you had all your assets in cash and paid off all your debts, the remainder (the equity) would be the amount the business owed to you.

THE INCOME STATEMENT (or PROFIT & LOSS STATEMENT)

This type of report shows the total earned (*profit*) or lost by a business in its operations and sales *over a period of time* (a month or year, for example) after subtracting the costs of operation. The profits for that period show up as an increase in the owner's equity on the balance sheet. *Revenue* from the sale of products and the *expense* of producing and selling those products are included *even if they have not been paid for yet.*

FINANCIAL STATEMENTS ENABLE YOU (& OTHERS) TO TAKE THE PULSE OF YOUR BUSINESS

THE CASH FLOW STATEMENT

Like the income statement, the cash flow statement shows how *cash* was used by the business over a period of time. It reports all the *sources* of cash, including cash sales and collections on credit sales, loan proceeds received, capital invested by owners, and proceeds from sale of assets. It also reports all the *uses* of cash: paying for shipments of inventory or supplies, paying wages and bills, buying equipment, making loan payments, and dividends or withdrawals for owners, for example. The cash flow statement shows the change that takes place in the company's current account at the bank, which is reflected on the balance sheet.

What do the financial statements contain?

Balance Sheet

ASSETS

Those possessions of the business which can be turned into cash fairly quickly are called *current assets.* They include:

- ❑ cash and bank accounts

- ❑ term deposits and investments
- ❑ accounts receivable (money owed on credit sales)
- ❑ some inventory (raw materials, products which are ready to sell)

Long-term or *fixed assets* are items of value which can really only be turned into cash if all or part of the business were to be closed and they were sold. This includes:

- ❑ land and buildings
- ❑ equipment
- ❑ some special start-up costs, like a franchise fee

(Note: these items are valued at their cost less an annual charge called *depreciation.* Depreciation is entered as an expense on the income statement. It spreads the cost of the equipment over the number of years .)

LIABILITIES

Money which the business owes to others and must be paid back in the near future are called *current liabilities.* They include:

- ❑ accounts payable (bills for goods and services purchased on account by the business; unpaid wages; deductions and employer payments to Revenue Canada)
- ❑ short-term loans and lines of credit

Long-term liabilities are loans which are paid off over a number of years, like a mortgage. *Equity* is the net value of the business to the owners. Equity reflects capital invested by owners, grants requiring no repayment, and accumulated net profits or losses from the income statements. Equity is reduced by any withdrawals the owners make (other than wages paid on the income statement) or dividends paid.

Income Statement

The items on this statement resemble those found in breakeven analysis.

REVENUE

The value of goods and services shipped and sold during the period in question, whether sold on a cash or credit basis.

COST OF GOODS SOLD

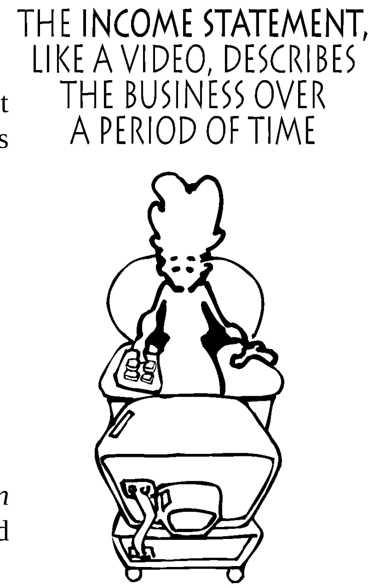
The *direct* costs (as in the breakeven analysis) including the purchase price of materials, direct production wages, packaging and shipping costs, and selling costs, like commissions. These are the costs of the same items reported sold in revenue. The cost of goods sold is often determined as a percentage cost of sales.

REVENUE less the COST OF GOODS SOLD equals GROSS PROFIT

OVERHEAD EXPENSES

These include the fixed expenses noted in the breakeven analysis. It includes all costs not included in the cost of goods sold. Typical items include:

- ❑ rent of facilities
- ❑ utilities, telephone, and maintenance costs
- ❑ advertising, travel, and professional services
- ❑ management and other non-production wages
- ❑ insurance and licence fees



Two special overhead expenses to be remembered are the *depreciation allowance* (calculated to pay for equipment over time) and the *interest* paid on all loans (including the interest portion of regular mortgage payments).

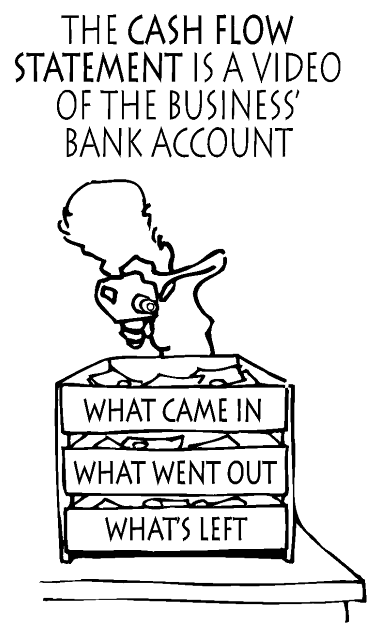
GROSS PROFIT less OVERHEAD EXPENSES equals NET (before tax) PROFIT

Cash Flow Statement

CASH IN

Includes all cash received by the business including:

- ❑ cash sales
- ❑ payments on credit sales
- ❑ loan proceeds received
- ❑ grants received
- ❑ capital provided by owners
- ❑ proceeds from sale of assets



CASH OUT

Includes all uses of cash (or cheques) by the business such as:

- ❑ payments for all operating costs (wages, supplies, and services)
- ❑ payments for land, buildings, and equipment purchased
- ❑ payments on loans (principal and interest)
- ❑ payments to owners

CASH IN less CASH OUT equals NET CASH FLOW

The *net cash flow* is a measure of how much the current account grows or is depleted during the period.

CUMULATIVE CASH FLOW

Sometimes the net flow from each period is added to a previous cash balance to reflect the actual balance of the current account. This calculation can help you decide how to use surplus cash or to negotiate a temporary line of credit with the bank.

Making Projections

To create a set of projected financial statements for your business plan, you must do the following:

The tables in this chapter display the calculations made by an entrepreneur with the help of a common computer spreadsheet program. The entrepreneur is from a northern (but not isolated) community, and is thinking about establishing a 30-room motel with a licensed restaurant and gift shop. Comments about each spreadsheet are found in the margin, with key figures written in **boldface.**

- ❏ Estimate *start-up* costs (the money which will have to be spent before the business begins to operate) and identify sources of finance to meet these costs. You can also calculate expected interest and depreciation costs with this information.
- ❏ Develop a *sales forecast* which describes the dollar value of sales expected per month for each product or product group you are selling.
- ❏ Prepare an *income statement* by calculating the cost of the goods you expect to sell, recording expected overhead costs, and adding in depreciation and interest
- ❏ Record the impact of credit sales, purchases on account, and unusual inventory build-ups on the *Cash Flow Statement.* Note that no new information is required here except information about when things will be paid. In most cases, this only way to move a number to the following month.

This process can be done by hand, but computer models can eliminate a lot of the tedious calculation and allow you simply to enter the information required. Using a computer model ensures quality of calculation and presentation. It also allows you swiftly to recalculate on the basis of changed assumptions.

The discussion on the pages following is based on such a model. While the projections in this section are mainly numbers, numbers are only as good as the information on which they are based. Anyone can enter numbers that will make the business look good, but bankers and others will expect these numbers to be supported by solid facts. Note how the financial projections which follow are usually accompanied by explanations of the assumptions and information from which the numbers derive. Often these refer to sections of the business plan which describe in detail what is being done.

Table 1: Start-up Costs and Financing

STARTUP & FINANCING

1

Name of Business : TEST MOTEL

START-UP COSTS	Cost	Est Life (years)	Month Dep. $
A. Land	25,000	---	---
B. Building(s)	300,000	10	2,500
C. Equipment		0	0
30 Room Furnishings	210,000	5	3,500
Kitchen/Dining Room	75,000	10	625
Vehicles	45,000	5	750
D. Furniture & Fixtures	15,000	5	250
E. Leasehold Improvements		0	0
F. Other Assets		0	0
G. Other			
1. Organization Costs	15,000	---	---
2.		---	---
3.		---	---
4.		---	---
H. Inventory	25,000	---	---
I. Working Capital	25,000	(S/B) --	25,000

AMOUNT 500,000		
INTERES	12.5 % /YR	0.01042 / MONTH
TERM	5 YEAR(S)	60 MONTHS

PAYMENT 11,249 / MONTH <=========

PERIOD	AVERAGE INTEREST	AVERAGE PRINCIPL	TOTAL INTEREST	BALANCE OWING (END)
OPENING	---	---	---	500,000
YEAR 1	4,850	6,399	58,200	423,212
YEAR 2	4,003	7,246	48,036	336,260
YEAR 3	3,043	8,206	36,516	237,788
FULL TE	2,916	8,333	174,940	---

SOURCES OF FINANCING

Grants	Amount

TOTAL START-UP COSTS: 735,000

Equity	Amount
	235,000

TOTAL SOURCE FINANCING: 735,000

Debt	Amount	Year 1	Year 2	Year 3
Loan Balance	500,000	---	---	---
Interest Rate (annual)	12.50	---	---	---
Term (years)	5	---	---	---
Monthly Principle	---	6,399	7,246	8,206
Monthly Interest	---	4,850	4,003	3,043
Monthly Payment (total)	---	11,249	11,249	11,249

Product Information	% CGS	Price	Inc yr2	Inc Yr3	Labour*
Room Rentals	9.1%	$65.00	10.0%	5.0%	18.2%
Meals	35.0%	$12.00	10.0%	10.0%	30.0%
Shop Sales	65.0%	$1.00	10.0%	5.0%	15.0%
Liquor	50.0%	$1.00	10.0%	10.0%	20.0%

* Use a % of price for direct labour if known This is seperate from other costs of goods

Other Constants					
			Employee Benefit		12.0%
Credit Sales/Purchases	15.0%	30%			
Overhead Cost Increase			5.0%	5.0%	

Start-up Costs & Financing (Table 1)

Costs of Establishing the Business

The first step is to record the costs involved in setting up the business. Estimate the costs of *land, buildings, and equipment* (or renovations to leased premises), given the decisions recorded in the "Location and Facilities" and "Production Methods and Equipment" sections of the business plan. Base these estimates on specific quotes from suppliers. Categories of equipment can be summarized but should be supported by a detailed list. For each category of building or equipment we must also estimate how long we expect the item to remain productive. (Buildings can remain productive 15-20 years; equipment, usually 5-10 years.) This figure enables you to calculate *depreciation*, the regular monthly charge allowed to eventually replace the asset. *Monthly depreciation* is calculated by dividing the cost of the item by the number of months of expected useful life.

Next, record any costs associated with establishing the business *organization* which are not related to material assets. This can include legal costs for incorporation, special research for product or market development, franchise fees, or the price paid for an existing business *beyond the value of that business' assets.*

Now record the cost of stocking an *inventory* of raw materials or goods to be sold. The basis for this projection is usually around one month's supply, but can be more or less for specific kinds of businesses.

Finally, estimate how much *working capital* (cash reserves in the bank) the business will require to survive during start-up and other slow business periods, and while waiting for payment on sales. The amount required varies greatly from business to business. It is especially dependent on the effect of credit sales and purchases. A rough rule of thumb is 2-3 months of operating costs. The cash flow which you calculate later will give a more accurate picture of the level of working capital needed.

Total these costs to find the amount of financing that is required to start the business. Think of this as the balance sheet of the business before operations begin. Financing, whether from owners or from loans, must obviously equal the sum of all these start-up requirements.

In the spreadsheet on page 60, the entrepreneur's research indicates that the land required will cost **$25,000**. *The motel and restaurant building will cost* **$300,000** *to construct and should be depreciated over 10 years. Furniture and decorating for each of the 30 rooms will cost* **$7,000** *and will last 5 years. Kitchen equipment, two vehicles, and other furnishings are also required.*

Preliminary legal and marketing work to establish the business will require **$15,000**. **$25,000** *will be needed for supplies, and another* **$25,000** *in cash for daily operations.*

With respect to finances, the entrepreneur expects to be able to come up with **$235,000** *of the* **$735,000** *needed to start the business. The entrepreneur has begun discussions with a financial institution about providing a mortgage on the developed property for* **$500,000**. *It will be a 5-year mortgage with interest at 12.5% annually.*

Sources of Financing

The money required to establish the business must come from one or more of three sources: *grants* from government programs or organizations, *equity* contributions of the owners, or *loans* from a financial organization.

First list any grants that are expected. These should be fairly firm commitments, not just funds you hope to receive. These are funds which are not to be repaid under any conditions. They become part of the owner's equity in the business, although those providing grants may also want to see contributions of personal equity as well.

Then describe the equity that owners will contribute to the business. This can take the form of cash or contributed land, buildings, or equipment, valued at the cost listed in the previous section.

The remainder of the total funds needed will have to be borrowed and repaid with interest. Initial discussions with financial institutions will be required to get a commitment to the necessary funds and to establish the conditions of the loan. For loans, indicate the *amount* to be borrowed, the *interest rate* to be charged, and the *term* (number of years) over which the loan will be fully repaid. From this information, you or the computer can calculate the monthly payment of principal and interest.

At the bottom of the spreadsheet on page 60, the entrepreneur estimates an average room rate of **$65**. *Actual direct costs to maintain and provide services to a room are* **$6** *or 9.1% of the room rate. Direct material costs for meals, shop sales, and liquor sales will be* **35%**, **65%**, *and* **50%** *of the selling price of those products. The entrepreneur has also calculated the cost of direct labour as a percentage of product sales, and estimated increases in sales and costs in the 2nd and 3rd years of operation as well as the percentage of sales and costs which will be on 30-day credit.*

Assumptions

This is also the point at which to define and list some of the assumptions on which the calculations are based. The use of a computer model makes this procedure a lot easier. Assumptions could include:

- information about each product or product category. One might state assumptions about the percentage of the sales price that is consumed by direct material or labour costs; the price of the product; or expected increases in sales in the second and third years of operation.
- the percentage of sales or purchases that will be made on credit.
- the percentage of wages to be paid for employee benefits (like vacations, health care, UIC, CPP, etc.) or anticipated increases in overhead costs in the coming years.

The Sales Forecast (Table 2)

This section is the most difficult. It is also crucial to the business' financial projections. There is no clear right or wrong amount (only a *best educated guess*) but the numbers chosen will have a great impact of the projected viability of the business. Estimate expected monthly sales on the basis of the most solid information your research uncovered about customers, market size, and potential market share, given the competition. The uncertainty of these projections makes it all the more important to be clear about the assumptions used to develop them. It is then possible to reconsider the assumptions, make adjustments, and revise projections accordingly. Again, this whole procedure is a whole lot faster and easier if a computer is doing all the arithmetic.

On the basis of customer research, the entrepreneur defined two customers—the guest who stays at the motel and the guest who only drops in for a meal or meeting. (See the spreadsheet on page 63.) For each type the entrepreneur determined how much the average person will spend on meals, at the shop, and on liquor each day.

A separate sales forecast is done for each unique product or group of products that the business intends to sell. For each, estimate the likely number of primary and secondary customers, how much they are likely to spend on average, and the price you expect to charge. From these figures you can estimate the likely sales of the product. It is sometimes easiest to do this for an average month and then increase or decrease the estimate to allow for busy seasons of the year. The first 3-6 months of operation are usually a time of building up to the market potential. It is therefore a good idea to reduce the expected sales in the first few months, and increase it gradually as the business gets established over time.

Having researched the market and competition, the entrepreneur estimates a likely average number of room guests **(15-22)** *and visitors* **(20-30)** *for each month of the year. Estimates are also made of the number of days the motel will be open for business each month, and the length of an annual vacation and maintenance period. The entrepreneur multiplies the number of guests by the days open and the amount they will spend on each item, in order to estimate the monthly sales of each product.*

Compare estimated sales to the potential market share identified in Chapter 7 (“Analyzing Your Business Idea”) to ensure that you still have plenty of room to expand. In addition, ensure that the sales are in agreement with your capacity to produce and deliver. The general rule is to be conservative and underestimate, rather than optimistic.

For businesses which have institutional customers or sell through distributors, try to secure firm orders or letters of intent indicating the expected volume of sales for that customer. The more firm commitments you have to support your sales estimates, the greater your credibility.

Note that these sales figures are not based on when the product is paid for. They are based on when the sale is complete, the product or service delivered, and a bill written. Payment for sales is dealt with under Cash Flow.

Table 2: The Sales Forecast

>>>> FORECAST >> 2

Assumptions and Variables

	Average Unit Purchase				Employees		
	Room Ren	Meals	Shop Sal	Liquor	Number	Hrs/day	Ave Wage
					1	8	$11.00
					1	8	$10.00
Cus1	1	1.5	$5.00	$4.00	1	8	$12.00
Cus2		1.0	$1.00	$6.00			
					Capacity	30	

TEST MOTEL — SALES FORECAST — Year 1

	Room Ren	Meals	Shop Sal	Liquor	Total	Unit Volume: Room Ren	Meals	Shop Sal	Liquor	Days Ope	Guests	Visitors
MONTH 1	29,250	15,300	2,850	5,400	52,800	450	1,275	2,850	5,400	30	15	20
MONTH 2	40,300	22,320	4,030	8,060	74,710	620	1,860	4,030	8,060	31	20	30
MONTH 3	44,330	23,436	4,340	8,308	80,414	682	1,953	4,340	8,308	31	22	30
MONTH 4	33,150	18,180	3,300	6,540	61,170	510	1,515	3,300	6,540	30	17	25
MONTH 5	30,225	15,810	2,945	5,580	54,560	465	1,318	2,945	5,580	31	15	20
MONTH 6	29,250	15,300	2,850	5,400	52,800	450	1,275	2,850	5,400	30	15	20
MONTH 7	14,625	7,650	1,425	2,700	26,400	225	638	1,425	2,700	15	15	20
MONTH 8	14,625	7,650	1,425	2,700	26,400	225	638	1,425	2,700	15	15	20
MONTH 9	27,300	14,280	2,660	5,040	49,280	420	1,190	2,660	5,040	28	15	20
MONTH 10	40,300	20,460	3,875	7,130	71,765	620	1,705	3,875	7,130	31	20	25
MONTH 11	42,900	22,680	4,200	8,040	77,820	660	1,890	4,200	8,040	30	22	30
MONTH 12	44,330	23,436	4,340	8,308	80,414	682	1,953	4,340	8,308	31	22	30
Totals	390,585	206,502	38,240	73,206	708,533							

Table 3: Profit and Loss Statement

>>>> PROFIT AND LOSS>> >>

3

TEST MOTEL

PRO-FORMA PROFIT AND LOSS

	YEAR 1												
	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6	MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12	TOTAL
SALES													
Room Rentals	29,250	40,300	44,330	33,150	30,225	29,250	14,625	14,625	27,300	40,300	42,900	44,330	390,585
Meals	15,300	22,320	23,436	18,180	15,810	15,300	7,650	7,650	14,280	20,460	22,680	23,436	206,502
Shop Sales	2,850	4,030	4,340	3,300	2,945	2,850	1,425	1,425	2,660	3,875	4,200	4,340	38,240
Liquor	5,400	8,060	8,308	6,540	5,580	5,400	2,700	2,700	5,040	7,130	8,040	8,308	73,206
TOTAL	52,800	74,710	80,414	61,170	54,560	52,800	26,400	26,400	49,280	71,765	77,820	80,414	708,533
COST OF SALES													
Room Rentals	2,659	3,664	4,030	3,014	2,748	2,659	1,330	1,330	2,482	3,664	3,900	4,030	35,508
Meals	5,355	7,812	8,203	6,363	5,534	5,355	2,678	2,678	4,998	7,161	7,938	8,203	72,276
Shop Sales	1,853	2,620	2,821	2,145	1,914	1,853	926	926	1,729	2,519	2,730	2,821	24,856
Liquor	2,700	4,030	4,154	3,270	2,790	2,700	1,350	1,350	2,520	3,565	4,020	4,154	36,603
5.Labour	11,416	16,240	17,403	13,284	11,796	11,416	5,708	5,708	10,655	15,473	16,842	17,403	153,343
TOTAL	23,982	34,365	36,611	28,076	24,782	23,982	11,991	11,991	22,383	32,381	35,430	36,611	322,586
GROSS PROFIT	28,818	40,345	43,803	33,094	29,778	28,818	14,409	14,409	26,897	39,384	42,390	43,803	385,947
GENERAL & ADMIN.													
ADVERT & PROMO	500	500	500	500	500	500	500	500	500	500	500	500	6,000
BANK CHARGES	50	50	50	50	50	50	50	50	50	50	50	50	600
EMPLOYEE BENEFITS	2,680	3,291	3,430	2,905	2,758	2,680	1,520	1,520	2,526	3,199	3,331	3,430	33,271
INSURANCE	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
MISCELLANEOUS	250	250	250	250	250	250	250	250	250	250	250	250	3,000
PROF. SERVICES	400	400	400	400	400	400	400	400	400	400	400	400	4,800
REPAIR & MAINT	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
SALARIES-MGMT.	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
SALARIES-OTHER	7,920	8,184	8,184	7,920	8,184	7,920	3,960	3,960	7,392	8,184	7,920	8,184	87,912
SUPPLIES	500	500	500	500	500	500	500	500	500	500	500	500	6,000
TELEPHONE	300	300	300	300	300	300	300	300	300	300	300	300	3,600
TRAVEL	250	250	250	250	250	250	250	250	250	250	250	250	3,000
UTILITIES	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
RENT		0	0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	21,350	22,225	22,364	21,575	21,692	21,350	16,230	16,230	20,668	22,133	22,001	22,364	250,183
NET BEFORE FOLLOWING	7,467	18,120	21,439	11,520	8,087	7,467	(1,821)	(1,821)	6,229	17,251	20,389	21,439	135,765
DEPRECIATION	7,625	7,625	7,625	7,625	7,625	7,625	7,625	7,625	7,625	7,625	7,625	7,625	91,500
LOAN INTEREST	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	58,200
TOTAL	12,475	12,475	12,475	12,475	12,475	12,475	12,475	12,475	12,475	12,475	12,475	12,475	149,700
NET INCOME(LOSS)	(5,008)	5,645	8,964	(955)	(4,388)	(5,008)	(14,296)	(14,296)	(6,246)	4,776	7,914	8,964	(13,935)

The Profit & Loss Statement (Table 3)

The Profit and Loss or Income Statement begins with the estimates of *sales revenue* developed in the sales forecast.

Next, estimate the direct cost involved in producing the goods or services sold. This is often calculated on a unit or percentage basis as in the breakeven analysis, with allowances for all direct material and labour costs. Do this separately for each product or product group. Multiply these percentages by the sales figures to determine *cost of goods sold.*

Check that the total of these costs is close to the expected overall direct operating costs of the business for wages and materials. For retail businesses, this may only be the purchase cost of items for resale. For service businesses, the direct cost may be very low. For complex manufacturing businesses, a separate calculation of purchases of materials, production, and sales must be done to accurately estimate inventories and the cost of goods sold.

Subtracting the direct cost from the revenue will give us the expected *gross profit* for the period.

Now estimate all the other costs of doing business which were not included in the cost of sales calculation. These tend to be the business' fixed costs or overheads: rent, utilities, advertising, management and other fixed salaries, insurance and professional services. Base your figures on the decisions made in Chapter 8 ("Deciding on a Strategy") and describe the expected cost of those decisions. In most cases they are a regular monthly amount.

Monthly depreciation and interest on loans are then included as other fixed costs. These are based on the data in the start-up sheet.

After all these fixed costs are deducted from the gross profit we have an estimate of the expected *net profit (or loss)* for the period. Note that this is before any taxes on the profit.

Again, all the numbers on the profit and loss statement are based on when the sales happen and when the expenses are committed—not when they are paid for.

The entrepreneur's "assumptions" included an estimate of the material and labour cost of each product as a percentage of its selling price. Expected sales are now multiplied by these figures to determine a monthly gross profit of **$28,000-43,000** *(page 64.)*

The entrepreneur next estimates expected monthly fixed costs, item by item. They total around **$22,000**. *After deducting costs for depreciation and interest (which were calculated with start-up costs), the entrepreneur estimates expected monthly net profit or loss. Some months promise significant profits and others (particularly during shut-down months) will bring losses. An overall net loss of just under* **$14,000** *for the year is projected.*

Table 4: The Cash Flow Statement

>>> CASH FLOW >>

4

TEST MOTEL — PRO-FORMA CASH FLOW

	YEAR 1												
	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6	MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12	TOTAL
CASH INFLOW													
CASH SALES	44,880	63,504	68,352	51,995	46,376	44,880	22,440	22,440	41,888	61,000	66,147	68,352	602,253
CREDIT COLLECTIONS	---	7,920	11,207	12,062	9,176	8,184	7,920	3,960	3,960	7,392	10,765	11,673	94,218
GRANT PROCEEDS	0	---	---	---	---	---	---	---	---	---	---	---	0
EQUITY CONTRIB'N	235,000	---	---	---	---	---	---	---	---	---	---	---	235,000
LOAN PROCEEDS	500,000	---	---	---	---	---	---	---	---	---	---	---	500,000
MISC. RECEIPTS													0
TOTAL	779,880	71,424	79,558	64,057	55,552	53,064	30,360	26,400	45,848	68,392	76,912	80,025	1,431,471
CASH OUTFLOW													
CASH OPER COSTS	41,788	24,055	25,628	19,653	17,347	16,788	8,394	8,394	15,668	22,667	24,801	25,628	250,810
PAID ON ACCOUNT		7,195	10,309	10,983	8,423	7,435	7,195	3,597	3,597	6,715	9,714	10,629	85,792
ADVERT & PROMO	500	500	500	500	500	500	500	500	500	500	500	500	6,000
BANK CHARGES	50	50	50	50	50	50	50	50	50	50	50	50	600
EMPLOYEE BENEFITS	---	2,680	3,291	3,430	2,905	2,758	2,680	1,520	1,520	2,526	3,199	3,331	29,840
INSURANCE	12,000	---	---	---	---	---	---	---	---	---	---	---	12,000
MISCELLANEOUS	250	250	250	250	250	250	250	250	250	250	250	250	3,000
PROF. SERVICES	400	400	400	400	400	400	400	400	400	400	400	400	4,800
REPAIR & MAINT	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
SALARIES-MGMT.	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
SALARIES-OTHER	7,920	8,184	8,184	7,920	8,184	7,920	3,960	3,960	7,392	8,184	7,920	8,184	87,912
SUPPLIES	500	500	500	500	500	500	500	500	500	500	500	500	6,000
TELEPHONE	---	300	300	300	300	300	300	300	300	300	300	300	3,300
TRAVEL	250	250	250	250	250	250	250	250	250	250	250	250	3,000
UTILITIES	---	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	33,000
RENT	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
CAPITAL PURCHASES	670,000	---	---	---	---	---	---	---	---	---	---	---	670,000
ORGANIZATION COSTS	15,000	---	---	---	---	---	---	---	---	---	---	---	15,000
TOTAL	753,158	51,864	57,162	51,737	46,608	44,650	31,979	27,221	37,928	49,841	55,384	57,522	1,265,055
MONTHLY CASH FLOW	26,722	19,559	22,396	12,320	8,943	8,414	(1,619)	(821)	7,920	18,551	21,528	22,503	166,416
LOAN PRINCIPAL	6,399	6,399	6,399	6,399	6,399	6,399	6,399	6,399	6,399	6,399	6,399	6,399	76,788
LOAN INTEREST	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	58,200
TOTAL	11,249	11,249	11,249	11,249	11,249	11,249	11,249	11,249	11,249	11,249	11,249	11,249	134,988
NET MONTHLY CASHFLOW	15,473	8,310	11,147	1,071	(2,306)	(2,835)	(12,868)	(12,070)	(3,329)	7,302	10,279	11,254	31,428
CUMULATIVE	15,473	23,784	34,931	36,002	33,696	30,861	17,993	5,923	2,594	9,896	20,175	31,428	

The Cash Flow Statement (Table 4)

At this point you have already identified or decided upon all the cost implications of the business. What remains is project important details of *timing*: when cash is received or needed to pay bills.

First figure out when the business will receive cash. Split total monthly sales as shown on the profit and loss statement into the amount we get immediately (*cash sales*) and the amount expected later (usually the next month) from *collections* on credit sales. If a business has prepayments or extended or uncertain collections, this can be a complicated calculation. A careful review of standard practices in your industry will help you make this calculation. A computer model will perform the calculation on the basis of the percentage of expected credit sales which you specify as an initial assumption. The computer automatically assumes that these bills are paid the following month.

In the spreadsheet on page 66, the entrepreneur adjusts for the impact of credit sales and purchases on the basis of the stated assumptions. Allowing for total loan payments, the entrepreneur can see that the motel's cash position will vary widely. It will start at **$15,000** *at the end of the first month, rise to* **$33,000** *in month 5, drop again to* **$2,500** *in Month 9, and then recover to* **$31,000** *by year end.*

Equity contributions and loans used to cover start-up costs are assumed to be received and spent in the first month. In complex projects requiring a long development phase, a separate cash flow may be required to identify the timing of receipts and payments during construction.

The next task is to identify when the costs of the business require payment. First identify the timing of payment of the direct operating costs, that is, the material purchases, direct labour, and other costs included in the cost of goods sold. These estimates, like sales, mainly depend on the percentage of costs purchased on account and paid for in the following month. Apply this percentage to split the total cost of goods sold into cash operating costs (paid in the same month) and payments on account (paid the next month). Your total operating cash outlay thus equals this month's cash costs plus last month's account purchases.

For businesses with considerable fluctuation in inventories, a detailed calculation of monthly costs and inventories should be done separately to specify monthly cash outlays for production operations. In the first month you must also allow for the inventory stocking purchases identified in the start-up costs.

Similarly each of the overhead items must be examined to identify if they are paid in the same month (like wages), in the following month (like utility bills and employee benefits), or in particular lump sum payments (like insurance).

Finally, account for the total loan payment—not just the interest as on the profit and loss statement—to determine total monthly cash needs and the expected net change in the bank account.

A cumulative balance, or estimate of the bank balance at month end, can also be maintained. Add the net change of this month to the previous balance. Examine this balance to determine if you have allowed enough or too much financing for working capital, and if you need a temporary line of bank credit for periods when you may be overdrawn.

Note that depreciation is not included in the cash flow as a monthly charge. Your assets are paid for before operations start, and are recorded as outflows for capital purchases and organization costs in first month.

Later Years (Tables 5 and 6)

A business plan usually covers 3-5 years, so projections are also required for this period. You need only repeat the steps for the profit and loss and cash flow statements unless significant expansions and new capital expenditures are anticipated in Years 2 and 3. If this is the case, a simple model like the one in this workbook may not be adequate. Since less detail is needed for later years, these projections can be done on a quarterly rather than monthly basis.

Do these projections by calculating expected increases in sales and costs as a percentage increase from the first year. Take care to ensure that there is a solid basis for these assumptions. New products and areas of cost must be handled as in Year 1.

Balance Sheets (Table 7)

The implications of the profit and loss and cash flow statements can now be projected to show how the business' balance sheet is expected to look at the end of Years 1, 2, and 3. (The opening balance sheet is Table 1, "Start-up Costs and Financing.")

The *cash* position is identified in the cumulative part of the cash flow. *Accounts receivable* reflects the difference between sales on the profit and loss statement, and what was actually collected on the cash flow. *Inventory* reflects the difference between cash expenditures on operating costs and the cost of goods sold. *Fixed assets* are valued at their cost at start-up less the depreciation allowed for on the profit and loss.

Accounts payable reflects that portion of costs on the profit and loss that have yet to be paid. The *loan payable* reflects the original loan balance less principal payments made as shown on the cash flow. *Owner's equity* includes the original contributions from owners and grants, and the net profit of the profit and loss from each year.

In the spreadsheet on pages 69-71 the entrepreneur increases Year 1 estimates by the percentages assumed at start-up. The Profit and Loss and Cash Flow are then recalculated for the next two years. The entrepreneur estimates a net profit of **$47,000** *in the second year of operation and* **$73,000** *in Year 3. Balance sheets for the end of each period summarize the business' position at that time and show the build-up of equity and reduction in the bank loan.*

Table 5: Profit and Loss in Years 2 & 3

5

TEST MOTEL — PRO-FORMA PROFIT AND LOSS

	YEAR 2				YEAR 2	YEAR 3				YEAR 3	3 YEAR
	QTR 1	QTR2	QTR3	QTR4	TOTAL	QTR1	QTR2	QTR3	QTR4	TOTAL	TOTAL
SALES											
Room Rentals	150,322	101,888	62,205	140,283	454,697	157,838	106,982	65,315	147,297	477,432	1,322,714
Meals	80,594	54,219	32,538	73,234	240,585	88,653	59,641	35,792	80,557	264,643	711,729
Shop Sales	14,810	10,005	6,061	13,657	44,532	15,551	10,505	6,364	14,339	46,759	129,531
Liquor	28,734	19,272	11,484	25,826	85,316	31,607	21,199	12,632	28,408	93,847	252,369
TOTAL	274,460	185,383	112,288	252,999	825,130	293,649	198,327	120,104	270,602	882,681	2,416,344
COST OF SALES											
Room Rentals	13,666	9,263	5,655	12,753	41,336	14,349	9,726	5,938	13,391	43,403	120,247
Meals	28,208	18,977	11,388	25,632	84,205	31,029	20,874	12,527	28,195	92,625	249,105
Shop Sales	9,627	6,503	3,940	8,877	28,946	10,108	6,828	4,137	9,321	30,393	84,195
Liquor	14,367	9,636	5,742	12,913	42,658	15,804	10,600	6,316	14,204	46,924	126,184
5. Labour	59,478	40,146	24,277	54,690	178,591	63,948	43,159	26,094	58,781	191,982	523,916
TOTAL	125,345	84,524	51,002	114,864	375,735	135,237	91,187	55,012	123,891	405,327	1,103,648
GROSS PROFIT	149,115	100,859	61,286	138,135	449,395	158,412	107,140	65,092	146,711	477,354	1,312,696
GENERAL & ADMIN.											
ADVERT & PROMO	1,575	1,575	1,575	1,575	6,300	1,654	1,654	1,654	1,654	6,615	18,915
BANK CHARGES	158	158	158	158	630	165	165	165	165	662	1,892
EMPLOYEE BENEFITS	9,872	8,760	5,844	10,459	34,934	10,365	9,198	6,136	10,982	36,681	104,886
INSURANCE	3,150	3,150	3,150	3,150	12,600	3,308	3,308	3,308	3,308	13,230	37,830
MISCELLANEOUS	788	788	788	788	3,150	827	827	827	827	3,308	9,458
PROF. SERVICES	1,260	1,260	1,260	1,260	5,040	1,323	1,323	1,323	1,323	5,292	15,132
REPAIR & MAINT	4,725	4,725	4,725	4,725	18,900	4,961	4,961	4,961	4,961	19,845	56,745
SALARIES-MGMT.	9,450	9,450	9,450	9,450	37,800	9,923	9,923	9,923	9,923	39,690	113,490
SALARIES-OTHER	25,502	25,225	16,078	25,502	92,308	26,778	26,486	16,881	26,778	96,923	277,143
SUPPLIES	1,575	1,575	1,575	1,575	6,300	1,654	1,654	1,654	1,654	6,615	18,915
TELEPHONE	945	945	945	945	3,780	992	992	992	992	3,969	11,349
TRAVEL	788	788	788	788	3,150	827	827	827	827	3,308	9,458
UTILITIES	9,450	9,450	9,450	9,450	37,800	9,923	9,923	9,923	9,923	39,690	113,490
RENT	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
TOTAL	69,237	67,847	55,784	69,824	262,692	72,698	71,240	58,573	73,315	275,826	788,701
NET BEFORE FOLLOWING	79,878	33,012	5,501	68,311	186,703	85,714	35,900	6,518	73,396	201,528	523,995
DEPRECIATION	22,875	22,875	22,875	22,875	91,500	22,875	22,875	22,875	22,875	91,500	274,500
LOAN INTEREST	12,009	12,009	12,009	12,009	48,036	9,129	9,129	9,129	9,129	36,516	142,752
TOTAL	34,884	34,884	34,884	34,884	139,536	32,004	32,004	32,004	32,004	128,016	417,252
NET INCOME(LOSS)	44,994	(1,872)	(29,383)	33,427	47,167	53,710	3,896	(25,486)	41,392	73,512	106,743

Table 6: Cash Flow in Years 2 & 3

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TEST MOTEL PRO-FORMA CASH FLOW

	YEAR 2				YEAR 2	YEAR 3				YEAR 3	3 YEAR
CASH INFLOW											
CASH SALES	233,291	157,576	95,445	215,049	701,360	249,602	168,578	102,088	230,012	750,279	2,053,892
CREDIT COLLECTIONS	39,522	32,257	20,494	30,921	123,194	42,017	34,510	21,923	33,073	131,523	348,935
GRANT PROCEEDS					0					0	0
EQUITY CONTRIB'N					0					0	235,000
LOAN PROCEEDS					0					0	500,000
MISC. RECEIPTS					0					0	0
TOTAL	272,813	189,832	115,939	245,970	824,554	291,619	203,088	124,011	263,084	881,802	3,137,827
CASH OUTFLOW											
CASH OPER COSTS	87,741	59,167	35,702	80,405	263,015	94,666	63,831	38,508	86,724	283,729	797,553
PAID ON ACCOUNT	36,065	29,435	18,649	28,079	112,229	38,536	31,757	20,117	30,286	120,696	318,718
ADVERT & PROMO	1,575	1,575	1,575	1,575	6,300	1,654	1,654	1,654	1,654	6,615	18,915
BANK CHARGES	158	158	158	158	630	165	165	165	165	662	1,892
EMPLOYEE BENEFITS	10,012	9,130	6,816	8,921	34,878	10,396	9,587	7,157	9,367	36,507	101,225
INSURANCE	3,150	3,150	3,150	3,150	12,600	3,308	3,308	3,308	3,308	13,230	37,830
MISCELLANEOUS	788	788	788	788	3,150	827	827	827	827	3,308	9,458
PROF. SERVICES	1,260	1,260	1,260	1,260	5,040	1,323	1,323	1,323	1,323	5,292	15,132
REPAIR & MAINT	4,725	4,725	4,725	4,725	18,900	4,961	4,961	4,961	4,961	19,845	56,745
SALARIES-MGMT.	9,450	9,450	9,450	9,450	37,800	9,923	9,923	9,923	9,923	39,690	113,490
SALARIES-OTHER	25,502	25,225	16,078	25,502	92,308	26,778	26,486	16,881	26,778	96,923	277,143
SUPPLIES	1,575	1,575	1,575	1,575	6,300	1,654	1,654	1,654	1,654	6,615	18,915
TELEPHONE	930	945	945	945	3,765	977	992	992	992	3,953	11,018
TRAVEL	788	788	788	788	3,150	827	827	827	827	3,308	9,458
UTILITIES	9,300	9,450	9,450	9,450	37,650	9,765	9,923	9,923	9,923	39,533	110,183
RENT	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
CAPITAL PURCHASES					0					0	670,000
ORGANIZATION COSTS					0					0	15,000
TOTAL	193,018	156,820	111,107	176,770	637,714	205,758	167,216	118,220	188,710	679,904	2,582,673
MONTHLY CASH FLOW	79,795	33,013	4,832	69,201	186,840	85,860	35,872	5,791	74,374	201,898	555,154
LOAN PRINCIPAL	21,738	21,738	21,738	21,738	86,952	24,618	24,618	24,618	24,618	98,472	262,212
LOAN INTEREST	12,009	12,009	12,009	12,009	48,036	9,129	9,129	9,129	9,129	36,516	142,752
TOTAL	33,747	33,747	33,747	33,747	134,988	33,747	33,747	33,747	33,747	134,988	404,964
NET MONTHLY CASHFLOW	46,048	(734)	(28,915)	35,454	51,852	52,113	2,125	(27,956)	40,627	66,910	150,190
CUMULATIVE	77,476	76,742	47,827	83,280		135,394	137,519	109,563	150,190		

Table 7: The Balance Sheet

>>>> BALANCE SHEET >>>

7

TEST MOTEL	BALANCE SHEET (Proforma)			
ASSETS	OPENING	YEAR 1	YEAR 2	YEAR 3
Current				
Cash	25,000	31,428	83,280	150,190
Accounts Receivable	---	12,062	12,637	13,517
Inventory	25,000	14,017	13,525	12,623
TOTAL CURRENT	50,000	57,507	109,443	176,330
Fixed				
Land	25,000	25,000	25,000	25,000
Building(s)	300,000	270,000	240,000	210,000
Equipment	330,000	271,500	213,000	154,500
Furniture & Fixtures	15,000	12,000	9,000	6,000
Leasehold Improvements	0	0	0	0
Other Assets	0	0	0	0
TOTAL FIXED	670,000	578,500	487,000	395,500
Organization Costs	15,000	15,000	15,000	15,000
TOTAL ASSETS	735,000	651,007	611,443	586,830
LIABILITIES				
Current				
Accounts Payable	---	6,730	6,951	7,299
Long Term				
Loan Payable	500,000	423,212	336,260	237,788
TOTAL LIABILITIES	500,000	429,942	343,211	245,087
OWNER'S EQUITY				
Retained Earnings - beginning			(13,935)	33,231
Net Income		(13,935)	47,167	73,512
Retained Earnings - ending		(13,935)	33,231	106,743
Contributed Surplus				
Grants	0	0	0	0
Owner	235,000	235,000	235,000	235,000
Total Contributed Surplus	235,000	235,000	235,000	235,000
TOTAL EQUITY	235,000	221,065	268,231	341,743
LIABILITIES & EQUITY	735,000	651,007	611,443	586,830

10

Research Methods Which Build Businesses

Good research is crucial to planning and establishing a successful business. You have to get very well informed about your industry, product or service, competition, and customers. Research is no easy task. To make the most of your time and effort, first plan and focus your research carefully. Answering the questions *why? what? where? who?* and *how?* will help.

Why? Be clear about the purpose of the research.

Why are you doing it?
Who is it for and what do they want to know?
What decisions do you hope to make with the information?

What? Identify the specific information you need.

The first four chapters of this guide outline some of the information you need for a good business plan. Think each through to decide exactly what you need.

Where? Find out where the information is located.

Information can be found in two places.

Primary sources contain raw information which nobody else has analyzed or re-organized or interpreted. Collecting this kind of information is called *primary research.* It can involve:

- ❑ getting people to answer a questionnaire
- ❑ holding and recording interviews
- ❑ observing and writing down facts

Then you organize and summarize the information you have gathered in a table or structured report.

For your business plan, primary sources may include people in the industry, potential customers, trade shows, and visits to competitors.

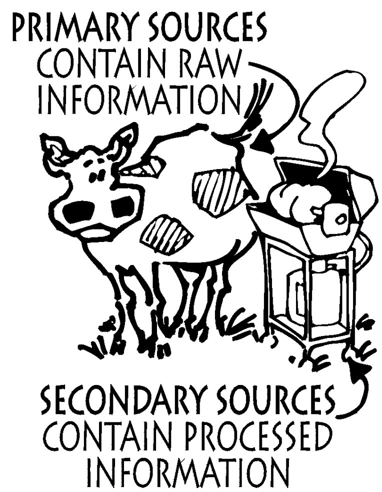
Secondary sources contain information which somebody else has already collected and processed. Publications, videos, and TV shows are well-known secondary sources of information. They can save you hours and hours of work — if the other researchers asked the same questions as you, and answered them well. Sometimes it takes a lot of work to find that kind of material. To do secondary research, you often have to:

- ❏ locate the best source of information
- ❏ skim through many pages to find the specific information you need
- ❏ select, organize, and write down the information in a way which is useful to you

There are many good sources of secondary information for entrepreneurs: trade journals and magazines; industrial association publications; business directories; and publications of government departments and Statistics Canada.

If you wish to do primary research, you must also decide:

Who? Choose your target group and sample.



You may want to gather information from consumers or potential customers, competitors, or others in the industry. If the number of people in the target group is large, you will have to decide on *how many,* and *which ones* to approach for a *sample survey.* The sample should be large enough to permit a fair range of opinions, but small enough to be manageable. You may wish to choose it *randomly,* so you will have no control over who gets questioned and who does not. Or you may wish to *select* a sample which is representative of the whole group, or which includes certain key customers or suppliers.

How? Choose your research method.

You must decide whether to gather information by mail, by telephone, or in person. Will you gather it from individuals or from a group? Will you use a questionnaire or a series of discussion topics?

Decide on the types of questions you will ask. Will you limit the responses which people can give you, as in multiple-choice questions? Or will your questions be "open-ended," so that people can say whatever they like? Include reference questions (age range, occupation, sex, education, etc.) which will roughly describe the type of person providing the answers. Remember that open-ended answers from a large group may be very difficult to summarize and use.

Take pains to word and sequence your questions well. Ask the reference questions first. Then you can quickly stop an interview if the person is not in your target group. Avoid “loaded” questions which try to influence the respondents’ answers. Make sure your questions are clear, and cannot be understood in different ways.

Sources of Information about Your Industry

SECONDARY SOURCES

- ❏ Industry associations: use a library or business information centre to find industry associations in your field. Contact them to ask for industry information (you may have to join first).
- ❏ Trade Journals: see if the industry association produces a regular magazine or bulletin. Find out if other industry publications are available. Subscribe to the best ones and look for back-issues at libraries or from other subscribers.
- ❏ Government statistics: Statistics Canada and some other government agencies produce regular statistics by industry. Find out which ones are produced for your industry. Arrange to receive current or future releases if they contain information you can use.

Generally, these statistics contain too much raw information and too little analysis for the small businessperson. Still, they may tell you about the number, size, and characteristics of industry members and general market trends. Many trade journals will have write-ups based on these statistics.

PRIMARY SOURCES

- ❏ Interviews: draw up a clear list of things you want to know about your industry. Use a business directory or industry association membership list to find out who might have the answers. (At least find out which position you should approach, eg. marketing manager). If the people belong to firms which might become your suppliers, so much the better.

If possible, phone for appointments, and conduct the interviews in person. If you must, do the interview over the phone. Be businesslike but friendly with each contact. Try not to waste their time. Explain your situation. Indicate that you know how busy they are, but that you would really appreciate the benefit of their experience. Let them decide how much time they can give you. In conclusion, thank your contacts for their assistance and ask them to suggest others you could talk to.

- ❏ Trade shows: find out if your industry has trade shows or conventions, when and where they are held, and what it costs to attend. Such events can be an excellent source of contacts, new information, and even orders.

Sources of Information about Your Product/Service

In this case, *you* are one of the main sources of information. You will define your product or service with the designs, pictures, and write-ups resulting from your research and imagination.

If you are selling or re-designing someone else's product or service, look for:

- ❏ promotional material (ads and brochures) available from trade journals and shows, or from suppliers of the product. If you intend to run a franchise operation, the franchiser will be a good source of information.

If you are developing a new or unique product or service, you may get information from:

- ❏ market research with consumers to clarify what people are after.
- ❏ industry journal articles about new technology and its applications. In this case, be sure to respect whatever rights the authors may have over this material.

Sources of Information about Institutional Customers

To research possible institutional customers, your best secondary sources will be the business directories and yellow pages for your market areas. For further information about the size of customers, their focus, capacity, and requirements, check out government statistics and industry association publications.

Interview some of your primary customers to learn the ground rules of purchasing, and the volumes purchased. To prepare for these discussions, do your "homework:"

- ❏ research the industry, your product, end-users, and competitors.
- ❏ prepare a list of (clear) questions you want to ask and information you want to get.
- ❏ telephone in advance to set up an interview. If you are unsure about who the best person to speak to, ask for advice. Sometimes, a personal visit is better than an advance phone call. Very busy people (like the proprietor of a small store or a department store buyer) who might turn you down over the phone, may chat with a visitor. In that case, remember that their own business is their first concern, and their time is limited. Be courteous and wait as long as needed.

- ❏ tell them your plans, but keep it brief unless they ask for more. You are there to get information, not to make a sale.
- ❏ after a successful interview, ask your contact to refer you to other helpful persons.

Sources of Information about Consumers

A lot of information about the people in a particular area and their buying habits is available in secondary sources. For finding out who your customers are and what they want in a product, however, nothing matches primary market research. Trade journals may describe general trends in consumer preference. You will have to check and see if these hold true for your particular market.

SECONDARY SOURCES

Your local library or government-run business information centre should be able to help you find and use the standard sources of market information. They include:

- *Statistics Canada:* records numbers of households and people, their age, sex, disposable income, etc. for specific census units (some as small as one square mile in area). Look for the areas of importance to you and see how many people meet your description of "potential customers."
- *market surveys:* the Financial Post publishes an annual survey of markets. It provides information about populations and some of their buying habits on a town-by-town basis. Industry associations also publish some market survey information.
- *trade journals:* your journal may sometimes publish a survey or analysis of consumer tastes, market size and projections. These may be helpful for identifying trends or large export markets. They are not likely to have much information on your local market.
- *local business associations:* check the Chamber of Commerce or tourist bureau for numbers of visitors, traffic patterns, etc. specific to your area.

PRIMARY MARKET RESEARCH

Gathering and analyzing information can take a lot of time or money. Do some research on the industry from secondary sources first. Decide what information you need about your customers, before you decide how to gather the information. Model your own research after the method which is most likely to give you the information you want. Be prepared to organize and summarize your research results in a meaningful way.

1. **Focus Groups**: gather together 8-12 people for an frank, directed discussion about a product. The discussion will help determine what qualities customers seek in a product, and why, when and where they would buy it. It may help you make a decision about some of your products features, or point out matters which need further study. Points to remember:

- ❏ the group's members can be friends, acquaintances, or just people asked to participate. It does not have to be perfectly representative of any population. It can be an existing group, like a service organization, parents group, or club. Be sure to include the types of people you have identified as key potential customers.
- ❏ you may have to compensate people for their time. Provide refreshments, product samples, or a fee. At the very least, let participants know how helpful their ideas and views are to you.
- ❏ conduct more than one group session and compare the results. If they are quite different, you may have to conduct yet another to see which attitudes are the common ones.
- ❏ to direct the meeting, state the topic of discussion clearly. Show participants a product or describe your plans. At first, have them focus on several clear questions. After that, allow the discussion to flow freely without your participation. (You may wish to direct some questions at quieter participants who otherwise will not be heard.) Use name tags if members of the group do not know each other well. Don't forget to tape record the session so you can review the discussion later!

2. **Traffic Counts and Pedestrian Surveys**: use these to count the potential customers in a particular location. Points to remember:

- ❏ make your observations specific. Instead of "men," count "men under 50" and "men over 50." Instead of "vehicles," count cars, pick-up trucks, RV's, etc.
- ❏ do your surveys for the same amount of time on different days, at different times of the day. Be aware that the season may also affect the result.

3. **Questionnaires**: the most common way to research the characteristics of people in a certain location, their attitudes, and opinions.

Questionnaires pose a series of questions to a small group, or *sample*, of the population. The responses are then counted and summarized. If the sample group is large and randomly selected, the responses will be *representative* of the population as a whole. In other words, the percentage of the sample which answers "Hell, no!" to question 5, will be roughly the same as the percentage of the whole population which would feel that way. The questionnaire will therefore help you estimate what percentage of the population are potential customers, and what their characteristics are.

Data can be gathered by questionnaire in a number of ways:

Mail surveys are good when you are not in a rush or where the population is spread out. They are also useful if you are asking the respondents to look up information. Response rates are often very low. To improve them,

- ❏ produce a good, attractive questionnaire
- ❏ include a covering letter which explains your purpose and thanks people for their co-operation
- ❏ offer a reward, gift, or discount to respondents
- ❏ include a stamped, self-addressed envelope
- ❏ follow-up on responses after a period of time
- ❏ use creative ideas (coloured or perfumed envelopes, etc.)

A mail survey may not be much use to someone planning a small business. It may be a good way to evaluate operations and customer satisfaction later, though.

4. **Personal Interviews**: a good way to survey a certain population (shop-owners, doctors, or teachers, for example) or a certain area. In some cases, it may be preferable to set up the interview in advance. Points to remember:

- ❏ be prepared and professional with a good questionnaire form. Before starting the questions, briefly introduce yourself and the purpose of the research.
- ❏ conduct the interview as smoothly and quickly as possible. Don't discuss the responses, just record them. Don't lead people into certain responses. Afterwards, thank them for their time.
- ❏ if they are interrupted during the interview, be patient. They are doing you a favour.
- ❏ to take a sample representative of the whole population, pick respondents at random. In a door-to-door survey, for example, approach every tenth house only.

5. **Intercept Interviewing**: the most efficient way to interview people who come to a particular location (a shopping centre, for example). The interviewer picks passers-by at random and asks them to answer a few questions. Points to remember:

- ❏ get permission to conduct the survey, if necessary.
- ❏ be presentable. Wear a name tag. Carry a clipboard for the questionnaires. Use eye-contact and a pleasant manner to establish rapport with the potential respondent. (Don't wear sunglasses.)
- ❏ make your questionnaire brief. Be sure to start with reference questions which will signal whether or not you should continue the interview ("Do you drink coffee?").

- do not exclude certain people because they "appear to be in a hurry", or because you "don't like their looks." Instead, pick every ninth person who passes a certain point, for example.
- thank respondents for their help.

6. **Telephone Interviewing**: the most efficient way to survey the general public and some specific groups. You can get information from people in distant places, and at odd hours of the day.

Unfortunately, many people (including yourself, perhaps) consider telephone surveys "nuisance calls." They may be abusive or refuse to answer. Since you cannot see the speakers, you also miss clues as to how well they understand the questions. Other points to consider:

- randomly pick numbers to call. Call the 10th and 60th telephone numbers on each page, for example.
- have your questions and response forms ready when to go when people answer.
- the sound of your voice will play a big part in the success of your interviews. Make your voice as pleasant, relaxed and confident as possible. Introduce yourself and ask for the other party's co-operation pleasantly and quickly. Don't push if they say no.
- keep the interview as short as possible. Use short questions with clear responses, and ask only what is necessary. If you conduct an interview well, you may be able to keep a respondent on the line up to 20 minutes.
- note that this research method excludes people without phones or listed telephone numbers. You must decide if this will bias your sample.

Making a Questionnaire

Every questionnaire is made for a specific purpose. Here are some general guidelines to follow as you compose yours.

ASKING QUESTIONS

Questions can be of two types. *Open-ended* questions accept any response. *Closed-ended* questions require the respondent to choose between a limited number of answers. The closed-ended question does not allow the respondents to answer in their own words, but its results are easier to compile and compare. Open-ended questions are better for seeking attitudes or opinions.

Be sure the answers to your closed-ended questions cover all possibilities. To be double sure, make "other" a possible response, with room for an explanation. If a range of responses is used, make sure it is precise, balanced, and complete. “Fair,” “bad,” “awful,” and “wretched,” for example, does not give the respondent a balanced choice. Terms like “pretty good,” and “not bad”, on the other hand, are too imprecise.

Make the questions as brief and clear as possible. Check with others to see if any question could be misunderstood. Ask for no more information about the respondent than you actually need. You will likely want to know

- ❏ if the respondent should be surveyed at all (“Are you a boat owner?”)
- ❏ the respondent’s sex, family size, age and income range — but not his/her name, address, or phone
- ❏ personal habits and details which relate to your business (where, when, and how much they shop; what they read, drive, play, or eat, etc.)
- ❏ certain of the respondent’s opinions (what they like or look for in products)

PHYSICAL LAY-OUT

Make sure that the questionnaire is attractive and businesslike in appearance. That will encourage people to take you seriously, especially if respondents are supposed to see the form. A brief introduction should explain the purpose of the interview and give the necessary instructions. Tell people how long it should take them to complete the questionnaire.

Arrange the questions in a logical order. One of the first questions should determine if the respondent is in your target group. If he/she is not, tell them they don’t have to finish the questionnaire. Allow people plenty of room on the form to write their answers. Come well-supplied with pens and pencils.

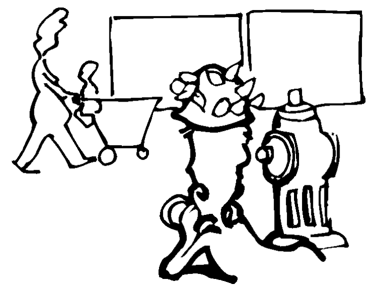
THINGS TO AVOID

If at all possible, ask no personal questions or questions that could upset or embarrass the respondent. If you must ask sensitive questions, express the question in a way which reduces embarrassment. Ask people the “range of their family income,” rather than “what their salary is,” for example.

Avoid loaded words which influence the respondent in one way or another. People will admit to buying “economical” items, but not “cheap” ones, for example. When asking multiple-choice questions, make sure people have a fair range of responses from which to choose.

Avoid leading questions for the same reason. They slip a value judgment into the question, and bias the respondent’s answer. (“Do you, like most decent people, prefer such and such a product?”)

Sources of Information about Competitors



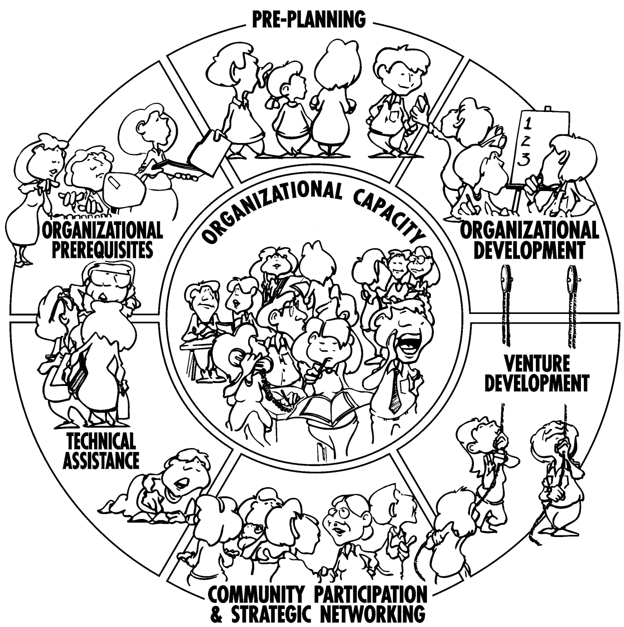
You may have gathered information about your competition in your research of the industry. If not, the procedure is much like that used to learn about institutional customers. Gather names of competitors in your market area from directories or chamber of commerce lists. The city or regional Registrar of Companies may also have information about recent start-ups and closures.

Interview suppliers, industry people, and potential customers to get their impressions about your competitors. (Which are best? Why are they the best? How much of the market do they control?) They may mention competitors you have not even heard of. Don't be too direct or brash in your questioning. Listen for information or probe discreetly.

Buy your competitors' product. Visit their location. Observe their plant closely to estimate their size, number of staff, volume of customers, strengths and weaknesses.

Appendix 1

The Development Wheel



The *Development Wheel* is based on the observations and experience of CED planners and practitioners in a wide variety of minority and depressed communities in Canada and the United States. It is useful as a framework for figuring out where your CEDO is in the development process, for setting priorities for planning and action, and as a guide to the ongoing CED planning and implementation process.

The Development Wheel comes from a perspective on economic development that believes that the major focus in economic development must not be on business development but on building the institutions—the organizational capacity—to DO business development which builds greater community self-reliance. As Bill Hatton (General Manager of the Kitsaki Development Corporation) says, "If business development is the wrench then economic development is the machine which makes the wrench."

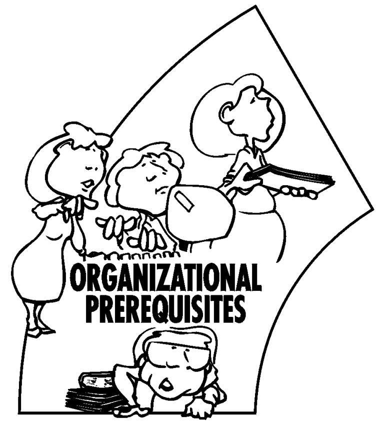
The CED perspective believes that the path to greater self-reliance must involve a process that empowers people and builds organizational capacity.

The pages following introduce the Development Wheel and its components. This information is used in various ways throughout the workbook so if you have not been exposed to the wheel previously, it provides you with a short introduction. On page 90, a basic planning chart shows how each part of the wheel fits within a systematic, phased approach to CED planning.

Organizational Prerequisites for Band Economic Development

PHASE ONE

There are several organizational prerequisites to effective CED planning and implementation. Where they are not present they will constrain the ability of a Band to engage effectively in economic development and, more often than not, if not addressed, will lead to costly failures. Basic organizational prerequisites include:

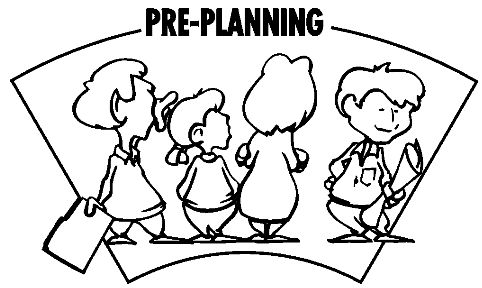


- ❏ A record of stability and effectiveness in Band government as a decision making body and some demonstration of capacity to implement decisions;
- ❏ Basic financial systems capable of managing budgets and producing the necessary reports and financial statements needed for decision makers;
- ❏ The presence of basic planning and development skills and the provision of the time and resources necessary to support the planning process;
- ❏ Band decision makers willing to set aside sufficient time to become familiar with development issues and to acquire the skills needed to resolve them. Willingness to attend meetings and training sessions;
- ❏ A basic commitment by the band decision makers to integrate planning into the decision making process;
- ❏ A willingness to allow the necessary time for economic development efforts to mature and produce results;
- ❏ A willingness to consider using outside businesses and financial resources within the scope of the Band's economic development strategy;
- ❏ A willingness to invest in the long term development of Band business management and entrepreneurial skills, if such experience and skills are not currently available among Band members; and
- ❏ A willingness and ability to remain continuously involved in the development, support and regulation of the Band's economic development.

Some of these resources may well not be in place at the very outset of planning. The key question is: what resources are available to a community, in order that it may address these gaps and under what terms?

Pre-Planning for Economic Development

PHASE ONE



Pre-Planning for Economic Development requires the Band to consider (1) the relationship of economic development to Band goals and desired quality of life, (2) how to proceed with economic development planning, and (3) the gathering of basic information needed for planning within a CED framework. It includes the following types of activity:

- ❑ Consideration of basic issues regarding the relationship between the traditional harvesting economy and the newer forms of earning a living;
- ❑ Preliminary examination of issues related to who should be in charge of economic development and formulation of a basic economic development philosophy;
- ❑ The formulation of general statements about the relationship of economic development to Band goals and desired quality of life;
- ❑ Formulation of suggestions as to the role Band government might play in economic development;
- ❑ Development of an economic development planning strategy, including work plans and clarification of who is going to take on what functions, how the products of the planning process are going to be considered by Band decision makers, and definition of a general planning time frame;
- ❑ Assessment of natural resources and preliminary identification of opportunities that link to the Band's natural resource base;
- ❑ Conducting a detailed human resource inventory, organized for easy retrieval of information and regular updating; and
- ❑ A general Band economic development strategy.

This level of planning is an important means by which a basic consensus can be forged. It provides opportunities to encourage member participation, to raise issues, and to clarify values. It helps define the parameters of what is possible in the short and long term. It identifies, from a strategic vantage point, what sectors of opportunity are most promising and begins to define the constraints and challenges that will have to be addressed in developing the human resource base. In short, it provides the overview needed to make decisions that foster an economic development process that can work for the community as a whole.

Organizational Development

This component is often given little attention in economic development. The small business perspective that dominates many economic development programs often neglects to foster and manage a development environment capable of supporting small businesses.

There are several components of organizational development within the Band economic development process. They include:

PHASE TWO

- ❑ Introductory training in the economic development planning process for council members, boards and key staff;
- ❑ Assessment of current organizational resources for economic development: management capacity and systems, financial policies and procedures, short-and long-term organizational goals, Band government priorities, allocation of money, staff, space, other resources;
- ❑ Integrating band economic development work planning into the broader work load of staff and council;
- ❑ Establishment of a monitoring system to monitor the Band economic development planning process;
- ❑ Formulation of Band economic development goals including the definition of mission, goals, roles of Band government in the development process and venture selection criteria.

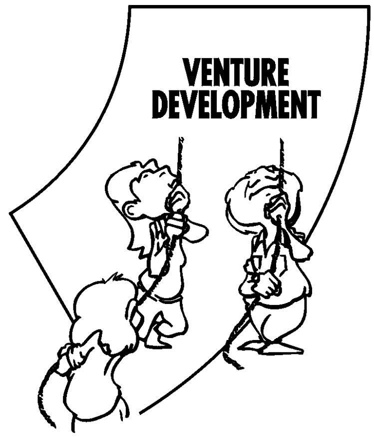
PHASE THREE

- ❑ Formulation of an organizational development plan which includes training, study of organizational structures, what work needs to be done, by whom, and at what cost and definition of technical assistance requirements;
- ❑ Training in the evaluation of feasibility studies.

PHASE FOUR

- ❑ Organizational Plan to accommodate new ventures;
- ❑ Training in the evaluation of business plans, and the monitoring of venture performance;
- ❑ Establishing the legal structures of ventures selected for implementation (training, selection, establishment);
- ❑ Establishing venture management, including manager and staff selection; and
- ❑ Establishment of venture monitoring system and evaluating ventures within overall economic strategy.

Venture Development



Venture development within a Band based approach to economic development consists of several steps. Most of these steps are also relevant to the individual entrepreneur. They are:

PHASE ONE

- ❑ Research on available venture opportunities;
- ❑ Pre-selection of venture options based on venture selection criteria;
- ❑ Pre-feasibility study of venture options selected in first cut selection;
- ❑ Second cut selection based on results of pre-feasibility analysis of venture options to between two and three possible ventures;
- ❑ Preliminary development of financial and business support for ventures from public and private sectors and Band membership.

PHASE TWO

- ❑ Feasibility studies on two or three options which focus on the product, market, competition, organization, management and potential support from Band membership and the public and private sectors;
- ❑ Venture selection for implementation.

PHASE THREE

- ❑ Business plan preparation for financial packaging
- ❑ Securing financing
- ❑ Preparation for start-up
- ❑ Venture Start-up

Community Participation and Strategic Networking

This element is concerned with developing Band member support and participation in the planning process and establishing a network of relationships in the public and private sector that can be brought to bear in support of Band economic development. Some aspects of this component are closely linked to the pre-planning process outlined earlier, particularly those points related to Band member participation. Specific activities include:

PHASE ONE

❑ Band member meetings and discussions to:

- secure involvement at various points in pre-planning
- establish overall strategies for development
- clarify Band role verses individual/family roles in venture development
- develop an overview of planning process
- solicit ideas for ventures;

❑ Relationship building and networking with key agencies and actors in the public and private sectors;

❑ Development of knowledge and skills in accessing sources of financing for various aspects of the Band economic development process and establishing relationships with key department staffs;

❑ Band meetings to review and approve key policies concerning mission, goals, strategies, Band roles in economic development, venture selection criteria;

❑ Production and dissemination of newsletters to inform Band membership about the venture planning and decision making process (e.g. which ventures have been selected in or out at various stages of the planning process).

PHASE TWO

❑ Outreach to the Band membership and others around specific ventures to test and develop support, identify persons with specific interests in ventures, etc.

PHASE THREE

❑ Meetings with the Band membership and key public and private sector interests to develop full scale support for selected ventures; and

❑ Development of a Communications Strategy to keep membership and other key players informed on implementation progress and ongoing Band economic development planning.

To meet these needs in a systematic manner and on an ongoing basis, core support for Band based capacity to manage and coordinate the development process is often required.

Provision of Appropriate Technical Assistance

Technical assistance refers to the accessibility and quality of outside resources that can be utilized in the Band economic development process. Key points in the process where technical assistance is often crucial are listed below.

PHASE ONE

- ❑ Introductory training in Band economic development planning;
- ❑ Assessment of Band government organizational capacity and basic management systems;
- ❑ Assistance in work planning for economic development and integration of development planning into the overall Band government functions and/or development corporation;
- ❑ Assistance in establishing key policies such as goals, roles of Band government, mandating of Band development organizations, venture selection criteria, etc;
- ❑ Technical advice on first and second stage venture selection cuts.

PHASE TWO

- ❑ Feasibility Studies;
- ❑ Organizational development planning for venture development and implementation;
- ❑ Training re: feasibility studies, business plans and monitoring the planning and the venture implementation process.

PHASE THREE

- ❑ Business Planning;
- ❑ Financial packaging;
- ❑ Legal issues;
- ❑ Establishment of monitoring systems and training in the operation, maintenance and use in venture related decision making; and
- ❑ Post Start-up for trouble-shooting and problem solving purposes.

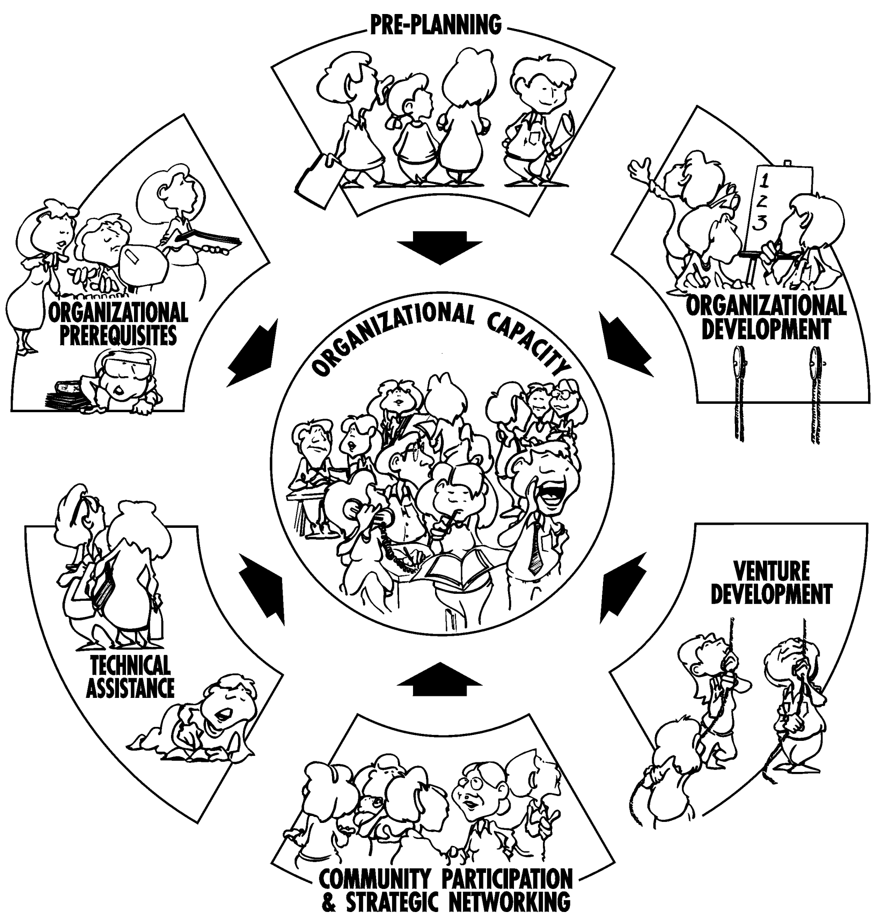
Bands which lack significant experience in economic development may be seriously handicapped by an absence of technical assistance. Similarly, appropriate technical assistance is often crucial to an entrepreneur who has an idea, but doesn’t know how to do the analysis and planning associated with transforming a concept into reality. *Appropriate* technical assistance transfers important skills to the person or Band concerned. It is *inappropriate,* for example, when an outsider does the research and planning for a community’s economic or venture development without significant participation on the part of the client.

Building Organizational Capacity

The 6 components of the Development Wheel each contribute to the ability and willingness of community members to initiate projects, programs, and businesses, to organize these ventures, and to keep them running. Over time, the community accumulates an ever greater pool of leaders and followers with organizational talent, as well as hard skills. Persons who

- ❑ know how to divide up responsibilities
- ❑ work smoothly with one another and outsiders
- ❑ make good decisions rapidly, carry them out efficiently, and monitor them afterwards.

This body of talent, skill, and experience is known as a community's organizational capacity. It is at once the key product, and the driving force behind the community's economic development.



The following page shows how the Development Wheel looks when it has been "flattened out." It becomes a basic planning framework that reduces risk and builds for success.

<table>
<tr><th>PRE-PLANNING BASICS</th><th></th><th colspan="3">COMMUNITY ECONOMIC DEVELOPMENT PLANNING →</th></tr>
<tr><th>PHASE 1
Preliminary Data Collection
& Preparing for CED</th><th></th><th>PHASE 2
Building the Base for CED</th><th>PHASE 3
Focusing the Opportunities</th><th>PHASE 4
Detailed Planning
& Mobilizing Resources</th></tr>
<tr><td rowspan="3">Organizational Prerequisites
A. Assessment: does the CBO* meet organizational prerequisites?
Pre-Planning
A. Inventories of Community Resources:
• natural resources
• human resources
• physical resources
• financial resources
• assessment of community norms & dynamics
B. Community participation:
• community goals, relationship to economic development
• preliminary consideration of roles related to economic development (viz. is the CBO a potential owner in the place of individual ownership?)
C. Decision as to whether or not to proceed with economic development.

*CBO refers to Community-Based Organization, e.g., Band Council Non-profit Service Organization.</td><td>Organizational Development</td><td>A. CBO Board & Staff training: introduction to CED planning
B. CED Workplan (Who, How, When)
C. Management systems analysis
D. Organizational development plan to prepare for CED planning & implementation
E. Policies: mission, goals, CBO roles, venture selection criteria</td><td>A. Implementation of organizational development plan for CED transition: adaptation of structures
B. Organizational planning to accommodate ventures
C. Staff & Board training: venture management structures, feasibility studies
D. Identification of venture management requirements</td><td>A. Board training: financial packaging, business planning
B. Establishment of legal structures for venture(s)
C. Selection of venture management
D. Establishment of venture monitoring system</td></tr>
<tr><td>Venture Development</td><td>A. Identification of venture opportunities
B. 1st Cut: selection based on venture selection criteria
C. Prefeasibility research into venture proposals
D. 2nd Cut: selection based on prefeasibility analysis</td><td>A. Feasibility studies
B. Priority venture selection(s) based on detailed feasibility analysis</td><td>A. Business planning
B. Financial packaging
C. Preparation for venture start-up
D. Project operation & monitoring</td></tr>
<tr><td>Community Participation & Strategic Networking</td><td>A. Community meetings:
• venture opportunity identification
• planning process
• policies
B. Initial networking with external agencies & private sector
C. Initiation of community communication strategy</td><td>A. Community meetings: develop support for selected venture(s)
B. Contacting private & public sector individuals & organizations relevant to ventures under consideration
C. Formation of advisory committee (if applicable)</td><td>A. Mobilization of internal & external networks in support of priority venture(s)</td></tr>
<tr><td colspan="5">Identify & Plan how TECHNICAL ASSISTANCE is to be used in each phase.</td></tr>
</table>

Appendix 2

Venture Selection Exercise: "Deep River" First Nation

Instructions

1. Read the case study carefully.
2. Review the venture selection criteria set out by the Economic Development Officer (EDO) trainee. Discuss their adequacy. Analyze what can be deleted and what is missing, if anything. If you wish, use the criteria on page 23 of this workbook to help your discussion, but don't rely on it totally for your assessment. You also need to pay close attention to the specific circumstances of Deep River.
3. Prepare your recommendations for a revised set of venture selection criteria or your arguments as to why the criteria recommended by the EDO trainee should be adopted.

Case Study

Location of Deep River

The main reserve of the Deep River First Nation is located directly beside the town of Thomas Lake, a town of 5,000 people. The region is rich agriculturally, is on the edge of a productive forest region and has a rapidly growing tourism industry.

Thomas Lake has been the location of several government offices servicing the north-eastern part of the province including Indian Affairs and the Seton Tribal Council (STC) which involves ten First Nations in the region, including Deep River.

This location has influenced the economic development of Deep River in several different ways:

- ❏ It has offered access to expertise and support from INAC and STC. Deep River has been willing to use these resources to advance their own interests.
- ❏ The proximity of Thomas Lake has meant more diverse local business opportunities.
- ❏ The Band has been able to develop leasing revenue ($100,000 annually) and expertise in negotiating and managing leases.
- ❏ The Band has rich agricultural land which it has successfully developed.

Human Resources

The total Band population is 400, 280 of which live on-reserve and 120 off-reserve, many right in the town of Thomas Lake.

While unemployment is not as high as other reserves in the region, it is still 43% of the current labor force. The rate of unemployment for women is higher (51%) than men (34%).

Of the unemployed who are looking for work there is a strong preference among men for work in the contruction trades and to a lesser extent, agriculture. However, among some men and certainly among the women, there is a small but growing interest in computer technology and a variety of para-professional and professional positions. Training is an ongoing activity with the Band and there is wide interest in furthering training efforts.

There is a significant reliance on Band-generated employment. At the moment, 26 people are working directly for the Band government or for Band-owned businesses.

There is a stong interest in small business and self-employment. 58% of the individuals surveyed recently indicated interest in starting their own businesses. The main interest was in retail, construction sub-trades, agricultural pursuits, and in some personal service type businesses. Major obstacles to small business start-ups appear to be lack of equity and experience.

Little interest appears to be evident in renewable resource jobs or businesses, with the exception of agriculture. Some interest is just beginning to develop in tourist-related service businesses, but there is currently little direct experience on the part of Band members.

There is a relatively high educational level of formal education of the Deep River Reserve. 57% have completed a minimum of grade 10. Fourteen have had some form of university or technical training. The general trend seems to favour an overall increase in the educational level of the general membership.

Present Organizational Capacity

Chief and Council provide stable, consistent leadership. All of the Councillors make a effort to keep informed and they take seriously the need to monitor the views of the Band membership. By deliberately involving widespread representation from the Band membership on all of the Council committees, they have been able to address Band concerns and maintain political stability.

The *Band staff* has had low turnover and over the last ten years has built up considerable experience. Good systems are in place and they are used. Planning is a normal part of how the Band office works. The result is focused, steady progress.

The Council has a demonstrated commitment to economic development. They have become very skilled a putting together financial packages and accessing government resources to benefit Band projects. Once a project is underway, the leadership turns its attention to the next project.

However, management skills related to actual operation of the resulting businesses is lacking. The lack of attention to management is showing itself to be a growing problem.

Current Status of Business Development in Deep River

Deep River has been actively involved in Economic Development since 1982 when it hired its first economic development co-ordinator. It now has two staff that work on putting projects together and troubleshooting business problems.

The Band has a Development Corporation called Deep River Holdings. It is the vehicle through which companies are owned. However, to date, the current Council leadership has supplied much of the board's time and energy. The two EDOs continue to work for the Band, although there is beginning to be some discussion about one of the EDOs being transferred to work directly for Deep River Holdings. In the mean time, the reality is that Deep River Holdings is still operating more like a committee of Council.

The current business interests of Deep River are summarized below.

BAND FARM

Deep River currently operates a Band Farm. A manager is responsible for day-to-day operations. Over the last twelve years it has played an important function in training interested Band members in farming. As people have been trained, the Band has leased farmland to its own members. There are now seven Band members that operate their own farms on land leased from the Band. This has been bringing in about $70,000/year in lease revenue to the Band. However, poor farming conditions in the last three years has led to a drop off in revenue.

DEEP RIVER SERVICES INC.

Deep River Services Inc., is a gas station/cafe operation. The company is in its second year of operation under Band ownership. It employs eleven people.

The company has recently hired its third management trainee. The high turnover has hurt the performance of the business and currently it is not making a profit. Moreover, it is taking a lot of the time of one of the Band's economic development staff just to keep it going. The Band government will have to decide if it is willing to put in a significant amount of technical assistance in the third year to ensure the viability of the business.

HORIZON GRAVEL AND PAVING, INC.

Horizon Gravel and Paving was purchased ten months ago. A training program was secured through Canada Employment in January to train employees for the coming season.

This is the only gravel and paving company in the town of Thomas Lake. There is a significant market for paving both in major construction projects, as well as for smaller contracts doing driveways.

The company has had to deal with a significant number of unexpected repairs due to poor equipment and inexperienced operators. The cost of these repairs was not adequately budgeted for in the purchase price. Consequently, the company is in a very cash poor position in the outset of its first operating season.

Although an outside manager was hired to manage and operate the company, there has been an increasing need for the Chief and Council and the Band staff to become involved with the operations of the company. It has become quite apparent that there was not enough emphasis placed on hiring a manager who was competent in planning and cash management. As a result, Band staff have had to devote to this firm a lot of time and expertise which might otherwise have been spent developing new opportunties.

DEEP RIVER HOLDINGS OFFICE PROJECT

After three years in the planning stages, the Deep River Holdings is scheduled to begin construction of a 1,200 square meter office building. It will house the Band office and some government offices.

Project team meetings and negotiations of leases continue to take a lot of the time of one EDO and other Band staff as well as the Chief. Nor is there any end in sight in the next eighteen months to the demands of this building project and the lease negotiations.

OTHER OPPORTUNITIES

The leadership of Deep River First Nation is aware of several other opportunities for generating jobs, profits, and other benefits to the membership. They include a convenience store, a daycare centre, a concrete plant, a motor hotel, a construction company, a green house, a cabinet plant (in an existing industrial space owned by the Band), a furniture factory, and another building program focused on housing students who come to Thomas Lake for training.

However, as can be seen above, the Band already has a lot on its plate. Reluctantly, the Chief and Council know they have to do some work at consolidating what they have underway. Nevertheless, they see no reason why some planning can't take place. The problem is they don't know what should get priority. Planning takes time and money and talent—all of which are in short supply right now.

At a recent workshop the Chief was exposed to a way of making these decisions. The approach is called "venture selection criteria." It was a way of screening opportunities and deciding which ones will get planning priority. The Chief knew this would take some thinking through but was convinced it would be helpful. He knew the time when Deep River could just follow its instincts from project to project was over. A broader plan was called for—a longer term strategy that would build up Deep River's capacity to create and sustain an economic base.

Chief and Council directed the Band EDO trainee to develop a draft set of criteria for their next meeting.

Draft Venture Selection Criteria

The EDO Trainee provided the following criteria to guide venture selection for planning purposes.

1. Employs Band members
2. Builds on Band members interests and skills
3. Provides a Needed Community Service or product
4. Provides for significant training opportunities
5. The Uniqueness of the Service or Product
6. Requires Modest Start-Up Costs
7. Good Use of Existing Natural Resources

Appendix 3

Venture Selection Criteria: “Smokey River” First Nation

The following is an actual example of one Band’s approach to setting and applying venture selection criteria. The First Nation’s name has been changed to “Smokey River” to respect the community’s privacy.

When trying to evaluate competing business proposals it is essential to have some yardstick by which to rate the individual proposal. The yardstick is of no value unless it creates those key areas which are of particular concern to the community. An effective rating scheme will ensure that proposed business ventures fit within the Band’s overall economic development strategy, or at a minimum will point out areas which specific proposals are weak in.

Business opportunities can be evaluated and compared by examining criteria framed in the form of questions. The criteria recommended for the purposes of business opportunity evaluation are set out below. Each criterion will be discussed, with an explanation as to its relevance.

EMPLOYS BAND MEMBERS

Providing meaningful employment to the members was identified by the Council and by individuals as being the primary goal of any economic development project. Potential business opportunities should therefore be ranked by their ability to improve the employment opportunities for Band members.

BUILDS BAND ORGANIZATIONAL CAPACITY

The business must be conscious of its own organizational development. As an organization it must seek to constantly expand its skills and ability to manage various projects. By deliberately providing the Band with the opportunity to take on increasing responsibility for various components of projects, the organizational capacity of the Band to handle larger, and more diverse projects will necessarily increase. With increased organizational capacity, more sophisticated projects fall within the group of feasible business options which can be considered by the Band. Too often Bands contract out portions of their projects to outside businesses, without considering the long-term effect this is having on their organization. To be self-sufficient, the Band must deliberately build its organizational capacity.

BUILDS ON BAND INTEREST AND SKILLS

By building on existing human resources, new projects have a greater chance of success. Moreover, by actively pursuing business projects which match the interests and skills of Band members, the Band can ensure the on-going development of its members.

PROVIDES NEEDED COMMUNITY SERVICE OR PRODUCT

Potential business ventures which fulfill this function will serve as a capacity builder for the community, as well as prevent money leakages to outside communities. A business which serves this market is far more likely to succeed than a business which is merely trying to gain some market share from an existing business.

REQUIRES LOW START-UP COSTS

This criterion merely acknowledges the fact that the Band does not have vast pools of money reserves. In any business proposal the up front financing requirements are a key concern and should be addressed.

BUILDS ON EXISTING ASSETS OR BUSINESSES

Potential business opportunities which build on the experience and investment of the Band's existing businesses will realistically require less support from the Band. The new business will profit from the Band's experience in the industry. Finally by deliberately expanding into known markets the Band can expand its capacity more cheaply and for greater return than it otherwise could.

CAPABLE MANAGEMENT AVAILABLE

The Organization must seek to ensure that capable management for proposed business ventures are identified before proceeding to final venture selection. By beginning the search for management early in the process, the Band will allow itself sufficient time to find the most suitable person for the job. Management in any business is key. The choice of the appropriate manager will often make the difference between success and failure for a business.

PROVIDES FOR SIGNIFICANT TRAINING OPPORTUNITIES

The Band must actively seek to improve the training opportunities of its members. It is only by ensuring that this training process is on-going that Band members will be able to take on additional responsibility and authority in the work place. A well trained work force is another important step towards self-sufficiency.

OPPORTUNITY FOR SHARED OWNERSHIP—JOINT VENTURE

The Band must actively seek to access additional means to build its capacity. Joint venturing allows the Band to access partners with interests and expertise specific to the business proposal being considered. Properly structured, joint venturing will ensure that management deficiencies are corrected and that Band training is on-going. Joint venturing is a less costly method of increasing Band capacity.

UNIQUENESS OF SERVICE OR PRODUCT

Businesses which face no direct competition have a greater chance of survival. Funding agencies often use this criterion when evaluating proposals.

CONCLUSION

By subjecting proposed business ventures to these criteria, the Band can evaluate and compare the merits of each proposal. Using the criteria will ensure that long term goals such as training opportunities and Band capacity building are deliberately quantified as each proposal is evaluated.

Furthermore, because these criteria can be used on a proposal that is in its initial stages of development, proposals which fail to meet the long range goals of the Band may be quickly weeded out, saving the Band time and energy of researching the venture further.

1ST CUT ENTERPRISE OPPORTUNITY SELECTION

Opportunities are more likely to become successful businesses if they fit the interest and capacities of the Band. The searching starts with a review of local needs, incomes and expenditure patterns. Natural resources, indigenous to the reserve and local area, are another useful area to evaluate for potential opportunities. Where organizational experience and capacity is underdeveloped, beginning efforts should be small, expanding step by step as market conditions and the growing competence of Band government, institutions and members warrant.

There were numerous businesses and service related enterprises generated through the research and community survey. In this section, the long list of potential enterprises are narrowed down by eliminating those not consistent with the criteria laid out earlier.

This is not a detailed or precise evaluation. It is a first cut at selecting opportunities appropriate to and potentially viable within the context of the individual Band. As was pointed earlier, each opportunity is scored between 0 and 5 against such criterion. A score of 0 indicates the enterprise does not meet the criterion and 5 means that criterion under consideration is one of the strengths of the enterprise.

Both business and service enterprises are considered. Both are related to meeting needs, creating jobs and improving incomes of Band members. The environment for business development requires certain services and capacity being present. Creating new businesses also increases the demands for certain kinds of services. On the other hand, services related to training, development, and support of people are key to the general upgrading of the labour force and shaping of community attitudes to development. In short, business and service enterprises are generally complementary and in some cases the absence of certain services can represent an obstacle to creating successful businesses. Chart 4, scores each enterprise opportunity against each of the 10 criteria. Notes clarifying aspects of the scoring follow.

1ST CUT EVALUATION OF OPPORTUNITIES—"SMOKEY RIVER" BAND

The preliminary selection process generated five potential enterprises with scores above 50%. They are as follows:

1. Construction Companies	80%
2. Convenience Store	66%
3. Motor Hotel	66%
4. Foresters’ Residence	66%
5. Daycare Centre	60%
6. Cabinet Plant	60%

Other proposals for business opportunities by Smokey River Band members, as well as some existing ventures, were rated lower in the preliminary selection process, and thus were not selected for further examination.

1st Cut of Enterprise Opportunities: “Smokey River” First Nation

VENTURE OPPORTUNITIES / SELECTION CRITERIA	Employs Band members	Builds Band organizational capacity	Builds on Band interests, skills, and experience	Provides needed community services or products	Requires low start-up costs	Builds on existing assets or businesses	Capable management available	Provides significant training opportunities	Opportunity for shared ownership	Unique service or product	TOTAL POINTS	TOTAL %
Convenience Store	4	2	3	5	3	4	2	3	3	4	33	66%
Daycare Centre	3	3	3	4	2	2	2	4	3	4	30	60%
Concrete Plant	2	3	3	3	1	4	2	3	2	3	26	52%
Motor Hotel	4	4	3	4	1	4	2	4	4	3	33	66%
Construction Companies	4	5	5	4	4	5	3	4	4	2	40	80%
Greenhouse	3	3	3	4	2	2	2	4	3	3	29	58%
Cabinet Plant	4	3	4	2	2	3	2	3	4	3	30	60%
Furniture Factory	3	3	3	2	1	2	2	3	3	3	25	50%
Foresters’ Residence	3	3	4	4	2	4	3	4	3	3	33	66%

Key

0 = venture does not satisfy the criterion

5 = venture strongly satisfies the criterion

Note: This model developed by the National Economic Development and Law Centre, 1950 Addison St.,Berkeley, Ca., USA 94704

Building a community economy is a complex undertaking. Community planning and the shaping of effective and accountable organizations must integrate with the development of successful, rewarding enterprises. Essential to the task are solid research and analytical skills – but not experts!

This workbook, another installment in the Westcoast Series on Community Economic Development (CED), demystifies the venture development process: the series of procedures through which business opportunities are identified, screened, selected, planned, and implemented. The workbook and the 5-day workshop it supports help readers and workshop participants to grasp the fundamental steps which the establishment of successful businesses involves. Straightforward language, detailed examples, and numerous cartoons bring venture selection, research, analysis, and planning back to earth.

This workbook will assist those interested in venture development from both a CED and a small business perspective. A companion publication, *Ventures Development Basics: Facilitators Manual*, offers recommendations as to design, timing, learning activities, and resources which will support workshop delivery.

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