

Finding Your Place in Space: The Reality of Starting Your Own Business

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Presented by:

**Ian Goodall-George, Chief Executive Officer and Community Development
Manager
Triple R Community Futures Development Corporation**

NOTE TO READER

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Part 1- Are You Cut Out to Be an Entrepreneur?

**The word Entrepreneur comes from the French “entreprendre” meaning:
“To pursue opportunities, to undertake, to fulfill needs and wants
through innovation and starting ventures”.**

1.1 Is a Successful Business Person Born or Made?

Find out if you have some of the characteristics typical of successful entrepreneurs. Unfortunately no checklist can guarantee success (or guarantee against it), never the less you should consider the following areas.

- 1. Your Personality:**
What happens when you fail? Do you like people? Are you a positive thinking? Are you willing to take and seek other people’s advice? Etc.
- 2. Your Lifestyle:**
Would you be willing to jeopardize your present lifestyle? Long Hours!
- 3. Your Family:**
Do you have support from your family? Are business demands understood by those who may be affected?
- 4. Your Finances:**
Are you willing to risk financial failure? You may have to reduce your standard of living.
- 5. Your Skills:**
Do you have the skills to operate a business? How much experience do you have in the area you are considering? (This may or may not be important)

1.2 Major Benefits of Self-Employment

- Opportunity to set up your own system
- Freedom to make your own decisions
- No need to make compromises
- Freedom from company and co-worker “games”
- Freedom to begin work when you wish
- Freedom from other undesirables of your old job (unnecessary meetings, unreliable co-workers, etc.)
- Security of knowing your success or failure are based on your own merits not on someone else’s
- Freedom from a boss
- Often allows you to spend more time at home with your family

1.3 Major Drawbacks of Self-Employment

- Necessity to set up your own system
- Necessity to make your own decisions
- No co-workers or bosses to rely upon
- Necessity to be self-disciplined
- Lack of a guaranteed pay-cheque/benefits/etc.

1.4 Ten Myths of Starting a Small Business

1. Its easy
2. The Government will give me a grant to get started
3. Me service/product will sell itself
4. I can hire someone to do all of the stuff I don't like
5. I will get rich
6. I don't have to like what I do to make money in this business
7. The competition doesn't know what they are doing
8. I will get lots of free time because I am my own boss
9. I can do it cheaper than anyone else
10. Because I do it better everyone will want my product/service

1.5 What are Your Personal Financial Needs?

How much money do you need to look after your personal obligations? How will you cover these items if your business is not profitable enough?

Your Present Monthly Commitments	What You Spend Now	The minimum you need to "get by"
Rent (mortgage)	\$	\$
Food		
Heat		
Light		
Power		
Telephone		
Clothing		
Car Payments		
Maintenance (car, house etc.)		
Gas & Oil		
Insurance (car, house, boat, etc.)		
Entertainment		
Taxes		
Gifts & Donations		
Other		
Total	\$	\$

Part 2- Identifying Opportunities

2.1 Three Ways to Start a New Business

1. Start from Scratch:

Usually the only option for home-based businesses, Requires more time, effort and skills than buying an existing business. It is more risky. Can experience losses or low income during the first few years. Requires stamina but can provide the greatest amount of personal satisfaction.

2. Buy an Existing Business:

Financing will likely be easier than if from scratch. May reduce time to turn a profit. Problem is that most businesses up for sale are unhealthy and will need substantial revision.

3. Obtain a Franchise:

You will have to run it someone else's way and it will likely be very expensive. However, there is support and everything is proven and pre-planned for you.

Part 3- Forms of Business Organization'

3.1 Sole Proprietorship

Advantages

- Low start-up costs
- Greatest freedom regulation
- Owner in direct control of decision-making
- Minimal working capital required
- Tax advantages to owner
- All profits to owner

Disadvantages

- Unlimited liability
- Lack of continuity in bus. in absence of owner
- Difficulty of raising capital

3.2 Partnership

Advantages

- Ease of formation
- Low start up costs
- Additional sources of investment capital
- Possible tax advantages
- Limited regulation
- Broader management base

Disadvantages

- Unlimited liability
- Lack of continuity
- Difficulty of raising additional capital
- Divided authority
- Hard to find suitable partners
- Possibility of conflict between partners

3.3 Corporation

Advantages

- Limited liability
- Specialized management
- Ownership is transferable
- Possible tax advantage
- Easier to raise capital
- Separate legal entity
- Continuous existence

Disadvantages

- Closely regulated
- Most expensive form to organize
- Charter restrictions
- Extensive record keeping necessary
- Double taxation of dividends

Part 4- Analyzing Your Market

Strategic Marketing

Every business must establish its own best methods for bringing its product and/or service to the customer. The process of selecting these methods requires careful consideration of all relevant factors. **These days, marketing must be done strategically.**

4.1 Six Fundamental Steps

1. Market research
2. Set marketing objectives
3. Choose your marketing strategy
4. Create a business image
5. Spreading the message
 - Advertising
 - Promotions
 - Publicity/Public relations
 - Overcoming challenges through marketing
 - Personal selling
6. Evaluation

Part 5- Financing your Business

5.1 Initial Considerations

Do You Own Enough To Owe?

Borrowing is possible but only if you own a sufficient amount of cash, inventory or equipment to provide reasonable equity for the loan. Investors evaluate the risk level of the loan according to its “debt to equity ratio”. That is, what you owe compared to what you own. Different types of businesses have different target ratios but every type of business must demonstrate that they own enough to owe.

You must invest some of your own money and equipment into your business to make a loan possible. Exhaust your own funds before you borrow from others. Assume the bulk of the risk.

“Love Money”

It is normal for entrepreneurs to get funds from family and friends. Remember to keep this relationship as business like as possible. Prepare a written agreement detailing the loan. Inform them about your business progress and pay them back as soon as you can. Don't let the business destroy a friendship or a family.

Banks/Credit Unions

If you think you may need money from a financial institution, plan this out as early as possible. Banks/Credit Unions have reason to avoid investing in a new business because it has no track record. You must present a *thorough* business plan; have a good credit rating, and sufficient collateral to secure the loan. Be professional and precise with your presentation to your lender.

Leasing

Instead of buying equipment or vehicles, consider leasing. This is easy on the business start up phase because it often requires little or no down payment.

Trade Credit

Find suppliers who give you a month or more to pay for goods and services you receive. Usually, you have to demonstrate ability to pay on delivery for a while before getting a credit rating.

Credit Card

A company credit card may be all many small service companies need to get over the periods of slow payment or inventory purchases. Keep it separate from your personal credit card and don't let it build up... they charge high interest.

Government Assistance

Various financing initiatives exist (generally few grants) to facilitate loans which must be repaid and usually with high interest.

* Note: A few special grant programs remain and it pays to see if they can help you.

5.2 What Do Lenders/Investors

Most investors base their process for reviewing loan applications on the **5 C's**.

- Credit** Your personal credit and/or business credit history and payment record. If you have a credit problem bring it up anyway because they will find out sooner or later.
- Collateral** The assets which you can pledge as security to guarantee repayment of the loan.
- Character** Your personal characteristics such as your work history, letters of reference, management skills and time at your residence.
- Capacity** How easy (or difficult) it is for you to pay your debts? Typically, your personal debt should not exceed 40% of your total income.
- Capital** How much of your own money you are contributing?

Financing Hint: If a financier ever refuses you remember to ask why you have been refused. Chances are it isn't because they don't like you! Their response will help direct you to where your business proposal needs improvement.

5.3 Determining Your Start Up Costs

Every business must demonstrate to investors where their money is required. Every new business must clearly display the start-up costs.

Make sure your calculations answer the following questions:

- ___ Do you need any new equipment or tools?
- ___ What supplies and materials are needed?
- ___ Do you need a vehicle for deliveries or to visit your customer?
- ___ Do you need to renovate/repair your premises (or your vehicle)?
- ___ How much will your initial advertising cost?
- ___ Do you need special packaging, labels, letterhead etc.?
- ___ What are your licensing fees, membership dues, name registration costs and business registration expenses?
- ___ What telephone and driving expenses have been incurred prior to start-up?
- ___ Will there be any professional fees for start-up?

5.4 How Much Start-Up Financing is Needed?

X= Total Start Up Costs

Y= How Much You Will Contribute to Start the Business

Z= How Much Financing You Need to Find from Someone Else

$$\text{Or, } X - Y = Z$$

Determine Your Working Capital Requirements

As the business establishes itself, it will most likely have low sales volumes. Often the business is not able to generate enough revenue to cover the first few months operating costs. What is needed is working capital to get over the “hump”.

To determine your operating costs you must complete a **Cash Flow Statement**. Your cash flow will display the cumulative monthly deficits of your first few months of operation. Your working capital (also called operating costs) financing should cover the greatest monthly shortfall. If possible, acquire short-term credit for these expenses (Ex. Get a line of credit or a company credit card with a reasonable interest rate).

Remember to be conservative with your sales expectations or your working capital financing will not be sufficient.

A rule of thumb for calculating working capital requirements is to multiply the average monthly operating expenses by two or three.

If you cannot get enough working capital reassess your expenses, reconsider giving credit to customers, keep less inventory, find suppliers who will give you credit and visit your accountant.

Total Start Up Costs	\$ _____
<i>Minus</i> Equity (or your) Contribution	\$ _____
<i>Plus</i> Working Capital Required	\$ _____
<u>Equals</u> Total financing Required	\$ _____

5.5 Your Financing Checklist

Run through the following checklist to ensure that you have thought of everything. Reduce the chance of “Surprise\$”.

	YES	NO
Have you determined your potential return on investment in this Business? Is it an acceptable figure?	___ ___	___ ___
Have you determined the amount of capital you need to start your business	___	___
Have you determined how much capital you can raise on your own?	___	___
Do you have enough ready cash to pay your bills during the early months of the business?	___	___
Have you allowed for the following expenses in your financial planning?	___	___
Rent	___	___
Supplies	___	___
Utilities	___	___
Equipment	___	___
Furnishings	___	___
Licenses	___	___
Telephone	___	___
Wages and Salaries	___	___
Employee Benefits	___	___
Inventories	___	___
Advertising and Promotion	___	___
Professional Fees	___	___
Transportation	___	___
Tax	___	___
Interest	___	___
Have you allowed a reasonable income for yourself?	___	___
Have you determined and obtained your borrowing requirements?	___	___
Have you established a credit rating?	___	___

5.6 What Types of Financing Are There?

Term Loans

These are the most common type of loan. They are given to provide funds for “hard”, long term assets such as equipment or property-usually the costly items. They are repaid over a set period of time (“loan terms” can range from 6 months to 25 years depending on the purpose of the financing). Interest rates can be fixed or change with the “prime” lending rate. Sometimes, interest only payments are

made with the principal (amount of your loan) coming due at a specific date. Remember that most loans have a *Demand Condition*... in other words, the loan must be paid back, “on demand” by the lender.

Line of Credit

This is an operating loan designed to meet short term operating expenses such as inventory purchases, slow accounts receivable and initial advertising costs. It operates similar to credit cards with a maximum borrowing amount and a fluctuating balance. Your line of credit (sometimes called an *overdraft*) can continue providing you with these benefits long into the future. To get one you must provide a believable cash flow forecast and survive the “Five C’s Analysis”. It is wise not to use this loan for investments that will only bring a return in the long term (Ex. Renovating your premises).

Part 6- Preparing a Business Plan

6.1 What is a Business Plan?

- A written operating plan or strategy that is prepared and understood by you.
- A document describing and organizing all of the information you have researched and collected on your business idea.
- An explanation of how you will start and operate your business and it will succeed.

6.2 Why Write a Business Plan

The purpose of all of your business planning is to ensure that your business has the best possible chance of succeeding. The purpose of the Business Plan document is:

1. For Your Personal Use

A) The document charts the future direction of the business and can serve to remind you of any crucial issues. If used properly, it will keep you focused on the right path to success. It should also be revamped to reflect the changing environment or thrust of the business. It should not collect dust. A good Business Plan is a living document.

B) Another personal benefit of the Business Plan is that it provides motivation to do as much research and planning as possible. To complete each section you will need to find useful information such as ...

What potential problems or risks will I face?
What do I need to know about my industry?
What are the strengths & weaknesses of my competition?
Who are my customers and how will I reach them?
Will this business provide me with a reasonable income?
For what aspects will I need to get professional assistance?

2. For Your Investors

Bankers and other investors will use the Business Plan to decide if it is a worthy investment. Since these individuals are not experts in your field of business, the Plan should explain even the most basic elements of your business and its industry.

5 Benefits of a Business Plan

1. Helps you stay organized and focused on what you are doing
2. A logical step-by-step plan yields a logical and efficient business
3. Helps you find cost-savings, new markets and fresh ideas
4. Confirms your belief in the viability of your idea
5. Dramatically increases the chance of getting an investor

6.3 The Business Plan Outline

Every business requires a business plan outline. What is suggested here is simply a logical order that may be of use to many entrepreneurs. Include anything of importance to your business in the order that makes the most sense. All that matters is that the final product makes sense and can be represented by a clear table of contents.

TITLE PAGE

TABLE OF CONTENTS

EXECUTIVE SUMMARY

PRODUCT/SERVICE DESCRIPTION
SHORT & LONG TERM BUSINESS OBJECTIVES

MARKET PLAN
DESCRIPTION OF THE TARGET MARKET AREA
DESCRIPTION OF THE TARGET CONSUMER (TYPICAL CUSTOMER)
ADVERTISING AND PROMOTIONAL TECHNIQUES
PRICING
COMPETITIVE SUMMARY

OPERATIONAL PLAN

SUPPLIER SUMMARY
LOCATION/PREMISES SPECIFICATIONS
EMPLOYMENT SUMMARY
PERTINENT REGULATIONS
INSURANCE COVERAGE

MANAGEMENT SUMMARY

ACTION PLAN

FINANCIAL INFORMATION

FINANCING SUMMARY (HOW MUCH REQUIRED? FOR WHAT? FROM WHOM? ETC.)
PROJECT COSTS
SOURCES FUNDING
SALES EXPECTATIONS
CASH FLOW FORECAST (YEARS ONE, TWO AND THREE)
ALL PERTINENT FINANCIAL ANALYSIS (BREAK EVEN SALES, RETURN ON INVESTMENT. ETC.)

RISK ASSESSMENT

VARIOUS APPENDICES

THIS INCLUDES...

EQUIPMENT LISTING, PERSONAL INFORMATION/RESUME, PERSONAL NET WORTH STATEMENT, EQUITY CONTRIBUTED, PERTINENT REPORTS AND SURVEYS, PERSONAL REFERENCES, LIST OF BUSINESS ADVISORS, PRODUCT/SERVICE SPECIFICATIONS, COPIES OF ALL BUSINESS DOCUMENTS, ANYTHING ELSE OF INTEREST TO YOUR BUSINESS

Part 7- Regulations

A number of regulatory issues should be given considerations when starting a business.

- _____ Business Name Registration
- _____ Incorporation Registration
- _____ Business Number/ GST Registration
- _____ Retail Sales Tax (PST) Registration
- _____ Insurance (Property, Liability, Disability)

- _____ Zoning Bylaws and Building Permits
- _____ Environmental Legislation, Permits etc.
- _____ Workers' Compensation Board
- _____ Fire Code Regulations
- _____ Partnership Agreements
- _____ Health Inspections
- _____ "Transient" Traders License
- _____ Business License

Part 8- Resources for Young Entrepreneurs

For each of the programs noted below, please pick up a brochure from the presenter where you will receive information on how to contact the programs noted below. **Please note that since programs can often change this information may not be accurate or applicable to your needs**. **The following is not presented as an exhaustive list of available resources.**

1. Partners With Youth Program- Young Entrepreneurs Component
 - Up to a \$2,000 grant to start a full-time business (ages 18-29)
 - Province of Manitoba- call 1-800-282-8069

2. Junior Achievement of Manitoba Inc.- Call 1-800-565-0406
 - Mentoring Programs, entrepreneurial workshops, training, and more

3. Women's Enterprise Center- call 1-800-203-2343
 - Counseling, resources, seminars and loans

4. Community Futures Development Corporations- Young Entrepreneurs loan
 - Counseling, resources, (some seminars) and loans –see brochure

5. Canada Manitoba Business Service Center- call 1-800-665-2019
 - Free Comprehensive business information, publications, research assistance and more
6. Aboriginal Business Canada- Youth Initiative- call 204-983-7316
 - Services and financial support
7. Business Start Program- call 204-984-0037
 - Loan guarantee program matching your funds up to \$10,000 (18 & over)
 - Department of Industry, Trade and Mines, Provinces of Manitoba
8. Canadian Youth Business Foundation- call 1-800-464-2923
 - Loans for ages 18-29 up to \$15,000
9. Student Business Loans- Business Development Bank of Canada- 1-888-463-6232
 - Ages +15, returning to full-time school, up to \$3,000 loan interest free between May and August annually.
10. Government of Canada Youth Information Line- 1-800-935-5555