

At BMO Bank of Montreal, we are committed to helping Canadian businesses develop and succeed. To this end, we've created a Business Coach Series that provides information and knowledge that can optimize the value of your company's financial resources. The booklets that make up the Series focus on essential areas of financial management allowing you to focus on operating your business more effectively.

For more information on how BMO Bank of Montreal can help your business:

- ✓ talk to your Commercial Account Manager
- ✓ call BMO Bank of Montreal Direct Banking for Business at **1 877 262-5907** or
- ✓ log on to **www.bmo.com/business**

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Developing Your Business Plan

BUSINESS COACH	SERIES
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Developing Your Business Plan

The Situation

You intend to start up a business, or perhaps it's already operating. More than likely, you are seeking capital – a loan – to get your venture going or growing. However, before your loan request can be considered, you have to provide a business plan.

The Solution

At BMO Bank of Montreal®, we are committed to helping Canadian businesses develop and succeed. The purpose of this Business Coach is to provide the help you need to develop a well-thought-out plan.

While a business plan can go a long way in helping you get the financing you need, it can also be important in helping your business succeed over the long term. With a sound business plan, you'll have solid goals to aim for, a strategy for reaching them and a useful understanding of the environment in which your business is operating. A business plan doesn't have to be complicated or time consuming. It simply requires you to consider the factors that will affect your business and allows you to plan to deal with them. You should also realize your plan isn't written in stone: expect the unexpected and change your plan when necessary.

In this Business Coach, we have included:

- some factors you will need to consider in developing your business plan
- a sample Statement of Goals
- a sample Business Planner, and
- tips to help you keep your business plan on track.

Since every business is different, the samples are offered only as examples on which to base your individual goals and business plan.

TIP | Review your business plan with your accountant or with an associate whose business insight you respect.

Setting Your Business Goals

Before developing a realistic business plan, you need achievable goals. To set goals, you have to ensure you have the right information. Some of this will come from internal sources, but it will also have to come from outside sources such as trade associations, competitors, customers, and so on. To set realistic goals for your plan, you should consider a host of factors.

TIP | Regularly compare actual results with projections, by keeping an eye on:

- monthly profit and loss statement
- monthly aged payables and receivables
- inventory data

The components of your business: What's involved?

- Business objectives/strategies
- Employees
- Sales
- Customers
- Cash flow
- Profit margins
- Scheduling
- Production runs
- Choice and maintenance of equipment

Who are your competitors? What will your business do or offer that is unique or better to attract customers?

- Products
- Price
- Delivery
- Service
- Quality
- Warranty
- Contracts

What is the size of your potential market? Is it growing? What are the major factors influencing it? What is the expected life cycle (of products or market)? Who are your current and future customers?

Obviously, the questions you must ask yourself, and answer, vary according to your type of business: manufacturer, wholesaler, retailer, service provider and so on. However, this process will help enable you to develop your business goals (see sample "*Statement of Goals*") which in turn will be reflected in your business plan.

Statement of Goals

Personal Goals Long Term

- The value of my holdings in the company should be approaching \$1.5 million within five years.
- By the time my children are in university, I want time and money to travel – therefore, I must be able to cash in some or all of my holdings.
- Give some thought to what I want to happen to my business when I retire. (Unfortunately, most business owners wait until they are ready to retire before giving serious thought to succession planning.)

Short Term

- I will go on an annual two-week family holiday.
- If something happens to me, my spouse must have financial security.
- By the end of next year, I want the same salary I would have to pay a manager to run the company (or the after-tax equivalent in dividends).

Business Goals Short and Long Term

- Profit before taxes should be not less than \$450,000 within five years (I own 80%, the employees 20%; at four times pre-tax profit, my share would be worth 80% of \$450,000 X 4=\$1.44 million).
- Despite increasing labour costs, I will not let my gross profit fall below 33%. If necessary, I will subcontract the lower-gross items or drop them.
- The company will increase inventory turnover from 3.2 times to 4 or 5 times within five years by a better inventory control system with increasing sales.
- I will aim for pre-tax profit on sales above the industry average of 17%.
- We will reduce our dependence on product X from 40% of total sales to less than 25% within three years. (This will be achieved by the launch of two new products).
- I will groom a new general manager to be able to take over from me within five to seven years, while I still maintain overall ownership.

These goals provide the foundation for the completed sample Business Planner that is attached.

TIP | Check for “hot buttons” that indicate early warning signs of problems, such as:

- back orders
- warranty claims
- customer complaints
- staff turnover

Planning to reach your goals

With your goals set and stated specifically in terms of sales, profit, expenses and so on, you will need to decide when you want to reach these goals. Recognize you cannot do everything at once. Develop a five-year plan with priorities and detailed goals for year one and what you want to achieve in subsequent years.

TIP | Communicate any changes of plan with key employees. Also, get them involved in developing your business plans. This will give them a better understanding of the business and help keep them committed.

Planning for One Year and Five Years

This Business Coach includes a sample Business Planner that has been completed to reflect the outlook of a “typical” company. While your business concerns may differ from the entries you see in the example, the Business Planner will work for you as a useful template. It features two main sections.

In the first section, you can forecast sales, expenses and profits by month for one year and by year for the next four years.

In the second section, you can list major activities that need to be addressed or goals you want to accomplish under:

- marketing
- sales
- new products or services
- production
- development
- human resources
- finance.

This owner wants his 80% of the company to be worth \$1.5 million in five years, so he has to work to the level of profits that will help achieve that. He sets a future value, probably with the help of his accountant. Your own objectives might be more modest or more ambitious depending on the size and type of your business. Always date your plans. They will change from time to time.

Business Planner –1-5 Years

Date Prepared: *Nov. 15*

(in thousands of dollars)

Fill in Months	Month 1 <i>Jan</i>	Month 2 <i>Feb</i>	Month 3 <i>Mar</i>	Month 4 <i>April</i>	Month 5 <i>May</i>	Month 6 <i>June</i>	Month 7 <i>July</i>	Month 8 <i>Aug</i>	Month 9 <i>Sept</i>	Month 10 <i>Oct</i>	Month 11 <i>Nov</i>	Month 12 <i>Dec</i>	Total Yr.1 <i>2004**</i>	%	Total Yr.2 <i>2005</i>	%	Total Yr.3 <i>2006</i>	%	Total Yr.4 <i>2007</i>	%	Total Yr.5 <i>2008</i>	%
Sales \$	100	50	50	100	50	50	100	200	100	100	50	50	1000		1467		2000		2264		2464	
Cost of Goods Sold	62	34	43	62	34	34	62	119	62	62	34	34	633		967		1340		1518		1650	
Gross Profit \$	38	16	16	38	16	16	38	81	38	38	16	16	367	36.7	500	34.1	660	33	746	33	814	33
Selling & Admin. Expenses	15	10	11	15	10	11	17	29	17	17	11	11	174	17.4	233	15.9	300	15	336	14.8	345	14
Net Profit Before Taxes \$	23	6	5	23	6	5	21	52	21	21	5	5	193	19.3	276	18.2	360	18	410		469	19
Marketing*	Questionnaire for market research ← ----- →							Develop marketing plan for new product			National trade show				Sales offices Edmonton, Halifax							
Production*	Assess new packaging machinery ← ----- →		Obtain bids			Place orders		Introduce new inventory control							New products Y & Z to be launched						Investigate second manufacturing location	
Personnel*	Complete job evaluations Interview all staff ← ----- →			Appoint new sales manager				Hire new receivables clerk	Plant shutdown						Set up management committee				Increase board of directors		Train new Genmgr. from within	
Finance*	Review financial statement with auditors & renegotiate operating line with BMO. ← ----- →			Discuss new machinery financing with bank			Temporary line of credit required		Complete cash flow for next year		Meet auditors				Investigate automated payroll with bank						Renegotiate plant lease	
New products/ service or development*							Attend new products show Chicago								Explore acquisition possibilities or joint venture to expand product line							
Other*				See insurance agent to review coverage					Provincial energy assessment to current management												Possible sale of company to current management	

* Actions under these categories may well run several months, which can be indicated by a line extended through the applicable months.

** Calculated by addition of monthly figures