SMALL BUSINESS AND
CO-OPERATIVE DEVELOPMENT BRANCH

Service Business Plan

Manitoba
Industry, Trade
and Mines

SERVICE BUSINESS PLAN

Note to Reader

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Preface

The purpose of this publication is to help Manitobans who are planning to start service-type business enterprises or who wish to re-assess the viability of an established enterprise. The help offered here is in the form of a guide to developing a Business Plan.

The four broad functions of managing a business have been identified as **Planning, Organizing, Directing and Controlling**. That Planning comes first is not accidental. It is the very foundation of a successful business because it illuminates the future in such a way as to help the entrepreneur avoid pitfalls and problems; gain self-confidence because the entrepreneur now has a track to run on; and, give backers, lenders, suppliers and employees assurance of a solid approach to conduct the enterprise.

As you begin to study this guide, you are urged to be honest with yourself. Don't overlook anything. Dig out all the facts. Apply the four C's to your Plan.

Be **candid**	- you will only fool yourself if you are less than honest;
Be **comprehensive**	- examine every facet of your proposed business to make sure you don't overlook an important item (state all assumptions as assumptions and question them);
Be **complete**	- thoroughness is a further step to comprehensiveness;
Be **competitive**	- keep in mind that there will be competition at every turn. In raising money. Getting good employees. Getting share of market. Be realistic.

Table A —
SERVICE FIRMS

Although the examples on the following pages refer mainly to a restaurant, the same basic approach and guidelines apply equally well to most other service establishments, such as:

- accounting
- cartage
- dry cleaning
- funeral homes
- insurance agencies
- landscaping
- law offices
- photographers
- repair shops
- real estate
- taxidermists
- entertainment (e.g. miniature golf, roller skating rinks, driving range)
- printing
- delivery/messenger
- ____________________
- ____________________

NOTE: **Some service operations are difficult to distinguish from retailers as they have a retail sideline to supplement or support service activities. The companion book "The Retail Business Plan" may be helpful in such cases.**

The Business Plan

A Business Plan is a way of answering the question, "Where will my business be this time next year? Three years from now?"

For a contemplated or new business, a Business Plan can help determine what resources will be needed to assist in its success. It follows then, that if the required resources are not available, it would probably be unwise to launch the enterprise in the form in which it is currently conceived.

For a struggling existing business, a Business Plan can help measure the true condition of the business and reveal its weaknesses and strengths.

For the successful, established business, a Business Plan is equally necessary as a "track to run on" and a source of business information.

A Business Plan is based on assumptions, estimates and forecasts. Therefore, the Business Plan is a guide, a reminder and, to an important degree, a source of challenge.

The Business Plan proposed here has five main sections:

- Sales
- Costs
- Profitability
- Cash Flow
- Feasibility

Each section provides a step-by-step method for developing your projections. Essential ingredients are identified, examples are shown and worksheets provided for the corresponding figures for your proposed business. For purposes of the examples in this book, a restaurant has been used. The processes illustrated apply, of course, to any or all service establishments.

Once you have completed your Plan, using the techniques suggested here and following the guidesheets (worksheets 1-7) you will have a systematically-prepared, extensive document from which each of the "stakeholders" in your business can make an objective assessment of its future prospects.

The "stakeholders" include:

- **You** - as the person who stands to lose the most if the business falters. To obtain a clear picture of your personal financial needs, complete the "Assessment of Personal Finances" on page 5. Remember, your business may not be able to pay you a salary (or full salary) during the first few months.

- **Financial Backers** (including silent partners) - all businesses need financial support from outside (friends, relatives, entrepreneurs, bankers, etc.) and these lenders and investors seek assurance of the safety of their investments.

- **Sources of Help** - it is often necessary to turn to others for help in achieving your goals. Complete the "Self-Analysis Test" (see page 5). This will help you recognize where your own knowledge and skills should be supplemented by input from professionals and specialists such as lawyers, accountants, insurance agents, advertising agencies, suppliers and educators. Some may help you in the preparation of your Business Plan; all will be more effective if they can see that you have put a lot of thought into your Plan. As with most situations in business, people will help you in relation to how much work you have put into your project.

Table B — ASSESSMENT OF PERSONAL FINANCES

My Financial Obligations	Amount (per month)
House Mortgage/Rent	______
Family Food Bill	______
Utility Bills	______
Charge Account Spending (yourself and others)	______
Operating Costs for Car(s)	______
Personal Spending/Recreation	______
Repairs to House	______
Major Purchases (car, appliances, furniture, etc.)	______
Other Expenses: Insurance (life, car, house) Medical/Dental Car Repairs Education (family) Taxes (property) Retirement Savings Seasonal Spending (e.g. Christmas) Other Expenses (specific to you)	______
TOTAL	______

	Amount (per month)
My needs per month are	______
Other income per month is	______
Will my business be able to meet such expenses?	______
If not, should I withhold some of the money I expected to invest?	______
Amount I expected to invest	______
Amount I am now withholding	______
New amount I expect to invest	______
NOTE: The amount I am withholding allows me a basic income for at least a few months.	______
TOTAL	______

Table C — PERSONAL SKILL AND KNOWLEDGE (Self-Analysis)

	Check (√) O.K.	Check (√) Need Help
Financing		
I know how to analyse options.	_____	_____
I understand financial jargon.	_____	_____
I know how to control expenses.	_____	_____
Marketing		
I am "customer oriented".	_____	_____
I understand the "market segments" that make up my "Target market".	_____	_____
I am skilled in selling my product/service.	_____	_____
I understand how to advertise and promote my product/service.	_____	_____
Media advertising	_____	_____
Display and Signs	_____	_____
Premises layout	_____	_____
I understand marketing strategies and how they relate to my target market.	_____	_____

	Check (√) O.K.	Check (√) Need Help
Staffing		
I know the number of employees I need and the qualifications they must have.	_____	_____
I am familiar with hiring practices and interviewing.	_____	_____
I believe I can motivate my employees to high levels of productivity.	_____	_____
Buying		
I am trained and skilled in buying what customers want.	_____	_____
I have good supplier contacts.	_____	_____
I am aware of personal requirements.	_____	_____
Accounting		
I know which records to keep and what information they should contain.	_____	_____
I know how to intepret financial statements.	_____	_____

Section 1 — Sales

There are two methods of making a realistic estimate of gross sales.

The first is called the "top down" method. You start by obtaining the total amount of sales of your particular kind of business in your market area. From this figure, by a series of calculations, you are able to estimate your probable gross sales.

The second method is called "bottom up". It is based on the average purchases of potential customers. Your gross sales figure evolves from factors common to your particular location.

Actually, it is wise to estimate your gross sales by both methods. If the two answers are close, you will be confident of the accuracy of the estimated figure. If not close, you will know that something is amiss. You may have miscalculated; you may have made an unsupported assumption; or, you may have omitted an important factor. Usually, however, the figures tend to converge the second time around. Above all, be honest and realistic about your estimates.

Let us go through the two methods step by step.

METHOD A - TOP DOWN

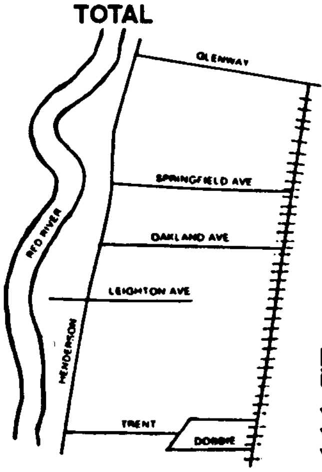
Step 1 - Your Market Area

What are the geographical boundaries of your market? Where are you doing business now or (for a new venture) going to do business? Town, neighbourhood, entire city, province-wide, rural community? Get a map of the city or district and draw the boundaries of your basic market on it. For a service operation, you must also estimate the number of people (or family units) in your area. Statistics Canada has this type of information by Census Tract (Catalogue No. 95-173) Part 1 for the City of Winnipeg and Census Sub-Division (Catalogue No. 94-113) for the rest of province.[1] This information will be helpful. In addition, it would be a good idea to talk with some of the business people in the area to learn more about buying habits; find out the trends in population - increasing, decreasing - economic levels, employment situation, etc. Talk to local government officials, advertising managers of local newspapers and broadcasting stations, and other citizens who are close to the community in which you will operate. (Note: Our general approach is to the person setting up a new business; the information is, however, useful to the owner of an established business, particularly if it is not achieving the desired results or is in danger of going under.) Table D shows some population figures which can be added to the information you have gathered on your own.

Figure 1 — SERVICE (RESTAURANT) SALES Step 1: No. of families in my Market Area (Determined by review of census figures and personal investigation in market area in Winnipeg.)

Market Area

Census Tracts	No. of Families
132	885
133	1190
134	1625
141.01	1055
141.02	1155
142.01 (only part of)	664
142.02 (only part of)	664
142.03 (only part of)	620
142.04 (only part of)	500
TOTAL	8358



No. of Families in Market Area

Year 1 - 8358
Year 2 - 8441
Year 3 - 8525

Table D — MANITOBA POPULATION

1,133,177

Metro Winnipeg	1991
Transcona	31,917
East Kildonan	70,354
East St. Paul	4,863
West St. Paul	2,207
Fort Garry	50,145
St. Boniface	44,732
St. James North	16,494
St . James West	68,330
St. Vital	58,455
West Kildonan	50,565
Wpg. Innercity	239,444
TOTAL	637,506
Areas of Manitoba	**1991**
Central Plains	95,116
East Man	88,316
Interlake	75,180
Parklands	47,108
West Man.	116,32
Norman	24,823
Thompson	48,686
TOTAL	495,611
TOTAL	1,133,117

[1] *1986 Census figures (Adjustment to Census Tracts should be available in 1993). Less precise but usable figures are available from Trade & Commerce Magazine and other private sector sources.*

Now, estimate the number of people or families that will be living in your market area over the next three years: the year you open (or expand or reorganize) your retail or service business, the year after and two years after.

Step 2 - Amount Bought Per Family

Business Plans for service firms must answer two questions at this stage:

1. What services will be offered to the public?
2. How much of each type (in $) does the average family buy?

The answer to the first question should be easy. The second may require some research. Some helpful information is provided by *(Catalogue No. 62-555 Family Expenditure in Canada 1986). A source of market information that may be more current is the advertising department of a daily newspaper or the commercial department of a broadcasting station.

Finally, total the amount of each category the average persons buys. This amount should represent what the average family spends on your goods and/or services. (In the restaurant example the amount spent per family is already totalled.)

As the statistics are for 1990, you should add a conservative amount to reflect the impact of inflation since that year, (say 3%).

**At the time this booklet was prepared.*

Step 2 — Amount bought per family (Restaurant)

Item	Average Amount
1. food purchased from restaurants, etc.	$1439.00

Step 3 - Total Market Potential

The next step in preparing the Plan is to multiply the answer from Step 1 by the answer from Step 2. The result will be the "total market potential for your type of services in your market area".

Figure 3
Step 3 - Total Market Potential (Restaurant)

	Year 1	Year 2	Year 3
Estimated No. of Families (Step 1)	8,358	8,441	8,525
Amount spent per Family (Step 2)**	$1,439	$1,482	$1,526
Total Market Potential	**$12,027,162**	**$12,509,562**	**$13,009,150**

** A conservative increase of 3% per year has been included in the amount spent per family in years 2 and 3, it is not wise to overestimate sales projections

Step 4 - Your Market Share

The next step is to estimate the share of market you might expect to obtain.

First, find out how many competitors you have in your market area. If there are fewer than ten, one way to make this estimate is to find out how much "selling space" is devoted to your kind of service in your market. This might be number of seats in a restaurant, number of trucks for another type of service, studio space for photographers, etc. What percentage is yours of this total?

$\frac{\text{Your space}}{\text{Total space}} \times 100 = \text{Your \% Share}$

To convert this to dollars, multiply your answer by the result you obtained for Step 3.

If you will have more than ten competitors, simply divide the answer to Step 3 by the number of competitors plus one (you). This will give you an approximate share of market figure. This approximation is not scientifically determined and is not necessarily the final answer. Your own judgement must be brought to bear on the problem. If you are established, you will want to temper your estimate of market share to match reality. If the above results still leave you a bit uncertain, it is because all the steps have been "numbers oriented". No distinction was made between new and well-established competitors. Therefore, you should weight your numbers against the assumptions adopted in Steps 1-3.

It has been assumed that each of the following aspects or characteristics of your business is **as good as the average for your competitors:**

- location
- equipment
- consumer exposure
- knowledge of consumer wants and needs
- reputation
- training and experience
- advertising
- layout

Now, as a final review, imagine yourself as established and successful five years from now. Ask yourself this question, "Would a new competitor entering the field now get a full share of the market in the first year or two?" The answer is probably "No". Therefore, you should adjust your final market share according to your estimate of what a newcomer should **really** expect. Unless, of course, you have compelling reasons to support your expectation of a full share in the first year or so.

Figure 4
Step 4 - Market Share - Sales (Restaurant)

I estimate that I have 62 competitors of whom 20 are located outside the area but draw from it.

	Year 1	Year 2	Year 3
Total Market Potential	$12,027,162	$12,509,562	$13,009,150
Competitors (61 plus 1)	63	62	62
A competitor's full share	$193,986	$201,767	$209,825
Percentage of full share I expect	80%	90%	100%
Expected Annual Sales	**$155,189**	**$181,590**	**$209,825**

METHOD B - BOTTOM UP

The Bottom Up method of estimating gross sales is based on potential customers.

For service operations that resemble retail stores (e.g. dry cleaning, camera repair, etc.), the key numbers for this method come from "traffic". How many people walk or drive past your location on an average day? Or at certain periods of a day? How many will come in? Check this against an already established business in your line. Don't be afraid to ask questions or stand outside a competitor's door to count heads. If your business will be one that relies on phone calls to generate sales (e.g. appliance repairs, electrician, professionals such as dentists, veterinarians), you will have to draw on your personal experience or seek information from competitors, people in similar lines outside your area, representatives in the Yellow Pages, trade associations, etc.

If you can calculate the traffic volume for your operation and the probable average sale, you can then estimate your annual sales.

The example in figure 5 shows how to do this. It is a relatively simple arithmetical calculation:

Number of passers-by x % who come in
= Number of customers

Number of customers* x average sale per buyer = Gross sales

This method, one must appreciate, has the most direct application to service operations selling directly to customers who take advantage of easy accessibility.

Two additional questions to ask of those operating businesses similar to yours are:

1. How are sales distributed over the seasons and months of the year?
2. What percentage of annual sales are cash, credit card or receivables?

This information will be useful when making up a cash flow statement for your first year.

Again, the media representatives (newspaper/radio/T.V.) can help you with the answers to Question 1 above. For Question 2, your bank manager might also be helpful.

* *It is assumed that for service operations, there are no "browsers"- people do not, for example, enter a dry cleaning shop to "look around".*

Figure 5

Method B - (Restaurant)

** *It is also assumed the flow of customers will be spread over the hours you are open*

No. of passers-by per day.		1,300
Percentage of people who will enter restaurant		8%
No. who will enter restaurant (assume all buy**)		104
Average sale (cheque)	$	4.50
Average daily sales	$	468.00
Days open per year.		365
Annual sales (365 x $468.00)		**$170,820**

Since both methods have produced approximately the same sales figure, I feel safe in using $150,000, $170,000 and $190,000 for my annual sales estimates.

(The above figures have been used for line 1 Figure 11 page 17. Enter your sales estimates on the blank Work Sheet 4 line 1 page 26.)

Section 2 — Costs

This is a very important section. If you have done your homework, the estimates you have made should be very close to what you will actually experience. Also, if your costs are accurately estimated, you can work back to the number of sales you require to break even. If the results of such a calculation seem readily obtainable, it will give you a warm feeling of confidence in your undertaking.

There are five steps in this section.

Step 1 - Calculate cost of premises, equipment, fixtures.
Step 2 - Calculate direct expenses.
Step 3 - Calculate normal operating costs.
Step 4 - Calculate initial working capital requirements and principal and interest payments.
Step 5 - Calculate depreciation expense.

Step 1 - Cost of premises, equipment and fixtures

The premises you occupy are an important part of your Plan. Do you need a freestanding building, street frontage, small space or what? Do you want to buy or rent? Are you prepared to undertake extensive renovations? Does your business require unusual building characteristics (e.g. high ceilings, reinforced floors, loading docks, etc.)?

The decision regarding buy or rent may depend on availability and your financial capacity. You may have to erect your own building. The counsel of a reliable realtor will help you arrive at a decision upon which to estimate the cost of premises. You should keep in mind that you may be faced with some of all of these costs:

- upgrading parking facilities
- altering or installing signage
- changing partitioning
- upgrading floor covering
- painting and decorating
- improving lighting
- other

You should also keep in mind the possibility of expansion. Should you take options on additional space or take more space than you need immediately and sublet part of it?

If you decide you can afford to construct a new building you should compare the cost of owning it with leasing it.

If you build your own, take all cost factors into consideration and obtain a firm estimate from the general contractor. If you are your own "general contractor", be sure all sub-trades give you firm bids.

If you are leasing, your leasing costs will be readily known and firm. The costs of putting the space in shape to suit your needs will require careful estimating and this is an area where many a new venture fails to consider the real costs of fixing a place up. Things like painting, paving, plumbing, landscaping, partitioning, wiring, etc. can add up to substantial amounts.

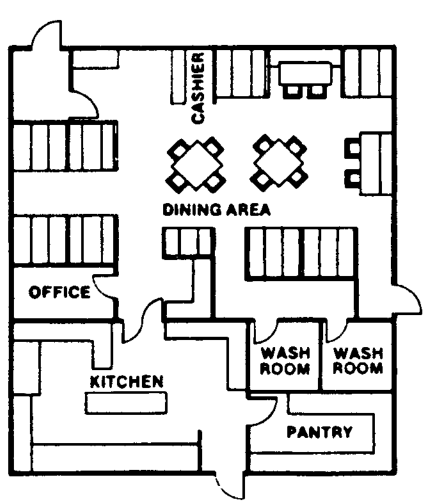
The next cost item is equipment. This is so different for every line of business. The dry cleaner's needs are quite different from the messenger service. The restaurant from the chiropractor. Some need decorative fixtures. Others need expensive, sophisticated machines.

You will know from the outset your basic equipment and fixture needs, without which you can't open for business. These may include counters, cash registers, shelving, display fixtures, desks, seating, shipping or delivery facilities, as well as the specialized equipment unique to your particular kind of work.

Where space is an important aspect of your business, prepare a scale plan of what you need to operate efficiently.

Cut out small pieces of cardboard to scale to represent equipment and fixtures you **must** have. Then, using scaled floor areas, try to fit your items in. This will help you decide on the shape and size of space you need; it will also help you calculate the cost of equipment and fixtures (e.g. size of counters, amount of display space, size of workrooms, etc.).

Figure 6
EXAMPLE OF A RESTAURANT
Step 1: Building, Fixtures, Equipment



Since the premises are being leased, the costs are as follows:

Purchase of used vehicle	$5,000
Equipment (refrigerator, dishwasher, exhaust canopy, glassess, cutlery, etc.)	$16,000
Leasehold improvements (painting, decorating, partitioning, etc.)	$7,000
Fixtures and furnishings (tables, chairs, booths, lighting fixtures, etc.)	$9,000
TOTAL	**$37,000**

Step 2 - Direct Costs

Direct expenses refer to those costs which tend to rise or change as sales increase. The principal factors are the cost of labour (time) and the cost of materials. It is important to determine what percentage of total sales is consumed with direct costs. Then you will know what percentage is "left over" to pay all other costs and return you a profit.

(Note: For purposes of this Business Plan, the cost of your - the owner's - time is not included in this step but will appear as a normal operating cost in Step 3.)

Service businesses should include any costs that go "directly" into whatever you are selling, such as the raw food bought by a restaurant. On the other hand, the restaurant's heating bill would not be a direct expense because it does not go directly into the sale. Wages (except for your own) should be included. Wages are such a large part of any service business and their impact so direct, that they are included in direct expenses. The sum of these figures represent your direct expenses.

Figure 7
Step 2 - Direct Expenses (Restaurant)

	Year 1	Year 2	Year 3
Food costs (determined from discussions with several restaurant owners and suppliers) will approximate 35% of sales. 35% x $150,000	$52,500	$59,500	$66,500
Wage costs* (1 cook, and the equivalent of 2 waitressess)	38,000	41,000	45,000
Miscellaneous supplies (bills, serviettes, etc.)	5,000	5,500	6,000
TOTAL	**$95,500**	**$106,000**	**$117,500**

This total includes an amount for employees benefits.

The above direct costs have been entered on line 2 of figure 11 on page 17.
Enter your estimates of direct costs on line 2 of blank work sheet 4 on page 26.

Step 3 - Normal Operating Costs

Most of the items under this heading are the type of expenditure every business salaries anticipates. The list here is not exhaustive so you may also think of something else that wages applies to your kind of business, either exclusively or that has been omitted from the list.

Salaries / Wages
salaries (owner, manager)
wages (employees not covered in Step 2

Occupancy
rent
repair and maintenance
business tax

General:
advertising
delivery
legal and audit
business travel
utilities
automobile(s)
dues and licenses
interest (will be calculated separately in Step 4)
supplies
depreciation (will be calculated separately in Step 5)
other

Figure 8
Step 3 - Operating Costs (Restaurant)

	Amount
Salary, Wages and Benefits	
salary and benefits (of owner)	$12,000
wages and benefits (of employees not covered in Step 2)	0
Occupancy	
rent	14,400
repairs and maintenance	500
business tax	1,400
General	
advertising	2,000
automobile delivery	3,600
dues and licenses	500
insurance	3,500
interest (not calculated yet-see Step 4)	
legal and audit	2,400
supplies	700
business travel	500
utilities (most included in rent)	2,000
depreciation (not calculated yet - see Step 5)	
other	500
TOTAL	**$44,000**

The above normal expenses have been entered on line 4 of figure 11 on page 17.
Enter your estimates of normal expenses on line 4 of blank work sheet 4 on page 26.

NOTE TO READER: *Figures 8 through 14 are completed with information drawn from the example of a restaurant. To do your own calculations use Worksheets 1 to 7 which are blank forms similar to figure 8-14. The worksheets follow from page 23.*

Step 4 - Working Capital Requirements: Principal and Interest Payments

In addition to all the expenses you have estimated so far, there are also two very important items; interest and depreciation. In previous steps, you have been building up a picture of the basic costs involved and it is more than likely that you will have to borrow money to meet these expenses. This brings in the expense item of interest, which could not be introduced until you had some idea of the extent of borrowing and credit you need.

But, first, you will want to find out what your capital requirements are. To get this figure, add the estimated cost of your initial inventory, the value of your credit sales (if any) and the cost figure from Step 1 (premises, equipment and fixtures). Be sure to include non-recurring start-up costs such as legal, initial advertising, etc.

For service firms, a value-rated listing of all items of your initial inventory is helpful. You will want to be well prepared, in equipment and inventory, so that you won't have to turn customers away in early days. This total inventory (material and equipment) represents a large part of your working capital requirement.

Service firms often have to extend credit. There are also delays in receiving payment due to the accounts payable systems of governments and other large organizations. For this reason, it is wise to list a figure representing "receivables".

Once you have determined your capital requirements, you can then determine how much you need to borrow. This is usually a simple exercise of subtracting the amount of your own resources you can invest from total capital requirements. Remember, lending institutions will look at the equity you are willing to commit as a sign of your confidence in the undertaking. It is not uncommon for lenders to require the owners of a small business to make a substantial investment in the proposed venture (30-50%) and provide personal guarantees as a condition of the loan. If it is unlikely that you can raise such an amount, your plans may need to be scaled down or other adjustments made. Ask for a copy of the Business Resource publication "Small Business Management Systems Finance Plan", which gives information on sources of financing and how to make your approach.

Once you have determined the amount of borrowed funds needed, you can calculate your annual interest payments. This calculation is based on three factors:

1. Amount of a term loan and amount of line of credit.
2. Repayment period (in years) for term loan.
3. Interest rate you will be charged on the term loan and the line of credit.

The following table can be used to calculate the annual payment of your term loan:

Table E — Constant Payment Table

REPAYMENT PERIOD IN YEARS	INTEREST RATE 9.5%	10%	11%	12%	14%
5	3.839	3.791	3.696	3.605	3.433
6	4.419	4.355	4.230	4.111	3.829
7	4.949	4.868	4.712	4.564	4.288
8	5.433	5.335	5.146	4.968	4.639
9	5.875	5.759	5.537	5.328	4.946
10	6.278	6.145	5.889	5.650	5.216
15	7.828	7.606	7.191	6.811	6.142

Figure 9

Step 4 - Working Capital Requirements, Principal and Interest Payments (Restaurant)

- **Building, furnishings, fixtures and equipment (including vehicle) (Step 1)**

vehicle	$5,000	
equipment (refrigerators, glasses, cutlery, etc.)	16,000	
leasehold improvements (painting, partitioning)	7,000	
furnishings and fixtures	9,000	
Total		$37,000

- **Initial Inventory**
  2 month's supply of non-perishable items.
  1 month's supply of frozen and perishable items.
  On average 11/2 month's food supply.
  1½ x ($52,500* + 12) = 6,550

- **Accounts receivable**
  Only credit cards and cash will be accepted - therefore no accounts receivable 0 0

- **Total Capital Required** $43,550

- **Minus: Personal Investment** (after filling out "personal financial assessment sheet") $15,000

- **Equals: Amount to be borrowed** $28,550

- **Term loan**: $20,000 for 5 years @ 10%
Line of Credit: $10,000 arranged @ 12%

$$\frac{\text{Term Loan}}{\text{Level Factor from Table E}} = \frac{20{,}000\text{-}10\%}{3.791} = \$5{,}275 \text{ annual payment}$$

- **Calculation of Interest on Term Loan**

Year	Total Payment	Interest	Principle Repayment	Borrowing
0	—	—	—	$20,000
1	$5,275	$2,000	$3,275	16,725
2	5,275	1,672	3,603	13,122
3	5,275	1,311	3,964	9,158
4	5,275	914	4,361	4,797

- **Calculation of Annual Interest on Line of Credit****
  Maximum possible interest expense $10,000 x 2% - $1,200

- **Total Yearly Interest Expense:**
  Year 1 $2,000 + $1,200 = $3,200
  Year 2 $1,672 + $1,200 = $2,872
  Year 3 $1,311 + $1,200 = $2,511

**Calculated in step 2, Figure 7.*

***Interest for the term loan and the line of credit have been entered on line 5 of figure 11 page 17. Enter your estimates for interest costs on line 5 of blank work sheet 4 on page 26.*

Step 5 — Depreciation

Depreciation is an expense which approximates the use of your firm's fixed assets such as equipment, machinery, leasehold improvements, vehicles, and so on. Depreciation (also known in tax circles as capital cost allowance) allows for the loss of value of fixed assets and is a cost of doing business.

The most common method of calculating depreciation is the declining balance method, or deducting some fixed percentage of the value of the asset each year over the life of the asset. The appropriate percentage is determined by Revenue Canada, who prescribe rates allowable on various classes or categories of equipment and buildings.

For example, you purchase a one-ton truck for $10,000. The depreciation rate allowed is 30% of the declining balance in any year except the first year.

At the time of writing the allowable depreciation rate is ½ of 30% for the first year only. Depreciation expense would be calculated as follows:

Year	Calculation	Amount of Depreciation
1	½ x 30% x $10,000	$1,500
2	30% x $8,500 ($10,000 - $1,500)	$2,550
3	30% x $5,950 ($8,500 - $2,550)	$1,785

This example incorporates the normal method of calculating depreciation (capital cost allowance) for the item in question at the time of writing. The reader should contact a professional accountant.

Figure 10

Step 5 — Depreciation Expense (Restaurant)

Year 1

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle	$5,000	30% x ½	$750	$4,250
general equipment	16,000	20% x ½	1,600	14,400
leasehold improvements	7,000	*	700	
fixtures and furnishings	9,000	20% x ½	900	8,100
TOTAL	$37,000		$3,950	

Year 2

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle	$4,250	30%	$1,250	$2,975
general equipment	14,400	20%	2,880	11,520
leasehold improvements	7,000	*	1,400	*
fixtures and furnishings	8,100	20%	1,620	6,480
TOTAL			$7,175	

Year 3

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle	$2,975	30%	$893	$2,082
general equipment	11,520	20%	2,304	9,216
leasehold improvements	7,000	*	1,400	*
fixtures and furnishings	6,480	20%	1,296	5,184
TOTAL			$5,893	

**Leasehold improvements are depreciated by an equal amount each year in the life of the 5 year lease. Year 1 is again an exception. The above depreciation expenses have been entered in line 6 of figure 11 on page 17. Enter your estimates of depreciation on line6 of the blank worksheet on page 26.*

Section 3 — Profitability

If you have been completing the various steps for your own Business Plan as the method has unfolded, you will have done a lot of work and you will also have a more intimate knowledge of your venture.

In this section, the following important questions will be answered:

1. Is my venture going to be profitable? (is my Net Profit after Tax positive?)
2. What will my cash flow be like during the first year?
3. At what point during the first year can I expect the tightest cash flow period?

Although the answer to the first question is obviously important, too often the answers to the second and third questions are taken too lightly or ignored. A cash flow projection is a forecast of the timing of the cash receipts and cash disbursements experienced. This projection focuses on your bank account. It is not uncommon for a small business to be earning a decent profit yet be struggling because of a cash shortage.

This cash flow projection is a technique that can be used as an early warning system to indicate a potential problem before it becomes a crisis. Should your cash flow projection forecast such a situation, you can secure the necessary resources to deal with the problem or adjust your practices to cope with it.

Section 3 — Profitability

Step 1 — Yearly Income Projections

At this stage, it might be wise to review all your calculations to date to make sure that there are no errors.

Now, if you have not already done so, transfer the numbers you have obtained to the appropriate lines in Worksheet 4.

(a) Enter Gross Sales figures for each of the next three years. (Section 1, Step 4, Page 8).
(b) Enter Direct Costs (Section 2, Step 2, Page 11) for all three years.
(c) Subtract (b) from (a) to obtain your Gross Profit for each year.

Next,

(d) For each year, fill in:
  (i) normal operating costs (Section 2, Step 3, Page 12);
  (ii) interest payments (both term and line of credit for first year) (Section 2, Step 4, Page 14);
  (iii) depreciation expense (Section 2, Step 5, Page 15).
(e) Total the amounts in (d).
(f) Subtract total in (e) from Gross Profit (c) to get Net Profit before Taxes.
(g) Estimate Income Taxes.
(h) Subtract Income Taxes (g) from Net Profit before Taxes (f) to obtain Net Profit **after** Taxes.

Figure 11 — Projected Income Statement (Restaurant) (See Worksheet 4)

Line	Item		Section	Step	Page	Year 1	Year 2	Year 3
1	Sales*	Method A	1	1-4	6-8			
		Method B	1		9	$150,000	$170,000	$190,000
2	Direct Costs**		2	2	11	$95,500	$106,000	$117,500
3	**Gross Profit** (line 1 minus line 2)					$54,500	$64,000	$72,500
4	Normal Operating*** Expenses		2	3	12	44,000	50,100	56,200
5	Interest Term Loan		2	4	14	2,000	1,672	1,311
	Line of Credit****		2	4	14	1,200	1,200	1,200
6	Term Loan		2	5	15	3,950	7,175	5,893
7	**Total Expenses** (Line 4-6)					$51,150	$60,147	$64,604
8	**Net Profit Before Taxes** (line 3 minus line 7)					3,350	3,853	7,896
9	Income Taxes (23%)*****					770	886	1,816
10	**Net Profit After Taxes** (line 8 minus line 9)					**$ 2,580**	**$ 2,967**	**$ 6,080**

* *Figures are conservatively estimated from results of Methods A and B.*

** *Food costs are calculated as 35% of sales and wages and miscellaneous costs are increased by approximately 9% each year.*

*** *Normal operating expenses are increased by between 10% - 14% each year.*

**** *The interest on the line of credit is calculated on the full amount even though it is not all used.*

***** *Approximate rate of tax for Manitoba corporations subject to the Small Business deduction.*

Section 4 — Cash Flow Projections

Step 1 - Monthly Cash Flow Projections

To chart your cash flow position in each month of your first year, set up a system for recording your cash receipts and disbursements (see Worksheet 5). Using this form, you will be able to pinpoint the times during the year when cash will be tight. You have already gathered the information necessary to complete this cash flow projection.

Your cost estimates are recorded in Steps 1-5 of Section 2. Your sales estimate is recorded on figure 11, page 17. The distribution of this sales total to each month of the year and to the cash and credit options will be made easier by the answers to the following questions:

1. How are sales distributed over the seasons and months of the year?
2. What percentage of your annual sales are cash, credit card or receivable?
3. What is the impact of GST on cash flow?

You have already collected the answers to these questions in Section 1, Method B.

Section 4 — Cash Flow Projections

Figure 12

CASH FLOW PROJECTION (Restaurant)

		Month 1	Month 2	Month 3
Receipts	Cash Sales	9,000	10,500	12,000
	Collections on Account	0	0	0
	Other Income	0	0	0
	Total Receipts	9,000	10,500	12,000
Disbursements	Purchases*	3,150	3,675	4,200
	Owner's Drawings	1,000	1,000	1,000
	Payroll — Gross	2,580	3,010	3,440
	Rent	1,200	1,200	1,200
	Repairs & Maintenance	40	40	40
	Business Tax			350
	Advertising	700	300	100
	Automobile	300	300	300
	Delivery	0	0	0
	Dues & Licenses	250		
	Insurance	3,500		
	Interest	266	267	267
	Legal & Audit	600		
	Supplies	350		
	Business Travel			
	Utilities	200	200	200
	Depreciation	0	0	0
	Other	300		
	Total Disbursements	14,436	9,992	11,097
Cash from Operations		(5,436)	508	903
Cash Total - Start of Period**		35,000	(9,849)	(9,279)
	Total Cash - Surplus (Deficit)	29,564	(9,341)	(8,376)
Other Payments	Inventory***	9,050	0	0
	Asset Purchases	37,000	0	0
	Equity Withdrawals	0	0	0
	Loan Repayments	273	273	273
	GST Paid	3,720	400	423
	Total Other Payments	50,043	673	696
Other Receipts	Equity Increase	0	0	0
	Line of Credit	10,000	0	0
	Sales of Assets	0	0	0
	GST Received	630	735	840
	Total Other Receipts	10,630	735	840
Cash Total - End of Period		(9,849)	(9,279)	(8,232)

* *Purchases include monthly food costs (35% of sales).*

** *Total Cash-Start of Period includes your investment and the bank's term loan.*

*** *Initial Inventory and miscellaneous supplies (purchased in months 1 and 7).*

**** *Includes monthly GST and net result from previous quarter.*

Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
13,500	15,000	13,500	12,000	10,500	12,000	13,500	13,500	15,000	150,000
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
13,500	15,000	13,500	12,000	10,500	12,000	13,500	13,500	15,000	150,000
4,725	5,250	4,725	4,200	3,675	4,200	4,725	4,725	5,250	52,500
1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
3,870	4,300	3,870	3,440	3,010	3,440	3,870	3,870	4,300	43,000
1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
40	40	40	60	40	40	40	40	40	500
		350			350			350	1,400
100	100	100	100	100	100	100	100	100	2,000
300	300	300	300	300	300	300	300	300	3,600
0	0	0	0	0	0	0	0	0	0
			250						500
									3,500
267	266	266	267	266	267	267	267	267	3,200
			300					1,500	2,400
			350						700
	250							250	500
200	200	100	100	100	100	200	200	200	2,000
0	0	0	0	0	0	0	0	0	0
			200						500
11,702	12,906	11,951	11,767	9,691	10,997	11,952	11,702	14,507	142,700
1,798	2,094	1,549	233	809	1,003	1,548	1,798	493	7,300
(8,232)	(6,222)	1,527	242	(3,641)	(2,749)	(1,541)	(743)	1,267	35,000
(6,434)	(4,128)	22	475	(2,832)	(1,746)	7	1,055	1,760	42,300
0	0	0	2,500	0	0	0	0	0	11,500
0	0	0	0	0	0	0	0	0	37,000
0	0	0	0	0	0	0	0	0	0
273	273	273	273	273	273	273	273	272	3,275
460	514	452	2,183	379	362	1,422	460	601	11,376
733	787	725	4,956	652	635	1,695	733	873	63,201
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	10,000
0	0	0	0	0	0	0	0	0	0
945	3,388	945	840	735	840	945	945	1,050	12,838
945	3,388	945	840	735	840	945	945	1,050	22,838
(6,222)	(1,527)	242	(3,641)	(2,749)	(1,541)	(743)	1,267	1,937	1,937

Section 5 — Feasibility

Now it's decision time!

Should you go ahead with your venture? Does your dream or plan need to be adjusted or altered to ensure success?

You will probably have a strong sense of the right answer by now if you have diligently completed all the steps set out here. You may still however be a bit uncertain or apprehensive. The following steps are offered as a means of helping you confirm your decision.

Step 1 - Break-Even Sales

"Break-Even Sales" is the volume of sales necessary to cover all expenses. Once calculated, it should represent the minimum acceptable sales level for the first year. It is a "floor". If sales drop below this level you will be losing money. The "Break-Even Sales" figure is important when you are trying to decide whether your business will survive its first (and usually most difficult) year. It is a signal that warns you of the risk you may be taking.

To obtain your "Break-Even Sales" figure, follow these steps:

1. Divide your expected gross profit in Year 1 by your sales in Year 1. This will give you your Gross Profit Percentage.
2. Divide the Gross Profit Percentage into Yearly Operating Expenses (total of Section 2, Steps 3, 4 and 5). This will give you your "Break-Even Sales".

Figure 13
Break-Even Sales Calculation

(Restaurant)

Year 1 Gross Profit $ 54,500

Year 1 Estimated Sales $150,000

$$\text{Gross Profit Percentage} = \frac{\text{Gross Profit Year 1}}{\text{Sales Year 1}} = \frac{\$54{,}500}{150{,}000} = 36.33\%$$

Total Operating Expenses Year 1 $51,150

$$\text{Break-Even Sales} = \frac{\text{Total Operating Expenses Year 1}}{\text{Gross Profit Percentage}} = \frac{\$51{,}150}{.3633} = \$140{,}781$$

Step 2 - Return on Owner's Investment

Return on Owner's Investment shows the earnings potential. It is expressed as a percentage so that it can be compared with other possible avenues of investment you might be considering. It represents a monetary or dollar factor. In comparing an investment in your own business with investing in someone else's enterprise (e.g. buying stocks or bonds, becoming a silent partner, etc.), there are factors other than monetary to be considered such as personal independence, challenge, security, responsibility.

To calculate the Return on Owner's Investment, follow these steps:

1. Divide Net Profit after Taxes by the amount of your Owner's Investment and multiply by 100. This will give you the Return on Investment percentage for year one.
2. To calculate this for year two (and three), add Net Profit after Taxes for year one to the Owner's Investment and follow procedure as in 1. above.

i.e

$$\frac{\text{Net Profit After Taxes (Year Two)}}{\text{Owner's Investment + Net Profit After Taxes (Year One)}} \times 100 = \text{Return on Investment (Year Two)}$$

Figure 14

Return on Owner's Investment Calculation (Restaurant)

	Year 1	Year 2	Year 3
Net Profit After Tax	$ 2,580	$ 2,967	$ 6,080
Owner's Investment*	$15,000	$17,580	$20,547
Return on Owner's Investment	17.2%	16.9%	29.6%

Information to Consider:

Is this an adequate return on my investment? Does my salary sufficiently compensate me for my effort and risk?

* *Net profit after tax is added to actual investment to generate owner's investment for the next year.*

Conclusion

At this point, if you have followed the steps recommended on the preceding pages, you will know or at least better appreciate the following:

- The likelihood of attaining your "Break-Even Sales" level and, therefore, the dollar value of the risk you will be taking.
- The approximate return on the money you intend to invest, and therefore, the degree of attractiveness of your investment.
- The cash flow implications of getting into this kind of business.
- The chances of being able to "sell" other investors or financial institutions on backing your Plan.

If you make a Business Plan, following the steps outlined here, you will have a most effective instrument to support you in seeking financial support. It will help you explain your proposal. Its systematic, common-sense approach will impress bankers and other sources of financial backing. It will give suppliers more confidence.

If your Business Plan now says, "Go Ahead!", you should tidy it up, have it typed if possible, make a few copies and put them in attractive binders or folders (available from office supply stores) and set out to call on those whose help you need to launch your business. This approach is also suited to the situation where you are seeking support for expansion, re-financing, increased inventories, etc.

If, on the other hand, your Business Plan says, "Hold It!", don't give up immediately. Be thankful you have been warned of possible disaster. Then, go back over the whole Plan and the idea it supports. Can you make changes or adjustments, cut back on something, be a little less ambitious for the early years? It is unusual if a Business Plan comes out perfectly the first time around.

Be realistic yet imaginative. Hard-headed yet daring. Cautious yet confident.

In Closing

This and other Business Plan formats, with examples and explanations are available at the Canada/Manitoba Business Service Centre to help and encourage Manitobans who wish to embark on business ventures in the manufacturing, retail, service and construction fields. If you would like to discuss you Business Plan or have problems and questions related to its preparation, feel free to call the Centre and arrange to meet with one of the counsellors.

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Worksheet 1

Operating Costs
(see Figure 8, page 12)

	Amount
Salary, Wages and Benefits	
salary and benefits (of owner)	______
wages and benefits (of employees not covered in Step 2)	______
Occupancy	
rent	______
repairs and maintenance	______
business tax	______
General	
advertising	______
automobile/delivery	______
dues and licenses	______
insurance	______
interest	______
legal and audit	______
supplies	______
business travel	______
utilities (most included in rent)	______
depreciation	______
other	______
TOTAL	______

Worksheet 2

Working Capital Requirements/ Principal and Interest Payments (see Figure 9, page 14)

	My Estimates
● **Building, furnishings, fixtures and equipment (including vehicle) (Step 1)**	
Vehicle	________
Leasehold improvements (painting, partitioning)	________
Fixtures and furnishings	________
Equipment	________
Total	________
● **Initial Inventory**	________
Accounts receivable Only credit cards and cash will be accepted - therefore no accounts receivable	________
Total Capital Required	________
Minus: Personal Investment (after filling out "personal financial assessment sheet")	________
● **Equals: Amount to be borrowed**	________

● **Term Loan** ____________________

Line of Credit ____________________

$$\frac{\text{Term Loan}}{\text{Level Factor from Table E}} = \_\_\_\_\_\_ = \_\_\_\_\_\_ \text{ (annual payment)}$$

● **Calculation of Interest on Term Loan**

Year	Payment	Interest Portion	Repayment Portion	Balance
0	____	____	____	____
1	____	____	____	____
2	____	____	____	____
3	____	____	____	____
4	____	____	____	____
5	____	____	____	____

● **Calculation of Annual Interest on Line of Credit**

Maximum possible Interest Expense = $______ x ______ %= ______

● **Total Yearly Interest Expense**

Year 1 ______ + ______ = ______

Year 2 ______ + ______ = ______

Year 3 ______ + ______ = ______

Worksheet 3

Depreciation Expense
(see Figure 10, page 15)

Year 1

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle				
leasehold improvements (5 year lease)				
fixtures				
equipment				
TOTAL				

Year 2

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle				
leasehold improvements				
fixtures				
equipment				
TOTAL				

Year 3

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle				
leasehold improvements				
fixtures				
equipment				
TOTAL				

Worksheet 4

Projected Income Statement (See Figure 11, page 17)

Line	Item	Section	Step	Page	Year 1	Year 2	Year 3
1	Sales Method A	1	1-4	8			
	Method B	1	1	9	$	$	$
2	Direct Costs	2	2	11	$	$	$
3	**Gross Profit** (line 1 minus line 2)				$	$	$
4	Normal Operating Expenses	2	3	12	$	$	$
5	Interest						
	Term Loan	2	4	14	$	$	$
	Line of Credit	2	4	14	$	$	$
6	Depreciation	2	5	15			
7	**Total Expenses** (Line 4-6)				$	$	$
8	**Net Profit Before Taxes** (line 3 minus line 7)				$	$	$
9	Income Taxes (23%)						
10	**Net Profit After Taxes** (line 8 minus line 9)				$	$	$

Worksheet 5

(see Figure 12, page 19)

		Month 1	Month 2	Month 3
Receipts	Cash Sales			
	Collections on Account			
	Other Income			
	Total Receipts			
Disbursements	Purchases			
	Owner's Drawings			
	Payroll — Gross			
	Rent			
	Repairs & Maintenance			
	Business Tax			
	Advertising			
	Automobile			
	Delivery			
	Dues & Licences			
	Insurance			
	Interest			
	Legal & Audit			
	Supplies			
	Business Travel			
	Utilities			
	Depreciation			
	Other			
	Total Disbursements			
Cash from Operations				
Cash Total — Start of Period				
	Total Cash - Surplus (Deficit)			
Other Payments	Inventory			
	Asset Purchases			
	Equity Withdrawals			
	Loan Repayments			
	GST Paid			
	Total Other Payments			
Other Receipts	Equity Increase			
	Line of Credit			
	Sales of Assets			
	GST Received			
	Total Other Receipts			
Cash Total - End of Period				

Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total

Worksheets 6 & 7

Break-Even Sales Calculation
(see Figure 13, page 20)

Year 1 Gross Profit ($) ______________

Year 1 Estimated Sales ______________

Gross Profit Percentage = $\frac{\textbf{Gross Profit Year 1}}{\textbf{Sales Year 1}}$ = ________ = ________

Total Operating Expenses Year 1 ______________

Break-Even Sales = $\frac{\textbf{Total Operating Expenses Year 1}}{\textbf{Gross Profit Percentage}}$ = ________ = ________

Return on Owner's Investment Calculation
(see Figure 14, page 21)

* *Net profit after tax is added to actual investment to generate owner's investment for the next year.*

	Year 1	Year 2	Year 3
Net Profit After Tax	________	________	________
Owner's Investment*	________	________	________
Return on Owner's Investment	________	________	________

Conclusion:

Notes

Notes