

**SMALL BUSINESS AND
CO-OPERATIVE DEVELOPMENT BRANCH**

Retail Business Plan

Manitoba
Industry, Trade
and Mines



RETAIL BUSINESS PLAN

Note to Reader

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The purpose of this Business Resource Centre publication is to help Manitobans who are planning to start retail 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. It has been prepared by Manitobans for Manitobans so that its entire contents are applicable to the Manitoba business scene.

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 he/she has a track to run on; and, give backers, lenders, suppliers and employees assurance of a solid approach on which to conduct the enterprise.

This guide is only one aspect of the assistance that the Business Resource Centre can give to Manitoba business owners and operators.

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; |
| 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. |

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?"

A Business Plan can help determine what resources will be needed to ensure 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 four main sections:

- Sales
- Costs
- Profitability
- 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 men's clothing store has been used. The processes illustrated apply, of course, to any or all retail 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.
- **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, 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.

Table A
ASSESSMENT OF
PERSONAL
FINANCES

My Financial Obligations	Amount (per month)		Amount (per month)
House Mortgage/Rent	_____	My needs per month are	_____
Family Food Bill	_____	Other income per month is	_____
Utility Bills	_____	Will my business be able to meet such expenses?	_____
Charge Account Spending (yourself and others)	_____	If not, should I withhold some of the money I expected to invest?	_____
Operating Costs for Car(s)	_____	Amount I expected to invest	_____
Personal Spending/Recreation	_____	Amount I am now withholding	_____
Repairs to House	_____	New amount I expect to invest	_____
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	_____	TOTAL	_____

Table B
PERSONAL SKILL
AND KNOWLEDGE
(Self-Analysis)

	Check (✓)			Check (✓)	
	O.K.	Need Help		O.K.	Need Help
Financing			Staffing		
I know how to analyse options.	_____	_____	I know the number of employees I need and the qualifications they must have.	_____	_____
I understand financial jargon.	_____	_____	I am familiar with hiring practices and interviewing.	_____	_____
I know how to control expenses.	_____	_____	I believe I can motivate my employees to high levels of productivity.	_____	_____
Marketing			Buying		
I am "customer-oriented".	_____	_____	I am trained and skilled in buying what customers want.	_____	_____
I am skilled in selling my product/service.	_____	_____	I have good supplier contacts.	_____	_____
I understand how to advertise and promote my product/service.	_____	_____	I am aware of personal requirements.	_____	_____
Media advertising	_____	_____	Accounting		
Display and Signs	_____	_____	I know which records to keep and what information they should contain	_____	_____
Premises layout	_____	_____	I know how to interpret 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.

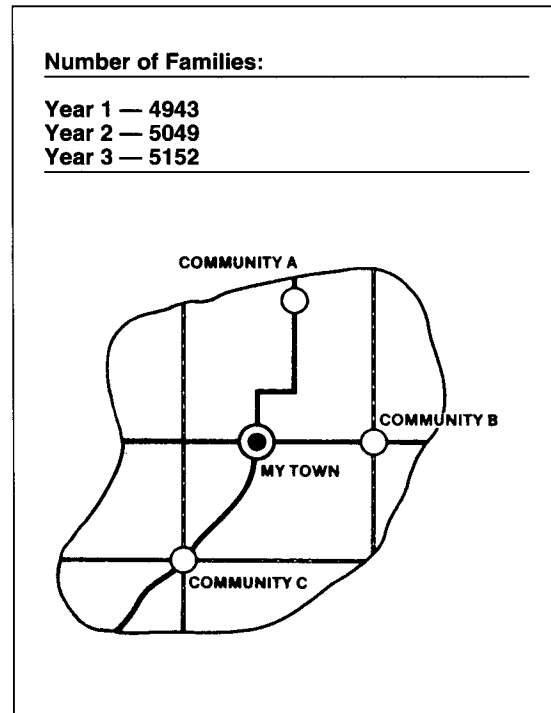
The second method is called "bottom up". It is based on the average purchases of potential customers. Your gross sales figure evolves from factors common to your particular location.

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.

Figure 1

**Retail (Men's Clothing) Sales
Step 1 - No. of people in my Market Area (Determined by review of census figures and personal investigation in market area)**



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. 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) Part 1 for the rest of the province.* 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, constant or 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.) The accompanying table shows some population figures which can be added to the information you have gathered on your own.

Now, estimate the number of people that will be living in your market area over the next three years: the year you open (or expand or reorganize) your retail business, the year after and two years after. (Referred to as Year 1, Year 2, and Year 3.)

**Table C
MANITOBA
POPULATION**

Metro Winnipeg	1990
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. Inner City	239,444
TOTAL	637,506
Areas of Manitoba	1990
Central Plains	95,116
East Man.	88,316
Interlake	75,180
Parklands	47,108
West Man.	116,382
Norman	24,823
Thompson	48,686
TOTAL	495,611
TOTAL	1,133,117

*Less precise but usable figures are available from Trade & Commerce Magazine and other private sources. (See also Table C above.)

Step 2 — Amount Bought Per Family

Business Plans for retail firms must answer three questions at this stage:

1. What items (goods) will be offered to the public?
2. How much of each line (in \$) does the average family buy?
3. What is the average income in your market area?

The answer to the first question should be easy. The second and third may require some research. Some helpful information is provided here (see Appendix, I page 25) and more detailed information is available from Statistics Canada (Catalogue No. 62-555). The latest information available from Stats. Canada is for 1990. 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. If you have to use an estimate of average income, be sure the amount spent per person or per family does not increase substantially from one column to the next.

Finally, total the amount of each category the average person or family buys. This amount should represent what the average consumer spends on your type of merchandise.

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

**At the time this booklet was prepared.*

Figure 2

Step 2 - Amount bought per Person (Retail Men's Clothing)

<u>Item</u>	<u>Average Amount**</u>
Men's wear (14 years and over)	\$618.00

** The numbers quoted were obtained from Statistics Canada Catalogue #62-555 which provides data on Family Expenditures.*

Step 3 — Total Market Potential

Next, multiply the answer from Step 1 by the answer from Step 2. The result will be the "total market potential for your type of merchandise in your market area".

Figure 3

Step 3 - Total Market Potential (Retail Men's Clothing)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Expected Population (Step 1)	4943	5049	5152
Amount spent per person, per year**	x \$618	x \$630	x \$642
Total Market Potential	\$3,054,800	\$3,180,900	\$3,307,600

*** A conservative increase of 2% per year has been shown; it is not wise to over-estimate sales projections.*

Step 4 — Your Market Share

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

First, find out how many competitors you have in your market area.

For a retailer, (if there are fewer than ten competitors) find out the total amount of selling space devoted to your line(s) or services. What percentage is yours of the total?

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

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

For retail establishments with 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 is not a scientifically calculated figure and must be tempered by the reality of your situation. The presence of a dominating firm — such as a large department store — in your line or a number of long-established firms may mean that your initial estimate should be lowered.)

If the above results leave you still 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 which were 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
- layout
- display
- advertising
- reputation
- selection (assortments)
- customer exposure
- knowledge of consumer wants and needs

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) - Retail Men's Clothing**

I have 8 competitors in my market area and 5 competitors outside the area, all of whom effectively compete for a share of this market. With my business, there will be 14 competitors.

	Year 1	Year 2	Year 3
Total Market Potential (Step 3)	\$3,054,800	\$3,180,900	\$3,307,600
Competing firms (14)	÷ 14	÷ 14	÷ 14
A competitor's full share	\$218,200	\$227,207	\$236,257
Percentage of full share I expect	x 80%	x 90%	x 100%
Expected annual sales	\$174,560	\$204,486	\$236,257

METHOD B — BOTTOM UP

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

For the retailer, the key numbers for this method come from what is called "traffic". How many people walk or drive past your location on an average day? You may wish to refine this to a study of certain periods on certain days. Check your findings against those of an established business. Ask what percentage of total passers-by actually enter the store or reception area. What percentage of them actually make a purchase? What is the average sale (if in your line of business)? Try to get a fix on this ratio, particularly if you are in a heavy pedestrian area such as a main street or a shopping mall. Don't be afraid to stand outside a potential competitor's shop and count heads.

If you can calculate the traffic rate for your operation and the probable average sale, you can then estimate sales in dollars.

The examples in figure 5 show how to do this. It is a relatively simple mathematical calculation:

Number of passers-by x % who come in
 = Number of browsers
 Number of browsers x % who buy something
 = Number of customers
 Number of customers x % average sale per buyer
 = Gross sales

This method, one must appreciate, has the most direct application to retail and service operations selling directly to customers who take advantage of easy accessibility. They also attract casual shoppers and impulse buyers. The business which must rely on telephone orders or must be located in a remote or low traffic area will need to find different ways of measuring potential customer volume.

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.

Figure 5

Method B - (Retail Men's Clothing

No. of passers-by per day.	1,350	<p>Since both methods have produced approximately the same sales figure, I feel safe in using \$170,000, \$185,000, and \$200,000 for my annual sales estimates. (The above figure has been used for the sample Work Sheet, Figure 11. Enter your sales estimates on the blank Worksheet 4, line 1.)</p>
Percentage who enter my store.	10%	
No. who enter my store (browsers).	135	
Percentage of browsers who buy.	33%	
No. of customers per day.	45	
Average sale.	\$ 12.00	
Average daily sales.	\$540.00	
Days open per year.	312	
Annual sales (312 x \$540.00)	\$168,400.00	

Section 2 – Costs

In many ways, this is the most important section. If you have done your homework, the estimates you obtain will be very close to what you will experience. Furthermore, if costs are accurately estimated, you can always work back to the number of sales required to break even. This may prove very encouraging and build your confidence in your undertaking.

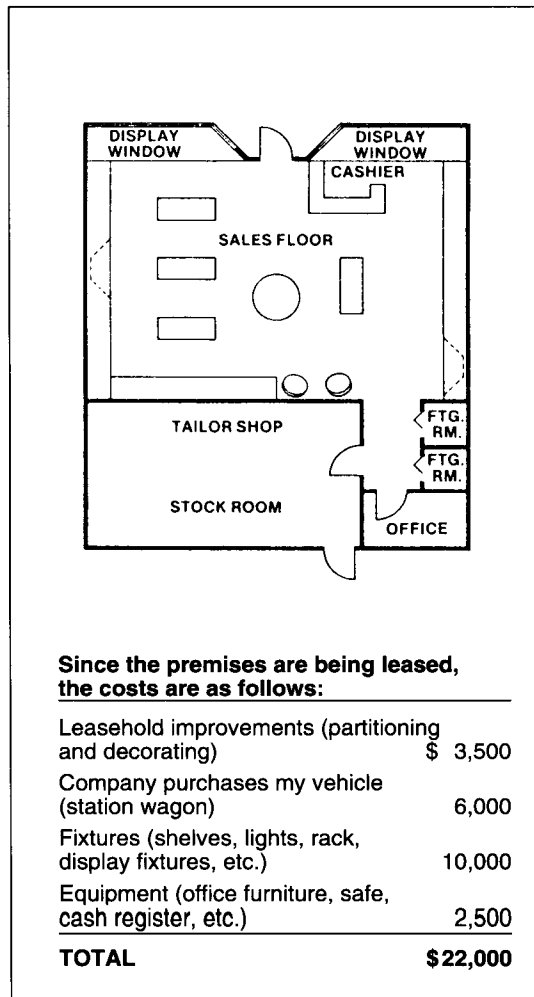
There are five steps in this section.

- Step 1 - Calculate cost of premises, equipment, fixturing.
- 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.

Figure 6

EXAMPLE OF A MEN'S CLOTHING STORE

Step 1: Building, Fixtures and Equipment



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

Leasehold improvements (partitioning and decorating)	\$ 3,500
Company purchases my vehicle (station wagon)	6,000
Fixtures (shelves, lights, rack, display fixtures, etc.)	10,000
Equipment (office furniture, safe, cash register, etc.)	2,500
TOTAL	\$22,000

Step 1 — Cost of premises, equipment and fixturing

The premises you occupy are an important part of your Plan. Do you need a free-standing 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/or 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 or all of these costs:

- upgrading parking facilities
- changing partitioning
- painting and decorating
- altering or installing signage
- upgrading floor coverage
- 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 sub-let part of it?

If you decide that 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 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. Fixtures are part of this category, too.

You will know from the outset your basic equipment and fixture needs, without which you can't open for business. These will include counters, cash registers, shelving, display fixtures, desks, seating, shipping or delivery facilities, etc. No two businesses are alike in this respect. A very rough cost range for fixturing and leasehold improvements is \$8.00 - \$18.00 per square foot of selling space. To make a more accurate estimate of costs, follow the process outlined below and then ask your suppliers to "cost out" your Plan.

Cut out pieces of light card 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 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.).

Step 2 — Direct Expenses

Direct expenses refer to those prime costs which tend to rise or change as sales increase. The principal factor is the cost of merchandise. 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 a profit.

This step is easily completed by a retailer. The retailer's direct costs are simply

the total cost of the merchandise he/she will buy for the year. (Table D below, shows the approximate costs of goods bought as a percentage of goods sold for various kinds of retail operations.) Calculate the percentage for your business (actual, if you are now in business; estimated, if you are just starting up). Multiply this percentage figure by your estimated sales to find the cost of goods sold.

Figure 7

Step 2 - Direct Expenses (Retail Men's Clothing)

My direct expense (cost of goods sold) will be 57% of my sales. My sales have been estimated at the following levels:

	Year 1	Year 2	Year 3
Sales	\$170,000	\$185,000	\$200,000
Cost of Goods Sold Percentage	57%	57%	57%
Cost of Goods Sold	\$ 96,900	\$105,450	\$114,000

The above direct costs have been entered on line 2 of Figure 11.

Table D

Typical Gross Margins

Type of Retail Business	Approximate Gross Margin %	Cost of Goods Sold %
Auto Parts and Accessories	29	71
Books/Stationery	38	62
Men's Clothing	42	57
Women's Clothing	43	57
Drug and Sundries	28	73
Florists	54	47
Food Stores	22	78
Fuel Dealers	21	80
Furniture	31	69
Service Station	19	81
Hardware	32	69
Jewellery	46	54
Cars and Trucks	12	88
Car and Truck Repairs	41	59
Shoes	43	57
Variety Stores	28	72

Step 3 — Normal Operating Costs

Most of the items under this heading are the type of expenditure every business anticipates. It is wise, however, to check the list below to make sure you have not forgotten any important item(s). The list here is not exhaustive so you may also think of something else that applies to your kind of business, either exclusively or that has been omitted from the list. Figure 8 shows typical costs for one type of operation. You should enter your estimated costs in the space provided in Worksheet 1, page 25.

- Salaries/Wages**
salaries (owner, managers)
wages (employees not covered in Step 2)
- Occupancy**
rent
repair and maintenance
business tax
- General**
advertising
delivery
insurance
legal and audit
business travel
utilities
automobile(s)
dues and licences
interest (will be calculated separately in Step 4)
supplies
depreciation (will be calculated separately in Step 5)
other

Figure 8

Step 3 - Operating Costs (Retail Men's Clothing)

	Amount
Salary, Wages and Benefits	
Salary and benefits (of owner)	\$15,000
Wages and benefits (3 part-time clerks)	16,000
Occupancy	
rent	14,400
repairs and maintenance	1,200
business tax	1,000
General	
advertising	3,600
automobile/delivery	2,500
dues and licences	300
insurance	2,000
interest (not calculated yet — see Step 4)	
legal and audit	2,300
supplies	800
business travel	1,800
utilities (most included in rent)	1,440
depreciation (not calculated yet — see Step 5)	
other	1,200
TOTAL	\$63,540

The above normal expenses have been entered on line 4 of Figure 11.

NOTE TO READER:

Figures 8 through 14 are completed with information drawn from the example of a retail men's clothing store. To do your own calculations, use Worksheets 1 to 7, which are blank forms similar to Figures 8-14. The Worksheets start on page 25.

**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 the non-recurring start-up costs such as legal, initial advertising, etc.

To determine the initial investment in inventory for a retailer divide your first year sales estimate by the number of times you expect your inventory to turn over. The denominator in this calculation can be obtained by asking non-competing retailers in the same or similar businesses to estimate their turnover. Since you want the answer as “inventory at cost” you must multiply this result by the factor in Table D on page 11 for your type of merchandise.

The calculation is shown below:

$$\frac{\text{Estimated Annual Sales}}{\text{Estimated Inventory Turnover Rate}} \times \text{Cost of Goods Sold \%} = \text{Initial Inventory at Cost}$$

List this amount as a working capital requirement.

Some retailers feel compelled to offer some form of their own credit, but this practice is not generally recommended. Most retailers let the banks carry this responsibility through VISA and MASTERCARD. If, however, you must offer credit, estimate the volume of credit sales and list the amount as a working capital requirement.

Once you have totalled your capital requirements, you can then determine how much you will 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 the business to make a substantial investment in the proposed business venture (30%-50%) and provide personal guarantees as a condition of the loan. If you cannot make such an investment, your plans should be scaled down or otherwise adjusted. Ask for a copy of the publication “Small Business Management Systems — Finance Plan”, which gives information on how to make your approach.

Once you have determined how much you must borrow, you can calculate your annual interest payments, based on these three factors:

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

The accompanying table can be used to calculate the annual payment for your term loan.

Table E
Constant Payment Table

	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 (Retail Men's Clothing) (See Worksheet 2 at back)

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

Leasehold improvements (partitioning and decorating)	\$3,500	
Company purchases my vehicle (station wagon)	6,000	
Fixture (shelves, lights, racks, display fixtures, etc.)	10,000	
Equipment (office furniture, safe, cash register, etc.)	2,500	
Total	\$22,000	

- **Initial Inventory**

$$\frac{\text{Estimated Annual Sales}}{\text{Estimated Inventory Turnover Rate}} \times \text{Cost of Goods Sold \%} =$$

$$\frac{\$170,000}{3.5} \times .57 = \$27,685$$

- **Accounts Receivable**

Although I will try to accept only cash and credit cards, a small amount of credit transactions will be necessary (10%). My terms will be net 30 days.

Value of 1 month's credit:	$\frac{\$170,000}{12}$	x 10% =	\$1,420
----------------------------	------------------------	---------	---------

- **Total cash required** \$51,105
- **Minus: Personal Investment** (after filling out personal financial investment sheet) \$20,000
- **Equals: Amount to be borrowed** \$31,105

- **Term Loan: \$25,000 for 5 years @ 10%**
Line of Credit: \$10,000 arranged @ 12%

Term Loan	=	$\frac{\$25,000}{3,791}$	=	\$6,594 annual payment
Level Factor from Table E				

- **Calculation of Interest on Term Loan**

Year	Payment	Interest* Portion	Repayment Portion	Balance
0	-	-	-	25,000
1	6,594	2,500	4,094	20,906
2	6,594	2,091	4,503	16,403
3	6,594	1,640	4,954	11,449
4	6,594	1,145	5,449	6,000
5	6,594	594	6,000	0

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

Maximum possible interest expense \$10,000 x 12% = \$1,200
- **Total Yearly Interest Expense**

Year 1	\$2,500 + \$1,200 = 3,700
Year 2	\$2,091 + \$1,200 = 3,291
Year 3	\$1,640 + \$1,200 = 2,840

* Interest for term loan and the line of credit have been entered on line 5 of Figure 11.

Step 5 — Depreciation Expense

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 1/2 of 30% for the first year only. Depreciation expense would be calculated as follows:

Year	Calculation	Amount of Depreciation
1	$1/2 \times 30\% \times \$10,000$	\$1,500
2	$30\% \times \$8,500$ $(\$10,000 - \$1,500)$	\$2,550
3	$30\% \times \$5,950$ $(\$8,500 - \$2,550)$	\$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 (Retail Men's Clothing) (See Worksheet 3 at back)

Item	Original Cost	Year 1		Ending Undepreciated Value
		Depreciation Rate	Depreciation Expense	
leasehold improvements (5 year lease)	\$ 3,500	*	\$ 350	\$ 3,150
used vehicle	6,000	$30\% \times 1/2$	900	5,100
fixtures	10,000	$20\% \times 1/2$	1,000	9,000
equipment	2,500	$20\% \times 1/2$	250	2,250
	\$22,000		\$2,500	\$19,500

Item	Beginning Undepreciated Value	Year 2		Ending Undepreciated Value
		Depreciation Rate	Depreciation Expense	
leasehold improvements (5 year lease)	\$ 3,150	*	\$ 630	\$ 2,520
used vehicle	5,100	30%	1,530	3,570
fixtures	9,000	20%	1,800	7,200
equipment	2,250	20%	450	1,800
	\$19,500		\$4,410	\$15,090

Item	Beginning Undepreciated Value	Year 3		Ending Undepreciated Value
		Depreciation Rate	Depreciation Expense	
leasehold improvements (5 year lease)	\$ 2,520	*	\$ 504	\$ 2,016
used vehicle	3,570	30%	1,071	2,499
fixtures	7,200	20%	1,440	5,760
equipment	1,800	20%	360	1,440
	\$15,090		\$3,375	\$11,715

* 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.

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 revenues and expenses you will experience in the first year of operation. 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.

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, 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 (Retail Men's Clothing)
 (See Worksheet 4)

Line	Item	Section	Step	Page	Year 1	Year 2	Year 3
1	*Sales Method A Method B	1 1	1-4	6-8 9 }	\$170,000	\$185,000	\$200,000
2	Direct Costs	2	2	11	96,900	105,450	114,000
3	Gross Profit (line 1 minus line 2)				\$73,100	\$79,550	\$86,000
4	Normal Operating Expenses	2	3	12	63,540	67,988	72,747
5	Interest Term Loan	2	4	14	2,500	2,091	1,640
	Line of Credit	2	4	14	1,200	1,200	1,200
6	Depreciation	2	5	15	2,500	4,410	3,375
7	Total Expenses (line 4-6)				\$69,740	\$75,689	\$78,962
8	Net Profit (line 3 minus line 7)				3,360	3,861	7,038
9	Income Taxes (23%)				773	888	1,619
10	Net Profit After Taxes (line 8 minus line 9)				\$2,587	\$2,973	\$5,419

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

Section 4 – Monthly Cash Flow Projections

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?

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

Section 4 — Monthly Cash Flow Projections

Figure 12

**Cash Flow Projection
(Retail Men's Clothing)
(See Worksheet 5 at back)**

		Month 1	Month 2	Month 3	Month 4
1. Receipts					
2.	Total Sales	9,380	8,338	11,899	13,549
3.	Sales on Account	938	834	1,190	1,355
4.	Cash Sales*	8,442	7,504	10,709	12,194
5.	Collections on Acct. (50% in 30 days)		469	417	595
6.	Collections on Acct. (remaining 50%)			469	417
7.	Total Receipts ADD ROW4 + R5 + R6	8,442	7,973	11,595	13,206
8. Disbursements					
9.	Purchases* *	27,685	5,347	4,753	6,782
10.	Owner's Drawings	1,250	1,250	1,250	1,250
11.	Payroll — Gross	883	785	1,120	1,275
12.	Rent	1,200	1,200	1,200	1,200
13.	Repairs & Maintenance	100	100	100	100
14.	Business Tax	1,000			
15.	Advertising	1,200	900	500	100
16.	Automobile	125	125	825	275
17.	Delivery				
18.	Dues & Licenses	300			
19.	Insurance	1,000			
20.	Interest	308	308	309	308
21.	Legal & Audit	400		400	
22.	Supplies	250	50	50	50
23.	Business Travel			600	
24.	Utilities	120	120	120	120
25.	Depreciation (Non cash expense)				
26.	Other	100	100	100	100
27.	Total Disbursements ADD R9 to R26	35,921	10,284	11,327	11,561
28.	Cash from Operations	(27,479)	(2,311)	268	1,645
29.	Cash Total — Start of Period* * *	45,000	2,026	(555)	(353)
30.	Total Cash Surplus (Deficit)	17,521	(285)	(287)	1,292
31.	Other Payments — Asset Purchases	22,000			
32.	GST Payments	3,814	555	605	611
33.	Loan Payments — Principal	272	273	273	273
34.	Equity Withdrawal				
35.	Total Other Payments	26,086	828	878	884
36.	Total Cash Surplus (Deficit)	(8,565)	(1,113)	(1,165)	408
37.	Other Receipts — Equity Increase				
38.	Line of Credit	10,000			
39.	Sale of Assets				
40.	GST Receipts	591	558	812	924
41.	Total Other Receipts	10,591	558	812	924
42.	Cash Total — End of Period	2,026	(555)	(353)	1,332

*Cash sales - represent only 90% of monthly sales - 10% are on account.

**Purchases - for first month is initial inventory.

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

*Includes monthly GST and net result from previous quarter.

Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
15,380	13,983	12,420	13,809	15,373	13,983	18,673	23,213	170,000
1,538	1,398	1,242	1,381	1,537	1,398	1,867	2,321	17,000
13,842	12,585	11,178	12,428	13,836	12,585	16,806	20,892	153,000
677	769	699	621	690	769	699	934	7,339
595	677	769	699	621	690	769	699	6,406
15,114	14,031	12,646	13,748	15,147	14,044	18,274	22,525	166,745
7,723	8,767	7,970	7,079	7,871	8,763	7,970	10,644	111,354
1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15,000
1,448	1,316	1,169	1,300	1,447	1,316	1,757	2,185	16,000
1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
100	100	100	100	100	100	100	100	1,200
								1,000
200	100	100	100	100	100	100	100	3,600
125	125	125	125	125	275	125	125	2,500
								0
								300
		1,000						2,000
308	309	308	308	309	308	308	309	3700
							1,500	2,300
50	50	50	50	50	50	50	50	800
600				600				1,800
120	120	120	120	120	120	120	120	1,440
								0
100	100	100	100	100	100	100	100	1,200
13,223	13,437	13,492	11,732	13,272	13,582	13,081	17,682	178,594
1,891	594	(846)	2,016	1,875	462	5,193	4,843	(11,848)
1,332	6,308	6,874	4,986	7,070	9,014	8,621	14,137	45,000
3,223	6,902	6,028	7,002	8,945	9,476	13,814	18,980	33,151
								22,000
715	737	*1,654	621	718	*1,565	683	975	13,253
273	273	273	273	273	273	273	273	3,275
								0
988	1,010	1,927	894	991	1,838	956	1,248	38,528
2,235	5,892	4,101	6,108	7,954	7,638	12,858	17,732	(5,377)
								0
								10,000
								0
*4,073	982	885	962	1,060	983	1,279	1,576	14,685
4,073	982	885	962	1,060	983	1,279	1,576	24,685
6,308	6,874	4,986	7,070	9,014	8,621	14,137	19,308	19,308

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 (Retail Men's Clothing)
(See Worksheet 6 at back)

Year 1 Gross Profit \$73,100

Year 1 Estimated Sales \$170,000

$$\text{Gross Profit Percentage} = \frac{\text{Gross Profit Year 1}}{\text{Sales Year 1}} = \frac{\$73,100}{\$170,000} = 43\%$$

Total Operating Expenses Year 1 \$69,740

$$\text{Break-Even Sales} = \frac{\text{Total Operating Expenses Year 1}}{\text{Gross Profit Percentage}} = \frac{\$69,740}{.43} = \$162,186$$

Step 2 — Return on Owner’s Investment

Return on Owner’s Investment shows the earning 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 your 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 procedures as in 1. above.

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

Figure 14

Return on Owner’s Investment Calculation (Retail Men’s Clothing) (See Worksheet 7 at back)

	Year 1	Year 2	Year 3
Net Profit After Tax	\$2,587	\$2,973	\$5,419
Owner’s Investment*	\$20,000	\$22,587	\$25,560
Return on Investment	12.9%	13.2%	21.2%

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

Information to Consider

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

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, have been published by Industry, Trade & Tourism 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 your Business Plan or have problems and questions related to its preparation, feel free to call the Canada/Manitoba Business Service Centre and arrange to meet with one of the counsellors.

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**TABLE 04B91. CANADA 1990
Detailed Average Expenditure by City**

All Households

		City									
		Thunder Bay		Winnipeg		Regina		Saskatoon		Calgary	
		Av. per hhd	% not rptg zero	Av. per hhd	% not rptg zero	Av. per hhd	% not rptg zero	Av. per hhd	% not rptg zero	Av. per hhd	% not rptg zero
2492-2498	Furnishings & equip. incl. hhd appliances	—	—	—	—	—	—	—	—	—	—
2493-2495	Maintenance and repairs	48	33.9	67	34.5	81	49.5	62	36.1	53	39.0
2493	Furnishings	26	20.9	39	20.3	41	30.9	34	20.6	24	22.7
2494-2495	Equipment	22	21.0	28	21.9	40	32.0	28	23.3	29	26.3
2494	Major household appliances	17	14.9	26	20.4	29	27.7	24	20.7	25	22.2
2495	Other equipment	—	—	—	—	—	—	—	—	—	—
2497	Home security services	—	—	—	—	—	—	—	—	—	—
2498	Other services (eg. making of draperies)	—	—	2	19.6	3	18.0	3	24.6	3	19.0
2500-2879	Clothing	2592	98.6	1954	99.4	2695	100.0	2332	100.0	2497	99.7
2500-2583	Women's wear (14 years and over)	1371	93.2	970	85.4	1251	92.6	1136	87.6	1146	85.5
2500-2504	Coats and jackets	144	61.3	147	48.8	123	60.1	150	50.4	114	49.2
2500	Leather coats and jackets	46	15.5	35	11.0	31	13.6	30	11.5	29	12.0
2501	Fur coats and jackets	—	—	—	—	—	—	—	—	—	—
2502	Winter-weight coats and jackets	48	27.8	45	27.0	60	39.5	50	30.1	38	23.5
2503	Raincoats (including all-weather coats)	16	17.0	12	12.8	11	10.4	—	—	—	—
2504	Other light-weight coats and jackets	28	25.0	13	16.1	15	19.7	19	20.3	21	18.5
2510-2511	Suits and dresses	174	58.6	129	50.6	191	64.6	163	59.6	173	54.7
2510	Suits (including pant suits)	47	19.4	35	16.9	70	26.2	54	22.0	70	24.0
2511	Dresses	126	54.2	94	44.4	120	57.7	109	54.2	102	47.1
2520-2526	Sportswear	429	87.6	267	76.2	366	86.5	307	80.4	313	78.4
2520	Jeans	56	47.8	32	41.9	49	49.8	49	47.0	52	47.7
2521	Pants and shorts (excluding jeans)	92	70.2	52	57.0	82	65.0	62	58.4	60	52.8
2522	Skirts	46	44.9	30	31.5	47	42.0	34	39.7	30	29.1
2523	Blouses and shirts	96	66.0	61	55.9	72	60.7	63	56.4	71	56.0
2524	T-shirts and other tops	53	60.9	37	52.2	53	58.4	48	60.0	46	55.2
2526	Sweaters	86	56.5	55	51.0	64	56.8	52	49.6	55	47.5
2530-2532	Active sportswear	85	57.6	37	44.4	70	53.3	55	48.0	61	48.3
2530	Skiwear	30	15.1	—	—	14	10.4	—	—	—	—
2531	Beachwear	18	31.0	11	23.4	18	29.9	16	27.5	15	26.4
2532	Other active sportswear	37	41.5	20	28.2	38	40.9	26	34.9	28	34.4
2540	Other specialized clothing	—	—	—	—	9	10.7	—	—	—	—
2550-2554	Lingerie, hosiery and sleepwear	174	88.6	125	82.5	172	90.7	131	83.5	167	83.3
2550	Foundation garments	30	46.5	23	44.3	37	59.8	24	45.6	35	50.5
2551	Lingerie	43	66.8	28	55.5	38	64.9	31	62.3	39	58.4
2552	Hosiery	60	85.7	48	80.1	65	85.9	53	80.9	62	78.7
2553	Sleepwear	31	46.3	19	36.3	22	45.5	14	36.6	18	28.1
2554	Loungewear	10	16.3	7	12.5	9	17.7	9	15.9	12	20.1
2560-2563	Other apparel and accessories	62	69.7	52	64.1	52	73.0	48	65.7	45	62.9
2560	Gloves and mitts	15	44.3	11	39.5	12	51.3	10	38.9	9	34.7

TABLE 04B91. CANADA 1990
Detailed Average Expenditure by City

All Households

		City									
		Thunder Bay		Winnipeg		Regina		Saskatoon		Calgary	
		Av. per hhd	% not rptg zero	Av. per hhd	% not rptg zero	Av. per hhd	% not rptg zero	Av. per hhd	% not rptg zero	Av. per hhd	% not rptg zero
2951	City bus, subway, street car	64	39.1	141	66.7	71	51.9	66	55.7	104	66.2
2952	Commuter bus and train	—	—	—	—	—	—	—	—	—	—
2953	Local taxi service	47	43.3	33	39.5	28	47.4	36	49.5	41	39.6
2954	Other local transportation	—	—	—	—	—	—	—	—	—	—
2960-2965	Inter-city transportation	499	60.7	307	48.2	337	55.3	285	57.1	413	56.5
2960	Household movers and storage	—	—	—	—	—	—	—	—	—	—
2961	Air	416	39.0	269	24.5	291	28.4	225	25.2	368	33.0
2962	Rail	—	—	—	—	—	—	—	—	—	—
2963	Highway bus	27	19.3	18	14.7	22	22.2	36	26.9	19	17.5
2964	Other passenger transportation	—	—	—	—	—	—	—	—	—	—
2965	Other inter-city delivery services	28	29.6	8	19.0	8	20.0	9	24.7	10	21.5
3000-3063	Health care	598	96.0	632	97.2	760	98.9	584	98.1	999	98.9
3000-3053	Direct costs to household	449	94.1	472	96.6	629	98.5	484	97.7	594	97.8
3000	Health care supplies	14	56.0	12	56.3	17	59.9	13	60.7	15	53.8
3001-3002	Medicinal and pharmaceutical products	141	83.9	176	93.0	213	95.5	175	94.3	160	94.6
3001	Prescribed	79	43.0	124	68.5	153	78.4	109	74.5	98	61.2
3002	Other	63	79.9	52	84.5	59	89.1	66	88.4	61	87.1
3011	Physicians' care	—	—	—	—	—	—	—	—	—	—
3020-3023	Eye-care goods and services	107	49.3	93	49.2	135	59.8	137	57.9	139	54.3
3020	Eye glasses	67	35.3	69	32.1	99	41.8	86	39.3	90	35.8
3021	Contact lenses	—	—	—	—	—	—	—	—	25	13.2
3023	Other eye-care goods	22	27.9	16	26.2	24	40.0	34	38.1	25	31.2
3030	Other health-care goods	8	13.6	—	—	—	—	—	—	4	11.2
3040-3042	Dental care	148	43.9	138	49.0	235	55.0	120	53.6	187	48.5
3040	Orthodontic and periodontic procedures	—	—	—	—	60	10.1	—	—	78	11.4
3041	Prescription and fitting of dentures	—	—	—	—	—	—	—	—	—	—
3042	Other dental procedures	77	35.9	78	43.1	146	47.7	91	49.4	91	40.1
3050-3053	Hospital and other health care services	21	17.7	41	21.4	12	9.8	—	—	57	25.1
3050	Hospital care	—	—	—	—	—	—	—	—	—	—
3051-3053	Other health care services	18	16.5	23	20.2	—	—	—	—	56	24.1
3051	Other health care practitioners	17	13.3	21	17.6	—	—	—	—	51	19.0
3052	Weight/smoking control programs	—	—	—	—	—	—	—	—	—	—
3053	Other medical services	—	—	—	—	—	—	—	—	—	—
3060-3063	Health insurance premiums	148	43.4	160	59.1	131	69.5	100	49.1	405	72.8
3060	Public hospital and medical plans	—	—	—	—	—	—	—	—	212	58.5
3061-3063	Private health care plans	148	43.4	158	58.8	131	69.5	99	48.4	192	46.2
3061	Supplementary coverage (including drug)	73	33.2	99	50.2	61	61.5	48	40.1	93	31.0
3062	Dental plans (separate policy)	—	—	21	10.8	—	—	—	—	33	16.4
3063	Accident and disability insurance	49	16.9	38	17.3	56	23.2	39	15.2	66	23.8
3100-3153	Personal Care	887	99.3	796	100.0	935	100.0	822	100.0	887	100.0
3100-3140	Personal care supplies and equipment	583	99.3	527	99.2	617	100.0	563	100.0	584	100.0

Worksheet 1

Operating Costs
(see Figure 8,
page 12)

	Amount
Salary, Wages and Benefits	
Salary and benefits (of owner)	_____
Wages and benefits (3 part-time clerks)	_____
Occupancy	
rent	_____
repairs and maintenance	_____
business tax	_____
General	
advertising	_____
automobile/delivery	_____
dues and licences	_____
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)

- **Building, fixturing and equipment (including vehicle) (Step 1)**
 - Leasehold improvements (partitioning and decorating) _____
 - Company purchases my vehicle (station wagon) _____
 - Fixtures (shelves, lights, racks, display fixtures, etc.) _____
 - Equipment (office furniture, safe, cash register, etc.) _____
 - Total** _____
- **Initial Inventory**

$$\text{(Stock sales ratio)} \times \frac{\text{Estimated Annual Sales}}{12} \times \text{\% Cost of Goods Sold}$$

$$\text{_____} \times \frac{\text{_____}}{12} \times \text{_____} = \text{_____}$$
- **Accounts Receivable**
Although I will try to accept only cash and credit cards, a small amount of credit transactions will be necessary (10%). My terms will be net 30 days.
 - Value of 1 month's credit: $\frac{\text{(Annual sales)}}{12} \times \text{(Interest rate)}$
 - $\frac{\text{_____}}{12} \times \text{_____} = \text{_____}$
- **Total cash required** _____
- **Minus: Personal Investment** (after filling out personal financial investment sheet) _____
- **Equals: Amount to be borrowed** _____
- **Term Loan:** _____
- **Line of Credit:** _____
- $$\frac{\text{Term Loan}}{\text{Level Factor from Table F}} = \text{_____} = \text{_____} \text{ (annual payment)}$$
- **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
leasehold improvements (5 year lease)	_____	_____	_____	_____
used vehicle	_____	_____	_____	_____
fixtures	_____	_____	_____	_____
equipment	_____	_____	_____	_____
TOTAL	_____	_____	_____	_____

Year 2				
Item	Undepreciated Value	Depreciation Rate	Depreciation Expense	Undepreciated Value
leasehold improvements (5 year lease)	_____	_____	_____	_____
used vehicle	_____	_____	_____	_____
fixtures	_____	_____	_____	_____
equipment	_____	_____	_____	_____
TOTAL	_____	_____	_____	_____

Year 3				
Item	Undepreciated Value	Depreciation Rate	Depreciation Expense	Undepreciated Value
leasehold improvements (5 year lease)	_____	_____	_____	_____
used vehicle	_____	_____	_____	_____
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 Method B	1 1	1-4	6-8 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 (line 3 minus line 7)				_____	_____	_____
9	Income Taxes (23%)				_____	_____	_____
10	Net Profit After Taxes (line 8 minus line 9)				\$ _____	\$ _____	\$ _____

Worksheet 5

Cash Flow Projection

	Month 1	Month 2	Month 3	Month 4
1. Receipts				
2. Total Sales				
3. Sales on Account				
4. Cash Sales				
5. Collections on Acct. (50% in 30 days)				
6. Collections on Acct. (remaining 50%)				
7. Total Receipts ADD ROW4 + R5 + R6				
8. Disbursements				
9. Purchases				
10. Owner's Drawings				
11. Payroll — Gross				
12. Rent				
13. Repairs & Maintenance				
14. Business Tax				
15. Advertising				
16. Automobile				
17. Delivery				
18. Dues & Licenses				
19. Insurance				
20. Interest				
21. Legal & Audit				
22. Supplies				
23. Business Travel				
24. Utilities				
25. Depreciation (Non cash expense)				
26. Other				
27. Total Disbursements ADD R9 to R26				
28. Cash from Operations				
29. Cash Total — Start of Period				
30. Total Cash Surplus (Deficit)				
31. Other Payments — Asset Purchases				
32. GST Payments				
33. Loan Payments — Principal				
34. Equity Withdrawals				
35. Total Other Payments				
36. Total Cash Surplus (Deficit)				
37. Other Receipts — Equity Increase				
38. Line of Credit				
39. Sale of Assets				
40. GST Receipts				
41. Total Other Receipts				
43. Cash Total — End of Period				

Worksheets 6 & 7

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

Year 1 Gross Profit	_____	
Year 1 Estimated Sales	_____	
Gross Profit Percentage =	$\frac{\text{Gross Profit Year 1}}{\text{Sales Year 1}}$	= _____ = _____
Total Operating Expenses Year 1	_____	
Break-Even Sales =	$\frac{\text{Total Operating Expenses Year 1}}{\text{Gross Profit Percentage}}$	= _____ = _____

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

	Year 1	Year 2	Year 3
Net Profit After Tax	_____	_____	_____
Owner's Investment*	_____	_____	_____
Return on Investment	_____	_____	_____
Information to Consider:			

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