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Canadian  
Aboriginal  
Economic  
Development  
Strategy

Stratégie  
canadienne de  
développement  
économique des  
Autochtones

# ABORIGINAL BUSINESS DEVELOPMENT PROGRAM

## *Business Planning Guide*

**Business Plans**

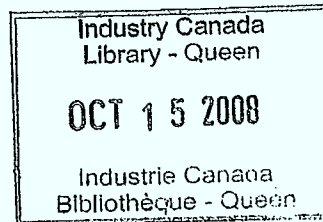
**Plans d'affaires**



Industry, Science and  
Technology Canada  
Aboriginal Economic  
Programs

Industrie, Sciences et  
Technologie Canada  
Programmes économiques  
des Autochtones

Canada



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## Why Prepare a Business Plan?

Starting or operating a business provides many rewards to the entrepreneur and the community. But it also requires considerable planning and attention to details. You will require information about many factors important to your business and you will have to take many decisions. A business plan sets these steps out in a detailed and orderly fashion.

The amount of work it takes to develop a business plan may seem overwhelming at first. But if you take one step at a time, the work becomes manageable. Running the business will be a great deal easier if these steps are well researched and understood before your money is invested and before you open your doors to your customers. The most important factor in a business's success or failure is adequate preparation. It is far easier, and less costly, to correct mistakes made "on paper;" it's much harder to correct them after you are in business.

Three distinct groups will use your business plan: lending institutions, investors and you. You are the prime user of the business plan; it can help you address the weaknesses and capitalize on the strengths of your business. Lending institutions will be interested in how you can repay your loan and provide adequate security. Investors will want to know how and when they can get their money back from the business.

The complexity and size of your business plan will reflect the nature and size of your business. It should be written in such a way that an uninformed reader can understand your business and what you propose to accomplish.

### **How to Use This Guide**

The purpose of this guide is not to tell you how to prepare your business plan. Many excellent business planning guides are currently available in libraries and bookstores. If you would like some suggestions relevant to your business, ask your Development Officer.

Rather, this guide is a tool to help you work with your lender and your Development Officer to determine what your business plan should contain. Some sections may not apply to a given business opportunity; therefore, the guide is designed to be tailored to fit your business opportunity.

### **Meet with your Aboriginal Business Development Program (ABDP) Development Officer**

Before you begin preparing your business plan, make sure you meet with an ABDP Development Officer to:

- review this guide together and customize it to fit your needs
- decide whether you need consulting help to prepare the business plan and, if so, make the necessary arrangements
- set a target date for completing the business plan.

### **Sources of Assistance**

Successful business owners know the value of professional assistance. The kind and amount of assistance they need varies with the business but the most commonly used professionals are listed below.

#### **Your Accountant**

Your accountant can save you many times the cost of the accounting fees and can be a good source of business advice if used appropriately.

#### **Your Lawyer**

It is important that you consult a lawyer before signing any legal documents. Signing documents without this professional advice can be very costly to you.

#### **Your Banker**

A good relationship with your banker can pay off for you when your business needs more financing. Keep the bank informed of what you are doing and you will build their confidence in your abilities.

### **Information to Cover in Your Business Plan**

You may currently own a business that you plan to expand, you may propose to buy an existing business or start a new business from scratch. Whatever the case, you will need to provide most of the following information. Please change the wording to fit your situation.



## The Business and the Industry

### Business History and Organization

- When did (will) the business begin operating?
- What form of business is it? (Example: proprietorship, partnership, limited partnership, corporation, joint venture)
- If the business is already incorporated:
  - When was it incorporated?
  - Was it incorporated federally or provincially?
  - In what provinces is it registered?
  - Is it a non-profit corporation?
- Does the business have publicly traded shares? If so, on what exchanges are the shares listed?
- If it is an existing business, has it experienced any of the following changes since it began operating? If so, give the date, details, reason and benefits or effects of the changes.
  - change in the product line
  - changes in the shareholders or owners of the business
  - acquisition or disposal of major assets
  - merger with another business
  - relocation
  - presentation of bankruptcy or other proposals to creditors

*Supporting  
Documents*

- Copy of the Articles or Certificate of Incorporation
- Other (specify) \_\_\_\_\_

### Who Owns the Business?

- Names of the owners of the business, their percentage of ownership, and whether or not they are aboriginal.
- Names of the owners of any closely related business, their percentage of ownership, and whether or not they are aboriginal.
- If the business is incorporated, indicate the number of common and preferred shares that each owner holds. If there are many shareholders, give the above information for only those with the controlling or effective controlling shares.

**Supporting Documents**

- Copy of the Partnership Agreement
- Copy of the Shareholder's Agreement
- Copy of the Joint Venture Agreement
- Copy of the Limited Partnership Agreement
- Other (specify) \_\_\_\_\_

**Links with Other Businesses**

- Is the existing or proposed business so closely related to another business owned by you that its success depends on the success of the other business? Example: A business receives a significant amount of its income from another business owned by the same people.
- If so, describe the relationship to the other business.

**Supporting Documents**

- Financial statements of closely related or associated business for the past \_\_\_ years
- Other (specify) \_\_\_\_\_

**Previous Funding**

- Has the business or its owners received previous funding under any of the following programs?
  - ABDP (Aboriginal Business Development Program)
  - NEDP (Native Economic Development Program)
  - SARDA (Special Agricultural and Rural Development Agreement)
  - NDA (Northern Development Agreement)
  - NEDSA (Northern Economic Development Sub Agreement)
  - Other federal, provincial or territorial government assistance programs
- If so:
  - Give the date and amount of the assistance, the name of the program and the purpose that the funds were used for.
  - Describe the current status of such projects. If they are no longer operating, explain why.



## Industry Description

- What are the key factors in your industry that make firms successful. What enables the good firms to succeed? Examples: marketing, pricing, bidding, cost control, customer service, product quality.
- What are the trends in the industry?
- Is the industry growing or declining? Where will it be in five years?

Supporting Documents

- Copies of research or reports you obtained in carrying out industry research. Examples: industry publications, government publications, and so on.
- Other (Specify) \_\_\_\_\_

## The Local Community

Describe the community where the business operates or will operate to help the reader evaluate the local business climate.

- Population and approximate breakdown of the population between aboriginal and non-aboriginal people.
- General indication of the type of economy. Example: predominantly agricultural.
- Details of any dominant industries. Example: mining town.
- Nature or evidence of community support.

Supporting Documents

- Evidence of community support for the project
- Other (specify) \_\_\_\_\_

## The Project

Describe the objectives, the approach and the outcome of the project for which you seek funding. If you are expanding or acquiring an existing business, you must describe what the business currently does before describing the project.

### If you have an existing business or are acquiring one:

- What does the business do? Be specific. Examples: 60-seat unlicensed restaurant, 100-room motel. What services does the business offer? What products does the business manufacture or sell?
- What special features of the product or service give it an advantage over the competition?
- What hours and days is the business open?

### Describe the project. Provide an executive summary of the key features of the project:

- **Objectives:** What are you proposing to do under the project?  
Why did you decide to start this project now?
- **Approach:** How will the project objectives be carried out?
- **Outcome:** What products and services will result from the project?
- **Financing:** Very briefly outline the costs and financing of the project and the amount of funding you are requesting from ABDP.
- **An Existing Business:** If the project involves the expansion or change of ownership of an existing business, how will it affect these aspects of the business:
  - sales volume
  - profitability
  - working capital
  - financial structure
- **Timing** Estimate the timing for:
  - the purchase of the business (if applicable). Give details.
  - start of construction (if applicable)
  - start of commercial operation

Be sure to consider financing, elements of the project, contracts involved and so on.





## The Benefits of the Project

Describe how the business and the community will benefit from the project.

- How many aboriginal and non-aboriginal jobs will be created or maintained?
  - What percentage will be seasonal or part-time?
  - What percentage do you expect will be female?
- How many aboriginal management jobs will be created or maintained? Give details. Indicate how many will be occupied by aboriginal women.
- What do you anticipate surplus earnings will be used for?  
Examples: owner's drawings, dividends, expansions of the business, investment in new businesses.
- What social or economic benefits will the business or the community derive from the project?

## Your Market Analysis

### **Successful Marketing**

Most owner-managers start with an idea that soon grows into a decision to offer their product or service in the marketplace. Successful marketing means knowing who your customers are and tailoring your product or service to satisfy their needs. The best way to do this is to analyze your market carefully and prepare a 3-year plan that describes how you will approach the market and promote your product or service.

### **Analyzing Your Market**

#### **Market Size**

- In geographical terms, how large is the market area you intend to serve with your products or services? If you expect the market area to grow in the next 2 or 3 years, please explain why.
- What is the total potential sales volume in units and dollars of the market area you described above? Is there potential for growth?

#### **Market Share**

The foundation of all business planning is sales forecasting. Forecasting is simply the process of organizing and analyzing information in a way that makes it possible to predict what will happen in the future. Be conservative.

- What percentage share of this market do you hope to obtain in each of the first three years? This should relate to your marketing plan, as described on pages 11 and 12.
- If the business is already operating, explain any changes in market share over the past three years.

#### **Location**

- Describe the location of your business in relation to the location of your customers. How will this affect your ability to reach projected sales levels? Describe the strengths and weaknesses of your location.
- If the local economy is dependent on any one plant, business or industry such as mining, what is your assessment of the economic outlook for the dominant plant or business? How significantly would a downturn in that business affect your business?



**Typical  
Customer**

- Describe your typical customers. Give their age, income, occupation, sex, or other characteristics.
- Where are your potential customers currently buying the products or services that you will offer? What distance are they willing to travel to buy from you?
- Give the names of major customers who account for more than 10% of your annual gross sales and provide the annual sales dollar volume billed to each.
- How would your business survive if one of your major customers stops purchasing products or services from you?

**Competition**

- Give the following information about each of your business competitors:
  - name
  - location
  - estimated dollar sales
  - percent market share
- Has your competition's market share recently changed dramatically? If so, why?
- What is the intensity of competition in your target market: low, medium or high? Explain.
- What advantages and disadvantages does your business's geographical location give you in relation to your competitors?
- What other advantages and disadvantages do you have?
- What are the prospects of new competition entering the market: low, medium or high? Explain.
- What impact will the project for which you are seeking funding have on your competition? How and to what degree will it affect each competitor?

**Supporting  
Documents**

- Trade publications, government publications
- Self-prepared market research
- Independent market research studies and data
- Other (specify)





## Your Marketing Plan

A comprehensive marketing plan is critical to your business's success. Base your plan on your analysis of the market and your competition. If you need help in preparing a marketing plan, please talk to your ABDP Development Officer.

### Promotion

- If you have a marketing plan, indicate who prepared it. If an outside firm, provide the contact name and phone number.
- How will you promote your product or service? Consider effective use of your advertising dollars, using media such as:
  - signs, bill boards
  - radio, television
  - newspapers, weekly shopper
  - direct mail
  - yellow pages
  - magazines
  - specialty ad items
- What type of promotion is normal for your industry?
- Where will you target the promotion?
- Who will do it? Examples: professional firm, your own staff.
- When will it be done? Examples: a lot at the beginning followed by ongoing regular promotions.
- What will each type of promotion cost?
- Is signage important in your business? If so, have you included signs in the project costs?
- If you do not have a promotion plan in place, how will you address this weakness?

### Pricing

- How do you determine the selling price? Examples: based on your competition, based on your costs.
- Is your selling price higher, lower or about the same as your competitors' price? Are they likely to reduce their prices when you enter the market? If so, how will you compete?
- If you sell by mail order or to retailers or wholesalers, give the following information:
  - how you determine the selling price to each type of customer
  - approximately how many mail order customers you have
  - how many retailers or wholesalers are small, medium and large
  - in what area of the country your customers are located
  - discounts, allowances or deals that you give them, if any
  - service charges or price maintenance, if any

### Credit

Many businesses get into trouble quickly by allowing customers to buy on credit, and later being unable to collect the money owed. Consider this carefully.

- **Credit and collection policies** include granting credit and administering and collecting the account.
- **Credit terms** involve the length of the credit period and any discounts given.

If you feel sales will increase if credit is allowed, compare how much profit you will earn on the extra sales against how much profit your bad debts may cost you. If you decide to allow credit, describe the following:

- What are your credit terms and credit and collection policies for each type of customer?
- How do your credit policies compare with those of your competitors?
- How will you collect difficult accounts?

### Distribution

- Describe how your products reach your customers and how they eventually reach the final customer (if different).
- Do your distribution costs and methods compare favourably with those of your competitors? Explain.

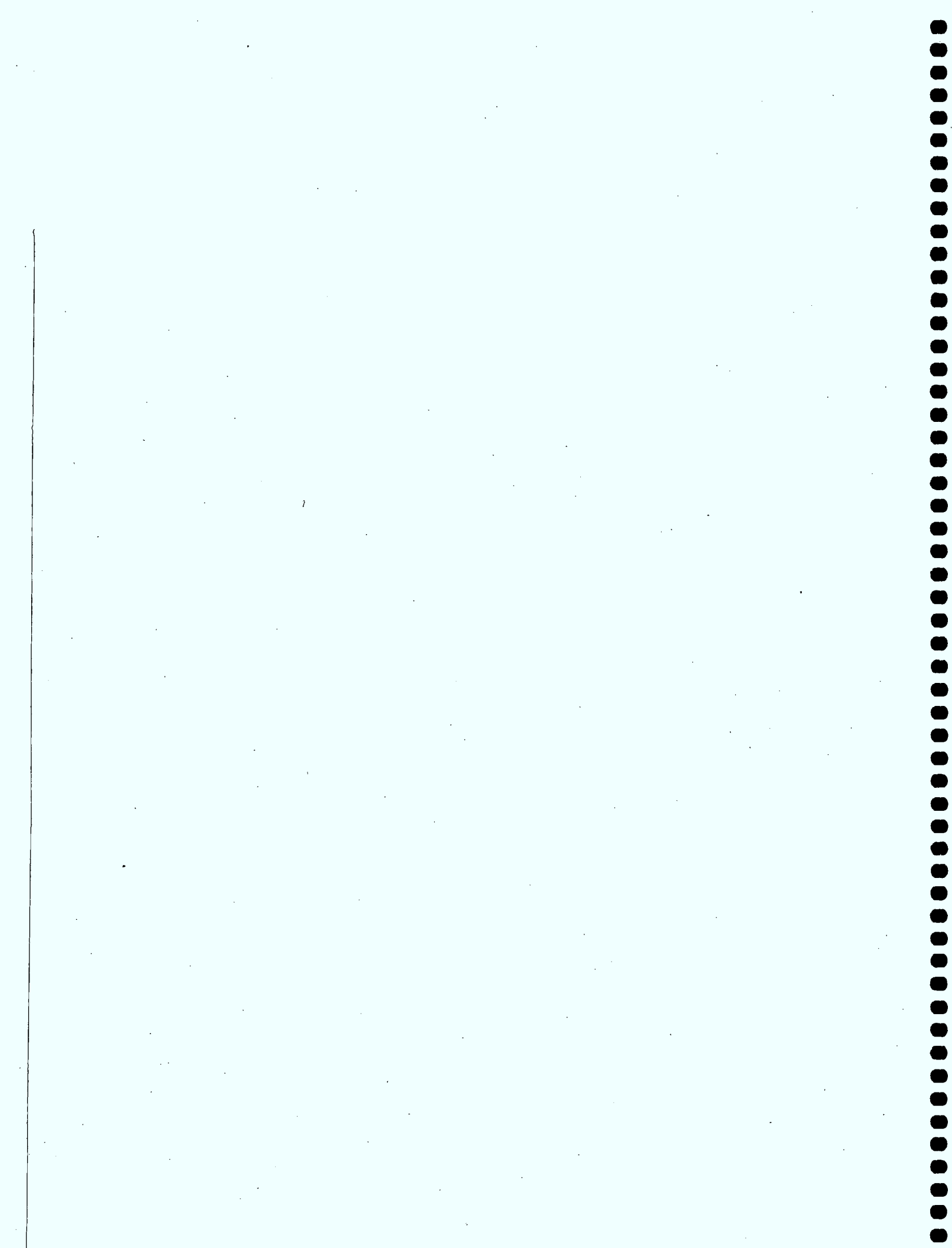


**Weaknesses  
in Your  
Marketing  
Plan**

Outline any weaknesses you see in your marketing plan, and describe how you plan to overcome them. Marketing can be a critical part of your success in achieving your sales forecasts and ABDP can provide financial assistance for this. Discuss this with your Development Officer.

**Supporting  
Documents**

- Copy of the marketing plan
- Copy of the promotion plan
- Other (specify) \_\_\_\_\_







## Your Operational Plan

This section is important particularly if your business manufactures products. It gives the reader an understanding of your business operations and any changes that might result from the project.

### **Production Methods**

- Describe the workflow in the business. This description should be detailed enough that the reader understands what your business produces and the steps involved in production. You may wish to include a floor plan or store layout to show the flow of steps.
- Did you use the services of an engineer to design the production system or plant layout? If so, provide the contact name and phone number.
- How many units can you produce annually if the plant is operating at maximum capacity?
- How many units must you produce annually to meet your projections? How did you arrive at these projections?
- How do you plan to control production costs? What controls will you use?
- Is quality control important in this business? If so, how will it be maintained?
- How modern is the equipment and the process you will use for production? How will it measure up with your competitors?
- Provide brief explanations of the following, if applicable:
  - bottlenecks in the process
  - regular maintenance on the production line
  - after-sales service or warranties
  - seasonal requirements in the production process

### **Service Methods**

If you have a service business, consider the same questions on methods above and answer them as they apply to your service business. The reader of your business plan must be able to understand how the business will function and must be able to evaluate its strengths and weaknesses in providing good service to your customers while maintaining adequate controls on your costs.

### Labour

- Describe your business's workforce. This information helps you verify projected wage costs, analyze workforce stability and productivity.
- What union will represent your employees?
- Are labour productivity and efficiency currently satisfactory? If not, explain.
- A lack of employee knowledge or training can be a serious drain on your ability to earn a profit. Will you face any of these problems? If so, how do you plan to address these issues?
  - Employees requiring technical knowledge or skills.
  - Difficulty recruiting trained employees.
  - High turnover of employees.

### Supply and Purchasing

Describe your suppliers and your relationship with them. This information indicates whether your business has an adequate and affordable supply of raw materials and whether storage is safe.

- Give the following information about your major suppliers:
  - Their names
  - How long you have been dealing with them
  - Products they supply
  - Where they are located
  - Terms they give you, such as net 30 days, and reasons why you prefer to deal with them
- Are there any trends or variations in price?
- Describe the quality of the products you buy.
- Where do you store such products?
- Are supply sources adequate?
- Do you rely on one or two key suppliers? If so, would you be able to find another supplier if one of them became unable to supply you? Specify other sources of supply you could use.
- What are the suppliers' practices about return of merchandise?
- Do you have any special supply problems? Example: uncertain delivery because of winter roads?



## **Franchise Details**

If your business operates or will operate as a franchise, attach the franchise agreement and provide the following additional information:

- When the franchiser began selling franchises.
- Total number of franchise operators.
- Whether any franchises have been terminated or failed. If any have, provide details and give the reason.
- Whether your franchise territory is exclusive or non-exclusive.
- Dollar amount of initial franchise fee you must pay, if any.
- Whether you have to purchase all of your supplies from the franchiser. If so, under what terms and conditions? How does the purchase price compare with prices you would pay if you bought the supplies elsewhere?
- Whether the franchiser provides training. If so, what is the training and how much does it cost you?
- Details of any lease arrangements with the franchiser, including what they relate to, their terms and conditions.
- How you satisfied yourself that the franchiser is financially stable.
- Whether you asked any other franchise owners for a reference. If so, whom did you contact, and what were their opinions?

### Environmental Considerations

Answer all of the questions on this topic. Your answers help readers evaluate the environmental impact of your project.

- Does the project involve new technology?
- Does the project result in an activity new to your area?
- Will the project meet the standards of environmental legislation? Provide the names and phone numbers of the individuals you are dealing with about environmental issues and standards.
- Will the project adversely affect:
  - historic features?
  - archaeological sites?
  - unique features?
  - endangered species?
  - adjacent land use?
- Will the project produce:
  - air contaminants?
  - radiation?
  - contaminated effluent?
- Will the project use or produce:
  - toxic chemicals?
  - hazardous materials?
- Will the project be located near:
  - a water course?
  - a marsh?
  - a sanctuary?
- Will the project affect the health or safety of humans?
- Will the project have any effect on fish, birds or other animals?
- Will the project arouse public concerns?
- Will the project contribute to cumulative impacts? Example: one plant close to the river may not pose too great a problem but if a second plant is built, it could affect the environment.
- Will the project have any other adverse effect? If so, what?

If you answer yes to any of these environmental impact questions, state whether the harmful effects can be alleviated by known technology, and give details of the technology to be used.



**Weaknesses  
in Your  
Operational  
Plan**

Outline any weaknesses that you see in your operational plan, and describe how you plan to overcome them. Consult your Development Officer on how the weaknesses might be addressed.

*Supporting  
Documents*

- Copy of the site layout or production plan or other analysis showing your production process
- Copy of patents, permits, or other agreements relating to the production process
- Franchise agreements
- Environmental permits or documentation
- Other (specify) \_\_\_\_\_





## The Management Team and Board of Directors

### Your Team and Its Qualifications

Provide the following information for each manager and corporate officer.

- Name
- Title
- Function
- Duties and responsibilities
- What plans have been made so that the business can continue operating successfully if one or more key management figure cannot continue?
- Will you have insurance on key people?
- Will the business be managed by someone other than one of the owners?  
If so, give the following information for the hired manager:
  - name
  - experience
  - salary
  - length of contract
  - important contract details

### Management Strengths and Weaknesses

- Assess the strengths and weaknesses of each member of the management team. Be realistic and objective.
- Describe how you plan to overcome any weaknesses:
  - Identify the management training that is required and how to get the training. Examples: Consider management courses, on the job training in a similar business, and so on.
  - Identify the assistance that management will require to implement the business plan. Examples: Construction expertise, engineering, bookkeeping systems, legal work, and so on.
  - Identify the assistance that management will require in on-going operations. Examples: Help in preparing financial statements, business advice, and so on.
- What are the key variables management must control in this business? Examples: Cash, inventory, credit, operating costs, etc. How will they be controlled?
- If you have not yet identified all managers, outline your recruitment plan. Is the cost of recruiting included in the project costs?

## Management Team and Board of Directors

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### Management Support

Provide the name and phone number for:

- your bookkeeper or accountant
- lawyer
- banker
- insurance broker
- other business advisors as required

Discuss the management training and management assistance needs of your business with your Development Officer.

### Supporting Documents

- Organization chart and separate Management Resumes with background and work experience for each member of the management team
- Resumes of the persons identified for key management positions
- Copy of the management contract
- Other (specify) \_\_\_\_\_

### Board of Directors

Your Board of Directors can give valuable advice and direction about your business. However, to fulfill this role, members of your board should have business experience and financial expertise relevant to your type of business and its size.

- Identify the members of your Board of Directors. Provide their names and describe their relevant business experience and other qualifications. What is their role on your board: why did you select these individuals?
- Your Board members must understand their role and be able to function as a team. Does your Board require any training in the roles of the director or any team building?

Discuss your Board of Directors' training needs with your Development Officer.





## Your Financial Plan

### Project Costs

Provide information about assets the business currently owns or leases as well as the new costs to be incurred for the project.

#### **Land** Land currently owned or leased by the business:

- Is the land owned by you or is it leased?
- Where is it located? Note: If located on a reserve, provide evidence that the land is available for this purpose. Designation or a certificate of possession may be required. Discuss this with your ABDP Development Officer.
- What is the approximate size?
- What is the zoning? Example: agricultural, commercial.
- What type of utility services exist? Example: hydro, water.
- Is it cleared, is it level?
- Is parking available? If so, for how many vehicles? Is it adequate?
- If the land is leased, what is the term of the lease? Give the date it starts and the date it ends.
- If there are any renewal options, provide details.
- What is the amount of the monthly rent?

**Land**  
*(continued)*

**Land to be purchased or leased as part of the project:**

- Location of land
- Is the location convenient to suppliers and customers?
- Approximate size
- Zoning
- Type of utilities that exist
- Purchase price
- Was an appraisal done? Who prepared it? When?
- Is there an accepted offer to purchase?
- If you are leasing, what is the term of the lease and who is the owner?
- Has a lease or intent to lease been signed?

**Supporting Documents**

- Evidence of designation or certificate of possession (on reserve)
- Copy of the appraisal
- Copy of the accepted offer to purchase
- Copy of lease
- Other (specify) \_\_\_\_\_

**Buildings**

**Buildings currently owned or leased by the business:**

- Is the building owned by you or is it leased?
- What is the size of the building (total and per floor)?
- How old is the building?
- What is its condition?
- Briefly describe the type of structure or construction of the building. Examples: wood frame, concrete block.
- Give details of recent major renovations: when, what and at what cost.
- Do you anticipate any major repairs not included in the project costs? Give details and estimate the cost.
- What type of utility services exist? Examples: hydro, water.
- Does the building meet the fire and licensing codes for the type of business being operated from it?



**Buildings**  
*(continued)*

- Will the facility meet other appropriate licensing requirements? Example: washrooms, handicap access. Provide the name and phone number of individuals you have been dealing with at the licensing agencies.
- If the project is an acquisition, upgrading may be required to obtain licensing. This is often the case when the ownership of a facility changes. Please check with the appropriate provincial government department, such as Occupational Health and Safety, Environment. Ask your Development Officer if you're not sure.
- Does the building have a special purpose or general purpose character?
- How suitable is it for the type of business currently operated from it?
- Are there personal use buildings included in the costs? If so, what is the square footage and value of them? How was the value arrived at?
- If the building is leased, what is the term of the lease? Give the date it starts and the date it ends.
- What is the amount of monthly rent?
- Who is responsible - you or the landlord - for such costs as insurance, utilities, property taxes, repairs and maintenance?
- Are there any common areas that you are responsible for? If the business pays common area costs, provide details.
- Give the landlord's name and address.

**Buildings to be purchased or leased as part of the project:**

If you plan to purchase a building, provide the following additional information:

- What is the purchase price?
- Was an appraisal done? If so, give details:
  - who prepared appraisal?
  - when was it prepared?
- Is there an accepted offer to purchase?
  - closing date?
  - conditions: subject to financing, etc.

**Buildings**  
*(continued)*

If you plan to lease or rent, provide the following additional information:

- Start and end dates
- What is the amount of the monthly rent?
- Who is responsible — you or the landlord — for such costs as insurance, utilities, property taxes, repairs and maintenance?
- Are there any common areas that you are responsible for? If the business pays common area costs, provide details, including estimated amount per year.
- Give the landlord's name and address.
- Has a lease or intent to lease been signed?

If a building is to be constructed or renovated, or if leaseholds are to be constructed under the project, provide the following additional information:

- Describe the work to be done
- What is the total cost of construction?
- What is the cost per square foot?
  - What is the nature of the cost quote: firm price, cost plus, turnkey, estimates?
  - When is the expiry date of the cost quote?
  - Do the cost quotes include hookup to sewer, water, power, and roads? Are the capacities of these systems sufficient for the needs of your business?
- What is the name of the contractor? If you will act as your own contractor or general contractor, give details of your experience in this field.
- Consider whether you need to retain a professional construction manager. Discuss this with your ABDP officer.

**Supporting Documents**

- Copy of the appraisal for existing buildings
- Firm price contracts or cost quotations for the building construction
- Firm price contracts or cost quotations for the leasehold improvements
- Firm price contracts or cost quotations for the building renovations
- Copies of leases or intents to lease
- Copies of offers to purchase
- Evidence the building meets fire code
- Evidence the building meets licensing codes
- Evidence the building meets zoning codes
- Other (specify) \_\_\_\_\_



**Equipment**    **Equipment currently owned or leased by the business:**

- Give a general description of the productive and other equipment owned by the business and its condition.
- Are there any special servicing requirements because of the location of the business, lack of trained technicians or mechanics, and so on?
- How competitive is the equipment compared with current technology?
- Is the equipment reliable?
- Give the approximate age of most of the equipment and when it was acquired.
- Indicate whether it is owned or leased.

**Equipment to be purchased or leased as part of the project:**

If you plan to purchase equipment, furniture and fixtures or vehicles under the project, provide the following information:

- What equipment will you purchase? What is the purchase price?
- Have you sought competitive prices for equivalent equipment?
- When will the equipment be delivered?
- How up-to-date is the equipment compared with current technology?
- What is its age and condition?
- What is its production capacity?
- What modifications need to be done to make sure the equipment is appropriate for the business?
- Are there any apparent deficiencies? If so, what are they? Will they affect the operation of the business significantly?
- If you are purchasing used equipment, was an appraisal done? If so, give details:
  - who prepared appraisal
  - when it was prepared

Supporting Documents

- Detailed list of existing or proposed equipment
- Appraisals
- Price quotes
- Other (specify) \_\_\_\_\_

**Contributed Assets**

Describe any assets being contributed to the business by you or other owners or interested parties.

- Who is contributing the assets?
  - What are the assets?
  - What is the age and condition of the assets?
  - What is the assigned dollar value?
  - Give any other significant details.
  - Was an appraisal done? If so, give details:
    - who prepared appraisal
    - when it was prepared
    - basis of appraisal: market value, replacement cost, and so on.
- If not, how did you arrive at the value of the assets?
- Were government assistance programs used to acquire these assets originally? If so, give details:
    - name of program
    - amount of assistance
    - date assistance was received

Supporting Documents

- Appraisals
- Other (specify) \_\_\_\_\_



## Acquiring an Existing Business

### Determining a Fair Purchase Price

There are many methods of evaluating a business to establish a fair purchase price. Remember, first, that you are paying only for the future performance and profit potential of the business. Analyzing historical information is only useful to help you anticipate what the future earnings are likely to be. One such method of base price determination is developed from expected earning and projected after-tax cash flows. In a "going concern," as long as earnings exceed "asset break-up value," cash flow will be used as the prime determinant of base price.

### Share Purchases or Asset Purchases

If the project involves purchasing an existing business by purchasing either its shares or its assets, provide the following information:

- Why is the present owner selling?
- What is the purchase price?
- Is it a share purchase or an asset purchase? Note: The taxes paid by the vendor and purchaser are different depending on whether it is an asset purchase or a share purchase. Please have your accountant advise you.
- Attach a copy of the business valuation and provide the name and qualifications of the person who prepared the business valuation.
- Is there an accepted offer to purchase? If so, give details:
  - closing date
  - conditions: subject to financing, and so on.

**Note:** Never sign an offer to purchase or other contract without the advice of a lawyer and/or professional accountant. Your ABDP officer must also be contacted before you make any legal commitments. If you enter into a legal commitment without prior authorization, ABDP will not be able to provide financial assistance toward the costs..

- If not provided elsewhere, give the names and phone numbers of your accountant and lawyer.
- How will closing costs be covered? Examples: closing costs include land transfer taxes, property tax adjustments; Provincial Sales Taxes on equipment, legal fees, insurance and Goods and Services Tax.

Your ABDP officer will have other suggestions for you to consider when buying a business. Discuss this with your officer.

**Supporting Documents**

- Opinion of Value for the business acquisition
- Estimate of Value for the business acquisition
- Asset appraisal
- Vendor's financial statements for the last \_\_\_\_ years
- Accepted offer to purchase
- Other (specify) \_\_\_\_\_

**Startup Costs and Working Capital**

All businesses have startup costs and working capital needs. Describe the amounts and what they will be used for.

Make sure that all startup costs are taken into account. Startup costs can include:

- inventory
- insurance
- licenses, permits
- interest on bridge financing
- closing costs, such as property taxes, interest and insurance
- legal and other professional fees
- Provincial Sales Taxes on equipment purchases, including equipment purchased in a change of ownership
- land transfer tax, if applicable
- Goods and Services Tax: Consult Revenue Canada, Customs and Excise, about GST that must be paid
- For construction projects, you should also consider additional costs related to construction, such as financing and insurance.

To determine your working capital needs, you must prepare a monthly cashflow forecast. This is a critical tool for you; you should be satisfied that the amounts are realistic and affordable. It will tell you how much cash you need and when you need it.

When preparing your monthly projected income statements and cash flows, make sure that you take all these costs into account as they apply to your project.





## **Cost Overruns**

Cost overruns can get your business into trouble before you even start operating. Projects involving the construction of facilities, or large renovations, or the application of new processes are particularly problematic.

- What controls will you use to ensure you don't have cost overruns? Examples: experienced general contractor, construction engineer advising you, architect.
- What is the likelihood that unexpected circumstances could lead to a cost overrun? If one is likely, what is the estimated amount?
- What additional resources do you have to cover an overrun? Examples: cash, working capital, additional debt.
- If your project involves the construction of facilities or you feel the probability of cost overruns is relatively high, discuss the circumstances with your ABDP officer and develop an appropriate plan to deal with them.

## **Other Costs**

- You have identified costs for marketing, management and board training, bookkeeping, consulting advice, and so on. Do not make any commitments to purchase these services before you discuss them with your Development Officer. Depending on where your business is located, it may be possible for you to obtain quality assistance at little or no cost. Your Development Officer will want to work with you to identify the needs of your business and identify appropriate resource people.

## **Sources of Financing**

### **Types of Financing**

The following four kinds of financing provide specific forms of capital:

1. Equity & Shareholders Loans (Venture Capital)
2. Term Loans (Capital Asset Financing)
3. Operating Loans (Working Capital)
4. Interim Loans (Bridge Capital Financing)

Provide the following information on the sources of financing for the project. You will need this information to make sure there will be enough money to complete the project and to identify financing that is subject to holdback or may require bridge financing.

**Equity:**

**Cash Contributions**

Describe the cash contribution that you or the other owners of the business are making towards the project.

- What is the amount?
- Where will it come from? Example: Savings, personal loans
- When will it be available? Is it in a separate bank account?
- If the cash will come from a personal loan or a loan from a relative, provide this information:
  - amount of the loan
  - name and telephone number of the lender
  - repayment terms: amount of monthly payment, interest rate, whether amount of monthly payment includes interest
  - maturity date
  - security
  - sources of revenue that you have outside the business to make the payment on these loans
- If any of your equity will be sweat equity, talk to your Development Officer for guidelines.

**Supporting Documents**

- Evidence your cash contribution is available
- Personal net worth statements of the owners/shareholders
- Other (specify) \_\_\_\_\_

**Cash from Ongoing Operations**

Answer the following questions if you own an existing business and part of the project is to be financed from the earnings or working capital of the business.

- What amount of cash will be used from operations?
- Does the latest historical financial statement show that the money is available in cash?
- Does the monthly cash flow statement show the business can meet all its operating requirements without these funds?



**Commercial Financing**

Describe all loans from commercial financing sources such as Aboriginal Capital Corporations, banks and credit unions.

- What is the amount?
- What is the name of the lender, contact person, address and telephone number?
- Has the lender approved the financing at the interest rate and term you have assumed in your financial projections?
- What are the repayment terms and conditions?
  - amount of monthly payment
  - interest rate
  - whether amount of monthly payment includes interest
  - maturity date

*Supporting Documents*

- Evidence that commercial financing has been approved
- Other (specify) \_\_\_\_\_

**Other Sources of Financing**

Describe any financing from other sources, such as the Provincial Government, Tribal Council or Aboriginal Capital Corporations. Provide information for each source.

- Has it been approved?
- What amounts are you receiving from each source?
- What is the name, contact person, address and telephone number of the lender or source?
- Has the financing been approved?

If funds are repayable, what are the repayment terms and conditions?

- amount of monthly payment
- interest rate
- whether amount of monthly payment includes interest
- maturity dates
- security you will provide

*Supporting Documents*

- Evidence that other financing has been approved
- Other (specify) \_\_\_\_\_

**Bridge  
Financing**

Describe any source of financing that requires bridge financing or is subject to a holdback. Discuss with the Development Officer whether you will need bridge financing for ABDP funds.

- If you are using bridge financing for any reason, provide this information:
    - amount of bridge financing required
    - name, address, telephone number and contact person of source providing the bridge financing
    - terms and conditions: when and how it is to be repaid, interest rate, security
    - whether the bridge financing has been approved
  
  - If the source of financing is subject to a holdback, provide this information:
    - name of source that has the holdback
    - amount of the holdback
    - when the holdback will be paid
    - does it require bridge financing?
- Evidence that bridge financing has been approved
- Other (specify) \_\_\_\_\_

Supporting  
Documents



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## Historical and Projected Financial Statements

In this section, present your financial information in the form of conventional financial statements. (See Appendix, Financial Statements, for suggested formats.) Investors and lenders will use these numbers to evaluate the financial strengths and weaknesses of your business. Therefore, prepare the information in this section carefully and support it convincingly.

**Be Conservative.** Can you really achieve the sales targets you set, particularly in the first year? What if sales are significantly less than expected - can your business survive? Many businesses lose money in the startup phase and survive because they have planned for it.

**Be Realistic.** Don't be surprised if your banker and your ABDP officer don't agree with your projections. While you've put a lot of work into your plan, investors and bankers may view them as overly optimistic. It is common for entrepreneurs to disagree with investors and lenders when it comes to projecting the future financial performance of their business. That's why it's important to back up your financial projections with clearly described and well researched facts and assumptions.

Projections should peer at least three years into the future. Historical statements should give the results for the last two fiscal years as well as for the latest interim period. If the project is an acquisition of an existing business, you would want to see more than two years of historical information.

Organize the financial information to fit the following basic types of statements:

- income statements
- cash flow statements
- balance sheets

Include other pertinent financial information based on these statements. It is critically important to include a concise presentation of the assumptions used to make projections. The reader cannot assess the soundness of your projections without them.

Supporting Documents

**Historical Information**

- Financial statements of your firm for the last \_\_\_\_ years, including all notes to the statements
- Interim financial statement as at \_\_\_\_\_ or a later date together with (date) an interim financial statement for the same period the previous years
- Aged lists of Accounts Receivable as at \_\_\_\_, 19 \_\_, and \_\_\_\_, 19\_\_
- Aged lists of Accounts Payable as at \_\_\_\_\_, 19\_\_ and \_\_\_\_\_, 19\_\_
- Financial statements of \_\_\_\_\_ for the last \_\_\_\_ years, including all notes to the statements (a related company)
- Financial statements on a combined or consolidated basis for more than one company (specify) \_\_\_\_\_
- Other (specify) \_\_\_\_\_

Supporting Documents

**Projected Information**

- Monthly cashflow for the construction period or other startup period prior to commercial operation
- Monthly cashflow, including payables and receivables for the first year of commercial operation
- Annual sources and applications of funds for \_\_\_\_ years
- Income Statements for \_\_\_\_ years
- Balance Sheets for \_\_\_\_ years
- Detailed list of assumptions for all projections and forecasts
- Information about major purchases of fixed assets you intend to make over the next five years
- Other (specify) \_\_\_\_\_
- Other (specify) \_\_\_\_\_



## Appendix A: Financial Statements: Suggested Formats

### Monthly Cash Flow: Projected

Name of Business  
Projected Cash Flow  
For the Year Ended          (month and day)           
(\$000)

----- Total

#### Cash Receipts

- Receivables
- Loans
- ABDP
- Applicant Investment
- Other Income (specify) \_\_\_\_\_
- Other Sources (specify) \_\_\_\_\_

Total Receipts

#### Cash Disbursements

- Materials
- Labour
- Loan Interest
- Purchase of Fixed Assets
- Principal Payment on Long Term Debt
- Total Disbursements

Cash Over (Short)

Cash Balance Beginning

Cash Balance End

- Bank Security Available
- Accounts Receivable
- Inventory

Total Security Available

# Financial Statements Formats

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## Source and Application of Funds: Historical and Projected

Name of Business  
Historical And Projected Source & Application Of Funds  
For The Years Ended (month and day)  
(\$000)

<u>Historical</u>			<u>Projected</u>		
<u>19</u>	<u>19</u>	<u>19</u>	<u>19</u>	<u>19</u>	<u>19</u>

### Sources of Cash

#### From Operations:

Net Income (Loss) After Tax  
Charges To Income Not Resulting  
in an Outlay of Funds  
    Depreciation & Amortization  
    Loss (Gain) on Sale of Fixed  
    Assets  
    Deferred Taxes  
Total from Operations

ABDP Contribution  
Applicant Cash Contribution  
Increase in Long Term Debt  
Accounts Receivable  
Proceeds from Sale of Fixed Assets  
Other (specify) \_\_\_\_\_  
Total Sources of Cash

### Uses of Cash

Purchase of Fixed Assets  
Repayment of ABDP  
Reduction of Long Term Debt  
Operating Loan Paydown  
Other (specify) \_\_\_\_\_  
Total Uses of Cash

### Difference

Balance Beginning of the Year

Balance End of the Year

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## Income Statements: Historical and Projected

Name of Business  
Historical And Projected Income Statements  
For The Years Ended (month and day)  
(\$000)

	<u>19</u>	<u>Historical</u> <u>19</u>	<u>19</u>	<u>19</u>	<u>Projected</u> <u>19</u>	<u>19</u>
<b>Revenues</b>						
Total Revenues						
<b>Cost of Goods Sold</b>						
Total Cost of Goods Sold						
Gross Margin						
<b>Expenses</b>						
Total Expenses						
Net Income (Loss) from Operations						
Other Income						
ABDP Contribution towards business plans, aftercare, operating, start-up costs						
Other (specify) _____						
Net Income Before Tax						
Income Tax						
Net Income After Tax						

# Financial Statements Formats

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## Balance Sheets: Historical and Projected

Name of Business  
Historical And Projected Balance Sheets  
As At (month and day)  
(\$000)

	<u>19</u>	<u>Historical</u> <u>19</u>	<u>19</u>	<u>19</u>	<u>Projected</u> <u>19</u>	<u>19</u>
<b>Assets</b>						
<b>Current</b>						
Cash						
Accounts Receivable						
Inventory						
Other (specify) _____						
<b>Total Current</b>						
<b>Fixed</b>						
Land						
Building						
Equipment						
Leaseholds						
Less: Acc. Depreciation						
<b>Total Fixed</b>						
<b>Total Assets</b>						
<b>Liabilities and Equity</b>						
<b>Current Liabilities</b>						
Bank						
Accounts Payable						
Current Long Term Debt						
Current ABDP (if repayable)						
Other (specify) _____						
<b>Total Current</b>						
<b>Long Term Liabilities</b>						
Long Term Debt						
Shareholder's Loans						
Other (specify) _____						
ABDP (if repayable)						
<b>Total Long Term</b>						
<b>Equity</b>						
ABDP (if not repayable)						
Capital Stock						
Retained Earnings						
<b>Total Equity</b>						
<b>Total Liabilities &amp; Equity</b>						

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## Appendix B: Checklist of Legal Requirements

A wide variety of departments of government at the municipal, provincial and federal levels issue business licenses and registration numbers to meet the legal requirements for setting up your business. In each province, the requirements are somewhat different. The requirements you must meet will depend on your business and the province you are operating in. The following list is not comprehensive but it will give you an idea of the kinds of legal requirements you should investigate. Talk to your Development Officer to obtain a complete listing for your province.

### Municipal Government

**Land Use and Zoning** Contact the municipal authorities to ensure that the land your business is located on is zoned appropriately.

If you are located on a reserve, contact your Band office for appropriate approvals.

**Building Codes** If you are constructing a building or renovating an existing building, you will require a building permit before you proceed. If you are renovating an existing building, you may be required to upgrade sprinkler systems, handicap access, washrooms, and so on. These requirements can be costly and must be investigated when you prepare your business plan so they can be financed properly.

**Business Licence** Some kinds of businesses require a license to operate. Contact your municipality office.

### Provincial Government

**Business Registration** Contact your Provincial Registrar of Companies to register your company name.

**Incorporation** If you are incorporating provincially, your lawyer will be dealing with the provincial Department of Corporate and Consumer Affairs.

**Retail Sales Tax** Apply to your retail sales tax office in the provincial Department of Finance for a registration number. You will use the number when you remit provincial sales tax.

**Workers' Compensation** Register with the Workers' Compensation Board if you are hiring employees.

## *Checklist of Legal Requirements*

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### ***Environmental Approvals***

Contact your provincial government Department of Environment to find out whether any environmental approvals are required.

### ***Occupational Health and Safety***

Talk to this provincial government department for details about employer and employee responsibilities concerning health and safety in the workplace.

## **Federal Government**

### ***Revenue Canada***

Apply to Revenue Canada, Customs and Excise, for a GST account number. If you are a Status Indian operating a proprietorship on a reserve, ask for the bulletin number that describes the exemptions allowed in certain circumstances. If you are acquiring an existing business, it is especially important for you to investigate your rights and obligations with Revenue Canada early, in order to minimize the tax impact.

Apply to Revenue Canada, District Taxation Office, for an Employer Account Number if you will be hiring employees. You need this number to remit federal and provincial income tax deductions, unemployment insurance premiums and Canada Pension Plan contributions for your employees.

### ***Consumer and Corporate Affairs***

If you are incorporating under federal law, your lawyer will contact this department for detailed information.



## Appendix C: Common Business Ratios

An analysis of the business' financial statements helps management determine whether or not earnings can meet the term debt commitments of the business, maintain or improve working capital and provide for necessary capital expenditures. Certain ratios assist the owner or manager in making decisions about changes, problem areas, industry comparisons, working capital needs and the future.

Standard ratios are used to analyze financial statements. Some of these ratios are listed below with explanations of how they are calculated.

### Cost of Goods Sold

This includes the cost of inventory which has been sold or used, freight or transportation, customs duties, direct labour and factory overhead. Discounts on purchases are deducted. The ratio is a percentage of sales.

$$\frac{\text{Sales} - \text{Gross Margin} \times 100}{\text{Sales}}$$

### Gross Margin

To calculate this ratio, subtract the cost of goods sold from the sales figure. The ratio answers the question, "Is the markup on cost to selling price sufficient to show a profit?"

$$\frac{\text{Sales} - \text{Cost of Goods Sold} \times 100}{\text{Sales}}$$

### Breakeven Analysis

The breakeven point is the level of sales at which your total sales exactly covers your total costs and operating expenses. Calculate your breakeven point in two ways:

$$\text{Breakeven Sales} = \frac{\text{Total Operating Expenses (excluding depreciation)}}{\text{Gross Margin \%}}$$

$$\text{Breakeven Sales} = \frac{\text{Total Operating Expenses (including depreciation)}}{\text{Gross Margin \%}}$$

### Collection Period

Annual sales are divided by 365 days to obtain average daily credit sales; then, the average daily credit sales are divided into accounts receivable. This ratio is helpful in analyzing the collectability of receivables.

$$\frac{\text{Sales}}{365} = X \qquad \frac{\text{Accounts Receivable}}{X} = \text{Collection Period in Days}$$

## Common Business Ratios

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**Current Ratio** Divide the total current assets by the total current liabilities as shown in your balance sheets. This ratio will indicate your short-term debt paying ability.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Total Debt to Equity** Divide the total debt by equity to obtain this ratio. When this relationship exceeds 100%, the equity of creditors in the assets of the corporation exceeds that of owners.

$$\frac{\text{Total Debt}}{\text{Equity}} = \%$$

**Inventory Turnover** This ratio indicates the number of times inventory turns over in the business.

$$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} = \_ \text{ Times}$$

**Return on Investment** There are a number of ways to calculate this percentage; however, for ABDP purposes, it is calculated to indicate the clients' return on their and ABDP's investment.

$$\frac{\text{Projected Average Income}}{\text{Client Investment} + \text{ABDP Investment} + \text{Other Equity Sources}} = \_ \text{ Percent}$$

**Sales To Inventory** Divide annual Sales by Inventories. This calculation does not yield an actual physical turnover. It indicates whether you have enough inventory to support your sales projections.

$$\frac{\text{Sales}}{\text{Inventory}} = \_ \text{ Times}$$

Other ratios and industry comparables can be used to analyze a business's financial statements. Contact such firms as Dun & Bradstreet Canada and Robert Morris & Associates for more information.



