

Business Name: _____

Borrower Name(s): _____

Phone: _____

Email: _____

Address: _____



Business Plan

Whether you are starting a new business, purchasing an existing business (or franchise), planning for expansion, restructuring, or trying to overcome obstacles within your existing business, you will need to prepare a business plan. In fact, all businesses prepare business plans either formally or informally, by setting sales targets, introducing new products and services, launching advertising campaigns, increasing their workforces, and expanding their workspace. All of these goals are components of the business plan.

Why should you prepare a business plan?

A business plan is an excellent evaluation tool, helping you to decide if a business idea is economically viable. It will outline your start-up costs and financing sources indicating whether or not you can afford to start the business. It will also forecast profits to determine if they are sufficient for your needs and worth the effort involved.

Your business plan is also an invaluable monitoring tool, providing goals and timelines for operation and growth of the business. It provides direction for the business and a logical reasoning for the chosen direction, aiding in the decision-making process when business opportunities arise.

If your business is approaching a financial institution or investor for money, the business plan is a formal and complete document explaining all aspects of your business. The purpose of a business plan is to convince the reader to invest in or provide credit to the business. It should clearly state:

- Who you are, what you do, and how you do it,
- Where you want to go with your business and how you are going to get there,
- What resources you need to achieve your goals,
- When you intend to see results,
- Why you are presenting the business plan to the reader.

Everyone has a different reason for starting or staying in business and each owner is unique to his/her business. Whatever your reason, remember that it takes time, planning, dedication, commitment discipline, money, and perseverance – sometimes working long hours for little pay.

Once you have completed your business plan you should meet with a business consultant or financial institution to implement your financial plan. Good luck with your business idea!

The following pages are designed to be a template or outline of your business plan. You can manually prepare your plan from the template provided or prepare it on your computer, using the suggestions and notes on the left-hand page to assist with completing the responses on the right-hand pages. Read the information then start to answer the questions as they pertain to your business.

Any questions? Call us at 519-641-6100.

1. EXECUTIVE SUMMARY

Note: the executive summary is completed *last* (you need a plan before you can summarize it)

The Executive Summary gives a general overview of your business plan to quickly explain your business idea to an unfamiliar reader. It includes a brief description of the ownership and management structure, the products and services you offer, business and financial objectives including projected annual sales and net income, marketing strategy and competitive advantage, goals, the amount of money you expect to borrow, and how you will use those funds.

The Executive Summary can help the reader to decide if they want to invest in your business. If it's a new business also include why you are starting the business and your own personal investment into the business.

Business objectives

Give clear, concise, and specific direction to the business. Establish the business name and identify the products and/or services you will be providing. Indicate the customers and geographic area to be served, and any personal objectives if desired (e.g. to better make use of skills, to avoid annual layoffs, ...).

Projected sales and profit

The amount of product/service sold and corresponding money brought into the business, and the profit left over after operating expenses are accounted for. Briefly state what these projections are based upon (e.g. x widgets sold per day, 25 hrs billed per week increasing to 35 by year-end, ...). These numbers should correspond to the Cash Flow Projection.

Marketing strategy and competitive advantages

Who the customer and suppliers are, how they will be reached and won over, and what separates your business from the competition.

How you will meet your goals and time frame

Choice of advertising and promotion, variety of products/services, deadlines for realistic goals.

The ownership structure and management team

The legal type of business and its owners (e.g. sole proprietorship wholly owned by you).

Financing required for the business and how the funds will be used

The amount, lender, and credit terms of any financing and how the funds will be used in the business (e.g. \$10,000 borrowed from CFDC Middlesex at 11% for 5 years to purchase equipment).

Personal investment or contribution

Value of cash, equipment, and assets you will personally be contributing to the business.

1. EXECUTIVE SUMMARY

Business objectives:

Projected sales and profit:

Marketing strategy and competitive advantages:

How you will meet your goals and time frame:

The ownership structure and management team:

Financing required for the business and how the funds will be used (if applicable):

Personal investment or contribution in the business:

2. BUSINESS PROFILE

New businesses typically form under one of the following three basic business structures:

1) Sole-proprietor - usually owned by one person; owner directly controls the business. The owner and the business are not legally separate and the owner is fully liable for all debts and obligations of the business. The owner is taxed on the net operating profit of the business. **The vast majority of small businesses begin this way.**

2) Partnership - similar to a sole proprietorship except two or more people have ownership in the business. Owners are fully liable for all debts and obligations of the business and possibly each other. A more complex record keeping system and tax returns may be required. Additional fees may also be incurred for the preparation of a partnership agreement by a lawyer (see below).

The time to create an agreement with partners (or shareholders for a corporation) is when you set up the business, not when disputes arise. You must have a partnership agreement, preferably prepared by a lawyer who is experienced in working with businesses. The agreement should cover:

- Partner contributions and partnership share in the business
- What the parties expect each other to do while they are in business, i.e. individual responsibilities
- Provisions should be made in case a partner dies, becomes disabled, or goes bankrupt
- Terms of terminating the partnership if one partner or both partners leave
- Provisions are made for borrowing money, lending money from the company or selling shares
- Define any decisions that must be made by all partners, rather than just one or two

3) Corporation - a distinct legal entity that gives owners limited liability. It can have an unlimited number of owners (shareholder). Capital can be raised through the sale of shares and ownership is transferable. This type of entity requires complex record keeping and tax returns usually prepared by a professional accountant.

Although there are many reasons for choosing a particular business structure, the two main reasons are:

1) Taxes - there may be a tax advantage to incorporating. This can be a very complex topic and should be discussed with a tax lawyer or accountant.

2) Risk of loss - if you are a sole proprietor or a partner you and your personal assets are legally responsible for the business and its debts. Incorporation generally limits your losses to your investment in the corporation. Your personal assets will not be at risk unless you have given a personal guarantee on corporate debts. This is almost always required by a lending institution, so incorporation typically does not protect you from financial responsibility.

2. BUSINESS PROFILE

Business Name

Business Address

City _____ **Postal Code** _____

Business Phone _____ **Fax** _____

Email _____

Products/services to be provided

Business status

Starting a new business

Purchasing a franchise/new business idea

Purchasing an existing business

Date business was registered or incorporated _____

Number of employees (including owners) Full-time _____ Part-time _____ Casual _____

Business structure

Sole proprietorship

Partnership

Corporation

Business classification

Retail

Tourism

Service Sector

Manufacturing

Agriculture

Trades Services

Construction

Other _____

Countries you will export your products/services to (if applicable)

3. MARKET ANALYSIS

Research your market before you go ahead with your business idea, not after!

Market Area

Describe the overall market in terms of geographical area, population, industry revenues, and trends. Indicate how many potential customers there are for your business within the market. Use statistics from Statistics Canada, local county profiles, or other sources (see Starting a Business handout) to calculate the number of customers and estimate your share. Not everyone will be a potential customer.

e.g. Opening a men's clothing store in A Town: population of A Town is 25,000, with 50% being males or 12,500. 70% are teens or older and buy their own clothes, for a total of 8,750 "shopping males". The store believes its clothing style appeals to 25% of these customers (based on a survey) for 2,187 potential customers

Market Analysis

How much does the average customer spend on your product or service? How often do they buy/ what is the buying cycle or process? Do trends or seasons affect your business? Is the market growing, steady, or declining? Is there room for your business in the market?

Market Research

Market research involves learning about and understanding your markets, industry, potential customers, and the competition. *Research can be conducted with little money but may require a significant amount of time.*

- Talk to suppliers, competitors, similar businesses in other towns
- Read trade magazines, Industry Association literature, business directories, and telephone books
- Use the statistics prepared by provincial and federal governments
- Survey potential customers; conduct a brief questionnaire (6 question max) or observe their buying habits if applicable – find out how they make decisions, develop loyalty, and how much they spend on your product or services

Talk to anyone who might provide useful information!

Research information sources include:

- Local Economic Development Department for your municipality
- Census information for your local area
- Statistics Canada and Industry Canada publications and small business profiles
- Scott's Directory business listings - check your local library

Suppliers

Most people have a supplier in mind when they plan to open a business. It is a good idea to research other suppliers and see if you can get a better price, better terms, or just have a backup source in case. Check trade associations, trade shows, the Chamber of Commerce, industrial directories, the Internet, etc. It is vital to have a reliable supply chain as the availability of your product or service is a reflection on you and your business. If a product is suddenly on backorder with your supplier, the customer will blame you!

3. MARKET ANALYSIS

Research your market before you go ahead with your business idea, not after!

Market Area

Where do you intend to sell your product or services (locally, regionally, nationally, internationally)?
What is the estimated size of your market (number of potential customers)?

Market Analysis

What are the trends and characteristics of the current marketplace? Is the market growing? How will your business fit in (is there room in the market)?

Market Research

What market research have you completed to support your market analysis? (Surveys, discussions with potential customers/suppliers/competitors, statistical data, etc...). What were the results of your surveys and market research?

Suppliers

Who are your major suppliers and what do they supply? Where are they, how long have they been in business, what are your credit terms with them? (*Attach separate list if necessary*)

Supplier	Products	Location	History/Year	Credit

4. CUSTOMERS

Observe your customers, their common characteristics, and then ask questions. Find out what motivates them to buy in terms of trends, quality, convenience, customer service, price, and so on. To stay in business you will need to attract new customers and keep the ones you get.

Your business plan should give the whole story: who, what, where, when, why, and how.

Customer Profile

Your product or service is the what, and the customer profile is the who. Who is your target customer in terms of age, income, location, family, occupation, hobbies, lifestyle, interests, etc.? Not everyone is a potential customer! Be specific about your ideal target customer.

Customer Buying Habits

The customer buying habits are the where, when, why, and how of the story. Where do they buy your product or service (locally, in a store, by mail,...)? When do they buy (during normal business hours, evenings, seasonally, before special events,...)? Why do they buy (to fill what want/need)? How do they buy (impulse buy, pay cash, plan months in advance and save up,...)?

As you complete your research you should be able to describe your customer in terms of:

Geographics Location, Area

Demographics	<u>For individuals</u>	<u>For businesses</u>
	Age	Location
	Gender	Company size
	Income	Product/service
	Marital status	Number of employees
	Education	Industry profile/trends
	Occupation	

Psychographics how your customer “thinks”
customer’s values, morals, interests, preferences, and lifestyle
what motivates them to buy
buying habits

Customer Base

What will you do to attract new customers and to keep the ones you have? Will you offer special promotions (coupons, discount, punch card, referral bonus, free gift)? Do you provide value-added services/bonuses (e.g. free toothbrush at dental visits, free car wash at automotive repair shop, repairman overshoes to protect homeowner’s carpet)? Is there something unique about your product/service or the way in which you provide it that will keep customers coming back?

4. CUSTOMERS

Customer Profile

Who are your target customers? Describe the characteristics of your typical customer.
(e.g. *Individuals* - age, income, family, gender, location *Business* - industry, size)

Customer Buying Habits

What influences your customer to buy? How important is price, quality, selection, warranty, service?
How do your customers buy (cash, cheque, credit, debit, account)?

Customer Base

How will you grow your customer base? How will you keep customers once you obtain them? Will you provide any value-added services to attract customers? (e.g. *free delivery, pick-up, extended warranty, flexible/extended hours, etc...*)

5. COMPETITION

It is *vital* that you make a thorough evaluation of your competition! In order to be successful you must persuade your target market to buy from you rather than your competition. Competition exists for all business. Competition may be indirect or from another area, but it exists and must be considered.

Competition

Your competition can be identified as direct or indirect. For example, if you are a “family style” restaurant, you are a hospitality service business providing food. You compete directly with other family style restaurants in the area, and indirectly with all other restaurants, fast food chains, coffee shops, and snack bars. All of these businesses are competing for the customer’s disposable income spent on “dining out”. Each restaurant caters to a different customer preference and budget.

Don’t neglect the indirect competition of potential customers servicing themselves. For example, as a men’s barber you may experience competition from people buying their own electric clippers! Part of your business and marketing plan will be to convince those customers that your service is affordable, more convenient, provides a better atmosphere and yields a better haircut.

Competitive Analysis

- List your major competitors and learn as much as you can about each in terms of:
- Size/number of employees
- Pricing/promotion
- Annual sales
- Reputation/years in business
- Products and services
- Brand names
- Location
- Etc.

With your knowledge you gather of your competition, perform a *SWOT* analysis (strengths, weaknesses, opportunities, threats). This will help you create a focus and niche for your company, and guide you in positioning yourself against competing businesses. Assess your competitors strengths (e.g. reputation, established client base, reliable supply chain,...) and weaknesses (e.g. customer service, aging equipment/old technology or processes, poor promotion, etc...). Identify any opportunities or threats (challenges) in the market such as changes in: market demographics, technology, economy, laws/regulations; new competitors entering market or existing competitors going out of business; etc.

Competitive Advantage

What is, or will be, the advantage(s) your business has over the competition (if you don’t do anything better than they do, can your business succeed?). Do you face any disadvantages worth noting?

For example, the newest machine that produces much higher quality products than the competition may be your competitive advantage. A notable disadvantage may be that this machine is much slower than competitors machines and your production volume is significantly smaller.

5. COMPETITION

Competition

What industry sector(s) are you competing with? Consider both direct and indirect competitors. (e.g. photo developing shop: Direct - other photo developers/retailers, grocery store developing Indirect - online/mail order developing, Polaroid, photo CD, photo inkjet printer at home...)

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Competitive Analysis

List direct competitors and details about each (*attach separate list if necessary*)

Company	Location	Years in Business	Price Range	Strengths	Weaknesses

Competitive Advantage

How will you create, or what is, your competitive advantage? What sets you apart, or what can you do better/faster/cheaper than your competitors? What opportunities in your industry or market will your business pursue?

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6. SWOT ANALYSIS

A SWOT Analysis identifies your internal strengths and weaknesses, as well as your external opportunities and threats. The internal strengths and weaknesses, compared to the external opportunities and threats, can offer additional insight into the condition and potential of the business.

Strengths	Weaknesses
Opportunities	Threats

How can you use the strengths to better take advantage of the opportunities ahead and minimize the harm that threats may introduce if they become a reality?

How will you overcome weaknesses of your business and your products? What are your plans to improve weak areas?

7. PRODUCTS AND SERVICES

A product or service is a good you will sell or a service you will provide. Your business may focus on one type of product or service, or it may offer several different kinds. It is crucial that you have a clear understanding of the different kinds of products you offer (or plan to offer) because this will help you identify who your customers are.

Concentrate on major types of product rather than listing every single item. Consider these examples:

- A retail jewelry store might have four areas (fine gold jewelry, fashion jewelry, giftware and china/crystal/silverware), or it may focus on one or two of those areas.
- A carpenter offering a full range of services may have two areas; major jobs (house construction, sun decks, trusses, etc.) and basic home renovation/maintenance.
- A restaurant may also offer catering services to hotels and cater private functions (home & office parties, special events, etc.) - three areas in total.

One reason for listing each of these separately is that each group may have different types of customers with different needs. You may want to promote each area of your business in a different way from the others, since the advertising that reaches one market may not reach others. These groups may also have different mark-ups or gross profit margins associated with them. Listing them separately aids in determining how much inventory will be purchased in the Cash Flow Projection. Different products or services may also have different sales cycles (i.e.: you may sell more of one product during the summer, and more of another product during the winter). By grouping them separately it makes it easier to project expected sales.

Be sure to provide a brief description of your products or services that will help the reader of your plan better understand your business. Describe what they will or will not do. List all features and benefits for you products, and make special note of any feature that differentiate your products or services from those of the competition.

Include any exhibits such as drawings or photographs of the product to be manufactured, or a description of the services to be offered.

7. PRODUCTS AND SERVICES

Product/Service #1 - _____

Product/Service #2 - _____

Product/Service #3 - _____

Product/Service #4 - _____

8. COSTS AND PRICING

Pricing Strategy

There are three main factors to consider when pricing your product or service: costs, profits, and your competitor's price.

Competitor Pricing

Your competition's price influences what you can charge, but you do not always have to charge less. Knowing and understanding your customer's buying habits and motivators will help you to establish an accurate price.

Pricing

Costs

Understanding and controlling your costs is key to operating a successful business. Costs can be classified as either variable or fixed.

Variable costs change with the amount of sales made, and are typically materials and labour. This includes all materials used to make your product or sell your service such as: raw materials, completed parts, finishes, packaging, consumables; and the cost of employees hired to make the product or provide the service (including wages, benefits, and government remittances like CPP, EI, and WSIB). Fixed costs, also called overhead costs, remain the same whether you make any sales or not. This includes such costs as rent and insurance.

Profit

Profit is the money left over from sales after all expenses are paid (variable and fixed). The profit generated by the business is what is used to cover personal living expenses and expand the business. Your pricing strategy must result in the required profit to be economically viable for you.

Breakeven Analysis

The breakeven analysis reveals the minimum sales the business requires to cover its costs and your personal expenses. If the business sells less than this amount, it is operating at a loss and will not be viable in the long term. Sales above this amount produce profit that can be used to expand the business or personal use. Money left over from a sale after variable costs have been paid is called gross profit.

For example, if you sell a product for \$80 that costs \$35 in materials and \$15 in labour to make your gross profit is \$30 ($\$80 - \$35 - \$15 = \30). The \$30 left over from \$80 worth of sales yields a gross profit percentage of 37.5% ($30 / 80 = 0.375$ or 37.5%).

If your fixed business overhead for the year is \$10,000 (rent, utilities, etc) and you need \$10,000 for yourself (mortgage, food, etc), the business must generate \$20,000 in profit in the year. Since only 37.5% of your sales are left over after paying for labour and materials, the business must generate \$53,333 in annual sales.

$$\frac{10,000 + 10,000}{0.375} = 53,333$$

i.e. \$53,333 sales, yields \$20,000 (37.5%) for your \$20,000 fixed & personal expenses – you're even!

8. COSTS AND PRICING

Pricing Strategy

What price will you charge for your product or service? What does the competition charge, and what is the going rate in the market? If your price varies, explain.

Pricing

How do you determine your price? Do you price by item, by the job, or using an hourly rate? Does your price include a specific markup on costs? What profit do you get/need?

Breakeven Analysis

What is the minimum sales volume required to cover the costs of operating the business and provide the profit required for your personal living expenses?

Values used to compute the breakeven sales should be taken from the cash flow forecast.

gross profit = sales - (materials + labour) i.e. sales - cost of goods sold

gross profit % = gross profit / sales

Gross profit margin percentage _____ %

Annual fixed overhead costs \$ _____

Owner's drawings (personal living expenses) \$ _____

Breakeven Sales = $\frac{\text{annual overhead} + \text{owner's drawings}}{\text{gross profit \%}}$ = \$ _____

9. MARKETING AND PROMOTIONS

Business Image

Your business is represented by much more than just the product or service offered. A good business image and excellent customer service is essential to attract and maintain customers. Your business image incorporates your name, logo, letterhead, business cards, advertising, vehicle, dress code, manners, etc. Fair or not, people do form an impression of your business “judging a book by its cover”.

Advertising

What method of advertising is most likely to reach your customer (i.e. be seen/heard)? Knowing the needs and characteristics of your customer will help you to determine the most effective advertising and promotion methods. Creative advertising techniques can often attract more attention and enhance customer recall.

Choose advertising that will enable you to highlight the benefits of your product/service that satisfy your customer’s needs and wants. Customers are not buying a product or service, but rather the benefits and features they receive from your product or service.

A website is a relatively inexpensive yet effective way to promote your business. Even if you do not want to sell anything online or are only serving a local geographic area, a website address is easier to remember than a telephone number and can provide potential customers a wealth of information at any time of day or night 365 days a year. This includes brochures, manuals, testimonials, answers to frequent questions, maps, hours of operation, etc. and can save on costly printed materials.

Networking

What “lower-cost” promotion and networking strategies will you employ to create awareness and attract customers to your business (e.g. referrals, joining associations/clubs, sponsoring local teams/ events, volunteering, press releases, public speaking, trade shows, etc.)

Location

Is your business a destination point for consumers? What benefits does your location offer your customer? Is it convenient and accessible? If people are coming to your home is it neat, professional, and free of distractions?

9. MARKETING AND PROMOTIONS

Business Image

What image or reputation do you want to create for your business? What three words would you want a person to use when asked to describe your business? (e.g. *reliable, cheapest, exotic, prompt, high-end, affordable, clean*)

Advertising

List the types of advertising you will conduct, how often, and the estimated annual cost. This will be covered in detail in your Marketing Plan.

Networking

What networking activities will you be involved with to generate awareness for your business? (e.g. *trade shows, clubs, newsletters, associations*)

Advertising Medium	Quantity/Size	Frequency	Annual Cost
Newspaper			
Flyers			
Brochures			
Business Cards			
Signage			
Internet/Website/Social Media			
Trade Magazines			
Google Ads			
Email Marketing			

Location

Describe your location. If you are a retailer, is it a high traffic area? Convenient location? Attractive building and surroundings? If you are providing a service, are you centrally located?

10. OPERATING REQUIREMENTS

Facilities

Describe your store/shop/home-office and how it meets the needs of your business. Is it free from distractions and problems that can take time from your business? How long will these facilities serve your needs? Are there any extra costs involved (e.g. property taxes, common area management fees,...)? Will you modify or renovate the facilities?

Regulations

Have you checked zoning regulations and by-laws governing your proposed location and business? Are there special operating or environmental regulations affecting your business (e.g. reporting requirements, waste disposal, ...)? Do you need a special license or permit? Will you be collecting HST at the onset of your business?

Insurance

What type of insurance does your business need? Entrepreneurs often neglect to factor liability insurance costs into their planning. As a sole proprietor you are personally responsible for the business and will need insurance to protect your personal assets. Do you need insurance to cover your inventory in the event of theft or damage? Will you be using your personal vehicle for business (even occasionally)? Read your policies and contact an insurance agent or broker to determine what type of coverage you need.

Industry Alliances and Advisors

You will likely need a lawyer, accountant, banker, insurance agent, and other advisors. Good advice at the onset of your business can help you avoid costly mistakes down the road. Once you have found trusted advisors, use their expertise when needed. Business mentors and retired industry peers can give informed feedback and help you learn from their own mistakes. Keep them informed about your business and they will be able to better assist you.

Skills and Employees

Most entrepreneurs have a number of the skills required to operate their business. If you will not be providing all the skills (technical, bookkeeping, customer service, management) who will you hire to provide these skills and on what basis?

10. OPERATING REQUIREMENTS

Facilities

Describe the building and facilities which will house your business. If you are renting or leasing describe the terms, rate, square footage, signs, and parking. What equipment does your business require (specialized tools, business phone line, fax, copier, loading dock)?

Regulations

Is your location zoned appropriately for the business (especially if home-based)? Are there any licenses, permits, or special government regulations affecting your business?

Insurance

What type of liability insurance will your business have (coverage, costs)? Do you need insurance for equipment or buildings (theft, fire, content)? Vehicles used for business?

Industry Alliances and Advisors

Do you have any business alliances or associates/advisors/mentors? Lawyers or accountants?

Skills and Employees

What skills are required to operate your business and who will provide them? How many employees will be required (full-time, part-time, and/or casual)?

11. START-UP COSTS AND FUNDING

Start-Up Costs and Expenses

Almost all businesses will be faced with initial start-up costs. These are one-time cash expenditures required to start the business including inventory, equipment, vehicle, building renovations, etc. Start-up costs do not include anything already owned, such as existing tools or inventory.

Preparing a thorough list of start-up costs will help to:

- Avoid unpleasant surprises – reveal expenses underestimated or forgotten altogether
- Determine the investment required to start the business
- Estimate the amount of money that may need to be borrowed
- Indicate how the money invested into the business will be spent

This listing is part of the business plan and will be required to obtain financing from any lending institution.

Be sure to include operating expenditures for the first month or two of the business (working capital) to reduce financial strain as the business is just getting off the ground, and include as large a contingency reserve as you have available in case of emergency.

Tip: obtain prices or quotations whenever possible; if you must estimate then overestimate

Source of Funds

Once you have determined the costs to start the business, you must indicate where you are going to obtain the money to cover them.

Typical sources of funding include:

Personal cash contribution: money you have on hand to personally put into the business (savings, inheritance, asset sales, severance, etc.)

Family or friends: who will donate or provide a low-interest/interest-free loan to the venture

Lending institutions: such as the chartered banks or CFDC Middlesex that provide a line of credit, loan, or mortgage and expect routine payments back with interest

11. START-UP COSTS AND FUNDING

Start-Up Costs and Expenses *(attach separate listing if required/desired)*

CATEGORY	ITEMS	COST
Inventory		
Equipment		
Furniture & Fixtures		
Leasehold Improvements		
Vehicles		
Deposits		
Working Capital		
Contingency Reserve		
TOTAL		

Source of Funds

TYPE	AMOUNT
Personal Cash Contribution	
Family & Friends	
Bank Loan	Type/Rate/Terms
CFDC Middlesex	
Private	
TOTAL	

12. CASH FLOW PROJECTION

The cash flow forecast shows the money coming in to the business each month and the money flowing out. Cash is recorded when the money is received, not when it is earned. Expenses are recorded when they are paid, not incurred.

The forecast will show us how much money is generated after expenses in each month, as well as a running total (cumulative net cash). The net cash for the month is equivalent to the money put in (or taken out of) the business bank account and the cumulative total represents the bank account balance.

To begin estimating revenue (sales), you need to determine a basis or calculation to justify your sales estimates. Examples might be:

- Number of billable hours X hourly rate
- Average sales per day X days in month (avg ~30)
- # of units sold X price per unit

Factor in any seasonal cash flow trends which your business may encounter. For example, a retail store typically has a sales increase in November and December for the Christmas Holidays followed by a slower period in January and February.

Part of your cash flow is based on **fact** (monthly rent, insurance...) and part will be **estimated** (vehicle maintenance, fuel...). Start by filling in expenses that are known. For estimated expenses, it may be beneficial to start with a total annual estimate and allocate it over the months of the year. Be as precise as you can. Average it if applicable or necessary.

When making estimates, be conservative on sales and over-estimate expenses. This way you will be more prepared for the "unexpected" (sales are lower than predicted) but you may be pleasantly surprised if things turn out differently!

NOTE: Please fill out the Cash Flow Projection sheet located under the loan application forms.