

Getting Started in Small Business



*Planning and preparation
can make all the difference.*



CANADIAN BANKERS ASSOCIATION

Building a Better Understanding

On behalf of the banking industry, the Canadian Bankers Association has embarked on a program called *Building a Better Understanding*. This is our commitment to try and communicate better and to provide useful financial information to Canadians.

As part of the program, we are offering a free series of publications, ranging from money management, to mortgages, planning for your retirement, and saving for your children's education. To obtain copies, call toll-free 1-800-263 0231 or visit our web site at www.cba.ca. You can also order by writing to *Building a Better Understanding*, c/o Canadian Bankers Association, P.O. Box 348, Commerce Court West, 199 Bay Street, 30th Floor, Toronto, Ontario M5L 1G2.

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These publications are also available in alternative formats for people who are partially sighted or have limited vision.

La version française de cette brochure est disponible sur demande.

This booklet gives information of a general nature and is not intended to be relied on by readers as advice in any particular matter. Readers should consult their own advisors on how this information may apply to their own circumstances.

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DID YOU KNOW?

THERE ARE APPROXIMATELY 2.4 MILLION PEOPLE WHO ARE SELF-EMPLOYED IN CANADA

Source: Industry Canada, *Small Business Quarterly*, August 2004 (for Q1 2004)



Introduction

It's an exciting time to start a new business in Canada. As our economy evolves and society changes, new markets and opportunities open up every day. At the same time, there has never been so many resources to help get your business off the ground.

Everyone has a different reason for starting a business, but one fact remains the same – creating and running a successful enterprise is hard work. Perhaps you're in school, just finishing your studies, well into a professional career or looking to re-enter the workforce. Whatever your situation, if you are planning to go into business for yourself, remember that it takes time, planning, discipline, money and perseverance.

Before striking out on your own, one thing is clear, there's a lot to consider. Published by the Canadian Bankers Association, *Getting Started in Small Business* will give you an idea of what's involved in the planning and preparation stage.

The booklet offers information on:

- things you should consider from a personal perspective

- understanding your market and the importance of planning a marketing strategy
- the value of a business plan
- sources and types of financing for a new business
- what you'll need to get your business up and running

Throughout you'll find checklists and tips, and a glossary of terms.

Keep in mind that this piece is not the final word on starting a new business. There are books, courses, and web sites devoted to this subject, and these should be explored. Talk to entrepreneurs who can give you personal insights into the dynamic world of small business. At the back of the booklet, we have provided a listing of some helpful resources – from financial institutions and government agencies to associations – to help get you started.

Consider this a first step in the process of building a new business. We want to get you thinking and asking yourself some basic questions. But most of all, we want to point you in the right direction. Good luck with your business idea.



Planning for a Business

Many of us, at some point in our lives, think about owning our own business. Perhaps you want to:

- be your own boss or create your own job
- introduce a new product or service
- take advantage of a business opportunity
- seek an alternative to your current career
- make better use of your skills and knowledge

While these are all valid reasons to want your own business, it has to make sense for you. There is no simple or standard formula for launching a successful business – each one is unique as its owner. However, there are practical steps to take to ensure you give the business a solid foundation from which to build.

Before venturing into the world of entrepreneurship and self-employment, you'll need to do your homework.

This means researching your idea and potential market, creating a business plan and operating strategy and working out financing details. These are discussed in this booklet.

After you have looked at the big picture, you should have a good sense of whether owning your own business is for you and your idea is feasible. If you're then confident you can make a success of your venture, you may want to start looking into financing and working on your business plan.

But after going through the research and planning exercise, you may decide that being an entrepreneur is not for you or that your business idea is not workable. Perhaps you should explore another idea. It's better to know at this stage than after you've spent money.

Whatever you ultimately decide, your research will not be wasted.

Know Yourself



You need to first assess your own capabilities, resources and characteristics. This helps you focus on your strengths as well as identify the additional tools, resources and skills you'll need – from financing to market planning to bookkeeping.

What do you want? Do you have the right skills, temperament and work style? Have you thought about what's involved? Are you comfortable with having all the decisions rest with you – from employees, to suppliers, to production, sales, and management?

Here are some important questions to ask yourself:

- **Time and patience:** Do you have the time and patience to nurture a business from the ground up? Starting a business requires careful planning and preparation. Are you prepared to work long hours and make sacrifices?
- **Commitment, initiative and motivation:** Are you committed to making your business work? Or do you get frustrated and discouraged easily?

Do you like taking initiative and making decisions? Do you have the creativity to solve problems or know when to ask for help? To make it through the start-up phase, you need plenty of initiative and drive. And it doesn't stop there. A business needs constant care and management.

- **Flexibility is key:** Are you prepared to weather the business cycles of highs and lows? Circumstances can change almost daily. You have to remain flexible and adapt to new conditions, and perhaps get used to an unpredictable income.
- **Know your risk tolerance:** Do you understand the risks involved in starting a new business? Are you aware of the consequences of failure? While there may be potential for high earnings there's also the potential for financial loss if your venture doesn't succeed. If you are not willing to take the risk, perhaps you should reconsider. Some entrepreneurs start their

businesses part-time or after hours while still working at salaried jobs. If you have a business partner, perhaps one of you can run the new business, while the other retains his or her job and works part-time in the new business. This way, you have more security while waiting for your business to get off the ground.

- **Skills and expertise:** Do you have the necessary knowledge and skills? Are you equally at ease in a leadership role as you are about paying the invoices and doing the filing? You need to have a solid understanding of your market and product or service. As well, you'll have to possess superior organizational and management skills. You'll have to wear many hats – sales, marketing, money management, production, administration, and managing people. If you are lacking in certain areas, you may consider teaming up with a partner who brings a different skill set to the table. Or you may consider taking some courses or delaying your dream until you're better prepared.
- **Enjoy what you do:** Do you have a passion for your business idea? You'll be spending time and money to make your idea work – having a true affinity for the business makes it a lot easier.
- **Personal and family considerations:** Turning a profit and earning income may take some time. You may have to support yourself (and perhaps your family) while you get your business up and running and your energy and time may be re-directed for months. Both you and your family should agree that this is exactly what you want to do and understand how much time, money, effort and personal sacrifice is required.
- **Health comes first:** You may have to endure a lot of stress and a heavy work load – are you feeling up to the challenge?

FINDING A BUSINESS THAT'S RIGHT FOR YOU

Let your imagination wander for hours and you'll probably still not run out of ideas for opening a business. Where to start? Restaurants, franchises, wedding co-ordinator, engineering or training consultant, high-tech field, electrical contracting, snowboard gear, tractor parts, hairstyling, catering, travel agency, freelance writer, renovator, software developer, opening a bookstore – the list goes on and on.

Ideas should come from observing trends, forecasting what people or businesses might want or need in the future, or simply seeing a potential opportunity. In other words, a need in the marketplace that no one is satisfying.

Business ideas often stem from a person's education, experience and hobbies. By considering your natural talents, skills, and the sources of enjoyment in your life, you may find the seed for a good business idea.

You may think that your experience restricts you to starting a business in a particular field. For instance, if you've worked in a hotel for 10 years, you may believe your business must be hospitality-related. But don't rule out applying your acquired skills in a variety of ways. While there's always a learning curve, good management skills can be transferred to virtually any business.

It's a Fact:

Nine-in-ten business owners (that's 89%) agree that the independence and control over their own decisions is the most rewarding motivator of being a business owner.

Source: CFIB, *Fostering Flexibility: Work and Family*, September 2004.



Know Your Market



It is important to understand and evaluate the market for your product or service. This is where market research enters the picture. The information you gather during your research will form a critical part of your marketing strategy and overall business plan (see page 13). Market research involves learning about and understanding your potential customers, the competition and the industry. This can help you target your business.

What is the demand potential for your product or service? Who needs it? Take time to learn about your potential customer base. Learn how people make choices and figure out how to develop their loyalty. Look at who your competitors will be and what they are doing. Consider what the trends are in the industry.

Your market research will also tell you about the environment in which you'll have to operate. For instance, if you are targeting an industry that deals only with ISO accredited suppliers, you will need to consider ISO certification. (ISO 9000 standards, now accepted by more than 100 countries, provide a model for quality assurance.)

Ultimately, your research will give you a good sense of whether you can make a success of your business idea.

How can you learn about your market and potential customers? Talk to other entrepreneurs and even interview potential customers. Explore free sources of information, including:

- local board of trade or chamber of commerce
- industry associations
- trade journals
- suppliers
- competitors
- government agencies/departments, including Industry Canada and Statistics Canada.

PLANNING YOUR MARKETING STRATEGY

After you've done your market research, you can begin planning your strategy. Incredible variety exists in most markets, and it is up to you to find your niche and position your product/service as an alternative to your competitors. You need to consider product/service features, promotion, pricing and distribution.

How you market your products or services will depend on the type of business you're in and



Tip:

Never underestimate the competition and learn everything about your chosen marketplace. Find out who your competitors are and how they are doing. Remember they'll be targeting your customers as aggressively as you'll be targeting theirs.

how much money you have to spend. Every company will have a different marketing strategy, but there are still some common elements.

Ask yourself these questions as you think about marketing strategy:

YOUR PRODUCT OR SERVICE

What are you selling and what are its features or attributes? How will it be different than what your competitors are offering? What about your customer service policies? For instance, will you offer a warranty or guarantee as part of the service package? Will you provide round-the-clock service? If so, how will you pay for it?

MARKET

How extensive is it? Is it a growth area? Where does your company fit in? How much of the market can you realistically capture?

CUSTOMERS

Who are they? Can you define them by age, buying habits, or other criteria? What product/service do they want? How are they currently being serviced?

PROMOTION

How will your potential customers find out about your business? Will you actively promote it or rely on word of mouth? What about the budget? How does the competition do it? How about radio, print or television advertising? What about trade shows, the Internet or free publicity opportunities?

PRICING

How will you price your product? You'll need to build in the cost of raw materials, labour and overhead, as well as an anticipated profit margin. What will the price say to customers about your product or service i.e. will your product/service come across as high-end, moderately priced or inexpensive? Will your price be competitive?

DISTRIBUTION

- How will you distribute or deliver your product or service? In some cases, it may be as simple as a telephone call. In others, it may mean arranging overseas shipping and export financing. Will your customers come to you or will you go to them? Will you sell directly to customers or use indirect methods (through a distributor or retailer).

There are many elements to consider in planning an effective marketing strategy. To learn more about marketing techniques and to help come up with ideas, there are many books and sources of information on this subject. Also look at the strategies of other companies and industries.

You may consider hiring the services of a marketing professional. If your budget is modest, why not contact your local university or community colleges to see if they offer marketing services through their student business centres?

Smart Marketing

- Make sure you have a well-defined market that you know well.
- Find your niche within the market.
- Know your customers. Identify their needs and meet them more effectively than the competition.
- Service is key. Be reliable, responsive and competent. Make sure your customers are satisfied and keep coming back. Happy customers are your best advertising.
- Know your competitors and what they're doing. Be on the lookout for potential competitors.
- Price strategically. Attract customers but know your break-even point – the per unit cost of production against the price you need to charge to recover that cost.
- Don't be shy – promote your business.



Setting Up Your Business

There are basically three ways you can go into business for yourself:

- 1) create a new enterprise;
- 2) take over an existing business;
- 3) buy into a franchise operation.

While there are advantages and disadvantages to each, the focus of this booklet is creating a new business.

When you establish a new business, you can organize it for legal purposes as a sole proprietorship, a partnership or a corporation. (See chart on page 10.)

Selecting the right structure for your business will depend upon a variety of issues, such as tax implications and the degree to which you want to risk your personal assets in the business. To set up one of the structures, contact the appropriate provincial ministry or federal government department. Enlist the assistance of a lawyer or accountant.

Which Structure is for You?

Sole Proprietorship

Unincorporated business owned by one person, called a “proprietor.” The owner does not have separate legal status from the business (although the business name itself may have to be registered) and pays personal income tax on the net taxable income generated by the business.

- Simplest and least expensive to set up, minimal registration requirements
- Inexpensive to maintain
- Proprietor owns the profits and runs the business
- Possible tax benefits: e.g. losses may be applied against other income of proprietor
- You’re on your own
- You assume all the risk of the business; you are responsible for payment of all business debts; creditors can seize your personal assets
- Possible tax disadvantages e.g. profits must be added to personal income

Partnership

An association or relationship between two or more individuals or corporations that join together to operate a trade or business for profit. Partners include their share of income or losses on personal or corporate income tax returns.

- Easy to set up and very flexible
- Partners provide additional capital and skills
- If disagreements arise, business can suffer
- Partners assume personal liability for debts of the business

Incorporation

A separate legal entity which can enter into contracts and own property, separately and distinctly from its owners who are the shareholders. A corporation has to pay tax on its net taxable income and file its own income tax return. A corporation can be federally or provincially incorporated.

- Limited liability of the owner(s) – liabilities generally limited to individual’s personal investment in the business
- Money for the business can be raised by selling shares (equity) or by issuing debt (a promise to pay)
- Paperwork required to meet regulations can be onerous
- Tax rules can be complex
- More expensive and complicated to set up and maintain

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How Will You Operate?



The planning phase for a new business must also take into account getting it ready for day-to-day business. Here is a checklist of things you'll need to consider.

OFFICE AND LOCATION

Where will your business be located? Where will you provide your product/service? Will you go to your customers or will they come to you? Some businesses rent or buy space in a building, some share with other businesses, while a growing number of others operate from home. Ultimately, a location will depend on the needs of your business, where your customers and competitors are, and such things as taxes, zoning restrictions, noise and the environment. For certain types of businesses, an appropriate location is critical.

EQUIPMENT, SUPPLIES AND MATERIALS

No matter what business you're in, you'll need some or all of the following items: office furniture, telephones, a fax machine, computer, software, printer, modem, other office machines (e.g., photocopier), and stationery. For some businesses, you'll need to consider what raw materials will be

required to produce your product or how much inventory you'll need.

FINANCIAL MANAGEMENT

Good bookkeeping procedures are critical to a successful business, and they should be in place before you begin. Bookkeeping is the process of maintaining your accounts. Your accounts tell you how much money your business owes, how much it's owed by others and your earnings. In addition to helping you measure your progress, they enable you to comply with federal, provincial and local tax codes. Revenue Canada, for example, requires accurate records of your company's expenses and income. The provincial government requires accurate records of your corporate payroll and employee deductions. You may also have to tabulate provincial sales tax, Goods and Service Tax (GST), workers' compensation, Employment Insurance and Canada Pension.

Internally, accurate records help you plan for your company's growth and determine trends in your business. Which customers are contributing more to your company than others? Why does it cost more today than yesterday to generate the

same amount of revenue? Why did revenues go up this month compared to the same month last year? Finally, with accurate financial records, you can tell if your business is meeting the objectives set out in your business plan.

There are many computer software programs available to help make bookkeeping and accounting easier.

Just to recap, you'll need to:

- Keep track of day-to-day operations (financial statements)
- Track your statements to know how you're doing and if you should make adjustments (financial analysis)
- Plan for the future (financial forecasting)

EMPLOYEES

You may need employees immediately or wait until the business is established before you hire people. In either case, employees present a number of issues – qualifications, compensation, training, salaries and benefits, payroll, taxes and accounting, and employment legislation. And getting the right people to work with is important – try to hire people to complement your skills.

COMPANY NAME AND IDENTITY

You need to choose a name for your business, ensure that it is not already in use, and register it. You also need to consider the image you wish to project on your business cards, signage, invoices, envelopes and letterhead.

LEGAL ISSUES

Do you need any licenses and permits to operate? What regulations must your business abide by? Legal issues vary by business, municipality and province. Governments and organizations such as chambers of commerce and boards of trade can provide general information, but you may need to consult with a lawyer.

INSURANCE

What about insurance? Although it will vary depending on your business, you will typically need to purchase some type of insurance for liability, property or even business interruption.

ADVISERS

Most business owners know they can't do everything. You'll probably need professional advisers in areas such as:

- accounting and taxation
- government regulations (e.g., labeling, import quotas, and health and safety standards)
- banking and financial services
- marketing and advertising
- insurance brokerage
- the law (e.g., leases, patents, trademarks, copyright)
- technology (e.g., installing and servicing computer systems and other technology)

ONLINE BUSINESS

Getting on the Internet can open up new market opportunities by expanding your customer base. Deciding whether or not to have a presence on the net depends on a company's goals and whether it makes business sense. Some businesses may want an online presence merely for exposure and to provide information, while others may want to engage in online selling. It's also a good idea to see what the competition is doing – if they have a web presence, your company might be wise to get online.

Did You Know?

Canadian households spent \$2.4 billion shopping on the Internet in 2002

Source: Stats Canada, *The Daily, E-commerce: Household Shopping on the Internet (2002)* December 2003.



Your Roadmap: The Business Plan

Proper planning for your business – financial, operational, marketing, managerial – is key to turning your idea into reality. What vision do you have for your business? What are its aims, objectives and long-term goals?

To articulate your vision, it is very important to take the time to put your thoughts and intentions down on paper. You do this by creating a work plan or plan of action, otherwise known as a business plan. A business plan can be as detailed or as informal as you decide. Think of the business plan as a tool for helping you chart the course for your company. It's a roadmap showing how your

business will get from Point A to Point B (where it is going and how it will get there). A written or typed document, it explains your overall strategies and objectives in words and numbers.

In your business plan you should detail:

- how the company will be managed and owned
- product(s) and/or service(s) you will offer
- materials and resources you'll need
- potential strengths and weaknesses of your company
- your company's short and long-term plans
- the market and industry into which your business is directed (including suppliers, customers, competitors, threats, opportunities)
- marketing, sales and production plans
- operating costs
- amount, sources and types of financing it may require, including personal resources you may need to tap into
- sales and cash flow forecasts

There is nothing mysterious about preparing a business plan. You may require the assistance of an accountant, a lawyer, or another adviser or business person. Ultimately, however, the plan should reflect your own thinking – you need to go through the thought process of understanding and planning for all aspects of your business. It is an important term of reference for you at the outset and on an ongoing basis in the future. Remember, business planning is a continuous process.

Business plans are often crucial when it comes to borrowing large amounts of money as many lenders and investors will want to see one. Many financial institutions and other organizations offer free information kits and computer software to help you write a business plan and project a cash flow forecast.

If you are preparing a business plan to obtain financing we have outlined typical components for your plan on page 15. Here are some additional tips:

- Get straight to the point, be honest and use plain language.
- Be concise about where you want to take your idea and how you will achieve your goals. Keep it brief.
- Use tables, charts, graphs, illustrations as necessary.
- Explain and substantiate any assumptions you make about future income, annual revenue and their sources. Establish realistic break-even points.
- Use the body of the plan to tell the basic facts and use appendices for details such as financial statements or management biographies.
- It should be professionally packaged – word processed and securely bound.



Tip:

The business plan is a working document – revisit it regularly; use it to monitor your company's progress and revise it accordingly.

A Typical Business Plan

| | |
|--------------------------------|---|
| COVER PAGE | <ul style="list-style-type: none">• company name, address, telephone and fax numbers• key company contacts and their titles |
| TABLE OF CONTENTS | <ul style="list-style-type: none">• note major headings in your business plan |
| EXECUTIVE SUMMARY | <ul style="list-style-type: none">• 1-2 page summary of the most important points of your plan |
| COMPANY SUMMARY | <ul style="list-style-type: none">• complete company history• company aims and objectives• amount of financing required• future company plans |
| COMPANY MANAGEMENT | <ul style="list-style-type: none">• background, responsibilities and qualifications of key personnel |
| MARKETING PROPOSAL | <ul style="list-style-type: none">• details of product or service and respective costs• market research conducted• business prospecting ideas• promotions and public relations campaigns |
| FINANCING PROPOSAL | <ul style="list-style-type: none">• cash flow forecast• repayment proposal• collateral |
| OPERATIONAL DATA | <ul style="list-style-type: none">• contact numbers of account manager, lawyer and accountant• legal status of business (incorporation etc.)• how the business will operate |
| ENVIRONMENTAL STATEMENT | <ul style="list-style-type: none">• Company “green” plan |
| CONCLUSION | <ul style="list-style-type: none">• restate your aims and objectives• list financing amount and reasons for the financing• explain why you are a prime candidate for the financing |
| APPENDICES | <ul style="list-style-type: none">• detailed management biographies• product literature• asset valuation• financial statements• detailed cash flow forecasts• major contracts• profit and loss statements |



The Money You'll Need

Money (also referred to as capital, funds, and financing) is a critical factor in starting a business. You will need “seed money” to launch the business to cover costs such as vehicles, equipment, machinery, land, building, fixtures, and supplies. You'll also require money for your daily operating expenses – inventory, rent, taxes, salaries and wages, advertising, utilities, etc.

You can finance your business through debt (borrowed money) and equity (invested money). The type of financing you seek depends upon how much you need, how you plan to use it, how long you need it and how you'll pay it back. In most cases, a combination of debt and equity is the most effective way to go.

Debt financing and equity financing come in several forms and are used for a variety of purposes.

DEBT FINANCING

Debt financing is money you borrow to run your business. You must repay borrowed money in full, usually in installments, with interest. A lender incurs risk and charges a corresponding rate of interest based on that risk. The lender usually assesses a variety of factors such as the strength of your business plan, management capabilities, financing, and your past personal credit history, to evaluate your company's chances of success.

Many new businesses started in Canada use financial institutions (banks, trust companies, credit unions and caisses populaires) for debt financing. Other sources include family and friends, suppliers and equipment manufacturers, government agencies, third-party leasing companies and other financing organizations.

Types of debt financing include demand loans, lines of credit, credit cards, term loans, leasing and supplier credit. Remember to shop around and compare terms, costs and flexibility. Let's look at each one...

• DEMAND/SHORT-TERM LOAN

A demand loan is usually a short-term loan that carries a floating rate of interest (it varies according to the prime rate). Business owners use short-term loans to cover cash-flow shortages, to purchase inventory, or to take advantage of supplier discounts. The loans are usually repaid within 30 to 180 days. A short-term loan is secured by a personal guarantee or company assets, or it may be extended solely on the basis of the company's financial statements, track record, and ability to repay the loan. By definition, a demand loan can be called at any time. This means you must pay back the loan on demand from the lender.

• LINE OF CREDIT

Also called an operating loan, a line of credit provides a business with money to cover day-to-day expenses. As funds are used, the established credit line is reduced. Your line of credit is replenished when you make payments towards it. Like a demand loan, it's usually secured by assets, receivables, inventory, or other means. The loan has a limit and you pay interest only on the amount outstanding, usually on a daily basis.

• CREDIT CARDS

Actually a type of short-term operating loan, they allow you to make relatively small purchases today and pay for them later. As long as you pay off your credit card every month, you pay no interest on the loan. (You may have to pay an annual fee for the card.) Many financial institutions provide credit cards designed for small businesses. These cards help you keep track of your day-to-day spending and expenses and relieve you of some time-consuming bookkeeping. Several banks and other financial institutions have recently introduced a number of card-based products that access business lines of credit.

• BUSINESS TERM LOAN

It provides medium- to long-term financing to cover some or all of the cost of capital equipment, expansion, or renovation of buildings. Term loans are usually secured by the asset being financed, and they come with different repayment schedules, interest rates and periods, depending on the purpose of the loan.

• LEASING

Unlike a loan, leasing is like a long-term rental. At the end of the lease, you don't automatically own the asset – you have the option to buy it at its residual value. A lease requires little or no money down and is an alternative to purchasing such items as cars, machinery or office equipment. By leasing instead of buying, your business can usually write off the monthly lease expenses.

What is collateral?

Providers of debt financing often require collateral in the form of personal or business assets to secure the loan. An asset is simply anything of measurable value, like equipment, facilities, real estate, savings, investments, your house, inventory or receivables. Unlike equity capital, whose providers acquire a share of your business and expect a return on their investment as the value of their share increases, debt capital must be repaid whether or not your business grows. If your revenues fall, you could run into cash-flow problems as you try to repay your loans.

• SUPPLIER CREDIT

Many manufacturers of cars, machinery or computers have developed credit programs that are variations on debt financing. They provide the goods; you pay for them, with interest, over a specified period. In addition, some suppliers will offer various terms of sale, letting you take three months to pay, for example or they may offer discounts for prompt payment.

EQUITY FINANCING

Equity financing is accumulated from savings and investors. Outside investors typically receive a portion of your company equity (ownership) in return for their investment.

The most likely sources of equity financing for start-ups are yourself and people you know. It's not easy to attract investors to a new business. No matter how sure you are that your business will succeed, others will not always share your confidence. Without a track record of steady earnings from the business, you have only your enthusiasm, character and talent – and of course, your business plan – to persuade them to invest in your idea.

- **Personal savings:** Many entrepreneurs invest their own savings when they start a business. It makes sense as your own money is the most readily available. If you invest your own money in the business, other people will feel more confident about investing theirs.
- **Love Money (Friends and relatives):** Many entrepreneurs rely on friends and relatives for at least a portion of their financing, either on a debt or equity basis.
- **Government:** Most governments in Canada operate programs to boost employment, training, or technology transfer. A government program may pay some or all of your costs of developing a new technology, for example, or training new employees.

Credit rating is critical for borrowers

Before a loan is approved, financial institutions check your credit rating and the credit capacity of your business. They do this through the help of a credit bureau. Canadians who have borrowed money have established a credit history that reflects their repayment habits. This information is gathered from public records and lenders such as financial institutions, department stores and gas companies. If you plan to apply for a loan, it will play an integral role, so you should make sure your credit history is accurate. You can obtain your own credit history by contacting the bureaus directly. For instructions on obtaining your credit record, contact:

Equifax Canada Inc. at 1-800-465-7166,
www.equifax.ca;

Trans Union Consumer Relations Department at
1-866-525-0262 or 1-877-713-3393 (residents of
Quebec), www.tuc.ca; or

Northern Credit Bureaus Inc. at
1-800-532-8784 (www.creditbureau.ca)

- **Informal Investors (“Angels”):** They are often seasoned professionals looking to put their money into promising businesses, hoping to earn a larger return on their investment than through more traditional methods. Usually, angels want to play an active role in the management and/or strategic planning of the business they invest in. Your own professional advisers such as lawyers, accountants, and bankers can often direct you to these informal investors.

EQUITY FOR EXISTING BUSINESSES

Once you get your business going, you may want to raise more money to pay for its expansion or for other purposes. Equity financing at this stage is available from additional sources, including:

- **Retained earnings**
As your business begins to generate a profit, you can use the money to pay for its continued growth. Most growing businesses combine their retained earnings with other forms of equity and debt financing as they expand.

- **Venture capital**

Venture capital is typically targeted at high growth, high-tech sectors.

Firms providing capital for ventures offer financing in exchange for ownership in the company. Venture capitalists generally prefer to see a business in operation before they put their money behind it. They expect a healthy return on their investment, often generated when the business starts selling shares to the public.

- **Going public**

Once again, this option is available primarily to fast-growth companies. This is when you offer and sell equity interests in the company (e.g., shares, warrants, options) through a stock exchange or broker network. Going public involves a rigorous process of regulatory compliance and promotion.

Where does the money come from?

- Research shows that 49% of the small- and medium-sized businesses in Canada rely on banks and other financial institutions to provide them with business debt financing (whether for start-up, expansion or ongoing funding).
- Other sources of financing include:
 - retained earnings (31%)
 - supplier credit (39%)
 - personal savings (35%)
 - personal lines of credit (37%)
 - personal credit cards (33%)
 - leasing (16%)
 - personal loans (14%)
 - business credit cards (26%)
 - government lending agencies/grants (7%)
 - loans from employees, friends and relatives (10%)
 - non-related private loans (5%)
 - public equity (2%)
 - venture capital (2%)*

* Angel Investment = 4% according to Statistics Canada Survey 2000. Venture Capital = 1% according to Statistics Canada, *Survey of Suppliers of Business Financing*, 2002.

Source: Statistics Canada, *Survey of Financing of Small- and Medium-Sized Businesses*, 2002.

Financing tips

- Develop a long-term financing strategy.
- Find financing to suit your business.
- Use all your contacts – friends, family, and other entrepreneurs for advice
- Be prepared to walk away from a deal you don't like. If it's too expensive, too restrictive, or too unwieldy, the option may not make sense.
- Consider the various ways to find financing. Payments in advance, for example, can provide a cushion to get you through a production period.
- Regard your lenders as suppliers. They want your business as much as you want their product, which in this case happens to be money.
- Re-examine the capital structure of your business from time to time to make sure it is still appropriate. The proportion of bank financing, owner's equity, and private investment, for example, may rise or fall, depending on the circumstances.





Maintaining A Healthy Business

Building a business is truly an exciting prospect. Once your business is up and running, the challenges certainly don't stop. Here are some tips for maintaining a healthy business:

- Running a small business is a life-long learning process. Nothing will remain static; it's a day-to-day balancing act. Know where you're going and constantly keep on top of things. With the right tools and knowledge you will be better able to manage change.
- Develop and maintain good relationships with your lenders, suppliers, associates and employees. Communication is key to building solid relationships.
- Be upfront. If you run into a cash flow problem and can't meet a payment or pay an invoice, take the initiative with your lender or supplier. This will build a stronger rapport. Broken promises erode trust.
- Look after daily financial tasks such as bookkeeping: your business depends on it. Update your lenders regularly on your financial situation.
- Maintain a realistic cash flow forecast and use it for loan requests as well as a business tracking document that can alert you to any unforeseen problems. When making cash flow projections, be sure to note the outcome of any possible business scenarios you may encounter (e.g., What if the demand for your product decreases? What if business is better than expected? How quickly will you expand?)
- Pay all accounts on time and avoid bad debt situations, such as bounced cheques or not paying off credit cards.
- Be realistic about the amount of work you take on and your yearly and long-range (five-year) business plan. Many small businesses lose heart when large profits don't automatically materialize. Another trap is business overload and not being able to deliver a quality product on time.
- Review your business plan, including your marketing strategy, regularly. Fine tune as necessary.
- Be prepared to make quick, tough decisions.
- Do not hesitate to obtain any advice or additional assistance.

TOP 10 CHECKLIST FOR START-UPS

1. Are you ready to start a business? Know what you want and understand what's involved, including the personal sacrifices. Be willing to devote long hours to your endeavour.
2. Have you done your homework? Conduct research to ensure there is a need for your product or service. Be sure market conditions can support your business. Talk with friends, family, and advisers to obtain business information. Government agencies, trade associations and other organizations offer services and programs to help get businesses started (page 22).
3. How will you utilize your skills and compensate for your weaknesses? Evaluate your personal qualities and skills. Use your talents and recognize the areas you need help with.
4. What form will your business take? Decide on a structure – incorporation, partnership or sole proprietorship.
5. How will you promote and market your business? Just how are you going to distinguish yourself from the competition?
6. What is your pricing strategy? What does the price say about your product (and its quality versus the competition)? Think about what you'll charge people for your product/service. Estimate your break-even point and revenues.
7. Prepare a detailed business plan – it's imperative.
8. What funding sources will fuel your enterprise? Secure sufficient financial resources for start-up and operations.
9. Where will you locate? Pick a business location that makes sense for you and your customers.
10. How will your business operate on a daily basis? How will you deliver your product or service and manage your business? Figure out what you'll need for the day-to-day smooth functioning of your business.

It's often said that the first year of a new business is the most difficult. Research shows that nearly half of all businesses disappear within three years of launching. To help you better prepare, these points are key to business success:

- good management
- adequate planning
- sufficient financial resources
- healthy cash flow
- controlled spending and the ability to collect money owing
- effective marketing
- a good product and service

You Are Not Alone - *helpful sources of information*

Small businesses are such an important part of Canada's economy, and there's an extensive network of organizations to prove it. Here you'll find a partial list of helpful organizations and contacts. Resources are plentiful – use as many as possible. A great starting point is Strategis (<http://strategis.ic.gc.ca>) – Canada's largest business information web site, a service of Industry Canada. It has a massive amount of information on every aspect of business and industry, and can direct you to helpful resources and organizations.

FINANCIAL INSTITUTIONS

Banks, credit unions, caisses populaires, trust companies and many other financial institutions offer financing, information, advice and a host of other services to help people start and manage their businesses. Here are some of the many such offerings: educational and planning resources such as seminars, workshops, computer software and CD-ROMs; credit cards for small business; lines of credit, overdraft protection, telephone banking, venture loans; payroll and cash management services, etc. Many financial institutions have programs specially geared to meeting the needs of exporters, students and young people, women entrepreneurs, high-technology or knowledge-based businesses, and aboriginal enterprises.

Contact a financial institution for more information or surf the Internet for products, publications and interactive tools online. The chartered banks have good small business sections on their web sites.

BMO Bank of Montreal

www.bmo.com

CIBC

www.cibc.com

Canadian Western Bank

www.cwbank.com

HSBC Bank Canada

www.hsbc.ca

Laurentian Bank of Canada

www.laurentianbank.com

National Bank of Canada

www.nbc.ca

RBC Royal Bank

www.rbcroyalbank.com

Scotiabank

www.scotiabank.com

TD Canada Trust

www.tdcanadatrust.com

ASSOCIATIONS AND OTHER ORGANIZATIONS

There are numerous trade and industry associations offering relevant information and support. We have noted only a few of these below – check your local telephone directory for associations and organizations in your area.

Aboriginal Youth Business Council

www.aybc.org

Created by youth for youth, it offers support and resources specific to Aboriginal young entrepreneurs.

Association of Collegiate Entrepreneurs

1-800-766-8169, 416-304-1566, www.acecanada.ca

Non-profit organization servicing students interested in owning a business.

Canadian Association of Family Enterprise

(416) 323-7800, www.cafeuc.org

Membership-driven organization that provides educational programs, peer advisory groups, mentoring, and networking opportunities to family-run companies.

Canadian Chamber of Commerce

(613) 238-4000, (416) 868-6415, for service in French (514) 866-4334, www.chamber.ca

National association which delivers programs and services (such as training and networking opportunities) to its members to help them improve their market performance.

Canadian Federation of Independent Business

(416) 222-8022, www.cfib.ca

National association that offers information and support to its members.

Canadian Franchise Association

1-800-665-4232, (905) 625-2896, www.cfa.ca

Provides assistance to those seeking franchise opportunities, and offers publications with information on franchising.

Canadian Institute of Chartered Accountants

1-800-268-3793, (416) 977-3222, www.cica.ca

Sets accounting and auditing standards, publishes material and represents the profession. Its web site provides information and answers accounting questions.

Canadian Venture Capital Association

(416) 487-0519, www.cvca.ca

Promotes Canadian business through the use of venture capital and through networking, research and education.

Canadian Women's Business Network

(250) 751-2133, www.cdnbizwomen.com

Provides women-owned businesses with links to resources, information, services and support through a network of peers.

Canadian Youth Business Foundation

(416) 408-2923, 1-866-646-2922, www.cybf.ca

A non-profit, private-sector initiative designed to provide mentoring, business support and lending to young Canadian entrepreneurs.

Centre for Women in Business

(902) 457-6449, www.msvu.ca/cwb

Provides support and information to women who own, or are considering opening a small business.

Chambers of Commerce and Boards of Trade

Many communities have local chambers of commerce and boards of trade that serve as helpful resources for networking, information, seminars and workshops, referrals and other benefits. Check your local telephone directory (some also have web sites).

Entrepreneurship Institute of Canada

1-800-665-4497, (519) 885-1559, www.entinst.ca

Distributes publications, videos, audios, software and CD's of interest to entrepreneurs.

L'Association des Services d'aide aux jeunes entrepreneurs du Québec (SAJE)

www.sajemontrealcentre.com

In more than 100 locations throughout Quebec, SAJE offices provide services aimed at young people aged 18 to 35 who wish to explore the potential of their own business project or to improve the development possibilities of their business.

Retail Council of Canada

1-888-373-8245, 416-922-6678, www.retailcouncil.org

National trade association that offers information and support to its members, many of whom are small retailers. A sister association is Le Conseil québécois du commerce de détail.

Viatech

(416) 974-4834, www.viatech.org

A national network of banking, legal, accounting and marketing professionals offering free counselling to knowledge-based firms.

Young Entrepreneurs Association (YEA)

1-888-639-3222, www.yea.ca

Dedicated to promoting entrepreneurship, the YEA offers a support network for members as well as educational resources including seminars, workshops and a newsletter.

FEDERAL GOVERNMENT

Aboriginal Business Canada

(613) 954-4064,

www.strategis.ic.gc.ca/epic/internet/inabc-eac.nsf/en/home

Provides services and support to Aboriginal entrepreneurs, youth and organizations to promote the success of their businesses in Canada and the world.

Aboriginal Canada

1-888-399-0111, www.aboriginalcanada.gc.ca

Economic development and business sections have links to many aboriginal business information sites and resources.

Atlantic Canada Opportunities Agency

1-800-561-7862, (506) 851-2271, www.acoa.ca

By helping people set up new businesses or expand existing ones, ACOA's goal is to improve Atlantic Canada's economy.

Business Development Bank of Canada (BDC)

1-888-BDC-BANX, www.bdc.ca

Offers a complete range of services, particularly financial, management training and specialized consultation services, to assist small and medium-sized businesses.

Canada Business Service Centres (CBSCs)

www.cbosc.org

CBSCs are a collaborative effort between federal, provincial and private-sector organizations which provide information on government services, programs and regulations. Centres distribute videos, publications and offer seminars. A CBSC is in a major urban centre in each province – check your telephone directory, contact your nearest Industry Canada office or visit the web site.

Canada Revenue Agency

For individual inquires 1-800-959-8281, www.ccra-adrc.gc.ca

For business inquires and registrations 1-800-959-5525

Offers useful information booklets and services, such as seminars designed to help new and existing business owners better understand taxation and tax requirements. Call your local office or visit its web site (search the main menu for the Small Business Page).

Canada Economic Development for Quebec Regions (Quebec)

www.dec-ced.gc.ca

Through offices in regions around the province, CED provides a range of services for Quebec SMEs. Check your telephone directory, or for program information call the Info-Entrepreneurs hotline at 1-800-322-4636, (514) 496-4636.

Canadian Commercial Corporation

1-800-748-8191, (613) 996-0034, www.ccc.ca

As an export facilitator, the CCC provides Canadian companies with access to market opportunities and a wide range of export contracting services.

Competition Bureau

1-800-348-5358, (819) 997-4282,

www.competition.ic.gc.ca

Information on complying with Canadian competition laws and marketing of consumer goods.

Foreign Affairs Canada

www.fac-aec.gc.ca

International Trade Canada

www.itcan-cican.gc.ca

InfoExport 1-800-267-8376

These departments are centerpieces of Canadian government information on opportunities and requirements for exporting abroad. Works with Industry Canada through a toll-free service called InfoExport.

Export Development Corporation

1-800-850-9626, (613) 598-2500, www.edc.ca

Provides a full range of trade finance services that help exporters and investors do business in up to 200 countries, including higher-risk and emerging markets.

Farm Credit Corporation

1-888-332-3301, (306) 780-8100

www.fcc-sca.ca

Provides financial services and products to primary producers and agribusinesses.

Federal Economic Development Initiative for Northern Ontario (FedNor)

1-800-328-6189, (613) 954-5031

<http://fednor.ic.gc.ca>

Helps Northern Ontario businesses and economic development organizations access capital, information and markets.

Human Resources and Skills Development Canada

www.hrsdc.gc.ca

Social Development Canada

www.sdc.gc.ca

Operates Human Resource Centres across Canada which offer information on a variety of programs and services for small business as well as counselling, training and assistance with hiring new employees. Initiatives also available to help the unemployed wanting to start a business. Provides info on The Student Business Loan Program. Check your local telephone directory.

Industry Canada

(613) 947-7466, www.ic.gc.ca

*Offers a wealth of information, programs and services. Refer to its web site or publication *Guide to Government of Canada Services and Support for Small Business* for contact points and details on everything from getting started to accessing new markets. Also operates Strategis, Canada's largest business information web site.*

National Research Council

1-877-NRC-CNRC, www.nrc.ca

Oversees The Industrial Research Assistance Program, which helps small and medium-sized Canadian firms create and adopt innovative technologies, offering technical assistance, expertise and resources, as well as cost-shared financing of innovative technical projects.

Statistics Canada

1-800-263-1136, www.statcan.ca

Collects and disseminates data on social and economic issues. Its Small Business and Special Surveys Division provides small business profiles, up-to-date details about financial expense and operating ratios, balance sheet information and provincial data for most industries. Regional offices listed in telephone directories.

Western Economic Diversification Canada

1-888-338-9378, (204) 983-4472

www.wd.gc.ca

With a delivery network of some 90 points of service across Western Canada, SME's in most rural and urban centres can access a range of business services. This Western Canada business service network includes Community Futures Development Corporations, Women's Enterprise Initiative offices and regional offices. Check out the web site for information and links to these services.

PROVINCIAL AND LOCAL GOVERNMENTS

Offer many helpful programs and services aimed at assisting new businesses often in conjunction with such organizations as local boards of trade. Check in your telephone directory or with your local government office (contact departments of employment, economic development, human resources and trade).

UNIVERSITIES, COLLEGES AND SCHOOLS

Most offer courses, seminars and workshops, and some provide information, advice and consulting services through entrepreneurship centres and/or student-run, faculty-monitored small-business service organizations. As well, local schools and boards of education often offer evening classes in business basics. Contact your local colleges, universities and schools for information.

LIBRARIES, BOOKSTORES, THE INTERNET AND OTHER SOURCES

Public libraries are useful sources of free information on any business topic and can offer computer access to the Internet. Bookstores carry volumes of publications and don't neglect newspapers and magazines for business information, trends and tips. Small business seminars and workshops are often listed in local papers. Many industries and professions have magazines devoted to them, so check these out too. The Internet can also be valuable in helping you do market and business research, and many web sites have links to other sources of assistance.

FACT FINDING WITH OTHER BUSINESS OWNERS

Other business owners and entrepreneurs are great sources for ideas, guidance and tips. They have been through the experience and can share their insights with you. Don't be shy to ask people you know or to network in order to gain the knowledge you need.

PROFESSIONAL ADVISORS

Lawyers, accountants, financial advisors, communications and marketing specialists, insurance agents, computer and technology experts – all can provide professional advice and other services to you.

Your network of associates and friends can provide you with good referrals. So can other advisers and trade/industry associations (for instance, the Canadian Bar Association operates a referral service for lawyers, categorized by specialty).

Consider enlisting the help of a mentor. A mentor is someone (friend, family member, or business associate) who can offer free advice and guidance on a variety of aspects of your business, especially with respect to management and strategic planning. For example, the Canadian Youth Business Foundation offers mentorship programs.

Glossary of Terms

Accounts payable: Money owed by a business for goods and services received.

Accounts receivable: Money owed to a business by purchasers of goods and/or services.

Angels: Private individuals with capital to invest in business enterprises.

Balance sheet: The balance sheet shows the assets and liabilities of your company at any particular time. The assets on a balance sheet will always equal the liabilities plus the owner's equity. Your company's assets include: Cash, Inventory, Accounts Receivable and Fixed Assets. Your company's liabilities include short-term and long-term liabilities.

Capital investments: Money used to purchase permanent fixed assets for a business, such as machinery, land or buildings as opposed to day-to-day operating expenses.

Cash flow forecast: An estimate of when and how much money will be received and paid out of a business. It usually records cash flow on a month-by-month basis for a period of two years. It helps you time your expenditures in order to avoid cash shortages.

Collateral: Property (real, personal or otherwise) pledged as security for a loan. Also, any supplementary promise of payment, such as a guarantee.

Commercial Pledge: (Quebec term) Form of security where machinery and equipment pertaining to a business is given as security for a business loan.

Debt: The money you owe.

Debt/equity ratio: A comparison of debt and equity used to measure the health of a business.

Demand Loan: A loan that must be repaid in full, on demand.

Depreciation: You can deduct a specified amount of the purchase price of business equipment, for tax purposes, to calculate your company's taxable income. Your accountant can provide details about depreciation of different types of equipment.

Entrepreneur: A person who starts and manages a business.

Equity: The value of a business after all debts and other claims are settled. Also the amount of cash a business owner invests in a business and/or the difference between the price for which a property could be sold and the total debts registered against it.

Fixed assets: Assets like machinery, land, buildings, or property used in operating a business that will not be consumed or converted into cash during the current accounting period.

Fixed expenses: Fixed business costs that do not change with the volume of business, such as rent for business premises, insurance payments, utilities, etc.

Franchise: The right to sell products or services under a corporate name or trade mark (established by someone else). This right is usually purchased for cash in addition to a royalty fee on, or a percentage of, all sales.

Gross profit margin: The difference between the sales your business generates and the costs you pay out for goods.

Income Statement: Also known as the profit & loss statement or P&L, enables you to calculate your company's pretax profits by subtracting total expenses from total revenues. Expenses include such things as the cost of raw materials and labour and other costs incurred in selling your company's products or services. Expenses also include fixed costs such as salaries, rent, electricity, and insurance.

Interest: A charge for the use of money supplied by a lender.

Inventory: Stock on hand in the form of goods ready for sale. Also includes raw material in the process of being manufactured or completed for sale.

Lease: An agreement to rent for a period of time at an agreed price.

Line of credit: An agreement negotiated between a borrower and lender establishing the maximum amount of money against which a borrower may draw.

Long-term liabilities: Money that you owe over a period longer than 12 months, such as mortgages, bank loans and other obligations.

Operating Loan: A loan intended for short-term financing, supplying cash flow support or to cover day-to-day operating expenses.

Ratio: Comparison of two figures used to evaluate business performance, such as debt/equity ratio and return on investment.

Real property: Real estate, including land and buildings.

Retained earnings: All the profits or losses that you've accumulated from prior years and from this year's income statement, less dividends paid to you.

Short-term liabilities: Money that you have to pay in less than 12 months, including wages, short-term loans, taxes, credit card balances and long-term loans with less than 12 months remaining on their terms.

Term: The maximum time allotted for a loan to be repaid.

Term Loan: A loan intended for medium-term or long-term financing to supply cash to purchase fixed assets such as machinery, land or buildings or to renovate business premises.

Variable expenses: Costs of doing business that vary with the volume of business, such as advertising costs, manufacturing costs and bad debts.

Venture Capital: Commonly refers to funds that are invested by a third party in a business either as equity or as a form of secondary debt.

As part of the program *Building a Better Understanding*, we are offering a free series of publications, ranging from money management, to mortgages, planning for your retirement, and saving for your children's education. To obtain copies, call toll-free 1-800-263-0231 or visit our web site at www.cba.ca.

The Canadian Bankers Association, established in 1891, is a professional industry association that provides its members – the chartered banks of Canada – with information, research and operational support, and contributes to the development of public policy on issues that affect financial services. The CBA also provides information to the public on industry and financial issues.



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