








Getting Into Business

innovationpei

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This guide is composed of 17 articles, which discuss various issues and topics that should be addressed by the prospective new business owner.

The articles are, by no means, all-inclusive. Rather, the purpose of the articles is to create an awareness of the basic requirements involved in business start-up.

Each article gives the reader the opportunity to develop, refine and test the profitability of his/her ideas on paper before actually opening the doors of the business.

Starting and operating a new business is both challenging and exciting. We hope that this guide will make it easier to meet the challenge.

1. Self Evaluation

Article 1 – Characteristics of Successful Entrepreneurs

At one time or another, almost everyone has dreamed of owning his/her own business. The thought of independence, financial reward and being one's own boss has considerable appeal. However, business start-up and ownership is not for everyone. There is a lot more to being a successful entrepreneur than having a good idea. The first step in getting into business is to determine if you have what it takes to run a business successfully.

No single definition of a successful entrepreneur exists. However, experts and researchers have been able to compile some very distinguishing traits that characterize new business owners who have succeeded. To see if you are suited to be in business, decide which of the following qualities you possess. Don't be disheartened if you don't fit into all categories. Experience, leadership and perseverance can all be learned. Moreover, there are courses on entrepreneurship, starting small businesses and other related topics offered regularly in Prince Edward Island. The following is a list of some of the qualities of successful entrepreneurs:

Experience

The majority of successful entrepreneurs have had first-hand experience in running a small business operation. Many entrepreneurs have worked in, or previously owned, a small business and are familiar with the operational problems and realities of business ownership. This enables them to go into the venture with their eyes open.

Flexibility

Successful entrepreneurs do not like restriction. They find it difficult to work within traditional structures. Entrepreneurs are constantly thinking of new and different methods of getting things accomplished. Mobile, versatile and flexible are adjectives, which can be used to describe an entrepreneur.

Leaders

Entrepreneurs are viewed by many as hardworking eccentrics. However, it is leadership and team building qualities that differentiate the successful from the unsuccessful entrepreneur. Successful entrepreneurs realize that employees are their greatest resource and that results are achieved through the work of others.

Action Takers

Successful entrepreneurs are doers. They like **action** not theory. They thrive on challenges and problems that require solutions. Successful entrepreneurs exhibit drive, self-confidence and tolerance of uncertainty. They are in charge of their own destiny and believe that their own actions, not those taken by others, are what determine their own success or failure.

Thoughtful Analysis

Entrepreneurs who have succeeded are not careless gamblers. They take moderate, well-researched and calculated risks.

Perseverance

Successful entrepreneurs have the ability to set goals, maintain long-term commitment and compete against self-imposed standards. They seek feedback on their efforts and are always looking for new ways to do things. Successful entrepreneurs view failure as a temporary setback, a learning experience—disappointing but not discouraging.

The preceding are some examples of qualities entrepreneurs possess but are by no means all-inclusive or finite. The reason is twofold. Firstly, the nature of the business determines, to a certain extent, the particular characteristics required of the entrepreneur. Secondly, the personal initiative of the entrepreneur allows skills to be learned. Successful entrepreneurs are people who make a business out of things they enjoy doing the most. For them, profits, ambition and lifestyle go hand in hand. If you believe in your heart that you are entrepreneurship material, you must then decide if business ownership is the right career choice for you.

Article 2 – Business Ownership: Is it the right choice for you?

Once you have concluded that you have what it takes to successfully run a new venture, you must decide if business ownership is the right choice for you and your family at this time in your life. Business start-up is not easy. You can expect a lot of long hours, uncertainty and psychological stress during the initial and often subsequent stages of new venture start-up. Deciding that you are entrepreneurship material was the first stage in getting ready to own a new business. Deciding if you and your family are ready is step two.

The Right Choice for You

The only certainty about starting a new business is that there are no certainties. There are no guarantees of paychecks, leisure time or that you will even be in business six months down the road. The entrepreneur must be able to deal with the uncertainties and emotional pitfalls that will most likely occur with new venture start-up. Starting a business can be like running a marathon: if you are not physically and mentally in shape, you'd better do something else. Recent statistics indicate that, on average, new business owners work a minimum of sixty hours per week and still feel they should be spending more time on their business. A new business can encompass all facets of the owner's life.

The Right Choice for Your Family

The majority of small business owners start their enterprise between the ages of 28 and 40, the same age range that many are raising families. When the effects of starting a new venture spreads to others, the risks involved in entrepreneurship seem even more significant. Even if you are willing to put yourself in a position of financial liability, are you willing to put your family in the same position? Family and friends should be prepared for the stress, time commitments and sacrifices you will have to make to get your operation up and running. Essentially, family and friends will often have to take second place in one's list of priorities to make the business successful.

To evaluate your readiness for business startup, consider these questions:

1. Are you willing to live with the insecurities starting a new business entails?
2. Are you ready to sacrifice your present lifestyle, leisure time, vacations, savings and possibly your home on your new venture?
3. Are you totally aware of the impact that starting a new business will have on your family and friends?

Deciding if you are ready is probably the most **critical step** in a new business start-up. You must decide if owning a business is really what you want out of life. Answering yes to the above questions will give you an indicator that you should begin investigating and planning your business idea. If you are not ready for business ownership today, that is not to say that you won't be ready for business ownership in the future.

2. Planning

Article 3 - Planning for Success

The most recent statistics indicate that 80 percent of all new small and medium size businesses will be out of business within 10 years. Many of these new businesses fail early, not because their owners lack motivation or determination, but because they fail to adequately **prepare** for business ownership. Planning precedes performance. Careful planning of your business before actual start-up greatly improves your chances for success. Planning takes time. It is realistic to assume that at least six months will be necessary to adequately investigate your idea. This process can be frustrating, but don't let it dampen your enthusiasm. Proper planning will save time, money and avoid unwanted surprises in the long run.

To be effective, the planning process must have an organized structure. An organized planning process makes for efficient use of time—a valuable and scarce business resource. Essentially, the planning process consists of five steps:

1. Set your goals: determine exactly what you want to accomplish.
2. Gather the necessary information: find out what you need to know.
3. Make a decision based on this information.
4. Put your decision into **action**.
5. Evaluate the results of your action.

The beauty of the five-step planning process is that it can be applied to almost all aspects of the business, including:

- evaluation of the methods of getting into business
- market research analysis
- business plan formation
- day-to-day business decisions

The five-step process can be applied to both the short- and long-term plans of a business.

Short-Term Planning

Short-term planning for new ventures usually consists of the first 12-18 months. By developing short-term plans, the owner is able to walk through the business on paper, thus presenting the opportunity to correct any problems or mistakes before the doors of the business are opened. Short-term planning includes: Business Plans, Financial Forecasts, and Cash Flow Forecasts. These items are not only useful but also **necessary**, since:

- they provide a path and **direction** for the new business to follow
- most financial institutions, professional offices, provincial and federal departments require them

Long-Term Planning

Long-term planning typically encompasses between three- and five-year periods. Long-term planning allows time for careful evaluation of major business decisions which could include building new facilities, increasing staff, and plotting business directions. Though owners often argue that long-range planning is useless because the future is uncertain, an owner is **betting** on the **future** of the business. Thus, a new business owner must consider the odds of success or failure. Components of short- and long-term plans will be discussed in following articles.

A new business without a plan merely reacts to events as they occur. The business is run more by good luck than by good management. Once you have decided to be in business for yourself, you must plan for success and follow your plan. At this stage, you should consider the various methods of getting into business.

Article 4 – Four Methods of Getting into Business

The actual start-up or purchase of a new business venture is one of the most important decisions the entrepreneur will ever make. By now, one realizes that even before actually getting into business, investigation and decision making is required. At this stage of the game, the would-be business owner must weigh the strengths and weaknesses of the different methods of actually getting into business.

Method I: Starting from Scratch

Starting your own business from the ground up offers the greatest amount of both appeal and effort. The idea of establishing something new is exciting. Yet it also means having to create from scratch your own product and service, suppliers and customers.

New business start-ups have a greater chance of success when existing businesses in the industry have traditionally been poorly run, when the market for your business is expanding, and/or when no strong customer loyalties for a similar product or service exist.

The major advantage of starting your own business is the complete independence and freedom to run the business as you see fit. The major disadvantages include the large amount of planning time required, the unproven product and service and the difficulty of obtaining financing for an unproven product or idea.

Method II: Buying the Assets of a Business No Longer in Operation

One might save substantially on costs by acquiring assets, at distressed prices, of a business no longer in operation; however, there are still risks involved with this method of getting into business. Number one, you have to rebuild a customer base; and, number two, you must find out the **real** reasons why the business is no longer in operation. One should seek the advice of an accountant to discuss the tax implications associated with the purchase of these assets.

Method III: Buying an Existing Business

The advantages of purchasing an existing business include acquisition of an already established product or service, suppliers and, most importantly, customer base. The disadvantages of buying an existing business could include bad will, poor image and a negative employee attitude.

Prior to the actual purchase, the potential owner should learn the **real** reason the business is for sale. Often, the two most common reasons stated are poor health and impending retirement; but in a**ctuality** the reasons may be declining sales, changing neighbourhood and/or entrance of new competitors. In addition, the potential owner should learn how present customers feel about the business, what the attitude and personal integrity of the present owner are and what the state of the local market conditions are. Next, with the assistance of one's accountant or lawyer, one should analyze the financial statements of the business. Keep in mind that you are not buying past performances; your only concern is what the future potential will be.

Method IV: Buying a Franchise

A franchise, simply put, is a license agreement between two parties, whereby Party 1, the franchiser, gives Party 2, the franchisee, the right to market a specified product or service in a specified but proven way, often with a defined territory, and for a fee. In addition to an up-front purchase price, the franchisee can expect to pay on-going follow-up royalties for support services. Similar to all business opportunities, both good and bad franchises are available for purchase. "The stronger franchises exercise **firm** control over their companies' product or service, the way it is merchandised and what expenses are acceptable within a structured formula to maximize profits."

Purchasing a franchise does not guarantee success. Ultimately, success or failure lies with the individual franchisee. Advantages of franchising include acquisition of a proven concept, a proven financial control system and a designated protected territory. Disadvantages can include such things as a significant purchase price and/or royalties and lack of total control over business policies.

Article 5 - Types of Business Formations

Do you want full control of a business, or would you prefer to share management responsibilities? Have you considered if you, or the company as a separate legal entity, are to be responsible for the actions of the business? Help in answering these questions will be provided by the following discussion on the four common forms of business ownership in Prince Edward Island.

Sole Proprietorship

A sole proprietorship is a business owned and operated by one person. A sole proprietor often exemplifies the classic definition of an entrepreneur. Only a sole proprietor can say "I am the Company." The individual owner is in charge of the company and is responsible for all factions of the business: securing capital, managing day-to-day operations, paying wages, and assuming all risks as well as all profits or losses. All assets, both business and personal, can be legally called upon to discharge a liability. The major advantages of a sole proprietorship are simplicity in starting and dissolving the business, ownership of all profits and the satisfaction gained from being one's own boss. Disadvantages are unlimited financial liability, difficulty in raising funds and no sharing of the burden of management.

Partnership

A partnership is an association of two or more persons who operate as co-owners of a business. Partnerships evolved to overcome some of the more serious disadvantages encountered by sole proprietorships. Upon formation, a **partnership agreement** is drawn up which outlines the rights, interests and responsibilities of each partner. Partners, like sole proprietors, have unlimited liability for the partnership's debts—referred to as joint liability. Advantages of partnerships are: simplicity in starting the business, ability to pool both the funds and talents of the partners and the opportunity of specialization amongst the partners. Disadvantages include: unlimited liabilities and the potential for personal disagreements among partners.

Corporations

A corporation is created by charter and can do business as a separate legal entity the same as individuals can do in a proprietorship or partnership. Different from sole proprietorship or partnership, a corporation has a legal existence apart from its owners. Thus, no employee, shareholder or director of the incorporated company can be held liable for any debts, obligations or acts of the company unless personal guarantees have been undertaken; i.e., for a new business start-up, a personal guarantee is commonly required to obtain loans from financial institutions. In Prince Edward Island, if the business activity of a corporation is confined to the Island, the company need only incorporate under the *Companies Act of Prince Edward Island.* If, on the other hand, business is conducted in other provinces, a company may be required to incorporate federally under the *Canada Business Corporations Act*. Advantages of incorporating are: separate legal entity with limited financial liability, easy transfer of ownership and greater financial capability to raise capital. The major disadvantages are: costly and complicated to form, considerable government regulations and special and double taxation.

Co-operative

A co-operative is a corporation organized by people with similar needs to provide themselves with goods and services or to make joint use of their available resources to improve their incomes. Each member of the co-operative is entitled to one vote, thus the power of all members is equal. Advantages of this form of ownership are: limited liability and members can save money on purchases as well as obtain better margins on sales. A disadvantage of a cooperative is that only a limited amount of capital can be raised.

3. Marketing Issues

Article 6 - Developing a Marketing Strategy

Like all aspects of business formation, developing marketing strategies requires careful planning. A top-notch marketing strategy can be compared to a first-rate cake recipe—both contain just the right mix of key ingredients and must follow organized procedures in order to produce a successful end product. A successful marketing strategy presents a product or service to customers at a price that meets the business's profit goals and in such a way that the customer wants to buy a lot of it.

Steps in Developing a Marketing Strategy

1. Identify your target customers.
2. Establish your market niche.
3. Develop your marketing mix.

Identify Target Markets

Your business cannot be "all things to all people." Target marketing simply means identifying the characteristics of your potential customers (segmenting) and planning your marketing strategy around them. Think of your customers as belonging to specific groups with each group having common characteristics, such as sex, age, ethnic origin, motivation, lifestyle or hobbies. By focusing on the specific customer, your marketing efforts will be more effective.

Establishing a Market Niche

The owner of a new venture must distinguish the business from those already in the marketplace. Establishing a market niche involves discovering what unique qualities will give you an advantage over already established competitors. Without such a niche, customers will not see any reason to leave the company they presently deal with.

Developing the Marketing Mix

After identifying your target customers and establishing a firm concept of your market niche, you should next develop the following four ingredients of the marketing mix:

- Right Product/Service: Marketing-oriented business owners should first learn what customers want most, and then provide that product/service. This order of procedure has a much greater chance of success than the reverse. A successful product/service is one which has all the utilities, services, warranties and follow-up care included.

- Right Promotions: Promotions include all forms of communication between the business and the customer. The right promotion means communicating clearly to your customers what specific product/service you have available. Promotion includes all forms of advertising, whether it is paid or unpaid, public relations, marketing materials or personal selling. Successful promotional campaigns are not only seen and heard by customers; they are also remembered.

- Right Place: The right place means having the product/service available where the customer can expect to find it. A combination of business location, distribution network and store layout all help to determine where the right place is. The importance of location cannot be understated. For some businesses, especially retail operators, site location can be directly equated with success or failure.

- Right Price: The right price must be sufficient to cover all costs of production, overhead and marketing as well as provide the business with the desired profit. It must also be what your customer is willing to pay. Establishing the right price is a delicate balancing act. If it is set too high, you won't attract enough customers to cover fixed costs; but if it is set too low, then even a large number of customers may not generate enough revenue to cover all costs.

Conclusion

Planning marketing strategies does not end once your business is in operation. You must evaluate your strategies on a regular basis and make changes when necessary. If something is not working well, revise your strategies on paper first and then take the appropriate measures. Successful marketing strategies are based on satisfying and serving customers. A quality marketing strategy is one that is based on really knowing and understanding the needs and wants of customers. Successful marketing strategies can only be developed after complete market and customer information has been gathered.

Article 7 – Market Research

Market research is finding out, in an orderly fashion exactly, what customer attitudes, opinions, needs, wants, likes and dislikes are. Good market research eliminates guesswork and becomes the cornerstone upon which new business owners can feel confident to build the company's strategies.

Most business owners and managers do some form of market research every day. For example, in the run of a usual business day the owner might check returned items to see if there is a pattern; stop a customer on the street to ask why he or she hasn't been in the store for some time; or look at a competitor's advertisements to see what they are charging for the same product the owner's company is selling.

Why Do Market Research?

Information is power. Organized current information enables the new business owner to reduce risks, spot opportunities and problems in the current marketplace and get basic facts about markets and customers in order to make wise decisions and set up plans of action. If new business owners are going to do the best possible job for their customers, they have to know them well—know why they buy, how often they buy, what they like and don't like about a similar company/product/service, how they use the product/service and how much of it they use.

How Do You Do Market Research?

Market research is worthwhile only if the information gathered is useful. Thus, market research should be done within an organized structure that allows the business owner to objectively judge the meaning of the information gathered about the market. As introduced in article three, "Planning for Success", the five step planning process provides the structure necessary to gather and evaluate information in an orderly fashion.

The five-step planning process as applied to gathering market research information involves:

1. Set goals: the business owner must decide specifically what information is needed and why it will be useful.
2. Gather the necessary market information: first examine information already available.
3. Look at industry sales records and trends, talk to employees of other companies in the same industry, and analyze secondary research information already in print, such as magazines, business publications and Statistics Canada publications which relate to your business. If further information is necessary, the business owner may have to conduct primary research, which is original data that has not been previously collected or assembled in an organized fashion. Primary research gathering can be as simple as asking potential customers and suppliers what they think of your product/service or as complex as developing and implementing structured questionnaires, focus groups and test markets. For the more complex methods of market research gathering, professional business consultants should be contacted.
4. Make a decision based on the market information gathered.
5. Put the decision into action.
6. Evaluate the results of your action. Determine if your market research information was correct.

Market research is limited only by a person's imagination. Much of it can be done with very little cost other than time and mental effort. Market research is a simple and orderly way to learn about people. In today's competitive marketplace, new businesses cannot rely on a hit-or-miss decision process for crucial questions pertaining to their customers. Good up-to-date research is essential. The following section will discuss the importance of, and how a business can distinguish itself by, providing exceptional customer service.

Article 8 - Exceptional Customer Service

What is a Customer?

Customers can be demanding, irritating and, at times, a total nuisance. Customers are also the lifeblood of every business. Think about the fact that if your potential customers are not interested in buying whatever it is you're going to sell, there would be no need at all for the business. So you might ask "What exactly is a customer?" A customer is a person who brings you his or her needs and you must satisfy them. A customer expects value for dollars spent and good reliable service and will leave you if you can't provide these. A customer is never wrong. A customer provides you with a job and a paycheck.

Why Give Customer Service?

High interest rates, inflation, recessions and unemployment have changed customer attitudes a great deal over the past 10 years. This has resulted in consumers becoming more cautious in their spending habits and less loyal to stores. Most shop around more, and are not prepared to take whatever is available. Thus, in this decade of the 1990s, the only way to attract and keep Island consumers loyal to your business is to provide exceptional customer service. Putting customer service first not only results in repeat business but also leads to positive word-of-mouth referrals that, in turn, build a powerful intangible asset—a strong public image. The following are a few facts about the importance of customer satisfaction:

1. Customers are more likely to quit doing business with your company because of **poor service** than for any other reason.
2. Your customers may be willing to pay as much as a **10 percent** premium for exceptional customer service.
3. Customers who are highly satisfied about the excellent service you provide are your company's best source of **advertising**. On the average, each satisfied customer you have recruits five additional customers to your business.
4. Your customers' perceptions of your business are shaped more by the quality of your service than by the quality or cost of your products.

What about Customer Complaints

What should be done when a customer complains about your service or product? The answer is simply to make every effort possible to solve the problem. Consider this, a customer orders a meal only to discover the food is bland and the service unfriendly and slow. If that customer complains and the problem is left unsolved, you can guarantee that he or she will relate his/her poor experience to friends, family, relatives and co-workers —possibly present and potential customers. On the other hand, unhappy customers who have their problems resolved in a professional and satisfactory manner become loyal repeat customers and ambassadors of goodwill for a company. Customer complaints should not be viewed as a problem but rather as an opportunity to discover better methods to provide customer service.

Conclusion

Providing superior customer service is crucial to the success of any business, particularly today. Customers have many options on where and how they spend their time and money. Remember, as a new business owner you have a choice—you can give good customer service or not. Likewise, your potential customers have a choice—they can choose your company or not.

Successful companies are marketing oriented. That is, all strategies and plans of the company are centered on present and potential customers. As a potential new business owner, you will have one step up on many competitors if you consistently deliver exceptional customer service. With your marketing strategies in mind, you are now ready to examine the following article which discusses the important aspects of understanding new venture financing.

4. Financing Issues

Article 9 - Business Financing

Under capitalization, often the result of poor planning at the start-up phase of a business is one major reason why many businesses fail just when things are beginning to take off. Underestimating capital needs can quickly drain your cash reserves and leave your business in a cash-short crisis—weak and vulnerable. In starting any venture, two types of capital are required: **start-up capital**, money needed for equipment, supplies and initial services; and **working capital**, money needed for the everyday operation of the business.

To prevent such a possibility as under capitalization, you should carefully estimate your financial needs for the first three years of your venture. It is especially important to have adequate working capital in year one. Estimating capital needs should follow the proven five-step planning process.

1. Based on market research gathered, set a sales goal.
2. Gather information to estimate how many dollars will be required to cover **all** expenses until your sales begin to generate enough revenue to operate your business.
3. Decide how much sales will have to increase, or adjust your prices accordingly, to keep expenses and profit goals in line.
4. Put your decision into action.
5. Evaluate the consequences of your action and determine how close you actually were to your estimated capital needs.

Sources of Funding

Once you know how much money you need, you will have to find sources of funding. At the outset, you should anticipate that many traditional lending and investment sources judge new ventures as being risky. Thus, you should try to get initial financing from personal savings or loans and from family and friends.

There are two types of financial assistance available that a new business owner should be familiar with—debt and equity. Debt financing can be compared to renting money from someone: you repay the debt plus a fee for renting the money. The fee, or interest rate, depends upon several factors, such as source of the loan, the period of the loan and the general economic conditions at the time of borrowing. Banks, trust companies, government agencies and other credit institutions are the major sources for debt financing. As mentioned previously, family and friends may also be willing to lend you money. Prospective lenders will want to know relevant information, such as how much money you need, what you need the money for, when you will need it, how long you will need it for, how it will help you to generate revenue and how and when you expect to repay the loan.

In equity financing, you give up a percentage of the stock in your business. The percentage depends upon how much money you need, how much risk the investor thinks your business represents and how much management control the investor wants. Investors will be interested in what kind of return on investment your company will pay (R.O.I.). Two public sources of equity financing are venture capital firms, which invest in new businesses, and private individuals, who become shareholders. In Prince Edward Island, chartered accountants and management consultant firms often have contacts with these two groups.

Both investors and lenders are always looking for new businesses they think will succeed. The challenge is to possess the right mix of risk, good potential and a solid plan for putting the money to work. Investors and lenders have to be convinced that you know exactly what you're doing and that you are confident you will succeed. The first place to demonstrate your determination is on paper in a sound business plan and in carefully calculated financial statements.

Article 10 - Understanding Financial Statements

What are Financial Statements?

The basic financial statements used by a small business are the balance sheet and the income statement. The balance sheet can be compared to a snapshot taken of a business at one particular point in time, while the income statement is like a moving picture which summarizes the activities of a business for a certain period of time.

The Balance Sheet

The balance sheet lists assets and liabilities of a business and the owner's equity at one particular point in time. (See Exhibit I) It shows the net worth and general health of the business. Assets are the resources of a business such as, inventory, cash or equipment, which will be used to generate revenues. Liabilities are the debts, such as accounts payable or bank loans, which a business owes to its creditors.

Owner's equity represents the investment of the owner(s) in the business. It may also be called net worth or capital. There are two sources of owner's equity. These are the actual investment by the owner of assets, such as contributed capital, and the reinvested profits of the business, such as retained earnings. Essentially, liabilities and owner's equity represent the claims of creditors and owners on the assets of a business. The following equation may be derived from this reasoning: **Assets = Liabilities + Owner's Equity.**

Exhibit I

PEI Business Balance Sheet	**December 31, 20______**	**(simplified)**
Assets		
Cash	$1,000	
Office Equipment	$3,000	
Land	$6,000	
Total Assets	$10,000	
Liabilities		
Accounts Payable	$600	
Bank Loan	$6,000	
Total Liabilities	$6,600	
Owner's Equity		
John Doe, capital	$3,400	
Total liabilities and owner's equity	$10,000	

The Income Statement

The Income Statement measures expenses against revenues over a specified period of time to report the net income or loss of the business for this given period. Revenues are sales of products and/or services for which payment has been or will be received (cash and credit sales). Expenses are costs incurred in producing and delivering these products and/or services. The cost of goods sold (or purchases) is proportional to sales; while overhead costs, such as rent, are fixed and do not vary with the amount of sales. Income is simply the difference between revenues and expenses. If revenues exceed expenses, a Net Income is reported; if expenses exceed revenues, a Net Loss is reported.

Exhibit II

PEI Business Income Statement For Year Ended December 31, 20__ (simplified)

Revenues:	
Sales	$66,000
Expenses:	
Advertising	$2,000
Depreciation	$600
Insurance	$500
Interest	$720
Purchases	$30,000
Rent	$6,000
Utilities	$600
Wages and Benefits	$15,000
Total Expenses	$55,420
Net Income:	$10,580

Article 11 - Maintaining Records

The main objective of a good set of business records is to provide useful information which the owner can use in directing the operations of the business. Effective record keeping becomes a very important management tool for the business owner as it enables him or her to efficiently run the operation. Good business records should point the way to cost reductions and to other plans for measuring profits.

A good record-keeping system has several basic requirements:

- keep the system simple, flexible and efficient to operate
- ensure that records are accurate and consistent
- generate only relevant information, as information overload will only serve to confuse and waste time
- keep records up to date by setting aside time weekly to record transactions so that the task does not become overwhelming

There are several components of a basic record-keeping system.

1. General Journal: A general journal is used to record all transactions of the business regarding revenues and expenses. It can answer the basic questions such as "Where is my money coming from?" and "Where is my money going?" Itemizing expenses can identify areas for possible cost reduction. Categorizing sales can keep track of what is selling best and what is not selling well.

2. Ledgers: The Accounts Receivable Ledger can answer such various questions as who owes you money, what amounts are outstanding and how long these amounts have been outstanding. It can be useful in helpful in deciding which customers should receive credit approval and what credit limits should be set. Poor management of accounts receivable can result in serious cash flow problems for your business.

The Accounts Payable Ledger is also a useful cash management tool. It can assist you in taking advantage of discounts offered by suppliers for early payment of invoices. It can also prevent your business from having a poor credit rating, as there will be less chance of overdue or missed payments. Interest charges add up on overdue accounts. A good credit record is very important, and especially so for a new business.

As your business grows, so will your information needs and, consequently, your system. However, these basic records will contribute to running a successful business during and following its start-up. Eventually, the topic of computerization comes up when record keeping is discussed. It is best to understand a simple manual system before computerizing. As the volume of information increases, computerization will become more attractive and more feasible. A good bookkeeping system is a necessity for any new venture. The information generated will be invaluable in running your business. It will also save you time and money. The actual setting up and implementation of the bookkeeping system is not a place to cut corners. See a professional accountant when setting up your system in order to ensure that the end result will be useful and suited to your needs.

Having now discussed the marketing and financial aspects of your new business venture, you should next prepare to put your complete business idea on paper, in the form of a well thought-out and descriptive plan. The following articles discuss the basic components involved in developing a business plan, including the preparation of cash flow statements.

5. Business Plan

Article 12 - Cash Flow Projection

Projecting Cash Flow
All businesses, no matter how small or large, function on cash. Cash is the lifeblood of any business. Ineffective credit and collection policies can create a cash crisis: a situation in which you have bills to pay but not an adequate amount of funds to make payments. It is important for you to understand the cycles of your cash needs so that you can establish a line of credit with your bank. This line of credit will be your life line in a cash short situation.

Businesses need cash flow for start-up and growth. The projected (pro forma) cash flow statement attempts to budget the needs of a business and shows the flow of cash in and out of a business over a given period of time. Cash flow comes from business sales, collection of receivables, capital injections and other sources of revenue. Cash flows out of a business through payments and expenses. The advantage of knowing when cash disbursements will be made is that you will be prepared for them and not have to resort to unexpected loans in order to fill your cash needs.

Cash is generated primarily through sales. However, not all sales are cash sales. If your business offers any type of credit, you will need a means of projecting when sales will turn into cash collected. Unlike the income statement, the cash flow indicates this. Cash flows deal only with actual cash transactions. Since depreciation is a non-cash expense, it does not appear on the cash flow statement; however, since loan payments, including interest, are actual cash payments, they do appear.

After your cash flow statement has been developed, it should be utilized as a budget. Then, if expenses for a given month increase over the amount allotted for the month, you should find out why and take corrective action accordingly. By constantly reviewing your cash position, you will have better control over your business. Only constant action can keep expenses from eating up profit. The following insert discusses the method and components included when creating the actual Business Plan. The cash flow statement is a requirement of all business plans and will be scrutinized by potential lenders and investors. A sound cash flow solidifies your business plan and increases your chances for success. Exhibit I gives an example of a pro forma cash flow statement.

Exhibit I

PEI Business Pro Forma Cash Flow Statement for the first six months of operation (simplified)

	January	February	March	April	May	June
Cash Receipts						
Sales	$ 3,000	$ 3,500	$ 5,000	$ 5,500	$ 6,000	$10,000
Bank Loan	6,000	0	0	0	0	0
Total	$ 9,000	$ 3,500	$ 5,000	$ 5,500	$ 6,000	$10,000
Cash Disbursements						
Advertising	$ 625	$ 125	$ 125	$ 125	$ 125	$ 125
Insurance	500	0	0	0	0	0
Interest	60	60	60	60	60	60
Professional fees	1,000	0	0	0	0	0
Purchases	1,350	1,575	2,250	2,500	2,700	4,500
Rent	500	500	500	500	500	500
Utilities	300	300	300	300	300	300
Wages & Benefits	1,250	1,250	1,250	1,250	1,250	1,250
Bank Loan	0	500	500	500	500	500
Total	$ 5,585	$ 4,310	$ 4,985	$ 5,235	$ 5,435	$ 7,235
Reconciliation of Cash Flow						
Opening Cash Balance	$ 0	$ 3,415	$ 2,605	$ 2,620	$ 2,885	$ 3,450
Add:						
Receipts	9,000	3,500	5,000	5,500	6,000	10,000
Less:						
Disbursements	5,585	4,310	4,985	5,235	5,435	7,235
New Balance Total	$ 3,415	$ 2,605	$ 2,620	$ 2,885	$ 3,450	$ 6,215

Article 13 - The Business Plan

Developing a Business Plan

The Business Plan is a written summary of what you hope to accomplish by being in business and how you intend to organize your resources to meet your goals. A business plan is a road map for operating your business and measures progress along the way. There are three major reasons for developing a business plan.

1. It encourages realism. The process of putting a business plan together, including the thought you put into it before beginning to write it, forces you to take an objective, unemotional look at your business project in its entirety.
2. The finished project, the business plan, is an operating tool. When properly used, it helps you to manage your business and work toward its success.
3. The completed business plan is a means for communicating your ideas to others and provides the basis for your financing proposal.

The importance of proper planning cannot be overemphasized. By taking an objective look at your business, you can identify areas of strengths and weaknesses, pinpoint needs you might otherwise overlook, spot problems before they arise and begin planning how you can best achieve your business goals. Moreover, just as importantly, your business plan provides the information needed to evaluate your venture, especially if you will need to seek outside financing.

Structure of the Business Plan

The business plan is basically divided into two main sections, with the first section being the written description of the entire project. This section should include explanations of the following sub-topics:

- a description regarding the type, status, form and aims of your business, as well as what is unique about it
- a marketing strategy which identifies your target customers, their present and potential size and how you will satisfy them (see the “Developing a Marketing Strategy” article)
- a competition analysis including a list of all competitors, and the strengths and weaknesses of each
- a location analysis including where you will locate, the reasons for your site selection and the type of facility to be used
- a production analysis which will describe what and how you will produce/service and the type of equipment needed
- management and personnel requirements which will list the background, experience, specific duties and wages and salaries of the staff

Section two of a business plan consists of financial data. It qualifies facts and assumptions laid out in section one and should include the following information:

- sources and applications of funding which list where you will get your money and what you will use it for
- a capital equipment list that describes the equipment needed and what it will cost
- a balance sheet, a projected income statement and a projected cash flow analysis
- historical records (if an existing business)

The information contained in the financial data section of your business plan is critical to accurately evaluate the feasibility of your idea and to plan just how large an investment is required to bring your business to a stable level of operation. Remember to be realistic in your projections. Over-optimism is the enemy of realism and can lead to business failure.

This article discussed a number of important topics to be addressed when composing a business plan. Before presenting your business plan to potential lenders and/or investors, you may want to have it reviewed by a professional consultant to ensure that all necessary information has been included. Next, use the business plan to map out the feasibility of your idea on paper. It is far cheaper not to begin an ill-fated business than to learn by experience what your business plan could have taught you at a cost of several hours of concentrated work. Make your business plan work for you to ensure your company’s **SUCCESS!**

6. Final Preparations

Article 14 - Hiring and Developing Employees

Employees are a company’s greatest resource. The preceding statement is simple but true. In most businesses, employees are responsible for carrying out the vital duties of the organization. For example, more often than not, it is the employees who are involved in the manufacturing of the company’s product; and it is usually the employees who greet and serve the company's customers—the lifeblood of all businesses. Due to the fact that employees can directly make or break a business, the owner must spend considerable time, energy and dollars to ensure that the best employees are hired and developed.

Hiring Process

To ensure that you hire the right employees for your business, you should follow an organized and well planned hiring process. This process should include the following steps:

1. Employee Target Marketing: Know the kind of person(s) you wish to hire. Develop a job description and include in it the skills and experience necessary to perform the job and the wage/salary you are willing to pay.

2. Promote to Attract the Best: Put time and effort into your advertisements. Examples of promotional features include: strong industry, good working environment, career advancement, flexible working hours, competitive salary and benefit package.

3. Screen Applications & Prepare for Interview: Only candidates who meet your pre-determined job criteria should be contacted for an interview. Prepare a list of questions to ask each candidate. This will ensure that you evaluate all equally.

4. Select Candidate: An organized selection process will allow you to rank your candidates. Select your first choice and then contact his/her references. If references are positive, you are ready to make the offer to the successful interviewee. First notify the candidate in person or by telephone, but make the actual offer in writing. If possible, hire first for a probationary period, such as three months, before offering term employment.

5. Follow up: Contact and thank all unsuccessful candidates for their interest in your business. This is both business courtesy and business professionalism.

Orientation

Making new employees feel welcome and part of the organization is a must. Do not assume new employees know how to do the job. Take the time to explain the specifics of his or her duties and remember, it takes time for both the new person and your company to get used to each other. Check with the new employee regularly, especially during the first few weeks, to see if all is going well and to answer any questions he or she might have. This will be appreciated.

Employee Development

Employee development is a natural business function. Just as your company must grow to survive, so too must your employees. The most obvious form of employee development is through management motivation, increased responsibility and training programs.

Through encouragement, patience and praise, employees will become self motivated to work for your company. By giving increased responsibility, employees will learn confidence and efficiency; and by making training available, your employees will be kept up to date with new approaches and technologies. All this works to your advantage and, at the same time, demonstrates to your employees that you are concerned about their future. Since small businesses are run by only a few employees, it is critical that all are efficient and of high quality.

Following the sequence of these articles, you should now be getting ready to open your business. The following final articles will tie in all the topics covered and give some final words of advice, as well as steps to follow before you actually open your doors.

Article 15 - Sources of Business Assistance

Benefits of Business Affiliations

One of the greatest benefits of small business ownership is the independence and freedom that it brings. However, this freedom has a price. It is sometimes lonely and difficult to make all decisions regarding the daily operation of your company. Moreover, being an independent business owner means that you will have constraints on your time, and it will be difficult to get everything done that needs to be done. In order to overcome these obstacles and achieve long-term growth, it will be necessary to affiliate yourself with business professionals, business associations and external agencies. This will allow you, as a business owner, to develop a wider network of contacts, useful business information and potential sources of new business.

Professional Assistance

At one time or another, every successful business owner needs professional business assistance. The savings accrued by the effective use of professionals can substantially outweigh the cost of their services. Select carefully those who are best qualified to meet your needs. Almost all business owners need the services of an accountant, lender and lawyer. Having an on-going relationship with a professional accountant who knows your business will probably save you many times the fee he/she charges. A good accountant can read between the lines of financial statements and can head off problems before they start.

Lenders should be treated like business partners. In effect, they "own" a part of your company. Don't keep your lender in the dark. Alert him/her well in advance of any potential cash shortfalls. This will lead to the development of trust and confidence in your management abilities.

The services of a lawyer will likely be required. The subject of business management and the law pertaining to legal documents you will encounter can be very specialized. You should seldom sign any contract or legal document without professional advice.

In addition, upon starting your business it would be beneficial to meet with an Insurance Agent, a Business Consultant and a Business Development Officer. There are a number of types of business insurance and these should be fully discussed with a local agent. You may encounter a situation that requires professional consultation services for market research, feasibility studies, creative advertising and employee training. This is when you will need to contact a Business Consultant. As well, there are a number of Business Development officers in Access PEI Centres throughout Prince Edward Island who provide a range of counseling and financial assistance for small business owners.

Business Associations

Through associations with other business persons, the independent business owner may gain access to services and support not otherwise available. For example, a group of business owners could employ professionals to carry out training, market research or public relations. Businesses previously regarded as competitors may have complementary customer products, and working together can be mutually beneficial. Outsiders view strength in numbers; that is, working with other businesses can give outside investors more confidence to provide funding.

Government Agencies

Assistance is available to Prince Edward Island entrepreneurs through various institutions and provincial and federal government agencies. These groups share a common mandate to assist small and medium-sized businesses and offer a variety of programs and services, such as: term loans and contributions for capital purchases; investment programs; marketing and financial programs; and counseling assistance. In Prince Edward Island, these institutions and government departments include:

Innovation PEI
94 Euston Street, PO Box 910
Charlottetown, PE   C1A 7L9
Telephone: 902-368-6300; 1-800-563-3734
Facsimile: 902-368-6301
business@gov.pe.ca
www.innovationpei.com

Atlantic Canada Opportunities Agency (ACOA)
Royal Bank Building, 3rd floor
100 Sydney Street, PO Box 40
Charlottetown, PE   C1A 7K2
Telephone: 1-800 871-2596; 902-566-7492
www.acoa-apeca.gc.ca

Canada Business
3rd Floor, Royal Bank Building
100 Sydney Street
Charlottetown, PE   C1A 4L2
Telephone: 902-368-0771; 1-888-576-4444
www.canadabusiness.ca

Making key contacts early in the first years of your business venture will pay dividends in the future. Your business cannot operate in isolation. Take full advantage of business professionals, associations, institutions and government agencies to ensure that both your company and customers are best served.

Article 16 - Final Preparations

The previous articles have covered the highlights of planning and starting your business but have probably raised as many questions as answers. Hopefully, the articles have identified your areas of strength and apparent weaknesses so you can take necessary corrective action if needed. As a final note, here are some important steps to take before opening your doors to the public.

1. Contact one of the Business Development Officers at the Innovation PEI office in your area. The General Inquiries number is 902- 368-6300 or toll free 1-800-563-3734 or call the number in your region.

2. Decide on a name for your business and register it by calling the office of Consumer, Labour and Financial Services at 902- 368-4550 or by writing to PO Box 2000, Charlottetown, PE C1A 7N8. The Office of the Attorney General, Corporate Sector handles the registration of all types of business formations or call your Access PEI Centre.

3. Obtain a Business Number for Corporate Income Tax, HST, and Payroll Deductions by registering your company name with the Canada Revenue Agency. They will send you the necessary Monthly Remittance Forms and Deduction Tables. They can be contacted by calling 1-800-959-5525 or by writing to Canada Revenue Agency, 161 St. Peters Road, Charlottetown, PE C1A 5P7.

4. For Worker's Compensation coverage, call 902- 368-5680 or 1-800-237-5049. They are located at 14 Weymouth Street, PO Box 757, Charlottetown, PE C1A 7L7.

5. Contact Municipal Affairs and Provincial Planning at 902- 368-5490 or by writing to PO Box 2000, Charlottetown, PE C1A 7N8, or call the Access PEI Centre in your area to inquire about zoning laws in the area in which you wish to locate your business to determine if the location is zoned accordingly.

The Small Business Counseling Service of Innovation PEI is available through each of the following offices:

Innovation PEI
94 Euston Street, PO Box 910
Charlottetown, PE C1A 7L9
Telephone: 902-368-6300; 1-800-563-3734
Facsimile: 902-368-6301
innovation@gov.pe.ca www.innovationpei.com

Canada Business
3rd Floor, Royal Bank Building
100 Sydney Street
Charlottetown, PE C1A 4L2
Telephone: 902-368-0771; 1-888-576-4444 www.canadabusiness.ca

Access PEI Offices: www.gov.pe.ca/accesspei

Access PEI/Accès Î.-P.-É., Alberton
PO Box 39
Alberton, PE C0B 1B0
Telephone: 902- 853-8622 Facsimile: 902-853-8625

Access PEI/Accès Î.-P.-É., Tignish
PO Box 450
Tignish, PE C0B 2B0
Telephone: 902- 882-7351 Facsimile: 902-882-7362

Access PEI/Accès Î.-P.-É., O'Leary
PO Box 8
O'Leary, PE C0B 1V0
Telephone: 902- 859-8800 Facsimile: 902-859-8709

Access PEI/Accès Î.-P.-É., Summerside
120 Harbour Drive
Summerside, PE C1N 5L2
Telephone: 902- 888-8000 Facsimile: 902-888-8023

Access PEI/Accès Î.-P.-É., Wellington
PO Box 58
Wellington, PE C0B 2E0
Telephone: 902- 854-7250 Facsimile: 902-854-7255

Access PEI/Accès Î.-P.-É., Montague
PO Box 1500
Montague, PE C0A 1R0
Telephone: 902- 838-0600 Facsimile: 902-838-0610

Access PEI/Accès Î.-P.-É., Souris
PO Box 550
Souris, PE C0A 2B0
Telephone: 902- 687-7000 Facsimile: 902-687-7091

7. Summary

Article 17–Will the Business Work?

Summing it up!

After reading these articles, you will have realized that there is a lot of work involved before actually starting a new business. Each article in this series stressed an important business start-up issue. Recall some of the questions that had to be answered.

- Do you have what it takes to successfully run a business?
- Is business ownership the right choice for you and your family?
- Have you properly planned your business idea?
- Have you considered the various ways to get into business?
- Have you considered the type of business formation?
- What comprises a marketing strategy?
- Why should you do market research?
- Why strive for exceptional customer service?
- Do you understand new venture financing?
- What are financial statements and why are they important?
- Do you have an effective record-keeping system?
- Why should you prepare a Business Plan?
- What is the purpose of a Cash Flow Statement?
- How important are employees to your business?
- What benefits can be gained from business associations?
- What are the final steps to take before opening your doors?

If you have answered all these questions carefully, you have done some hard work and serious thinking. Probably you have found there are some things you still need to clarify. Try to do as much as you can for yourself; however, don't be afraid to look and ask for help. In order to help you with your business idea, read as many books, take as many courses and talk to as many people as you can about your concept.

Some people have compared being in business to a game. Both involve knowing the rules, deciding if you want to play, learning the moves and developing your own strategies for success. Furthermore, in business, as in any game, there are both winners and losers. To make your business succeed, you must understand all the rules, know your opponents and outline your strategies in advance.