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Foreword

Business Link is Alberta’s entrepreneurial hub. We are a non-profit organization that helps Alberta entrepreneurs start their own businesses. We provide one-on-one support and guidance, market research, access to experts, training, networking opportunities and specialized support for entrepreneurs.

This publication is part of a series of informative guides designed for immigrant entrepreneurs across Alberta. To find out more about Business Link’s Services and to request copies of our guides, visit our website www.businesslink.ca or contact us via email at askus@businesslink.ca or by phone at 780-422-7722 or call toll free 1-800-272-9675.
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Chapter One

Getting Down to Business
CHAPTER ONE: GETTING DOWN TO BUSINESS

This Business Planning Workbook is designed for immigrant entrepreneurs to learn about planning to start a business in Alberta. By following the steps outlined, you will complete a business and marketing plan.

In this chapter, you will review the learning objectives and think about the form and structure of your business.

Get Ready!

This workbook is designed to help you decide what kind of business is best for you and to create a sustainable, profitable Alberta business. By working through each chapter in order, by the end you will have created a business and marketing plan, your financial reports, and you will be ready to speak with people about your business.

This workbook is for newcomers and immigrant entrepreneurs ready to learn business planning at start-up in Alberta. Some of the words and terms in this workbook will be new, and some may seem difficult. You will use many of the new terms here when meeting with people about your business, including bookkeepers, accountants, and business consultants.

What You Can Learn

By finishing this workbook, you can learn to:

• Create a business plan to test, explore, and validate a business idea
• Design a marketing plan with all the needed details
• Speak and write about your business and marketing plans so you can start working on your financial plans and get ready to ask for money from banks, investors, or to fund yourself
• Create business and marketing plans suitable for the Alberta environment

If you have personal reasons for using this workbook that are not listed above, write them here:
Your Business Form

Before you make too many decisions about your business, you need to decide what form your business will take. This gets you ready to decide what systems and operations plan you need to set up so you can manage items like risk, finances, reporting and paying taxes, paying employees, and your location.

Sole Proprietorship

A business with one owner. The owner makes all business decisions and is responsible for providing a product or service(s). An example of a sole proprietorship would be a laundromat that is owned by one person. The sole owner has all the risks of the business (unlike the corporation explained below), and the owner’s risk extends to their personal property and assets.

Partnership (General)

Two or more people decide to work together. They share the profits and liability (risk). Tradespeople (plumbers, electricians, welders, for example) and professionals (doctors, dentists, and lawyers) sometimes set up partnerships.

Partnership (Limited)

Two or more people decide to work together. Certain partners accept more risk than others, and so the liability (risk) of being a partner in the company is limited to terms set out in the partnership agreement.

Corporation

This is when a person (or group of people) decides to create a company separate from their personal selves. The entity they set up is called a corporation. A corporation can enter into contracts, pays tax, and files taxes separate from the people who own the business.

You will know if the company you are dealing with is a corporation because they use the terms “Incorporated,” “Corporation,” or “Limited” after their name, or “Inc.,” “Corp.,” or “Ltd.” for short.

Joint Venture

Two or more people provide goods, services, or money to a business they share. There should be a contract they all sign. The contract will describe things like profit distribution, management structure, and who is responsible for different areas of responsibility.

Franchise

An individual or a business operates within rules set by another company where the products, services, procedures, marketing, and more are set by the company that owns the franchise. Examples of franchises you may have heard of include Tim Hortons, No Frills, and McDonald’s.

Subsidiary

A company in one country can establish a location or office or virtual business in another country, provided they are following all the laws and rules in both countries. An example of subsidiaries would be Amazon, the online retail company. They operate in Canada and lots of other countries, but the head office is in the United States.
Structuring the Business

Every business has a structure. The way you structure the business is very important. When you establish or make changes to the organization, you can choose what kind of business you want to lead.

Small organizations often start out with a flat structure (owner and a few staff who all have direct access to the owner), but as the company grows, the structure changes to become more hierarchical (like layers of a cake, each employee has a boss, who also has a boss). In large companies, there can be several layers of supervisors, managers, directors, and vice presidents, in a structure that is similar to military hierarchy.

As a leader, you may want to have contact with everyone, but the bigger the company becomes, the more you will have to delegate so you can manage your time and lead the growth of the company.

Hiring staff who can work as managers or supervisors allows you to establish paths of communication and authority (or a chain of command in more formal organizations).

For example, if you are getting ready to grow and you want to hire several people, but it is also time to file the company tax return, you will be very busy and stressed as you advertise vacancies, interview, hire, check references, and make job offers while also completing tax paperwork.

Instead, you could delegate the hiring process to someone who specializes in human resources. Also, you can delegate financial reporting, day to day accounting, bank reconciliations, procurement, payroll, and tax remittance to an accountant.

Remember, you will remain responsible for the results that you get from people you hire in human resources and finance, but you will supervise them by meeting with the people you and your supervisors hire, rather than having to do the work yourself.

Structure Examples

Below is an organizational structure for a two-person company. Note the solid line between owner and employee, which means there is a job reporting relationship.
When you get started, it may just be you working alone or with one other person. As your company grows, you will run out of hours to get all the work done in addition to the management tasks. If you need to hire six people to do the work, plus an accountant and someone to manage the people, your new organization chart might look like this:

![Organization Chart]

As the organization continues to grow, we add layers of management and workers to meet the business needs. Some companies will try to stay flat to provide those workers with the authority they need to carry on the work. At other times, they look like large, layered pyramids, like the one below. As the organization grows, people at the front line get further away from the decision maker at the top of the pyramid, and the decision maker also gets further away from the customer or client.

![Organizational Structure]

Organizational structure is very important. If you are currently a small business that wants to grow, establishing the right structure will help you adapt to changes in the business environment.

There are other, more complicated structures that make sense for bigger organizations. You can explore those options in a different course on entrepreneurship, or discuss them with a business advisor or lawyer.
Choose Carefully

Each of these structures has benefits and weaknesses. At their best, people can develop and share what they learn in a best practice approach, creating a stronger and more viable organization. At their worst, infighting, negativity, and internal competition can be disruptive. Business leaders, including the CEO, need to be knowledgeable about business administration and leadership.

Who is in Charge?

Differences for Corporations

Although we speak of structure often, being too rigid about structure can be a problem for getting things done. Being flexible is required to succeed in today’s marketplace, where we frequently deal with large multinational and global enterprises. Those large enterprises include companies like Walmart and Amazon.

If the business is to be established as a corporation, there are additional organizational factors to consider. In a corporation, there is not just one owner as there is in a proprietorship. A corporation is owned by the shareholders, although the founder of the company may hold some or even all the shares. This is common in small corporations where there is one sole owner.

The corporation is led and managed by a Chief Executive Officer (CEO), who is governed by a board of directors. The CEO leads and manages the company, while the Chairman of the Board leads the board and the CEO.

The board takes responsibility for making sure that the money the shareholders invest (or for non-stock operations, the interests of the government, an agency, a university, etc.) is looked after. This places a lot of responsibility on the board members.

We recommend that you consult with your lawyer, accountant, or a consultant to get all your questions about business structure answered, and to set up your business properly.

Choosing Board Members

It’s not uncommon for the CEO to “recommend” people for the board, and then those individuals are granted admission by the board with what’s called a rubber stamp approach. The board may not know the applicant but agrees with the CEO’s recommendation. In small corporations that are solely owned, there may be a small number of board members.

Helpful Definitions

Conflict of Interest
a disagreement, struggle, or conflict between a person’s private interests and their responsibilities to the company.

CEO Chief Executive Officer
person who has the most authority in an organization or business.

CFO Chief Financial Officer
person responsible for recording, reporting, and transactions including money and taxes.

CIO Chief Intelligence Officer
person with responsibility for information management (IM), information technology (IT), cyber security. This includes sending, saving, and email management of all digital files and equipment.

Risk
exposure to danger. For example, “They took a big risk by starting a business in an industry they knew nothing about.”

Shareholder
a person (or a business or other type of institution) that owns at least one share in the company (known as stock). They aren’t responsible for actively running the company. They are not liable if the business fails, but they can profit when the company does make money. On the other hand, if they company does badly, the value of those stocks will decrease.

Stakeholder
any person or group that is impacted by the company. While all shareholders are automatically stakeholders, all stakeholders are not shareholders. Stakeholders include employees, shareholders, community members, customers, suppliers, and may also include trade associations and others.
Sometimes the governing body of an organization will select the members for the board (like a hospital, for example). It’s up to the chairman of the board to supervise the CEO and to determine whether the selection process and nominations are in the best interest of the organization.

To reduce the threat of conflict of interest or the selection of inappropriate board members, businesses are discouraged from having the same person in the positions of CEO and chairman of the board. Note that in non-profit or not-for-profit societies and agencies, the CEO is often called an Executive Director.

**The Role of Shareholders**

In the past, people became shareholders by purchasing shares (or stock) in a company. If the company went out of business, the shareholder could lose their savings when the stocks lost value. These days, it is more common for groups of people and corporations to hold stock in many different companies through mutual funds. As a result, the duty of responsibility assumed by members of the board of directors is becoming more highly regulated in many areas of the world.

**The Big Picture**

In a corporation, the organizational structure of a small business can evolve so that the board and chairman are at the top.

![Organizational structure diagram](image)

In some countries, depending on the law and governance, the structure above can look somewhat different, and the board can be referred to by other names. For example, there may be a board of directors that is managed by a second board (sometimes called the executive board).
Chapter Two

Business Planning
CHAPTER TWO: BUSINESS PLANNING

Entrepreneurs are often people who have big ideas. Whether your business idea solves a problem or offers a solution, you will need a good plan to help you get started in a successful Alberta business.

In this chapter, you’ll learn what innovation and creativity have to do with your business, and get started thinking about your plans.

Why Are You Here?

Are you interested in completing this workbook because you want to figure out what being an entrepreneur is all about? Or, maybe you’ve been one for a while, and you want to improve? Perhaps you are an experienced entrepreneur who wants to focus on a new business and get some help.

You can reduce your startup risk when you take the time to validate your business concept. And, you will grow your business faster by building realistic business, finance, and marketing plans that use the right strategies at the right times.

As you proceed through the process, keep the attached Business and Marketing Plan nearby. Add your comments and outline your strategies in the document to help you define your business. This will help you to prepare to present your business to anyone in an understandable, concise, and winning way.

You will need to explain your business to a bank, investors, or a think tank if you apply for funding. If you are using your personal money to support the business you need to understand it all for yourself. You will probably have to explain (pitch) your business many times, so make sure you know the details, including the financials (money), very well.

Once you complete all areas on the form, you can transfer the information to forms required from lenders like your bank or credit union.

Take the First Steps

Now that you have thought about the structure and form of your business, it’s a good time to think of a name and industry.

Write the ideas for your business name in your plan. Be sure to have more than one name, in case the one you want is already taken. Next, look up your industry code (also called NAICS - North American Industry Classification System) and write it into the form. You will need this number when you register your business with your city or town and may need it when you open your business bank account.

To find the 6-digit NAICS code, visit www.naics.com, and use the search tool. Enter a keyword that describes your kind of business. A list of primary business activities containing that keyword and the NAICS codes will appear. Choose the one that most closely corresponds to your primary business activity, or refine your search to obtain other choices.

Rather than searching through a list of primary business activities, you may also browse the NAICS Codes and Titles to find your code. You can select the category that applies to your business, and drill down through the more detailed levels until you find the appropriate 6-digit code. If you get stuck, ask for help from a Business Link advisor.
Business & Marketing Plan

In the back of this book, you will see a Business and Marketing Plan. You can fill it out while you complete the exercises in this book.

*Note: you are not required to use the format provided, but is presented to be helpful as you complete each chapter in this workbook. Right now, you can write down your idea for a name, NAICS, and structure. Then, as you complete the workbook, you can add your notes and ideas to your plan.

*Turn to the Appendix at the back of this book for your plan, then start Chapter 3!*
Chapter Three

Vision, Mission, and Values for Your Business
CHAPTER THREE: VISION, MISSION, AND VALUES FOR YOUR BUSINESS

Before you launch your business or make changes, you need to know what your business stands for, the problem you solve, or solution you provide. This helps you focus on your key activities, and stay focussed on what’s important right now.

*In this chapter, you will complete exercises to help you to define your values, mission, and vision for your business.*

**Defining Your Values, Mission, and Vision**

**Step One: Gathering Information**

This exercise is going to help you think about the values of your company.

Write a sentence or two about what your company stands for. If you want examples, use Google and search for a company name and then “company values.”

**Step Two: Value Identification**

Go through the following list and select as many values as you feel your company represents. After you go through the list once, go through it again and narrow it down to your top three.

You may find it difficult to narrow your list down to just three values, but you will find it very hard to plan if you try to focus on too many things at one time. Be disciplined and choose three. If something is missing that you want to see on the list, go ahead and add it.

- Making decisions & putting them in action
- Being recognized & famous
- Challenges
- Persuading & influencing others
- Doing excellent work
- Being skilled
- Being organized
- Being reliable
- Being creative
- Competition with others
- Doing something meaningful
- Working on environmental issues
- Financial wealth
- Free speech/human rights
- Power & control
- Privacy
- Helping others
- Working on a team
- Working alone
- Building community
**Step Three: Value Statements**

The next step is to describe those values so that people know exactly what they mean. For example, if honesty and integrity are both identified as core values, you can bring them together in one statement, like this: “We demonstrate honesty and integrity in everything we do.” Using our model of identifying only three values, you will have a maximum of three value statements.

For example, Shell Canada states on their website: “Our core values are honesty, integrity, and respect for people.” ([https://www.shell.ca/en_ca/about-us/our-values.html](https://www.shell.ca/en_ca/about-us/our-values.html))

Write your value statements on a separate sheet if you need more space.

**Value One**

**Value Two**

**Value Three**

**Step Four: Defining Your Vision**

When beginning this process, you are thinking about where you want your company to be in the future. Think about what you want your company to be. Don’t think about what you can’t do, or why certain things aren’t possible. List all ideas and goals, no matter how silly or unbelievable they sound to you at first. Consider where you want the company to be and what you want it to look like five to ten years from now. Once you’ve created the big vision, you can look through it and think about what you can grow while also reaching your vision.

If you have an existing company, your vision might include some of the following:

- Our sales will increase by __%, making the company more viable.
- Our customer retention (the customers we keep each month/year) will increase from 50% to 75%, resulting in more satisfied customers and leading to more sales.
- Increased financial success will help us grow into neighboring markets.

Next, take the vision and capture it in a vision statement. This statement should be short, clear, and understandable so that everyone working with the organization understands it and knows where you wish to go. It should also be attainable and worthwhile.

Write your vision statement below.

For examples of values and vision statements, you can Google your favourite companies and see what is on their websites.
**Step Five: Defining Your Mission**

The mission describes your organization’s purpose. Why do you exist? What is it that you really do?

A mission statement should be something that every employee knows and can state. Your mission statement needs to be believable and is more likely to touch your customers if it is something they can relate to. Avoid writing mission statements that cannot be understood by most of your employees and customers. Use clear language.

If you explore different mission statements, you’ll see that some of them are very clear and concise. Others are very long, although they still do a good job of describing the mission. They may also be combined with elements of the strategic plan, company values, and the vision. For this exercise, however, we are focusing on a single, simple mission statement.

Keep these elements in mind as you create a mission statement:
- The company’s public image
- Your shareholders
- Your target market
- Your plans for growth
- Influences on the business
- Your moral and ethical beliefs

The mission statement needs to reflect the company’s values and vision, but does not need to restate them.

**Write your mission statement below.**

For examples, Google your favourite companies and see what is on their websites. Canadian Tire’s mission statement is: “We are one of Canada’s most admired and trusted companies. With world-class owned brands and exciting market-leading merchandising strategies, we are continually innovating with purpose: to excite and serve Canadian customers from coast-to-coast.” (www.corp.canadiantire.ca)

**What is Innovation?**

We often hear about innovation in business. In this section, we will help you define it and put it into context for your business idea.

- Creativity can be defined as generating ideas to help solve a problem or create something new.
- Innovation is defined as implementing ideas that were generated in the creative process.
- Innovation transforms your creative idea into something concrete.

Here is an example of creativity: A software company creates a new program that allows businesses to advertise to people in the neighbourhood by sending ads to people’s phones when they are in the area. If the software company does not have the technology to support the program, they must use innovation to build the technology.
Here are a few ways to come up with different ideas for your business:
1. Find a current product/market and differentiate (make your solution stand out).
2. Take a current process and create efficiencies (make it better).
3. Review a current supply chain and offer better alternatives.

The goal is to find something and improve the idea until you have something that works and that customers want. We call this creating demand (even if you create the demand yourself – people won’t know what you have created until you show them).

An Entrepreneur’s Success Story

Mariana was the founder and creative behind Princess Florence Handbags & Accessories for ten years, and she is a strong story of success while overcoming obstacles. When Mariana first arrived in Canada, she spoke absolutely no English and had no idea what to expect.

Mariana started her business as a one-person operation from her house. When her products were starting to take over the kitchen (she already had the basement and most of the main floor), her husband suggested it was time to rent a store. They grew the business to become a vibrant part of Edmonton’s business community, with a storefront in the west end and mobile shows with 12 employees that appeared all over Alberta at trade fairs, hospitals, festivals, and more. Mariana successfully sold her business so she could spend time travelling, speaking, and writing.

Mariana’s most important tips for starting a business are:

- Start to build your email list today.
- Be clear on your why. Don’t start a business to make money or try to change what’s already here if it works just fine. Your business needs to solve a problem, stand out, and get people talking, or you aren’t going to have a business.
- Don’t stay in your community. Get out to learn Canadian business practices, the culture, and to connect with new people so you can figure out who you are and what you will do as an entrepreneur. Mariana said, “Everything here was different from what I experienced before, including what seemed like simple conversations. In South America, if someone invited me for coffee, I thought it was great, and we were building a friendship. It was not like that at all here, where a coffee date was often an invitation to hear a sales pitch.”
Understanding the Market & Environment

**SWOT Analysis**

To plan for success, it’s important to understand the market you are doing business in, and the environment that will support and challenge you. You must know these things in order to understand your competition and to set up a successful business. This is also part of the research you need to do when you apply for money to help start or grow your business.

A **SWOT analysis** is an evaluation of the strengths, weaknesses, opportunities, and threats that exist within the organization and in the competitive environment. It evaluates the internal and external influences that affect the strategic direction of the organization. Strengths and weaknesses are considered internal characteristics, while opportunities and threats are considered external characteristics. When laid out in a diagram, the SWOT provides decision makers with a useful overview of the important factors that impact the strategic direction of the organization.

**Strengths:** What advantages or benefits does your organization have over its competitors?

**Weaknesses:** What disadvantages or limitations does your organization have compared to its competitors?

**Opportunities:** What opportunities exist for your organization to make changes?

**Threats:** What threats will your organization face in the industry?

**PEST Scan**

The PEST Scan is an environmental scan searching for other factors that could impact the brand. PEST stands for political, economic, social, and technological. Understanding the business environment through these four broad factors allows the company to take advantage of opportunities and minimize potential threats.
Here are some questions to ask when you do your PEST scan

**Political:** What policies and laws could affect the brand? For example, international events, elections, government policies, legislation, funding and capital accessibility, and regulating market forces.

**Economic:** What are the forces that drive competition? For example, market issues, exchange rates, international trade issues, taxation rates and monetary issues.

**Social:** What social attitudes and trends could affect the company? For example, ethical consumerism, increasing awareness of social ideas such as socially responsible design, sustainability, health and safety, workers’ rights, and treatment of animals.

**Technological:** What technological advances could impact the company? Technology improvements in communication and the growing trend in mobile and online channels for advertising are important, and changing constantly. Companies that only rely on traditional media such as print or radio risk not being able to reach all their customers.
Chapter Four

Marketing
CHAPTER FOUR: MARKETING

For people to become customers, they must learn about your business and then make the decision to buy from you. Your marketing plan will outline who your customers are and how you will attract them. *In this chapter, you will learn about target audience, segments, and marketing terms that will be important for your success.*

**Identifying Target Audiences**

It is important to create meaningful and persuasive messages which encourage customers to engage with your brand. To create those messages, we must look at who the message is for. Segmentation is used by marketing and branding professionals to divide large groups of people into small, distinctive groups. These smaller segments usually share similar demographic characteristics and are more closely related to each other than the overall target market.

**How to Create Market Segmentation**

1. Identify who the company’s or brand’s most valuable customers are. Another way to approach this is to consider:
   - Who is most likely to help your company reach its organizational goals?
   - Is the segment large enough to support your company?
   - Does it cost a lot to maintain these customers?
   - Do they promote your organization?
   - Do they influence your industry?

2. Identify the demographics to help create a picture of the segment and their specific needs. Consider:
   - Where do people in this segment live?
   - What is the socio-economic status of this segment? Low, middle or upper class?
   - What are the age group and demographic details of this segment?

3. Identify how the product or service will be used by the segment.
   - Are the individuals long time or first time users of your product?
   - What benefits are expected from using the product?

4. Identify what motivates the group.
   - Is there a specific aspect of the product or service that they value more than something else?
   - Why is the group buying your product or service?
   - Why is the group engaging with your brand?
5. Identify the needs of the group.
   - Are there any unmet needs this group has?
   - How can your company provide them with added value?
   - Are there specific areas that they are unhappy with?

6. Develop and adopt a strategy to provide the segment with something that satisfies them.

It is useful to understand the role demographics, consumer motivations, age, beliefs, and values, among other factors, influence the communication strategy that the company should adopt to maximize engagement with your consumers.

Demographic information, such as gender, age, race, income, home ownership, employment, education level, location, and socio-economic status helps companies create a picture of the target audience. Individually, these traits may not provide valuable insight; however, taken together, they help create a powerful profile of your audience. By collecting demographic data of target segments, companies can observe changes in the segment over time and make necessary adjustments to their brand messaging.

The main goal of collecting demographic information is to understand the audience segment being targeted and to create a model of the segment using the traits and personas that typify the segment. Marketers can then use these models (called personas) to create communication that describes and speaks to the unique characteristics of the target segment including how to deliver the message most effectively. Doing this will help to attract and motivate them to engage with and buy from your company.

**Segment Decisions**

Develop an audience segmentation for your company. Who is your target market (the people you will sell to)? What are their characteristics?

Make sure you don’t try to create a brand that targets “everyone” or you run the risk of creating something that is not specific enough to reach “anyone”.

**The Audience Persona**

There is the brand persona (how your company looks to others), and then there is the audience persona (how your audience looks to your company). Having an audience persona provides a reference point for you to create consistent communication for all places your audiences connects with your brand.

Aligning your audience and brand personas in your communication strategy helps you make decisions about how you will communicate because you will know who you are talking to, how your audience wants to receive communication, and engage with your brand.

The audience persona is a collection of characteristics, needs, motivations, goals, and expectations. Having a clear persona helps you to focus on your consumers’ needs and provides useful descriptions (or stories or narratives) you can use to better understand their motivations and decision-making processes.

If there is more than one target consumer segment, different personas can be created for each of those segments.
How to Develop an Audience Persona

1. Assign the persona a name and a photo to make this persona seem more real. Consider the age, nationality, and location of this persona.

2. Create a tagline (a one-sentence statement) that captures what the persona is looking for in the brand experience.

3. Create a description of this persona’s demographic information. Consider including the characteristics in this list, as they will give your persona context. For example, a 20-something female will have a different outlook on life than a 50-year-old male.
   - Age
   - Gender
   - Background and language
   - Job or occupation
   - Lifestyle
   - Family situation
   - Relationship and social status

4. Create a detailed description of the persona’s situation as it relates to the product or service. It is important to write this from the perspective of the persona and using their voice. Your description should have three sections:
   - Problem: describe the problem the persona has, what is currently being done, and why is it not working for them.
   - Wants: describe what the persona wants and what they do not want from the solution.
   - Communication method: what works best to approach this persona – facts, emotions, or options?

Marketing Basics

When you think about creating marketing for your company, the 4Ps will help. They are four factors that influence a customer’s purchasing decision including product, price, place, and promotion.

Product

Product can mean both goods and services. A company must understand the needs of the consumers to decide what type of product to offer.

What need can your product meet in a customer’s mind? If your product or service doesn’t meet a need, then why would they what you offer?

There are additional considerations to make in creating the product.

- Is the product new or is it a different/improved version of an existing product?
- If the product is new, your marketing will need to create a demand or a desire for it. If the product is a different version of an existing product, what makes it stand out from the others? Is your product of better quality? Less expensive? More environmentally sustainable or friendly? Easier to use? Faster, better, smarter?
• Is the product a consumer staple (something they need, like toilet paper), luxury (the softest, smoothest toilet paper), speciality (baby wipes for kids during diaper changes), or an unsought product (something people don't usually look for, like flood insurance, gravestones, or Chia pets)?

• If you are improving an existing product or technology, can you do so without breaking copyright, patent, and trademark regulations? This is especially important to know before you approach investors. And, if you are creating something new, how hard will it be for your competition to “take” your ideas and create a copy? One of the first questions potential investors will ask is are there other similar products available and is the technology or product patented.

• At what point of the product’s lifecycle is the product at? Is the aim of the product to break into a market that is long established with a product that is not going to be needed soon?

• Can the product be tested with the target consumers? Are there characteristics, subtle or undetectable to the company that may impact the market success of the product?

**Price**

How much can be charged for the product? If the product is a new product and no others like it exist in the marketplace, how will you know what to charge?

Is it a staple item such as toilet paper or cleaning supplies that may require a different differentiator than pricing alone? Or is it a luxury product where brand and image also drive the price? In this case, how and what can the company do to create brand equity where a premium price can be demanded?

Some key considerations in pricing the product should include the following:

• The development costs of the product, both direct inputs and overhead costs.

• What are comparable products or competitors charging for a similar product? Is the point of differentiation of the product such as higher quality or environmentally sustainable enough to justify a higher price?

• The amount target consumers are willing to or can afford to pay.

Pricing will impact both the sales volume and perception of the product. If a product is priced lower than competitors, that may convey to target consumers that it is of lower quality, driving down the number of sales. Low sales volume will also translate to lowered profits and pose a challenge to the sustainability of the company overall.

Pricing the product too high could mean few consumers can and will purchase the product or that they only purchase it in low quantities. See more helpful information on pricing in Chapter Five.

**Place**

Place, in a marketing context, refers to the physical location where products are offered and how products get distributed to consumers.

Variables to consider in determining an appropriate place or distribution channels are:

• Will the product be sold directly to the consumers or will a retailer, wholesaler, or distributor be used to move the product?

• If the company is going to act as the retailer, will it sell via a physical brick-and-mortar location or online?

• If the company is selling at a physical location, will it attract the right consumers and volume to be profitable? How much higher will product pricing have to be to offset the costs of a physical space?
Promotion

This is the essence of marketing, and the advertising methods you use to make your products known to consumers.

For consumers to select your product, they need to know that it exists. Second, consumers must have a positive impression of it, whether it is a higher quality product, less expensive, environmentally friendly, etc. Most importantly, consumers must believe that they need or want it.

Many strategies can be employed to help promote a product. These include:

- Advertisements on television, radio, billboards, newspapers, magazines, community bulletins, or flyers
- Digital methods such as social media engagement and online promotions
- Going to industry trade events
- Direct marketing through telemarketing, mail, and email distribution
- Storefront signs
- Local and trade directories

Determining which strategy or combination of strategies to use depends on the marketing budget and the profile of the target consumers. In all marketing efforts, the selected strategy should give a company and its product maximum exposure and engagement with consumers.

Another consideration is not just where a product is being promoted but how it looks. The product's packaging should be made to stand out and be distinguished from products competing to occupy the same shelf space. In addition to meeting the minimum labelling requirements legislated by the jurisdiction the product is being offered in, how does the packaging appear next to its competitors? Does your packaging appeal to the target consumers? If so, how? Are these consumers able to decipher the key features or benefits of your product based on the packaging?

The messaging and brand image that a company is promoting is critical in bringing awareness to and getting consumers to like the product. Consumers need to be convinced not only of their need for the product but that it brings them value. The brand has to be memorable and engaging for consumers to remember it when making purchasing decisions and referring their friends to use the same product.

Promotion of a product is not just about store placements or packaging. It is very much about consistency of the brand such that across all places where a potential customer sees or touches your brand, including visiting your website, or picking up your product in a store, to advertisements and company interactions that are organized and positive.

Something to Think About

Use the 4Ps to generate a marketing concept for your product or service.

Think about the presence of yellow No Name products in our marketplace. What is their value in the marketplace? How do consumers choose those products instead of higher priced or more attractively packaged ones on the same shelf?
Brand Development—USP

We’re going to dive more deeply into marketing, starting with your **USP**, or unique selling proposition. The process of going through the SWOT and the PEST analysis helps you to determine your USP. This analysis helps you see the competitive landscape and what in the environment could impact your brand. When you know your USP, you can talk about your competitive advantage (how your products and services are better than what your competition offers).

Defining a unique position or product is key. If your brand does exactly the same thing your competitors do, it will have much lower chance of success. Being unique means you can attract customers with your new and unique offerings and experiences that will help to build brand loyalty and demonstrate your competitive advantage.

Competitive strategy generally falls into three strategies:

1. **Cost strategy**: pricing is the differentiator with some brands aiming to be the least expensive or in some cases involving luxury items, the most expensive or exclusive.
2. **Focus strategy**: the company targets a very small segment of people, such as a shoe store that only sells footwear for children.
3. **Differentiation strategy**: the company focuses on its USP to set it apart from its competitors, usually expressed through the design of products, services, and branding.

Meet an Entrepreneur with a Big Vision

Kasim of Jump Bites in Edmonton has created products for people who want healthy snacks. Kasim worked as a professional driver for many years and found himself craving sugary sweets to try and boost his energy during his shifts. To give himself more choices, and become part of the trend for healthier living, he created Jump Bites. These date and nut snacks have no added sugar and are made from different combinations of nuts with dates.

Kasim said that he heard a lot of doubt and disbelief from people when he first told them about the business. He just kept going, doing the work that was needed: securing commercial kitchen space, licenses, and growing the business one client at a time.

“Once it got to the supermarket, they stopped doubting me,” Kasim says. His company is currently updating their brand and marketing messages, and he is excited to be selling his products in Edmonton and Calgary at about 40 locations. His main marketing strategy has been to use Instagram and Twitter while developing strong relationships in person with his retailers.

Kasim has some great advice for entrepreneurs:

- I kept my job for as long as I could and relied on savings to make sure the business had the best start.
- I have really thick skin, so when people shared their doubts or were unsupportive, I was able to ignore them and keep working.

**On Instagram and Twitter @JumpBites**

How to Position the Brand

After identifying the company’s unique selling position, the next step is determining brand position. Brand positioning is where the company fits into the market among competitors. Your brand position also shows consumers that the company is the right company for them based on their needs.

In a crowded marketplace, it is important to know where your company fits. When you know what the company is and what it stands for, you can prevent bad decisions.
Brand position is the process of positioning the brand in the mind of consumers. The idea is to identify and try to “own” a marketing niche for a brand using various strategies such as pricing, promotion, distribution, and packaging. One goal is to create an impression in the minds of your personas, so they think of your brand as different from the competition.

If your company cannot identify who or what you stand for, your consumers will decide who you are and what you stand for. This idea also applies to your brand positioning. Is your brand trying to be a luxury or an everyday product? If it is luxury, then your brand cannot appear as the cheaper option. The brand must explain the features or characteristics that make it luxurious. Where your company positions the brand will determine how it will be received.

Communicate your brand consistently to consumers and everyone who comes into contact with your company at every opportunity.

**Brand Positioning Strategy Process**

1. Identify your brand’s USP and determine the differentiators from your competition.
2. Explain how your brand is currently positioning itself including all the touch points with potential customers. This includes the company’s website, product range, promotional materials, pricing, brand identity, and social media engagement and conversations.
   - What images or perception do these things portray?
   - What is the story the company is telling and who is responding to the company’s current market position?
   - Where does the company think it fits into the market for the industry?
   - Is this current position based on price or value? Is the company expensive? Low priced? Does the company offer a luxury service?
   - Does the current brand communicate that?
3. Identify the direct competitors and understand how they position their brands.
4. Look to see where the competition positions themselves in the marketplace.
   - Are they more expensive or less expensive?
   - Will the target market perceive them to be better than your product line? If so, why?
   - What makes each of the competitors different?
   - Are they similar in price, value, or image?
5. Compare your company’s position to the competition to identify your own uniqueness. If nothing different is being offered, why would consumers switch from an established competitor?
6. Look for opportunities to dominate the market based on a certain niche and develop a distinct position. After thoroughly evaluating your company’s own brand positioning and your competitors’, it will be more apparent where a value-based positioning strategy can be created.
7. Develop a positioning statement once it is clear what your brand position is. Create a well defined written description of what the company does and for whom, including what is unique and where the company fits in the market.
Inbound Marketing Sales Funnel

Just like meeting a new person, building relationships with potential customers takes time. You may need several interactions before a committed relationship can be developed. Communication that strictly focuses on sales would not be effective for all phases of the buying cycle; certain types of content and messaging for each stage is necessary.

As potential customers go through the different phases of the decision-making process, they need different types of information. We draw this process to show the journey they take from when they first hear about you to when they decide to buy. Think of a funnel (see the picture below), and pretend that it represents the decision-making process for your customer. The **ToFu** (top of the funnel), **MoFu** (middle of the funnel), and **BoFu** (bottom of the funnel) are various stages of the conversion funnel, helping to guide customers toward a purchase or continued interaction.

**ToFu**

When consumers first become aware of a brand, they may visit the company’s website to investigate cost, product details, reviews, etc. ToFu content is designed to be informative. ToFu content should address prospective customers’ concerns. For example: can the product solve my problem? Is this a good company? Common ToFu content includes blog articles and answers to frequently asked questions (FAQs).

**MoFu**

As potential customers progress to the next stage of the sales funnel, the content will still be informative, but also starts the process of positioning the company as the authority and the solution to the customer’s needs and challenges. This content is often provided in exchange for their contact information. Providing information deepens the relationship between the company and customer, and encourages the exchange of information. Examples of MoFu content include information like articles, videos, e-newsletters, and e-books.

**BoFu**

Once credibility and brand offering differentiation are established, the next step is to bring customers closer to the product through a demonstration, evaluation, or through a proposal. If this is an e-commerce-based product, a limited time only discount code can be provided to establish some urgency around making a purchase.
Understanding the Decision-Making Process

Now that you have developed a profile of the target consumers, it is time to shift to understanding why and how consumers interact with a brand. A useful way to do this is to explore the consumer decision-making process. The consumer buying journey can be charted in five stages: attention, interest, decision, action, and satisfaction. We used to think of this as a linear process (they would go through one step and then the next using a funnel), but with constant access to the internet and changes in shopping habits, we know that it is not linear and customers may enter into your funnel at different times and places.

Consumer demographic, social, and psychological considerations are factors that influence decision making. Charting the phases of the buying process and then considering them alongside the model here can help you get a better sense of your consumers’ experiences and thoughts and make sure your brand delivers.

Marketing as an Investment

A survey conducted every two years by Deloitte (a major accounting and financial services company) revealed some key findings when they released their 20th report in February 2018.

- Marketing leaders are continuing to rely on analytics (analyzing customer data) for decision making, an increase from 30% in 2012 to 42% in 2018.
- Companies are building expertise internally by investing in training or hiring new talent rather than working with external agencies. The focus will be placed on people talented with marketing technology and creativity to break through the “clutter” and connect with customers.
- Social media is being managed in-house more than ever before. Spending has increased 243% since 2009 and is expected to expand 71% in the next five years.
• Social media's impact on business is now becoming easier to measure.
• There is a shift underway, where customer priorities are shifting from “superior product quality” to “excellent service” across industries.

Most companies still want to know how much of the budget to allocate to marketing activities. The report by Deloitte has reported an average of 6.9% of marketing budget against revenue being invested. This is an average marketing investment in the market overall. Opinions of marketers for small businesses put the average investment into marketing around 10% of revenue.

Of course, there are many different variables to consider such as the type of industry, number or strength of competitors, and growth strategy. Further clarification is required as a 10% marketing investment guideline is stated for small businesses (fewer than 100 paid employees). However, most small businesses in Canada are micro businesses – businesses with 1 to 4 employees. Statistics Canada states that as recently as 2016, 54% of all employer business establishments in Canada are micro businesses. This distinction between small and micro business is important to make especially within the context of investing 10% of revenues into marketing activities and how they impact the business’ bottom line.

Where Do We Spend?

Allocate your social media marketing budget according to the personas you created, but keep in mind the social media channels with the best return on investment (ROI):
• Facebook is on top as 90% of social media users are currently using the platform
• Instagram use is expected to increase from 32% in 2017 to 47% in 2020
• Twitter is expected to remain stable at 27% between 2017 and 2020

Despite a sharp increase in digital media marketing, traditional media still has a place. According to Nielsen Insights, radio reaches 88% of Generation Z and 93% of Millennials each week. The amount of time spent listening to radio each day increases when comparing generations from youngest to oldest.

An Arbitron study revealed that billboard advertising is also effective, with 71% of consumers looking at roadside billboards, and 56% of them saying they share stories of funny or interesting signs with friends and family.

Print media still has relevance in today’s marketing industry if the company operates locally. In the Local Commerce Monitor annual survey of small to medium business advertisers, BIA Kelsey (a marketing an advertising company) claimed that 8.3 percent of marketing budget is spent on local advertising channels. Although the statistics are based on US figures, it is still useful to use these numbers for the Canadian marketplace. The following chart illustrates the breakdown of the various marketing channels, both traditional and social, and their share in the local ad market.
It is important for you to consider different types of media to make the most of your marketing budget. Remember that consumers today use multiple touchpoints when making a purchase. The touchpoints may include both traditional and digital advertising. For example, they may look at an ad on Facebook, click through to your website, then notice a radio commercial, and then see your ad in a flyer they receive delivered to their home.

You must take the customer on a journey through every point they can meet with your brand, from Instagram and other social media posts, to your website, customer service, brick-and-mortar or e-commerce retail shop, and after-purchase interactions.

This is important to mention because some companies state they have a difficult time measuring the impact of social media on their business performance. The knowledge that things are difficult to measure (just like the return on billboard ads, for example) does not mean that social media marketing is ineffective.

Although your ROI for marketing is measured in dollars, the shift in today’s marketplace requires you to consider how much to spend, and how much time to invest in each of the channels that are available (Facebook, Instagram, direct mail, website, etc.).

Meet an Entrepreneur Who Works her Sales Funnel like a Pro

With a passion for business and international experience, Doyin launched Adonnia Beauty within two years of arriving in Canada. She had completed a solid education, including training in the health and beauty industry in London, England before she immigrated.

To help get a good start, Doyin attended a course for new entrepreneurs in Calgary. She learned to create a business and marketing plan that was well positioned for the Canadian market and how to create a sales funnel. To meet her business goals, Doyin has used Google Ads and Facebook Ads, and created a YouTube channel with professionally created videos that are a mix of marketing and educational messages. She also leverages Facebook and Instagram, and she belongs to an active business networking group. She partners with socially responsible companies and donates part of her earnings to support causes which relate to her commitment to empowering women and girls locally and abroad.

Website: adonnia.com
Facebook: @adoniaaworld
Instagram @adoniaabeauty
Chapter Five

Introduction to Finance
CHAPTER FIVE: INTRODUCTION TO FINANCE

This section will introduce you to the financial concepts you need to think about as you create your business plan. It is not everything you need, however. To be fully prepared to explain your financial situation and the current financial picture of your business, you will need to complete the separate workbook called Understanding Financing in Alberta, which is also part of this series.

In this chapter, you'll learn some basic language and concepts needed to describe your business in financial terms. This will help you make decisions about your business and marketing plans.

Financial Statements

In this section, you'll learn to identify the three main financial statements and how they relate to each other. You'll also learn about the categories contained in each one. Learning about these statements is an important way for you to understand the financial situation your business is in.

Income statement

An income statement is a summary of the income and expenses of a business during a certain period: monthly, quarterly, or annually.

There is a sample income statement below. The income statement can also be called a profit and loss statement or operating statement. If the company has more income than expenses for a certain period, it has net income (a profit). If the expenses exceed income, the company has a net loss.

An income statement shows what is happening over a period of time. Revenue is always listed first. It includes COGS (cost of goods sold) because this shows costs directly related to making the sale. For example, a business could not sell our hemp rope if they had not bought the raw materials to make it. You will also include general and administrative costs associated with running a business that are not directly tied to items sold.

Taxes are always shown last and separately because we cannot control this cost. Taxes are not typically taken into consideration by lenders/financiers. First, determine the tax rate applicable to your business (consider both provincial and federal rates), and consider if you are earning your income personally or through a corporation because there are tax implications to both.

Next, multiply expected income by the tax rate to calculate expected tax expense.

After accounting for all income and expenses, we are left with a net income or loss:

- If revenue exceeds expenses, we have a net income
- If expenses exceed revenue, we have a net loss

This exercise is very straightforward and can be done on your own for a simple business. However, we do recommend that you consult with an accountant since they will know of plenty of small details about the tax system. They will also be able to explain expected changes coming to your taxes and recommend different ways for you (as the owner) to be paid to maximize your money (including dividends, minimum salary, repayment of start-up costs, and deferred salary).
## Hemp Rope Ltd
### Year Ended December 31, 2017

#### Income Statement

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td>250,000</td>
</tr>
<tr>
<td>Government production grant</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total Revenue:</strong></td>
<td>255,000</td>
</tr>
<tr>
<td><strong>Cost of goods sold:</strong></td>
<td></td>
</tr>
<tr>
<td>Materials purchase</td>
<td>70,000</td>
</tr>
<tr>
<td>Wages for production staff</td>
<td>45,000</td>
</tr>
<tr>
<td>Supplies inputs</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Total cost of goods sold:</strong></td>
<td>155,000</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>100,000</td>
</tr>
<tr>
<td><strong>General and administrative expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Office staff wages</td>
<td>20,000</td>
</tr>
<tr>
<td>Amortization</td>
<td>15,000</td>
</tr>
<tr>
<td>Rent expense</td>
<td>8,000</td>
</tr>
<tr>
<td>Office supplies</td>
<td>5,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>4,000</td>
</tr>
<tr>
<td>Advertising</td>
<td>3,000</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>2,500</td>
</tr>
<tr>
<td>Insurance</td>
<td>2,000</td>
</tr>
<tr>
<td>Meals and entertainment</td>
<td>500</td>
</tr>
<tr>
<td>Bank fees</td>
<td>400</td>
</tr>
<tr>
<td><strong>Total expenses:</strong></td>
<td>60,400</td>
</tr>
<tr>
<td><strong>Net income before taxes</strong></td>
<td>39,600</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>5,500</td>
</tr>
<tr>
<td><strong>Net income after taxes</strong></td>
<td>34,100</td>
</tr>
</tbody>
</table>
Balance Sheet

The purpose of a balance sheet is to show what a company owns and owes as of a specific date. Income statements are prepared “for the period ending” and balance sheets are prepared “as at” a certain date. The balance sheet summarizes what the business owns and compares it to what the business owes. It does so in a standard format to make it easy to see what kind of financial shape the business is in. If a business has more assets than liabilities, that’s a good sign. However, if a company has more liabilities than assets, it might be a sign of trouble.

A balance sheet tells us only what exists at the balance sheet date. The balance sheet can look different day-by-day because it changes based on cash paid out, money received, etc.

The balance sheet shows us what we own and what we owe.

Assets are listed first, categorized as current and long-term. Assets are all the things that the business owns. For example, equipment (such as a cash register, washing machine, or desk) is physically owned.

Accounts receivable are owned because you have a legal right to collect them. These include:
- Something that an organization has acquired or purchased that will provide value for at least one year (for example, an office desk).
- Sales made but not yet paid for by customers (for example, when a customer orders a new computer using a credit card and we ship it to them, but the money is not yet in our bank account).

Prepaid expenses are costs paid in advance. For example, rental arrangements often require a security deposit and sometimes the first and last month’s rent. Insurance is also prepaid, often for a 12 month period. If that 12 month period does not match the end of your fiscal year, there will be a portion of insurance recorded as prepaid at the end of the fiscal year.

Inventory is the materials and items held either to be used in production or to be sold to customers. This can include raw materials that will be used in production, such as hemp, or could be the completed product (i.e. rope that has been made from hemp) that has not yet sold.

Capital assets are useful for longer than one year and are for the purposes of generating income, but not intended to be sold. These include vehicles, production machinery, and buildings. These are all typically held by businesses to help them in running their business but are not intended for sale themselves.

Liabilities are listed in the second half of the balance sheet, categorized as current and long-term. Liabilities are all the amounts that the business owes to others. Your liabilities include wages payable to staff for work they have already performed; debt borrowed from a bank or credit cards, including short and long-term loans that must be paid back over time; and, accrued rent and taxes.

Owner’s equity is a very important part of this statement. It shows the owner’s value in the business. If you sold off all your assets and paid off all your liabilities, you should have cash approximately equal to the owner’s equity. The owner’s equity is the net of assets minus liabilities.

Expenses: money spent or costs incurred on things like supplies, wages, rent, and utilities.

Amortization/depreciation: the value of a capital asset that has been used up, for example, capital assets are meant to last over a set period – for example, five years. Each year, we obtain value from that asset as we run our business, but it also loses value as it ages and is used. We need to recognize this lost value as an expense to properly reflect the cost of doing business and get an accurate picture of the total costs we are incurring to earn our income.
Current vs. Long-Term Assets & Liabilities

Look at the financial statements as you read through this section. It’s important that you know what each item means so that you understand exactly how much money and liability you currently have.

The classification of current is used to differentiate assets and liabilities that will be realized, or used, in the next year.

For example, accounts receivable will be collected and turned into cash within 30–60 days of being recorded; inventory will be used up in production in the next year; accounts payable and wages payable that will within 30 days; and income taxes will be paid within three months of year end.

Long-term refers to assets and liabilities that will not be used up or paid out within the next year. For example, production equipment will typically last 5-10 years so will provide value past one year; debt is often paid off over 5+ years, so the portion that will not be paid in the next 12 months is treated as long-term.

When you check your balance sheet, make sure you understand how those numbers look: they need to be correct, and accurate. Remember:

- Assets – liabilities = owner’s equity
- Put another way: Assets = liabilities + owner’s equity
- If this formula doesn’t work, the balance sheet is not balanced, and one or more amounts must be adjusted.
### Sample Balance Sheet

**Hemp Rope Ltd**  
**Year Ended December 31, 2017**

**Balance Sheet**

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>3,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>21,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>20,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Total Current assets:</strong></td>
<td><strong>46,500</strong></td>
</tr>
<tr>
<td><strong>Long-term assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Capital assets: Production equipment (net of amortization)</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>96,500</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>18,000</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>5,500</td>
</tr>
<tr>
<td>Wages payable</td>
<td>5,200</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>40,700</strong></td>
</tr>
<tr>
<td><strong>Long-term liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>21,700</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>62,400</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholder’s equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained earnings</td>
<td>34,100</td>
</tr>
<tr>
<td><strong>Total liabilities &amp; shareholder’s equity</strong></td>
<td><strong>96,500</strong></td>
</tr>
</tbody>
</table>
Debt to Equity Ratio is another important element you need to understand. When it comes to forecasting, the balance sheet is only a small part of the presentation you will make. Banks and investors want to understand your assets and liabilities to explain the financial health of the company. One of the things that banks look at is your debt to equity ratio. A high debt-to-equity ratio tells the banks and investors that you may not be able to sell enough of your products or services to pay off your debt. But you need to be careful because a low ratio can indicate that you are not taking advantage of financial leveraging. These are good topics to discuss with your accountant, bank, and business consultant.

The formula for Debt to Equity Ratio = Total Liabilities/Total Shareholder Equity. Using the numbers in the balance sheet above, Total Liabilities are $40,700 divided by Shareholder Equity of $34,100, equals a debt ratio of 1.19.

**Cash Flow Statement**

The cash flow statement shows the flow of cash for an accounting period. This will help you understand if you have money to pay suppliers, yourself, and employees. This statement is a bridge between the cash accounting method and the accrual accounting method in that it analyzes what transactions impacted cash and what were accruals.

A cash flow statement is like the income statement and shows what happened over a period of time. It captures the changes in the balance sheet throughout the year, as well as the income statement transactions. This statement organizes all the financial events that happened during the year to help us understand how they actually changed our bank account.

The cash flow statement is broken into three categories: operating, financing, and investing.

**Operating**

This is cash flow resulting directly from the operations of your business. Examples include sales to customers, amounts paid to suppliers for materials, and wages paid to employees.

**Financing**

This is cash coming from the way your business is financed. For example, a decision to take on debt is a way of financing your business, and so the proceeds of debt, and eventual repayment are financing cash flow. If the owner invests personal money into the business, this would also be a financing cash flow.

**Investing**

Cash flow resulting from investing in assets used to generate sales, such as the purchase of assembly line equipment used for production (capital assets), which is an investment in the underlying assets that run your business.

**Cash Flow that Works**

The formula for cash flow is

- Opening cash + total cash flows from the year = cash at the end of the year

If this formula doesn’t work, the cash flow is incorrect. When numbers are not adding up properly, speak with your bookkeeper and accountant to make sure they are corrected. Otherwise, you could run out of money and into financial trouble.
### Sample Cash Flow Statement

**Hemp Rope Ltd**

**Year Ended December 31, 2017**

**Cash flow statement**

<table>
<thead>
<tr>
<th>Cash provided for (used by) the following activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities:</td>
<td></td>
</tr>
<tr>
<td>Cash received from customers</td>
<td>229,000</td>
</tr>
<tr>
<td>Cash received from grant</td>
<td>5,000</td>
</tr>
<tr>
<td>Cash paid to suppliers</td>
<td>(137,400)</td>
</tr>
<tr>
<td>Cash paid to employees</td>
<td>(59,800)</td>
</tr>
<tr>
<td>Interest paid:</td>
<td>(2,500)</td>
</tr>
<tr>
<td></td>
<td>34,300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financing activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances of long-term debt</td>
<td>65,000</td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(31,300)</td>
</tr>
<tr>
<td></td>
<td>33,700</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investing activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of equipment:</td>
<td>(65,000)</td>
</tr>
</tbody>
</table>

| Increase in cash resources                             | 3,000  |
| Cash resources, beginning of year                     | - |
| Cash resources, end of year                           | 3,000  |

### Amortization

Amortization is a helpful concept in knowing what’s coming in your business. In this section, you’ll complete an amortization exercise. Depending on your business there are a few methods to do this, but we will focus on one called the straight-line method. In this method, the asset depreciates by the same amount each year.

For example, Mary sells sunflower seeds and has purchased a truck to use delivering her product to grocery stores. She paid $42,000 for the truck, and she expects to use it for five years before replacing it. At the end of the five years, she expects to sell the truck for $10,000. How much should the truck be amortized for each year?

Solution: \((42,000 - 10,000) / 5 = $6,400\) per year
Pay and Salary Considerations

It can be difficult to create a budget for advertising costs at first. However, rent, utilities, and professional fees are easy to figure out. Being disciplined about planning, record keeping, and learning these things help you launch a successful business.

Another area that entrepreneurs struggle with is salary. Firstly, you need to figure out how to pay yourself. If the business cannot make enough money to pay you, why would you keep doing it? Once you figure out how to pay yourself, then you need to plan for employee salary.

Investors will be asking tough questions about salary and pay.

One part of the salary issue is that some entrepreneurs that assume they can make $100,000 a year in a brand new business – regardless of being able to justify it.

When considering salaries, you must also plan for burden. When employees get paid, you must make calculations based on their pay and then send money to the government for CPP (Canada Pension Plan), EI (Employment Insurance), and taxes. Some of that money comes from the employee’s paycheque, and some of it comes from the company. (You need to know these rules, even if you expect to hire an accountant or bookkeeper to send the paperwork and payments to the government for you.)

When it comes to meeting your pay and deduction obligations, bookkeepers are essential; they know how to calculate all the numbers. Plan for roughly 12-15% in addition to salary as you create your budget, and speak with a bookkeeper before you get too far into the business planning process, so you know what to expect. The burden aspect is very important and – as a warning – it is one of the government accounts that can be considered fraud and will affect you personally if not paid. The other account is GST (Goods and Sales Tax, or Harmonized Sales Tax depending on the province). Think of payroll expenses and GST as government money that you are holding onto in trust. If you spend their money, they don’t like it very much.

All the previous things we have been talking about will go into your budget: rent, salaries, burden, corporate income taxes, utilities, licenses, professional fees, sales costs, marketing, advertising, cost of goods sold (COGS), travel, website hosting, etc.

There are fixed costs like rent, utilities, and annual salaries; and variable costs such as advertising, commissions, and COGS.

Break Even

This helps you to understand how long it will take to pay off debt or loans, and when your business becomes profitable. This is an important part of your presentation because it shows you and the bank that you know what the risks are, and how long it will take before your company is profitable.

At the beginning of your business, it is expected that you will have plenty of expenses and little income. Operating at a loss is part of the reason you need to make some budget projections, and why every entrepreneur admits that success is a lot easier when they have savings in the bank. It is uncommon to launch a business and immediately have predictable, sustained income.
Let’s imagine things go as planned and you start selling and bringing in revenue. Eventually, the income line passes the expense line, and you have profit – a great day to celebrate!

![Break-even point diagram]

It is important to know this break even point because you need to figure out how to have money to operate the company until that happens. You also need to understand it so that you can determine how much money stays in the company to pay for future growth. You will have to present these numbers to a bank or investors if you are applying for money.

You also must know this point if you are using your own money to fund the business, or you could run out. Pay careful attention to your cash flow statement to keep on top of things.

Many businesses can take three to five years before they break even with their start-up costs (i.e. before they make any money). Some businesses (like Facebook, for example) take much longer. You should know that the banks and lenders typically want to see you break even within 1.5 to 2 years.

Investors are looking for three things when looking at your business and marketing plan:
1. Is the growth over time realistic? What are your best, average, and worse case scenarios?
2. Do you have the team and plan to deliver on the business plan?
3. Is the plan and valuation (the money you say the business is worth) realistic?

**Gross and Net Margins**

When you know your gross and net margins, the information will help you decide if you are making enough money. You can also use these margins to calculate how to price your products properly.

To consider how much money you make, it helps to know how much money you can expect in your industry. Check out the Financial Performance Data on the Government of Canada website, at [www.ic.gc.ca](http://www.ic.gc.ca). Choose English or French, then click on popular reports to see what is available. If your industry is not there, you can click back to the home screen, and select Create a Report to search for your industry.

Gross margin is your company’s total sales minus revenue minus its cost of goods sold (COGS), divided by total sales revenue, expressed as a percentage.
The higher the percentage, the more money the company retains (keeps) on each dollar of sales. The money the company retains is called gross profit.

\[
\text{Gross Margin (\%) = \frac{\text{Revenue} - \text{COGS}}{\text{Revenue}}}
\]

For example, if your gross margin for the most recent quarter is 42%, that means you are retaining (keeping) $0.42 from each dollar of revenue generated.

Although gross margin looks at the relationship between revenue and COGS, the net profit margin takes all the business expenses into account. When you calculate a net profit margin, you subtract COGS plus all ancillary (extra but related) expenses, like product distribution, wages, miscellaneous operating expenses, and tax.

Gross profit margins help you assess the profitability of manufacturing activities, while net profit margin helps you assess the overall profitability of the company.

**Projected Income Based on Revenue**

This section will help you understand how much money your business will make in the next 3 to 5 years. If you plan to ask for investment money or funding from the bank, they will want to know your projected income.

A projection allows you to assess whether your business plan is going to be profitable; forces you to solidify plans and determine costs; allows you to compare your projection to competitors, and provides information to potential lenders and investors.

Recall the 4Ps of Marketing from earlier in this workbook. The 4Ps are product, price, place, and promotion.

Next, we will look at how marketing (in this case the 4Ps), and especially price, can support each other, as you learn how to develop a projected income statement for revenue.

This statement will help you determine what your unit of sale is, from individual items produced (tables, board games, jars of oil) to the human hours (previously called man hours) applicable to a service business.

To project (forecast) demand for the unit of sale in the next year, you'll need to:

- Assess market research regarding demand and growth opportunities in the market
- Compare your company to similar companies in the industry
- Look back to previous years’ results if the business has been in business for a while

To determine the sale price per unit, you'll also need to assess market research regarding price ranges and flexibility. Consider your marketing plans to determine how to price yourself compared to the competition. For example, if you are branding your business as high-end, your price point will likely be higher than if you are building a business model based on low prices.

For example, if my product costs $15.00 to produce, and my industry has a 40% profit margin, I should be able to sell my product for $25. However, if I can produce it for a lower cost, I can pass the savings on to my customers, and I might sell more than others in my industry. Or, I can still sell it for $25 and improve my profit margin.

Remember that you must include any volume discounts or free offers in your cost to produce. Otherwise, your margins will not be correct.

You need to make sure you have made decisions about pricing before you approach your bank or investors, and can explain how you came up with your pricing so that they understand how you calculated your numbers. There is an exercise to calculate these numbers in the Understanding Financing in Alberta Workbook.
Projected Expenses Based on Cost of Goods Sold

The next step is developing a projected income statement based on the cost of goods sold (COGS). First, determine what your variable costs per unit of sale will be:

- Ensure you have a complete understanding of all the inputs that are required for your product
- Consider market conditions
  - i.e., if one of your variable costs is oil, your projected costs should consider expected market prices for oil in the next 12 months
  - Lock in prices with suppliers, if possible
  - Signing a contract with a supplier helps to fix your projected costs
  - Ask suppliers for price lists and compare to determine the lowest price available
  - Consider volume purchase discounts that may be available

Next, calculate the expected cost of goods sold

- Projected unit of sales x variable cost per unit

Then, assess your general and administrative costs

- Write a list of all the general and administrative costs you expect to incur
  - Common expenses include: wages (Remember to check labour laws regarding minimum wage, hours or work, benefits, etc.); insurance (including WCB, liability, buildings, vehicles, etc.); professional fees (lawyer and accountant); bookkeeper; rent; utilities; repairs and maintenance for buildings and equipment; interest and bank charges; advertising and promotion; vehicle costs; telephone; office supplies; and, bad debts.

Meet a Convenience Store Owner

As a new entrepreneur operating in an unfamiliar part of the city, William of Kush Groceries & Convenience Store, shared that it has been difficult to get up and going. He owns a retail business with a focus on ethnic foods and products in Edmonton’s northeast.

William shared that he has had some tough challenges, but he wants people to know about them so they can also learn.

- Opened in an area that is hard for his customers to get to, especially if they don’t drive.
- Leased a store and later learned that the electrical would not support some of the special equipment he wants to use.
- Entered a two-year contract in a business development zone that is unwilling or unable to help him.
- After waiting for six months for the city to approve his license and permits (while he paid rent for the store), William learned about Business Link. If he had approached them sooner, the issues could have been much shorter due to help and advice available.

William shared that his store is still a great idea, and potential customers want access to the high-quality food and products he is selling, but he will need to move closer to downtown (and pay higher rent) so they can visit the store more easily, and he can grow the business.
Chapter Six

Getting Your Product to Market
CHAPTER SIX: GETTING YOUR PRODUCT TO MARKET

There is a lot to think about when starting or growing a business, and the process you will use to manage your products is important so that you can satisfy your customers.

In this chapter, you’ll review a brief introduction to inventory management.

Inventory Management

Managing inventory is about having what you need when you need it, and being able to move it. Salespeople prefer to have lots of inventory available so that they do not lose a sale. For example, a car salesperson needs to have a good selection of cars available so that potential customers don’t walk across the street and buy from the competition. Financially, however, it is ideal to keep inventory low, because money spent to store products until sold is money that cannot be used somewhere else.

Your job is to figure out how much inventory to hold and how much your customers will demand. Products that are held in a retail situation (such as a bookstore) are often sold at a retail price, and then the price gets reduced on older merchandise so that the store can bring in different products. If the original supply of books, in this example, does not sell, the product may be returned to the manufacturer, who then has lost revenue.

Inventory has three forms that are common in all business, whether you are working in a computer assembly plant or a frozen treat company. Raw material (sugar, water, food colouring, flavour, wooden sticks, paper); work in progress (frozen treat base being mixed with different colours and flavours); and, finished product (orange, lime, and frozen pineapple treats ready for sale).

Your inventory includes resources involved in material production and labour. If you hold your inventory (and there are lots of reasons that companies do so), your money cannot be directed to other areas. Reasons to hold inventory might include buffer or pipeline (inventory held to avoid production delays and to maintain efficiency); cycle, where suppliers (or bulk pricing) may require that you order minimum amounts that are larger than you can use quickly; contingency, where you keep extra supply in case there are shortages or inventory that does not have reliable dates for delivery; anticipation in preparation for high demand periods, such as back to school supplies that arrive in stores before the school year begins; and, speculation when the company purchases ahead of time to avoid expected price increases from suppliers.

If you’d like to learn more about inventory management, especially if you will be importing products or often dealing with out of province suppliers, check with a Business Link advisor to see what courses are available.
Chapter Seven

Validating Your Idea
CHAPTER SEVEN: VALIDATING YOUR IDEA

You have created some detailed plans to reach this part of the workbook. Now is the perfect time to go back over the work you have done, and make sure your plans will work. We can this process validating your business idea.

In this chapter, you will review the steps you have taken so far, deeply review your plans, ask questions, and plan to launch.

You’ll need some documents for this session, including:
- Business Plan and Marketing Plan
- Financial Projections

How to Validate Your Idea

Step 1

Clarify your business model assumptions. You’ve made some assumptions about your business model to get to this point. As you complete the steps on the following pages, you will follow the process in the diagram below.

The process looks like this:
Step 2: Review Your Business Idea

Ask yourself lots of questions. If you can’t answer these questions, go back into the workbook and keep working on what’s missing.

1. What is your business structure?
2. Who is your competition? What are they doing differently from you?
3. What products or services are you selling?
4. Can you project your revenue for the next month, quarter, and year?
5. What assets do you have, or do you control?
6. What is your brand?
7. What activities do you need to lead to deliver your value proposition?
8. What are your fixed costs?
9. How will you connect to customers? What will you do to keep them?
10. Does your balance sheet balance?

Step 3: Review Business Model Assumptions

Review your updated Business and Marketing Plan and financials.

- Does everything work? Do the revenues outweigh the costs?
- What are the risks in your design? What parts of your business model are you making assumptions on? Are your estimates reasonable and honest?
- Are there things you need to change to strengthen the business model, reduce risk, or improve profitability?

Step 4: Test and Clarify

Validate your business model.

1. Clarify your business model assumptions. Start by looking at each section of your revised Business and Marketing Plan and Financial Statements. Check each area against the following questions:
   a. Is what is written in each section true? Have you made an assumption or do you have solid evidence in the form of documentation?
   b. In the areas where you have evidence that was gathered in your research, write the word “fact” in the block and make a note of your evidence.
   c. In areas where you have made assumptions label the block with “assumption.”
2. Test your assumptions. You might not be able to test everything right now, so it’s okay to prioritize and then start testing.

Is there a repeatable sales process, and more than just a single sale to each customer? What keeps your customers coming back to your business?

You will have to lower the risk as far as possible to have a business that can be financed. This can be very challenging to do and requires a good understanding of things like regulations, funding available, and resources in place to manage the regulatory issues.
3. If there are no regulatory issues, your obstacles could be just the acquisition of new customers. You’ll need to focus on your marketing strategy, test your marketing channels, test your sales funnel, and confirm revenue streams. The most effective way to do this is to put yourself in front of potential customers and try to sell your products and solutions. At this stage, a few purchases of enough size may validate your solution.

   Going through the sales cycle several times will help you understand the key buyers involved in each deal, and what adjustments you need to make.

If you are approaching customers, make sure you are prepared with sales materials you need for presentations, your website, product information, and of course, the presentation itself. Know your business, your marketing and sales strategy, and your sales process.

**Step 5: Evaluate and Analyze**

Evaluate and update documentation.

Now you’re ready to determine if you’ve achieved your objectives for customer validation.

1. Did you sell enough to validate your value proposition?
2. Have you identified a repeatable customer acquisition model?
3. Did you develop enough insight to grow your business?

Discuss these results with your stakeholders to help you decide what steps you will take next. If you didn’t sell enough, or you don’t have a repeatable customer relationship, you will not be able to easily grow your business.

**Step 6: Is Your Idea Validated?**

If so, update your documentation and move to the next step. Make sure your plan reflects all and any changes you have made at this point.

If your idea is not validated, you will have to make changes and repeat the process, or you may decide not to go ahead with the business. You have to make the right decisions for you and the business here. If you feel stuck, speak with a business advisor to get the assistance you need.

**Step 7: Ready Set Go**

You are ready to implement your business plan, and to prepare to pitch your ideas!

**Presenting Your Business & Research**

One goal of this workbook is to help you talk to a bank or investors about your business. Whether you want to ask for money or not, being ready for a presentation is a good way to get used to talking about your business, and helps prepare you to answer some tough questions.

Below, you’ll see the scoring tool that we use to assess the quality of a presentation (or pitch) about a business idea. When you look at this, you will learn what people are listening for.
**Pitch Score Sheet**

Practise your pitch with friends and mentors before you pitch to investors. Use this scoring guide as a feedback tool.

<table>
<thead>
<tr>
<th>Quality</th>
<th>Definition</th>
<th>Score / Possible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presentation</td>
<td>Overall presentation, including dress, communication style, enthusiasm, and clarity. Ready before presentation started, presented in a well-organized fashion, and thanked the panel for their time. Is it done with the audience in mind (what they need and want)?</td>
<td>/10</td>
</tr>
<tr>
<td>Problem / Solution</td>
<td>How well do they define the problem? Do they understand the buyer and have evidence/contracts? Do they articulate show and understand financials?</td>
<td>/15</td>
</tr>
<tr>
<td>Marketing</td>
<td>How well do they define the problem? Do they understand the buyer and have evidence/contracts? Do they articulate show and understand financials?</td>
<td>/10</td>
</tr>
<tr>
<td>Originality</td>
<td>How innovative is the solution? A great product or service isn’t enough. They have to understand the product, customers, and demand better than anyone else.</td>
<td>/15</td>
</tr>
<tr>
<td>The Pitch</td>
<td>Are they able to clearly explain the problem, solution, and the reason they are trusted to meet it? Pictures, diagrams, visual aids used are well-rehearsed, and support the presentation without taking away. The ASK is clear, concise, and includes what’s in it for investors/panel.</td>
<td>/20</td>
</tr>
<tr>
<td>Financials</td>
<td>Do they have realistic and well thought through financials – including a break-even analysis? Are they able to answer hard questions (like numbers sold, distribution channels, markets, return on investment (ROI), valuation, etc.)?</td>
<td>/10</td>
</tr>
<tr>
<td>Viability</td>
<td>Is the business going to be viable, based on what’s presented? Would you invest in it yourself based on this pitch and if it was in your knowledge area/business domain?</td>
<td>/20</td>
</tr>
</tbody>
</table>

/100
What’s Next?

As an entrepreneur, you’ll never stop learning. You will learn on the job, naturally, and there are courses available, mentors in the business community, and books to help you in your growth and development so that you can minimize the risks and make the most of your business.

Now that you have completed your business and marketing plan, you are ready for some next steps including:

- Register your business with your city or town to get a business license
- Open a business bank account
- Register for GST/HST with the federal government (if needed – sometimes you don’t have to do this right away)
- Set up your payroll, mandatory deductions, and tax accounts with a trusted bookkeeper or accountant
- Prepare to launch your business

Business Link offers resources and in-person advisors who can help you with your business no matter where you are in Alberta. Their contact information is at the front of this book.
APPENDIX: BUSINESS & MARKETING PLAN

*Note: Fill this out as you make your way through the workbook. You are not required to use this format but is presented to be helpful as you complete each chapter of the course. As you do the work in the workbook, come back to this form to fill in your answers. If you plan to apply for funding from somewhere, they will have their own documents, but you can easily transfer information from this planning document. Use a separate page or computer document to create your copy of this plan. Remember to save often!

Proposed Company Name: _____________________________________________________________

NAICS Code ____________________________________________________________

Executive Summary
You will write this last, but place it first in your plan. Include your business idea, and any resources or money you will ask for.

__________________________________________________________

Structure (Check One)
( ) Sole proprietorship ( ) Partnership ( ) Franchise ( ) Corporation ( ) Subsidiary ( ) JV

Fill out the following sections as you finish the workbook:

Values
This is about your “why.” Limit yourself to 3 so that you can maintain focus.

__________________________________________________________

Vision
This is your future “what.”

__________________________________________________________

Mission
Purpose, why are you here, and what you stand for.

__________________________________________________________

USP
You can have more than one of these. It’s part of your “what,” including what problem(s) you solve, and what differentiates you.

__________________________________________________________

Value Proposition
An innovation, service, or feature intended to make your company or product attractive to customers.

__________________________________________________________
Operations Plan
What are your key activities? How will you prepare to meet the needs and demands of customers while remaining profitable?

Products and/or services
These must be your ideal solution to their most pressing problem(s). Place them here in order of priority (these could be revenue, or pain points).

Competitive Analysis Results
This is an honest look at your competition. Who has similar products or services? What problems do they solve? What people do they serve? How many competitors are there?

Brand /Marketing Strategy
What is your brand strategy, and how will your ideas be shared with your audience? What persona(s) have you created? How will you establish and manage the customer relationship? What channels will you use to gain customers? How will you communicate with them?

Sales Strategy
How will you get your leads? How will you convert leads into buyers/sellers? What is your sales cycle? Your funnel? Who are you selling to?

When and what is your Break Even Point?

Balance Sheet
(attach this)