

ENTREPRENEURIAL
BUSINESS CENTRE

INTEGRATED SERVICES



 **ERNST & YOUNG**
FROM THOUGHT TO FINISH.™

Business Plan Guidebook

Ernst & Young's Entrepreneurial Business Centre

A well-written business plan can be an indispensable management tool. Many people have found that a properly prepared business plan can greatly improve their company's ability to obtain financing and to consistently establish and meet goals. Our business plan development service is the foundation of the EBC's solutions.

Ernst & Young created the Entrepreneurial Business Centre to meet the needs of today's entrepreneurs. The Entrepreneurial Business Centre provides assistance to emerging businesses throughout the full life-cycle of their start-up – from initial concept to competitive advantage.

Emerging entrepreneurial businesses – or “future power companies” – have an abundance of assistance and resources available to them *after* they begin generating revenue. But entrepreneurs with only an idea and their life's savings in hand often have a hard time finding the help they need to successfully get off the ground.

The Entrepreneurial Business Centre's mission is to accelerate the success of the world's best future power companies. Ernst & Young can help entrepreneurs reduce risk and vulnerability in virtually every area of business. With our multidisciplinary capabilities and vast network of global resources and industry contacts, we can help take your emerging business from concept to competitive success – quickly and effectively.

www.ey.com/can/ebc



What is a Business Plan?

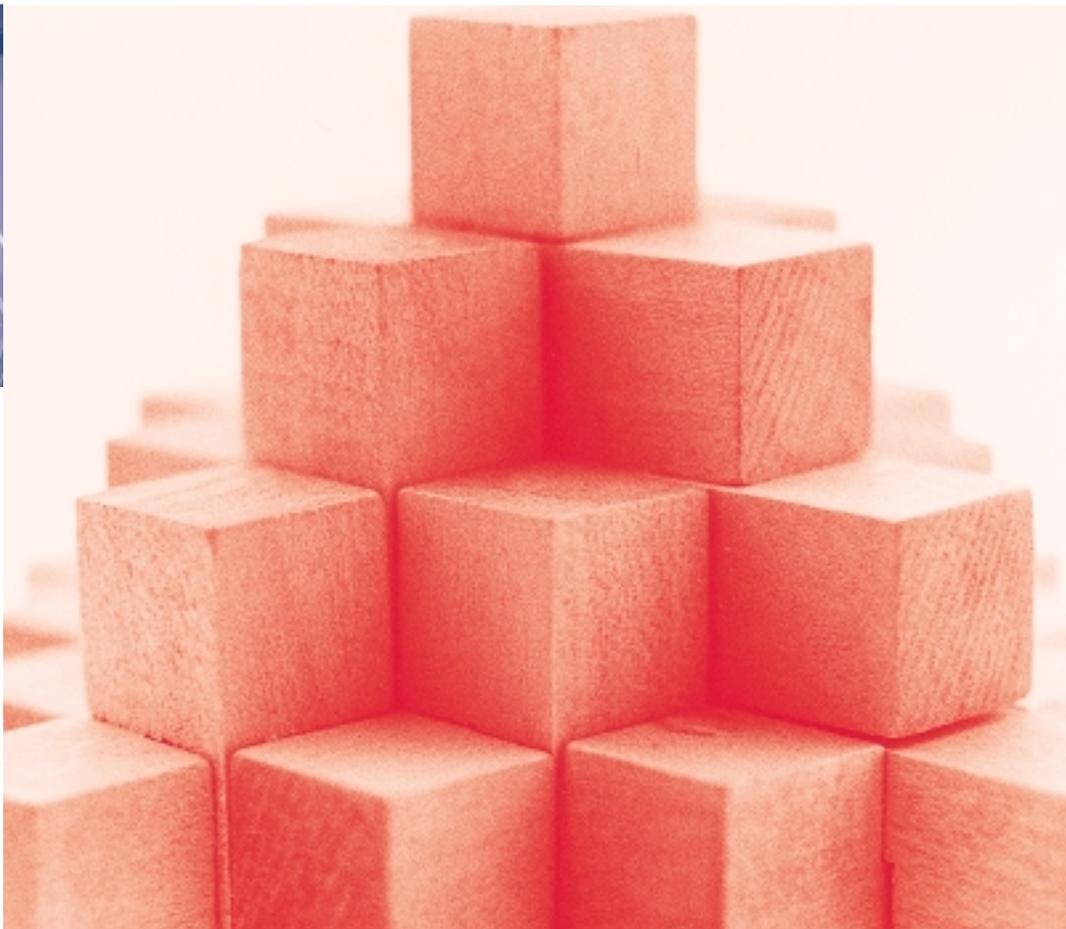
A business plan is quite simply a tool used by entrepreneurs to outline where their company is going, how it will get there, and what it will look like once it arrives. In addition, a business plan is the preferred mode of communication between entrepreneurs and potential investors.

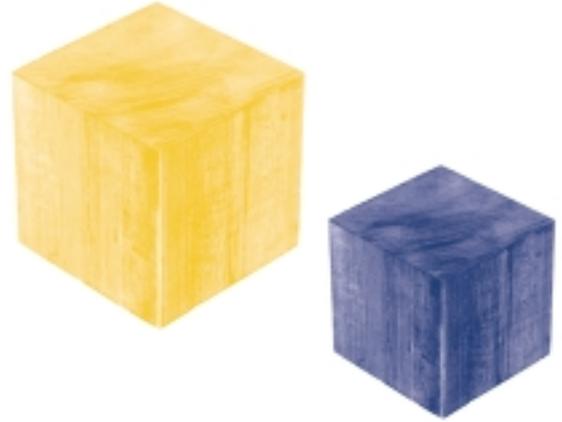
Many entrepreneurs have found that just following the steps required to develop a business plan has forced them to introduce discipline and a logical process into all their planning activities. They realize that a properly developed business plan can greatly improve their company's ability

to consistently establish and meet goals and objectives in a way that best serves the company.

In today's rapidly changing business environment, an effective business plan becomes a moving document — ensuring that the entrepreneur is equipped with an action plan that anticipates and reacts to market and business changes.

Whether you are just starting up a business or reassessing your existing business, a business plan can help you get where you want to go, effectively and efficiently.





Why Write a Business Plan?

Producing a business plan offers an excellent opportunity to consider all the facets of a business or a project, testing feasibility and providing greater confidence in decision-making. It will also identify future financing needs and is usually a necessary step in raising external finance.

The business plan stems from the strategic planning process — the evaluation of your business’s competitive advantage and opportunities. The plan will develop in more detail the broad action points derived from your strategic planning, establishing corporate goals, setting objectives, evaluating the operating environment and producing ways to measure success. It can be used to measure progress and to communicate between management, staff and existing investors or bankers.

You will emerge from this process with a clearer vision of your company’s future, and a focused and feasible roadmap of specific action plans — to help you overcome barriers to growth, strengthen competitive position, and realize your short-, medium- and long-term goals.

Our Proven Approach

Ernst & Young has helped many entrepreneurs launch — and grow — successful businesses. The Entrepreneurial Business Centre is the result of many years of experience serving owners, managers and investors.

Ernst & Young is a leading adviser on business planning and raising finance for the world’s best entrepreneurial growth companies. We have strong contacts with the readers of business plans, such as venture capitalists, banks and parent companies. Through our extensive experience and knowledge of the marketplace, we can usually indicate which institutions are most likely to be interested in your proposal.

For assistance in producing your business plan or raising financing for a business venture — whether a start-up, management buyout, management buy-in, or development in your existing business — contact us. We can help jumpstart your business.

tip

Carefully control the distribution of your business plan. Will it be distributed widely (e.g., to all your employees) or strategically (e.g., to management, partners or lenders)? Many business plans include ethical disclaimers that limit an individual’s ability to redistribute the plan without your consent. In addition, if your business plan is being used to raise capital, a private-placement disclaimer is often required under law.



Jumpstart: Your Business Plan

I. Executive Summary

The executive summary will provide a concise overview of the entire business plan and emphasize the plan's key points. It is vital to convey your company's unique competencies — those factors that will make your business successful in a competitive market.

A. The Purpose of the Plan

1. Attract investors/financing sources
2. Document an operational plan for controlling the business

B. The Company

1. The needs your company will satisfy
2. The products or services you will offer to satisfy those needs

tip

Potential investors and lenders review hundreds of business plans each year. More often than not, they do not get beyond a plan's executive summary. Therefore, your executive summary must give readers a useful understanding of your business and answer the question that most interests them: "What's in it for the investor?"

C. Market Analysis

1. The characteristics of your target market (e.g., demographic, geographic)
2. The size of your target market in dollars
3. Competitors and major players in your target market
4. Customers (identify and describe)
 - a. Existing
 - b. Potential

D. Marketing and Sales Activities

1. Marketing strategy
2. Sales strategy
3. Keys to success in your competitive environment

E. Product or Service Research and Development

1. Major milestones
2. Ongoing efforts

F. Organization and Personnel

1. Key owners and managers
2. Key operations employees

G. Financial Data

1. Funds required and their use
2. Historical financial summary
3. Prospective financial summary (including a brief justification for prospective sales levels)

II. Company Description

This section provides an overview of how all elements of your company fit together.

A. Nature of the Business

1. Marketplace needs that you aim to satisfy
2. Method(s) to satisfy those needs
3. Individuals or organizations with those needs

B. Unique Competencies

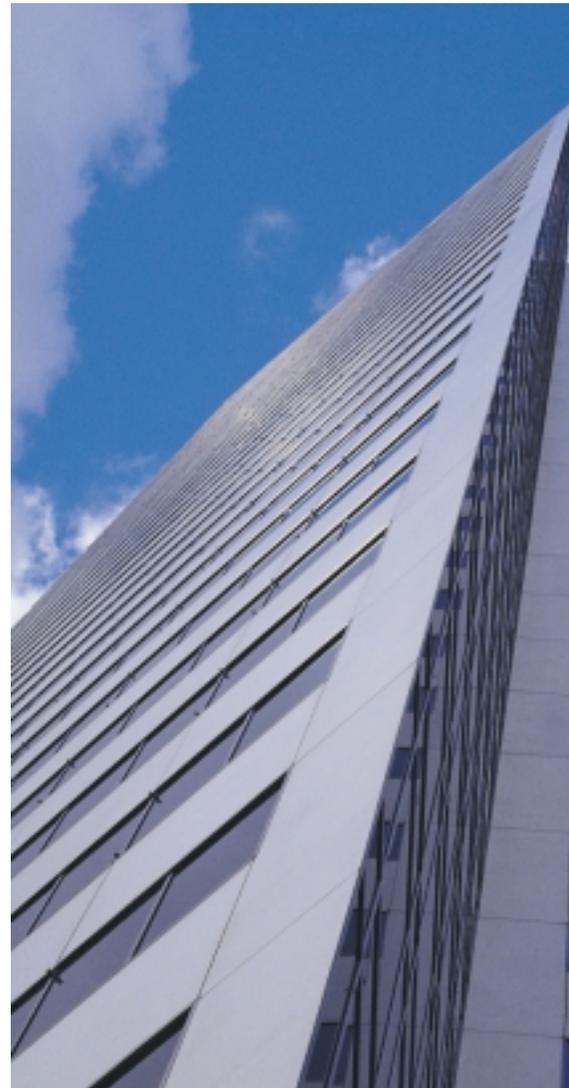
1. Superior satisfaction of customer needs
2. Proprietary attributes (e.g., trademarks)
3. Patents — registered and pending
4. Market share or “brand name” recognition
5. Production or service-delivery efficiencies
6. Personnel
7. Geographic location
8. Facilities
 - a. Own or rent
 - b. Size (square feet/m²)
 - c. State (degree of modernization)
 - d. Significant equipment

III. Market Analysis

This section should reflect domain knowledge and present highlights and analysis of the market research.

A. Industry Description and Outlook

1. Description of the primary industry
2. Size of the industry
 - a. Historical



tip

The market analysis section provides the sole basis for your projected sales and costing. It must clearly demonstrate that the market needs the product or service, that the company understands this need and can meet it, and therefore can sell your product or service at a profit.

- b. Current
- c. Projected growth
 - Five-year outlook
 - Ten-year outlook
- 3. Industry characteristics and trends
 - a. Historical
 - b. Current
 - c. Future
- 4. Major customer groups
 - a. Companies
 - b. Consumers

B. Target Markets

1. Distinguishing characteristics of the primary target markets and market segments
 - a. Critical needs
 - b. Extent to which those needs are currently being met (i.e., by competitors)
 - c. Demographics
 - d. Geographic location
 - e. Buyers
 - f. Seasonal or cyclical trends
2. Size of the primary target market
 - a. Number of prospective customers
 - b. Annual purchases of products or services that meet identical or similar needs as your products or services
 - c. Geographic area
 - d. Anticipated market growth
3. Market penetration
 - a. Market share
 - Current
 - Anticipated (annual estimate of market penetration over the next five years)
 - b. Existing customers
 - Number
 - Profile
 - c. Potential customers
 - Number
 - Profile
 - d. Geographic coverage
 - e. Rationale for market-penetration estimates

4. Pricing and gross margin targets
 - a. Price levels
 - b. Gross margin levels
 - c. Discount structure (e.g., volume, prompt payment)
5. Methods by which specific members of the target market can be identified
 - a. Directories
 - b. Trade association publications
 - c. Government documents
 - d. Online information services or databases
6. Media through which you can communicate with specific members of your target market
 - a. Publications
 - b. Radio or television broadcasts
 - c. Internet
 - d. Sources of influence or advice
7. Purchasing cycle of potential customers
 - a. Identification of needs
 - b. Research for solutions to needs
 - c. Solution evaluation process
 - d. Purchase authority (e.g., executive, purchasing agents, engineers)
8. Key trends and anticipated changes within the primary target markets
9. Secondary target markets and key attributes
 - a. Needs
 - b. Demographics
 - c. Significant future trends

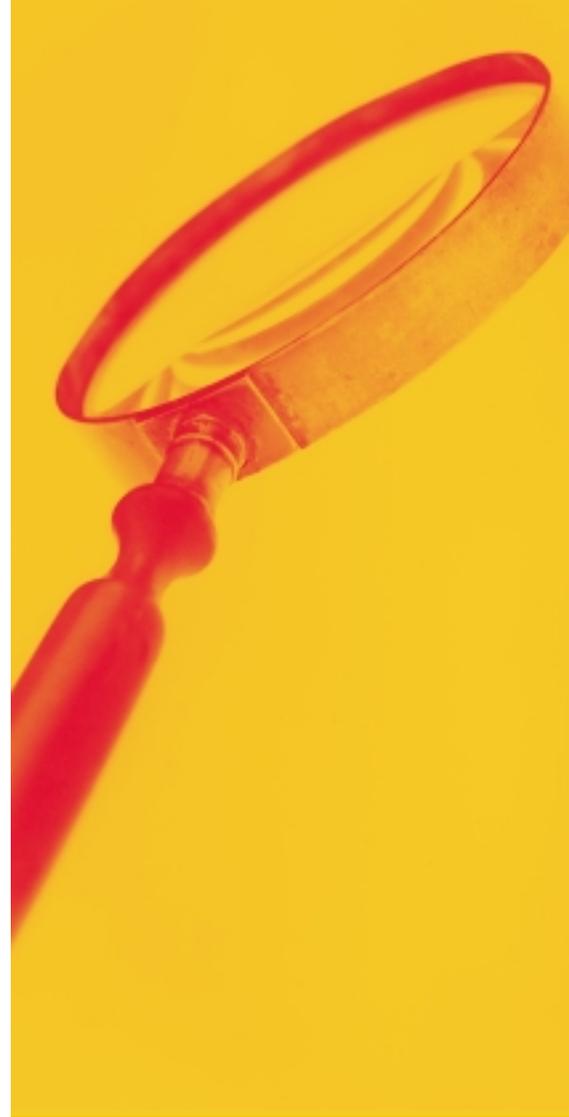
C. Market Test Results

1. Potential customers contacted
2. Information or demonstrations given to potential customers
3. Reaction of potential customers
4. Importance of satisfying targeted needs
5. Test group's willingness to purchase products or services at various price levels

D. Lead Times

(Time between customer order placement and product or service delivery)

1. Initial orders
2. Reorders
3. Volume purchases



E. Competition

1. Identification (by market segment and product line or service)
 - a. Existing competitors (include market share)
 - b. Potential (i.e., how long your “window of opportunity” will be open before your initial success breeds new competition, and who your new competitors are likely to be)
 - c. Direct
 - d. Indirect
2. Competitors’ strengths (competitive advantages)
 - a. Ability to satisfy customer needs
 - b. Market penetration
 - c. Track record and reputation
 - d. Price
 - e. Product quality
 - f. Staying power (i.e., financial resources)
 - g. Key personnel
3. Competitors’ weaknesses (competitive disadvantages)
 - a. Ability to satisfy customer needs
 - b. Market penetration
 - c. Track record and reputation
 - d. Price
 - e. Product quality
 - f. Staying power (i.e., financial resources)
 - g. Key personnel
4. Importance of the market to the competition
5. Barriers to entry into the market
 - a. Cost (investment)
 - b. Time
 - c. Technology
 - d. Key personnel
 - e. Customer inertia (e.g., brand loyalty, existing relationships)
 - f. Existing patents and trademarks
 - g. Market position

F. Regulatory Restrictions

1. Customer of governmental regulatory requirements
 - a. Domestic
 - Methods for meeting the requirements
 - Timing involved
 - Cost



- b. International
 - Methods for meeting the requirements
 - Timing involved
 - Cost
- 2. Anticipated changes in regulatory requirements
 - a. Domestic
 - Methods for meeting the requirements
 - Timing involved
 - Cost
 - b. International
 - Methods for meeting the requirements
 - Timing involved
 - Cost



IV. Marketing and Sales Activities

A. Overall Marketing Strategy

1. Market penetration strategy
2. Growth strategy
 - a. Internal
 - b. Acquisition
 - c. Franchise
 - d. Horizontal (i.e., providing similar products to different users)
 - e. Vertical (i.e., providing the products at different levels of the distribution chain)
3. Distribution channels (include discount or profitability levels at each stage)
 - a. Original equipment manufacturers
 - b. Distributors
 - c. Retailers
 - d. Direct (i.e., mail order)
4. Communication
 - a. Promotion
 - b. Advertising
 - c. Public relations
 - d. Personal selling
 - e. Printed materials (e.g., catalogues, brochures)
 - f. Internet presence or use

tip

Do not underestimate the importance of presenting a well-conceived sales strategy. Without an efficient approach to beating a path to the doors of potential customers, companies with very good products and services often fail.

B. Sales Strategies

1. Sales force
 - a. Internal representatives
 - b. Independent representatives
 - Dedicated
 - Multi-line
 - c. Size
 - d. Recruitment and training
 - e. Compensation
2. Sales activities
 - a. Identifying prospects
 - b. Prioritizing prospects
 - c. Number of sales calls per period
 - d. Average number of sales calls per sale
 - e. Average dollar size per sale
 - f. Average dollar size per reorder

V. Products and Services**tip**

In this section, it is important not to criticize the competition's products too severely; readers may empathize with the unrepresented party. Instead, concentrate on the ability of the new product or service to meet existing market needs, and allow readers to draw their own conclusions based on the information provided.

This section emphasizes the unique ability of the company's products or services to satisfy the needs of the marketplace.

A. Detailed Product or Service Description

1. Specific benefits of product or service
2. Ability to meet needs
3. Competitive advantages
4. Present state (e.g., idea, prototype, existing product or service)

B. Product Life Cycle

1. Description of the current position of the product or service within its life cycle
2. Factors that might change the anticipated life cycle
 - a. Factors that lengthen it
 - b. Factors that shorten it

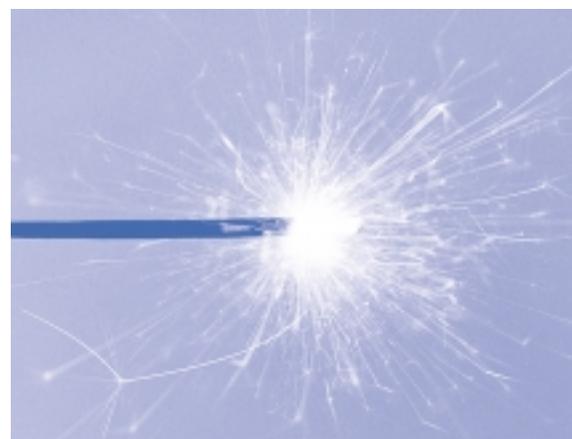
C. Copyrights, Patents and Trade Secrets

1. Existing or pending copyrights or patents
2. Anticipated copyright and patent filings
3. Key aspects of your products or services that cannot be patented or copyrighted

4. Key aspects of your products or services that qualify as trade secrets
5. Existing legal agreements with owners and employees
 - a. Non-disclosure agreements
 - b. Non-competition agreements

D. Research and Development Activities

1. Activities in process
2. Future activities
3. Anticipated results of future research and development activities
 - a. New products or services
 - b. New generations of existing products or services
 - c. Complementary products or services
 - d. Replacement products or services
4. Research and development activities of others in the industry
 - a. Direct competitors
 - b. Indirect competitors
 - c. Suppliers
 - d. Customers



VI. Operations

A. Production and Service Delivery Procedures

1. Internal
2. External (e.g., subcontractors)

B. Production and Service Delivery Capability

1. Internal
2. External (e.g., subcontractors)
3. Anticipated increases in capacity
 - a. Investment
 - b. New costs (direct and indirect)
 - c. Timing

C. Employees

1. Full-time
2. Part-time
3. Contract or seasonal
4. Union
5. Non-union



Take special care to ensure that the specifics of company operations do not conflict with the information included in your financial statement projections. Any inconsistencies between these two areas will result in some unpleasant surprises down the road.



D. Facilities

1. Own or rent
2. Size (square feet/m²)
3. State (i.e., degree of modernization)
4. Significant equipment

E. Competitive Operating Advantages

1. Techniques
2. Experience
3. Economies of scale
4. Lower direct costs

F. Suppliers

1. Suppliers of critical production elements
 - a. Primary
 - b. Secondary
2. Lead time requirements
3. Risks of critical element shortages
4. Existing and anticipated contractual relationships with suppliers

tip

Every management team is unique; emphasize their background, skills, and how they will contribute to the company's success. This is particularly important when looking for financing. Remember: individuals invest in people, not ideas.

VII. Management and Ownership

Your management team's skills and talents are among the few truly unique aspects of your company. If you are going to attract investors, you must emphasize these skills and talents and indicate why they represent a distinctive competency that your competitors cannot duplicate easily.

A. Company Structure

1. Organizational chart
2. Narrative description of the chart

B. Key Management and Operating Personnel

1. Name
2. Position
3. Brief description of position, including primary duties

4. Previous experience
5. Unique skills and experience that add to the company's distinctive competencies
6. Compensation basis

C. Planned Additions to the Current Management Team

1. Position
2. Primary responsibilities and authority
3. Requisite skills and experience
4. Recruitment process
5. Timing of employment
6. Anticipated contribution to the company's success
7. Compensation basis and levels (ensure these are in line with the market)

D. Legal Structure

1. Corporation
2. Partnership
 - a. General
 - b. Limited
3. Proprietorship

E. Owners

1. Names
2. Percentage of ownership
3. Extent of involvement with the company
4. Form of ownership
 - a. Common stock
 - b. Preferred stock
 - c. General partner
 - d. Limited partner
5. Outstanding equity equivalents
 - a. Options
 - b. Warrants
 - c. Convertible debt
6. Common stock
 - a. Authorized
 - b. Issued



F. Board of Directors

1. Names
2. Position on the Board
3. Extent of involvement with the company
4. Background
5. Contribution to the company's success
 - a. Historical
 - b. Anticipated

VIII. Funds Required and Their Use**tip**

Investors will be looking for alternate exit strategies. In developing these opportunities, try to be flexible and creative, taking into consideration options such as mergers, acquisitions, strategic partnering and going public.

Any new or additional funding reflected in the financial statement projections should be discussed here. Alternative funding scenarios can be presented if corresponding financial statement projections are presented later in the plan.

A. Current Funding Requirements

1. Amount
2. Timing
3. Type
 - a. Equity
 - b. Debt
 - c. Mezzanine
4. Terms

B. Funding Requirements Over the Next Five Years

1. Amount
2. Timing
3. Type
 - a. Equity
 - b. Debt
 - c. Mezzanine
4. Terms

C. Use of Funds

1. Capital expenditures
2. Working capital
3. Debt retirement
4. Acquisitions



D. Long-Range Financial Strategies

1. Going public
2. Leveraged buyout
3. Acquisition by another company
4. Debt service levels and timing
5. Liquidation of the venture

IX. Financial Data

This section contains the supporting financial data for all information presented elsewhere in the plan. Various scenarios can be included as appropriate.

A. Historical Financial Data

(past three to five years, if applicable)

1. Annual statements
 - a. Income
 - b. Balance sheet
 - c. Cash flows
2. Use of external accounting firms
 - a. Compilation
 - b. Review
 - c. Audit

B. Prospective Financial Data

(next five years)

1. Next Year (by month or quarter)
 - a. Income statement
 - b. Balance sheet
 - c. Cash flow statement
 - d. Capital expenditure budget
2. Final four years (by quarter or year)
 - a. Income statement
 - b. Balance sheet
 - c. Cash flow statement
 - d. Capital expenditure budget
3. Summary of significant assumptions
4. Type of prospective financial data
 - a. Forecast (management's best estimate)
 - b. Projection ("what-if" scenarios)

tip

Investors put this section under considerable scrutiny. If the numbers don't "add up," the business's credibility will suffer. If you do not have someone with sufficient financial expertise on your management team, you should consider obtaining the services of an outside advisor to prepare this material. Their specialized knowledge can be invaluable.

5. Level of CA involvement
 - a. Compilation
 - b. Review
 - c. Audit

C. Analysis

1. Historical financial statements
 - a. Ratio analysis
 - b. Trend analysis with graphic presentation
2. Financial statement projections
 - a. Ratio analysis
 - b. Trend analysis with graphic presentation

tip

In some instances, the thicker the business plan, the less likely potential investors will read it thoroughly. The proper use of appendices and schedules will enable you to provide additional information and demonstrate that your analysis is well documented without compromising your plan's readability.

X. Appendices and Exhibits

A. Résumés of Key Managers

B. Professional References

C. Market Studies

D. Pertinent Published Information

(i.e., on the company's products or services)

1. Magazine articles
2. Book references

E. Patents

F. Significant Contracts

1. Leases
 - a. Equipment
 - b. Building facilities
2. Sales contracts
3. Purchase contracts
4. Partnership or shareholder agreements
5. Stock option agreement
6. Employment or compensation agreements
7. Non-competition agreements
8. Insurance
 - a. Product liability
 - b. Officers' and directors' liability
 - c. General liability

Commitment to Entrepreneurs

Ernst & Young is a founding sponsor of the Entrepreneur Of The Year® awards. Each year, we honour the best entrepreneurial talent in Canada, shining a spotlight on the hard-working and talented individuals who have turned great ideas into business success. Ernst & Young is proud of our commitment to entrepreneurs and the entrepreneurial spirit. Visit us at www.eoy.ca.



Contact Us Today

To find out more about how we can jumpstart your business, please contact:

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