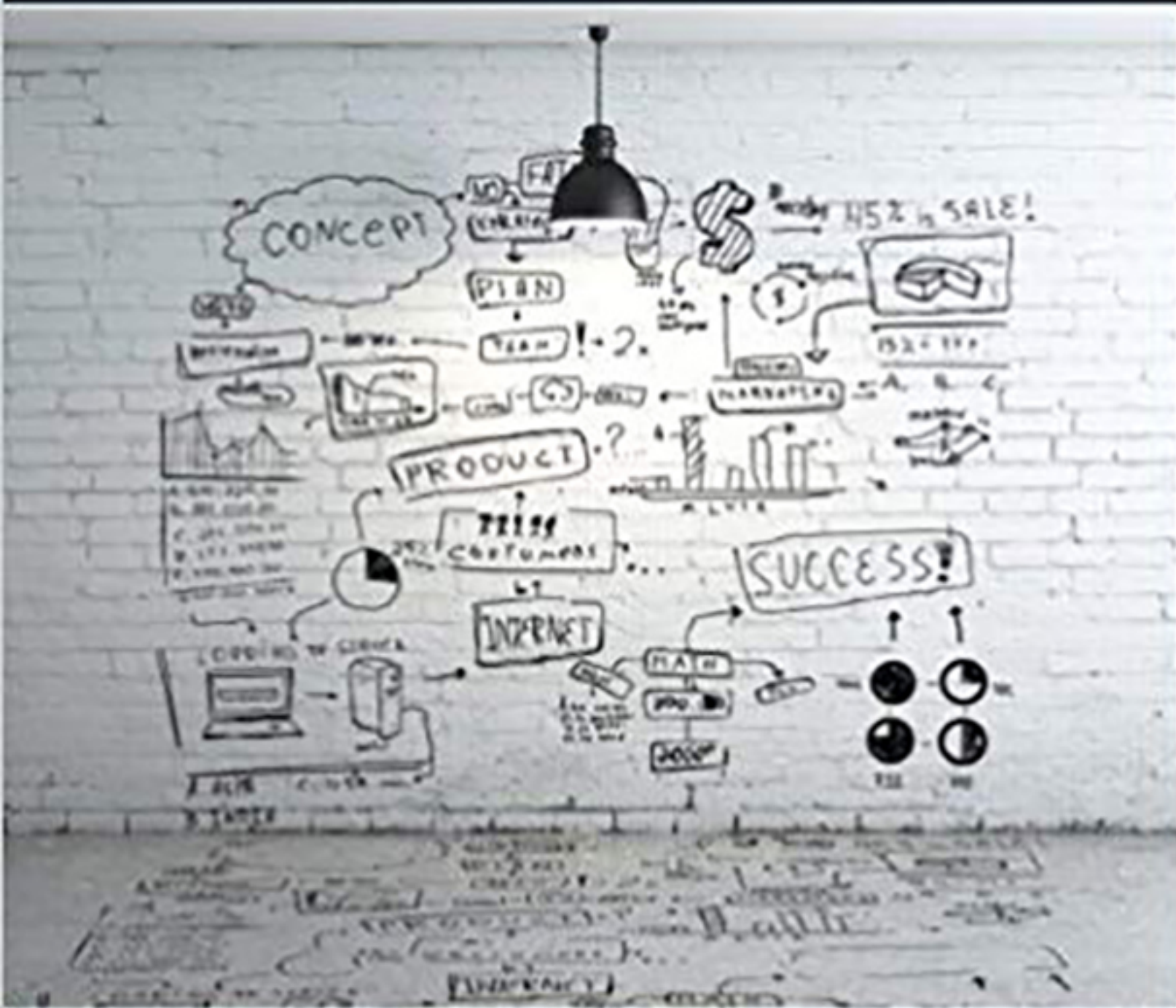


BUSINESS PLAN, BUSINESS REALITY

Starting and Managing Your Own Business in Canada

FOURTH EDITION



JAMES R. SKINNER

Business Plan, **Business Reality**

Starting and Managing Your Own Business in Canada

James R. Skinner

Fourth Edition

PEARSON

Toronto

Vice-President, Editorial Director: Gary Bennett
Sponsoring Editor: Kathleen McGill
Acquisitions Editor: Deana Sigut
Marketing Manager: Leigh-Anne Graham
Developmental Editor: ToniChahley
Supervising Developmental Editor: Madhu Ranadive
Project Manager: Richard di Santo
Manufacturing Coordinator: Karen Bradley
Production Editor: Tania Andrabi, Cenveo® Publisher Services
Copy Editor: Sally Glover
Proofreader: Susan Bindernagel
Compositor: Cenveo Publisher Services
Permissions Project Manager: Joanne Tang
Photo Permissions Research: Cordes Hoffman, Q2A/Bill Smith
Text Permissions Research: Khalid Shaskshir, Electronic Publishing Services Inc., NYC
Art Director: Zena Denchik
Cover Designer: Suzanne BehnWe
Cover Image: Fotolia

For permission to reproduce copyrighted material, the publisher gratefully acknowledges the copyright holders listed throughout the book, which are considered an extension of this copyright page. All photos provided by James Skinner.

Copyright © 2015 Pearson Canada Inc. All rights reserved. Manufactured in the United States of America. This publication is protected by copyright and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. To obtain permission(s) to use material from this work, please submit a written request to Pearson Canada Inc., Permissions Department, 26 Prince Andrew Place, Don Mills, Ontario, M3C 2T8, or fax your request to 416-447-3126, or submit a request to Permissions Requests at www.pearsoncanada.ca.

10 9 8 7 6 5 4 3 2 1 [EDW]

Library and Archives Canada Cataloguing in Publication

Skinner, James R. (James Ross), 1950-, author

Business plan, business reality : starting and managing your own business in Canada / James R. Skinner. – Fourth edition.

Includes bibliographical references and index.

ISBN 978-0-13-337026-3 (pbk.)

1. New business enterprises—Canada—Textbooks. 2. Self-employed—Canada—Textbooks. 3. Small business—Canada—Management—Textbooks. I. Title.

HD62.7.S55 2014

658.1'1410971

C2013-907066-4

PEARSON

ISBN: 978-0-13-337026-3

Brief Contents

Part 1 Starting a New Business 1

- 1 The Business Model: What Is the Concept for My Business? 1
- 2 Feasibility: How Do I Know It Will Work? 21
- 3 Marketing: How Will I Get Customers? 47
- 4 Operations: How Will I Organize the Work? 73
- 5 Finances: How Will I Manage the Money? 97

Part 2 Alternative Start-Up Methods 134

- 6 The Purchase Alternative: How Do I Buy (or Buy Into) an Existing Business? 134
- 7 The Franchise Alternative: How Do I Buy a Franchise? 161
- 8 The Family Firm Alternative: How Do I Take Over My Family's Business? 180

Part 3 Small Business Management for the Long Term 200

- 9 Managing for Growth: How Can I Expand My Business? 200
- 10 Managing for Efficiency: How Will I Reduce Costs and Expenses? 226
- 11 Emerging Trends and Issues in Entrepreneurship: How Will I Prepare for the Future? 249
- 12 Business Plans: How Are They Important? 277

This page intentionally left blank

Contents

Preface ix

Part 1 Starting a New Business 1

1 The Business Model: What Is the Concept for My Business? 1

What Does It Mean to Be "in Business"?	1
Small Business and Entrepreneurship	2
The Entrepreneurial Personality	3
Personal Demands	5
Family Issues	5
Employee vs. Entrepreneur	6
What Is My Business Idea?	7
Causes of Demand	7
Specialization	7
Targeting	8
Location	8
Defining the Business	9
Do I Need a Partner?	11
Partner Personalities	11
Partnership Agreements	11
What Will My Business Mean Legally?	12
Sole Proprietorship	12
General Partnership	13
Corporation	13
Other Legal Forms	14
How Do I Get Started?	15
The Business Plan	15

2 Feasibility: How Do I Know It Will Work? 21

How Will I Analyze My Location?	22
Site Issues	22
Home-Based Businesses	24
Leasing the Premises	25
How Much of My Kind of Business Is Out There?	26
Defining Market Potential	26
Applying Market Potential	27
Marketing Research Methods	27
Information Sources	28
Who Is My Competition?	31
Direct Competition	31
Indirect Competition	31
Assessing Competitors	32
How Much Business Will My Firm Get?	32
Industry Statistics	33
Customer Buying Intentions	33
How Long It Takes to Get New Customers	34

Expert Opinion	35
How Much Business the Competition Gets	35
All the Business Out There	35
The Amount of Business the Firm Can Handle	36
Level of Detail	36
How Can I Protect the Business?	38
Small Business Insurance	38
Security and Loss Prevention	39
Intellectual Property	40
Revising Your Plan	42

3 Marketing: How Will I Get Customers? 47

How Will I Become a Specialist?	48
Image	48
Naming the Business	49
Marketing Strategy	49
What Combinations of Things Will I Sell?	50
Service/Product Strategy	50
What Prices Will I Set?	52
Pricing Low	52
Pricing High	53
Pricing the Same	53
Negotiation	54
How Will My Products or Services Get to the Customer?	55
Distribution Channel	55
Physical Issues	56
Distribution and Image	57
How Will I Inform and Persuade Customers?	58
Advertising Media	58
Advertising Content	64
Publicity	65
One-on-One Selling	65
Sales Promotion	68
Revising Your Plan	69

4 Operations: How Will I Organize the Work? 73

How Will I Manage the Space and Equipment?	73
Acquiring Necessities	73
Office Set-Up	74
Retail Set-Up	75
Manufacturing or Wholesale Set-Up	75
Service Set-Up	76
How Will I Manage the Process?	77
Logistics	77
Purchasing	78
Procedures	79
Quality and Customer Service	82

How Will I Manage Information?	83
Keeping Records	83
Small-Business Software	83
How Will I Manage Myself and Others in the Firm?	86
Planning: Goals and Objectives	86
Dividing the Tasks	86
Leadership: Accomplishing More	88
Getting Paid	90
How Will I Manage the Government?	91
Licences and Permits	92
Taxation	92
Regulations	92
Professional and Industry Associations	93
Revising Your Plan	93

5 Finances: How Will I Manage the Money? 97

How Will I Explain the Business Finances?	97
Financial Statements	98
Assets	98
Liabilities	100
Equity	100
Balance Sheet	101
Costs and Expenses	102
Income Statement	105
How Will I Track the Finances?	106
Break-Even	106
Credit and Collections	107
Cash Flow	108
Where Will I Get the Money?	112
Personal Sources	112
Government Programs	113
Chartered Banks	115
Investors	115
Other Sources	116
Revising Your Plan	117

Part 2 Alternative Start-Up Methods 134

6 The Purchase Alternative: How Do I Buy (or Buy Into) an Existing Business? 134

Is Buying a Business Right for Me?	134
Personal Circumstances	134
Merits of Buying	135
Risks of Buying	136
What's Involved in Buying the Business?	137
Assessing the Business	137
Buying In	139
Breaking Off a Piece of a Larger Firm	140
Intermediaries	141
What Should the Purchase Agreement Include?	142
Shares vs. Assets	142

Payment Options	142
Non-Competition Issues	143
Disclosure Issues	143
Continuing Assistance	144
How Much Should I Pay?	144
Valuation Concepts	144
Valuation Methods	147
Negotiating Price	154

7 The Franchise Alternative: How Do I Buy a Franchise? 161

How Does Franchising Work?	161
Franchise Types	161
Legal Issues	164
Is Franchising Right for Me?	166
Merits of Franchising	166
Drawbacks	167
Personal Requirements	167
How Do I Choose a Franchise?	168
The Process	168
Assessing the Franchisor	169
Assessing the Opportunity	171
Buying an Existing Franchise	172
How Can I Finance a Franchise?	172
Financial Requirements	172
Sources of Finance	172
What Are the Contract Issues?	175
Territory and Site Issues	175
Supply and Inventory Issues	175

8 The Family Firm Alternative: How Do I Take Over My Family's Business? 180

What is the Family Business?	181
Definitions	181
Family vs. Business Relationships	182
Managing Conflict	184
How Do I Prepare for Running the Business?	184
Declaration of Intentions	184
Apprenticeship	185
Study	186
Outside Experience	186
Networks	186
How Do I Help Prepare Retiring Family Members?	187
Information and Advisers	187
Need/Want Identification	188
Preparing a Plan	188
What Are the Legal Issues?	190
Taxation Issues	191
Legal Form Issues	192
Insurance Issues	192
Alternative Compensation Issues	193
What Takeover Problems Will I Face?	194
Second-Generation Pitfalls	194
Managing the Transition	196

Part 3 Small Business Management for the Long Term 200

9 Managing for Growth: How Can I Expand My Business? 200

- Does My Business Need to Grow? 200
- Business Cycle 200
- Indicators for Renewal 202
- SWOT Analysis 207
- How Will I Increase My Sales? 209
- Market Share Expansion 210
- Product/Service Expansion 211
- Market Segment Expansion 214
- Replicating the Business 215
- Should I Consider Exporting? 216
- Selling Abroad 218
- Regulations 218
- Shipping and Payment Systems 219
- U.S. Market 220
- How Do I Finance Growth? 220
- Varieties of Growth Capital 220
- Financial Analysis 222

10 Managing for Efficiency: How Will I Reduce Costs and Expenses? 226

- How Can I Refocus the Business for
Efficiency? 226
- Measuring Efficiency 227
- Specialization 228
- Systemization 229
- Automation 232
- How Do I Retain Customers? 233
- Managing Customer Relations 234
- Services Marketing 235
- Satisfying the Difficult Customer 236
- How Do I Make Employees More Efficient? 237
- Hiring the Right Staff 237
- Staff Training 238
- Organizational Development 239
- How Can I Control Costs? 241
- Costing Systems 241

11 Emerging Trends and Issues in Entrepreneurship: How Will I Prepare for the Future? 249

- What Are the Recent Challenges for Small
Business? 249
- Changing Technologies for Small Firms 249
- Small Business and the Economy 250
- Small Business and the Environment 251
- Entrepreneurship and Ethics 254
- What Are Some Current Trends in Research? 256
- Classifications of Entrepreneurs 257

- Small Business Performance Drivers 258
- Minority and Female Entrepreneurs 258
- What Is Social Entrepreneurship? 260
- Non-Profit Corporations 260
- Co-operative Enterprises 261
- Mutual Benefit Societies 263
- Knowledge Entrepreneurship 263
- What Are the Emerging Trends in
Entrepreneurship Education? 264
- Business School Approaches 264
- E-tools for Teaching 266
- Entrepreneurship and International Development 267
- What Are the Management Issues for Small
Business? 268
- Leadership Skills 268
- Communication Skills 271
- Organizational Skills 272
- Crisis Management Skills 273

12 Business Plans: How Are They Important? 277

- What Are the Uses of Business Plans? 277
- The Business Plan as a Document 277
- The Business Plan as Process 279
- The Business Plan as a Consulting Tool 281
- The Business Plan as a Teaching Tool 282
- What Are the Different Types of Business
Plans? 283
- Variations for Business Type 283
- Variations for Business Stage 284
- Non-Profit Business Plan 285
- Departmental Business Plan 286
- What Does a Finished Business Plan Look
Like? 287
- Example Business Plan 287
- Pippa's Patty 'n Pie Business Plan 289
- Summary 289
- Section 1: The Business Model 289
- Introduction 289
- Products and Services 289
- The Customers 290
- The Opportunity 290
- The Owners 290
- The Legal Organization 291
- Section 2: Feasibility 291
- Location 291
- Site 292
- Site Expenses 292
- Market Potential 292
- Competition 293
- Sales Forecast 293
- Protecting the Business 293
- Section 3: Marketing 294
- Image 294
- Business Name 294

Service/Product Mix	294	Organization	298
Pricing	295	Regulation	298
Distribution	295	Section 5j Finances	298
Promotion	295	Start-Up Requirements	298
Promotion Evaluation	295	Owner(s)' Investment	298
Section 4: Operations	296	Borrowed Money	298
Space and Equipment	296	Sales Income by Month	298
Floor Plan	296	Costs and Expenses	304
Logistics	297	Endnotes	312
Methods and Procedures	297	Index	316
Systems	297		

Preface

WHY THIS BOOK?

At colleges and universities across Canada there is a flourishing interest in entrepreneurship. The reasons for this include:

- **The E-Revolution** Tablets, smartphones, the cloud, robotics, and a host of other technologies have changed how we communicate, navigate, purchase, persuade, research, and run many other aspects of our lives. And each of these changes has produced a myriad of opportunities to make money. How to make that money is what today's student wants to learn.
- **The Contract Worker Economy** The days of big companies providing lifetime jobs and indexed pensions are history. Business support functions are increasingly outsourced and short-term employment contracts are common. Graduating students need to see themselves as self-employed, as their own brands, responsible for developing and selling their own skills and services; they need to see themselves as entrepreneurs.
- **The Growth in Entrepreneurship Research** In years past, the teaching of entrepreneurship was based, at best, on poorly supported theories. But over the past three decades, scientists around the world have been creating new methodologies, testing hypotheses, and building a body of data about entrepreneurs and the economies in which they work. Today, we have increasingly reliable information to help graduates reduce the risk of being in business for themselves.
- **The Rise of Social Entrepreneurship** The set of tools that entrepreneurs use to make profit (marketing research, promotion, management, financial planning, etc.) are today's tools of social change. Non-profit organizations and co-operative enterprises are operated with "business plans" in increasingly competitive markets, and basic entrepreneurial knowledge is expected from entrants to these fields.
- **The Demand for Entrepreneurship in the Arts** Canadian post-secondary institutions have a proud history of producing highly skilled graduates in music, creative writing, visual arts, film-making, and so on. Unfortunately, many of these graduates ended up in careers outside their chosen fields; not because their artistic skills were lacking, but because they did not know how to turn those skills into money. Now, however, there is a trend to see entrepreneurship as a necessary part of any arts curriculum.
- **The Refocusing of Business Schools** Business-related programs are arguably the country's largest post-secondary field of study. No longer training centres for large employers, business schools are Canada's innovators in entrepreneurial education, hubs for business communities, and incubators for small firms.

There is an obvious need for a concise, adaptable textbook—a book about planning, starting, and managing a small business or some form of self-employment. This text is designed for post-secondary-level courses and workshops. It can also be used by anyone who wants a "do-it-yourself" plan for self-employment (actors, animal wranglers, bodyguards, bush pilots, choreographers, computer geeks, decorators, fashion designers, landscapers, private investigators, researchers, singers, sound mixers, video editors, writers . . .) as well as those who will start more traditional small businesses (clothing stores, consulting firms, machine shops, paralegal offices, photography studios, publishing companies, restaurants . . .). The list is endless.

Part 1 of the text is organized the way a simple business plan is organized. Chapters 1-5 correspond to the five sections of the basic start-up business plan. Part 2 of the text is about alternatives in the business plan—different ways of getting into business. And Part 3 covers the long-term management of the business as well as more theoretical issues in entrepreneurship. Some courses or individuals will use only the first five chapters, some will use all of them, and others will use various selections of chapters. (See the Course Application Chart below.)

The style of this text is intended to:

- **Show students where to get help.** You don't have to know everything there is to know about business to make money. The emphasis is on getting professional help for the hard stuff. Get *Help* items recommend sources of assistance.
- **Provide practical examples.** Many real-life examples are used in the body of the text and each chapter includes a realistic mini-case where students can solve particular issues (new for this edition). As well, *Ask Yourself* prompts, throughout the text, encourage readers to think of examples and issues from their own lives.
- **Use learning time efficiently.** A series of *Memory Check* (true/false) questions are sprinkled throughout the text as an easy way of checking whether the reader is absorbing the information. Encountering a question where the reader doesn't know the answer means either taking a break or skipping back a few pages and re-reading. Also, simple *Head Start* exercises provide an easy, painless way to create key components of the business plan. Alternatively, these exercises may be used by the instructor as short assignments.

WHO SHOULD USE THIS BOOK?

This text can be used by:

- **Business students**, typically in undergraduate diploma and degree programs that usually include one or two required courses in entrepreneurship.
- **Non—business students**, including a huge array of arts, technology, and applied science programs that may lead to some form of self-employment for the graduate.
- **Start-up entrepreneurs**, often in continuing education classes, short courses, and workshops leading directly to self-employment or small business ownership.

The Course Application Chart below shows typical chapter selections for different levels of courses.

COURSE APPLICATION CHART

Program Type	Chapters (Typical)	Example Course Titles
<ul style="list-style-type: none"> • Practical non-credit start-up workshops 	1-5	<ul style="list-style-type: none"> – Writing a Business Plan – Developing a Business Plan
<ul style="list-style-type: none"> • 2—3-year business diploma (as introductory course) • 2—4-year non-business degree or diploma • 3-year business diploma • 3—4-year non-business degree or diploma (as advanced course) • 4-year business degree (as introductory course) 	1-8 or 1-8 & 12	<ul style="list-style-type: none"> – Planning a New Business – Introduction to Entrepreneurship – Starting a Small Business – Introduction to Business Ownership – Independent Business – Small Business Ownership – Organizing a New Business
<ul style="list-style-type: none"> • 3-year business diploma (as advanced course) • 4-year business degree (as advanced course) 	1-11 or 1-10 & 12 or 1-12	<ul style="list-style-type: none"> – Small Business and Entrepreneurship – New-Venture Development – Small Business Management – Managing Business Growth – Small, Medium Enterprise Management – Building an Independent Business – Entrepreneurship and Management – Strategic Entrepreneurship – Advanced Entrepreneurship

WHAT'S NEW TO THE FOURTH EDITION?

As a result of reviews by, consultations with, and volunteered advice from professors, students, and entrepreneurs, the following changes have been made to this edition:

- Chapters have been reorganized to put the broader, more theoretical discussion of business plans at the end of the book. Chapter 12 includes a comprehensive example business plan that is now more easily accessible as a running example for other chapters.
- New mini cases have been added at the end of chapters to give students more opportunity for applying knowledge. Longer supplementary cases are still available to instructors as hand-out material.
- More e-business and technology examples have been used in an attempt to reflect the changing economy.
- More extensive use has been made of diagrams to show the business plan as an ongoing process.
- Learning objectives at the start of chapters have been condensed to fewer outcomes that will more closely reflect course outlines.
- Profiles of entrepreneurs have been changed or updated (as Business Reality boxes) to better capture the interest of students.

WHAT DO INSTRUCTORS GET?

The following instructor supplements are available for downloading from a password-protected section of Pearson Canada's online catalogue. Navigate to your book's catalogue page to view a list of those supplements that are available. See your local sales representative for details and access.

- **Instructor's Manual (ISBN: 978-0-13-354262-2).** Includes a number of valuable resources, including discussion questions to accompany the CBC Dragon's Den Videos, a guide to the supplements that accompany this book, course applications, templates for financial statements, and best practices for teaching entrepreneurship. The Instructor's Manual also includes a copy of the workbook from text in Microsoft Word format. This electronic version of the workbook contains references to examples and lessons in the textbook and links to helpful web resources for each of the questions and activities. Finally, the Instructor's Manual also includes a series of 24 short case studies that are available to illustrate specific concepts from the text. For business programs, these use examples from a wide selection of industries. For a number of non-business programs, the cases have been customized and are available as a package specifically for internet management, film and TV, photography, paralegal, electrical technology, hospitality, golf, immigration consulting, spa and cosmetics management, and other programs.
- **Test Item File (ISBN: 978-0-13-377253-1).** The test item file includes over 200 questions, including multiple choice, true/false, fill-in-the-blank, short answer, and essay questions for each chapter of the text. This supplement also includes a comprehensive final exam, which can also be used as a comprehensive challenge test. Correct answers for objective test questions are provided as well as suggested marking schemes for short answer and essay questions and for business plan submissions.
- **PowerPoint® Presentations (ISBN: 978-0-13-354264-6).** Lesson topics are provided as PowerPoint slides for each of the chapters.
- **CBC Dragon's Den Videos (ISBN: 978-0-13-354258-5).** This textbook is also accompanied by a DVD containing CBC Dragon's Den segments. These segments are accompanied by discussion questions, which are found in the Instructor's Manual.
- **CourseSmart for Instructors.** CourseSmart goes beyond traditional expectations—providing instant, online access to the textbooks and course materials you need at a lower cost for students. And even as students save money, you can save time and hassle with a digital eTextbook that allows you to search for the most relevant

content at the very moment you need it. Whether it's evaluating textbooks or creating lecture notes to help students with difficult concepts, CourseSmart can make life a little easier.

- **CourseSmart for Students.** CourseSmart goes beyond traditional expectations—providing instant, online access to the textbooks and course materials you need at an average savings of 60 percent. With instant access from any computer and the ability to search your text, you'll find the content you need quickly, no matter where you are. And with online tools like highlighting and note-taking, you can save time and study efficiently.
- **Pearson Custom Library.** For enrollments of at least 25 students, you can create your own textbook by choosing the chapters that best suit your own course needs. To begin building your custom text, visit www.pearsoncustomlibrary.com. You may also work with a dedicated Pearson Custom editor to create your ideal text—publishing your own original content or mixing and matching Pearson content. Contact your local Pearson Representative to get started.

Chapter 1

The Business Model: What Is the Concept for My Business?

Deciding to go into business for yourself is a single decision. But *how* you're going to get into business involves lots of interrelated decisions that need to be made in a logical order. For this, you need a business plan. This first chapter covers the first section of the business plan. This is where the entrepreneur explains the overall concept for the new business. The chapter will answer the following questions:

- What Does It Mean to Be "In Business"?
- What Is My Business Idea?
- Do I Need a Partner?
- What Will My Business Mean Legally?
- How Do I Get Started?

Learning Objectives

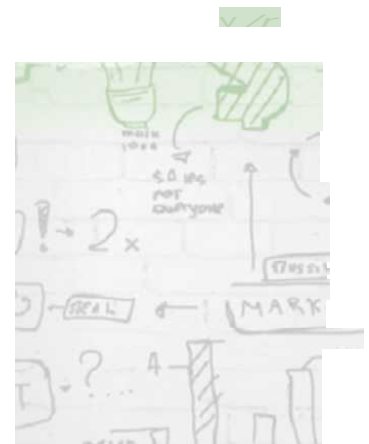
On completion of this chapter, you should be able to:

- 1 Discuss the definition and role of "small business."
- 2 Assess your own potential as an entrepreneur.
- 3 Identify at least four advantages and/or disadvantages of an entrepreneurial lifestyle.
- 4 Define a new business in terms of what it will sell and to whom.
- 5 Differentiate between "location" and "site."
- 6 Compare at least three legal forms of business.
- 7 Prepare the Concept and Summary portions of a business plan.

WHAT DOES IT MEAN TO BE "IN BUSINESS"?

A **business model** is the pattern of activities that a company uses to make profit. For example, you could be in the car rental business, renting out cars to drivers who pay by the day and who are responsible for buying their own gas. Or, you could require that customers pay an annual membership fee and members pay by the hour, with gas and insurance included in the rate. In both cases you're in the car rental business, but these are different business models. A fast-food take-out restaurant is a different business model from a full-service sit-down restaurant. And chances are, the business model you will be using has already been proven successful by someone else, so be prepared to copy successful business concepts from others.

Being in business, however, is more than just copying the successful pattern of a specific business. It also means applying proven principles of business from a wide variety of firms. So, like most textbooks, this one uses examples from a wide variety of companies.



business model The pattern of activities a company uses to make profit.

For many students, this is a problem, because they only want to read about a single successful model from a single industry. For example, if you are studying aviation management, you want to see examples of airlines. If you are thinking about starting a restaurant, you really only want restaurant examples; you don't want to read about a sound equipment rental firm or jewellery store. But this prejudice comes from failing to recognize a simple truth: Business is business. Clearly there are some differences between the business models of independent film producers and of plumbing companies. But they both make money by applying the same principles of business.

Many talented artists and skilled technicians profess little interest in business. They make the critical mistake of believing that financial success will automatically come as the result of their skills or talents. But *ask yourself: How many great artists have died penniless? Know of any third-rate musicians who nevertheless make lots of money?* Skill and talent are only a small part of the route to financial success. The rest is business. Once you see yourself as a businessperson, every time you fill your gas tank, go to the bank, or eat in a restaurant, you'll be learning a little more about how to make money in your own field. You'll truly be in business.

Small Business and Entrepreneurship

This text is about starting a small business, and most of us hold a pretty clear picture in our minds of what a small business is. But most of us are wrong; at least according to the experts. *Ask yourself: How many employees can a business have and still be considered small?* There is no standard definition of *business size*. However, many of the academics and researchers who study these matters tend to define a *small business* as an independent company having fewer than 500 employees, sometimes more.¹ Now that's a lot bigger than most of us picture small businesses to be, but there is some logic behind this definition. Strategically, how you plan and run a business of 1 person—or 3 people or 40 people—is not terribly different from the strategy used in firms of up to 500 people.

The lesson here is that organizing and running a business of any size is a complex activity that takes thought and planning. Realistically, over 90 percent of the small businesses in Canada have fewer than five employees. This is a category of businesses that many researchers would call micro-enterprise: operations, often family-based firms, which typically have just one or two people.

And what about the one-person business? Self-employment is a term used to describe individuals who work on their own, often out of their homes, and often on a contract basis for various companies. Some of these people may not be classified as business "owners," but rather as "contract employees." In fact, Canada Revenue Agency (CRA) treats many of these people as employees even when they consider themselves to be in their own business. This raises the question: *What is a business?*

Generally, a business must have some value of its own, apart from its owner. *Ask yourself: Could I sell the business?* If you're a one-person plumbing company, the answer is probably yes, in that selling the business would mean selling the truck, the tools, the company name, and maybe some contracts. If you're a freelance speechwriter, however, the answer is probably no. In this case, the entire existence of the business would depend on you, the owner, without whom there would be nothing to sell.

Ask yourself: Does this mean that freelancers who earn their living by selling their personal services are not "in business" and do not need a business plan? It does not! Even though lenders tend not to treat freelancers as businesses, they still have to plan and carry out most of the same business activities as those who have a business that they could sell. Freelancers, to be successful, should still use a business plan.

small business An independently owned organization that exists to make profit for its owner(s), often measured as having fewer than 500 employees.

micro-enterprise A very small business, usually measured as having fewer than five employees.

self-employment An entrepreneur working either as a freelancer or as a short-term contract worker—not a permanent employee of any firm, but not technically a business owner (not having employees or any significant business assets).

Canada Revenue Agency A department of the federal government that acts as Canada's tax collector.

freelance An independent service provider, not employed by any one company, and sometimes producing work before it has been sold.

Although freelancers may not always be considered business owners, they do practise *entrepreneurship*. They risk their time, labour, and money in order to make profit. This is the essence of entrepreneurship. So even though not all entrepreneurs are official business owners, certainly all business owners are entrepreneurs. *Ask yourself: Am I clear on the definitions of entrepreneurship, small business, self-employment, freelance?*

Despite the fact that the above terms have precise meanings, they will be used interchangeably in many instances in this text. That's because all entrepreneurs—small business owners, freelancers, and self-employed people—need business plans. And the business plan is what the first part of this text is all about.

This first component of the business plan demonstrates that you have given some thought as to whether you are the right kind of person to start a business. It demonstrates that you have the right training and experience and that you know what you are getting into. It also clearly states the nature of your business, the location, and the legal set-up, describing any partner or investor relationships.

Entrepreneurship is a great equalizer. It has long been a way to overcome barriers against ethnicity, age, and gender. True, some ethnic and cultural groups are more likely to have a tradition of entrepreneurship, but this is usually because of historical discrimination barring them from trades or professions in many parts of the world. In Canada, for some Aboriginal groups who traditionally lacked access to business capital, entrepreneurship has become a route to self-sufficiency. For the young in Canada, entrepreneurship is now highly encouraged, with many government support programs and non-profit organizations available to assist. And the growth in entrepreneurship by women in the past few years has been explosive. Forty-seven percent of Canadian businesses are now at least partly owned by women, who have access to borrowing money equivalent to that of their male counterparts.

The Entrepreneurial Personality

Ask yourself: What kind of personalities do successful entrepreneurs have? Do you think of terms like aggressive, outgoing, intelligent, dedicated, self-motivated, ruthless, single-minded, charismatic, scheming, and so on? This is how many of us picture entrepreneurs. But take a moment and think about some real-life entrepreneurs you may have met, not the ideal entrepreneurs of popular culture. Think of someone who is, perhaps, the owner of the dry cleaner near your home, the owner of the drugstore where you work part-time, or the owner of the garage that fixes your car. These are people who make a living by running their own business; in other words, successful entrepreneurs who, for the most part, are not the perfect heroes of modern mythology. In fact, they tend to be pretty ordinary people: some of them kind, some shy, some lazy—not the movie image of the successful entrepreneur.

Complete the "trait test" in Figure 1.1 before reading any further.

Many small business texts start out with a self-assessment test of some sort, something to see if you're the right kind of person to run your own business. So, what characteristics are these entrepreneurial tests typically looking for?

Most of these tests are looking for the same characteristics that are *popularly believed* to be true of entrepreneurs. They are typically based on some form of research, but for the most part, this research lacks validity. In fact, much of it is "**junk research**"—looking at characteristics of people who are already successful business owners, instead of looking at the traits that entrepreneurs had *before* they became successful business owners. There are a few rigorous studies of the traits that help people to *become* successful entrepreneurs, and the results of these show that *most people have the potential to start and run a business*.

entrepreneur Someone who risks money (or their own time and effort) to make a profit. All business owners, freelancers, and otherwise self-employed people are entrepreneurs.

Memory Check 1.1

True or False? Most Canadian businesses have more than five employees.

CI Memory Check 1.2

True or False? A freelance journalist is generally considered to be a business

S Memory Check 1.3

True or False? A freelance journalist should be working with a business plan.

junk research Studies that are based on flawed logic or poor application of scientific methods

Figure 1.1 Trait Test⁴

Score each of the following statements according to how true it is of you. Calculate a total at the bottom.

0 = never true of you
 1 = occasionally true of you
 2 = usually true of you
 3 = always true of you

I am confident in my ability to influence others.
 I work harder than most others I know.
 I have a clear picture of my future.
 I spend more time attending to responsibilities than most people do.
 I have specific long-term goals.
 I spend time each week planning my future.
 Compared to most people, I take work or school seriously.
 I do a thorough job in completing my tasks.
 The steps to success are obvious to me.
 I believe in my own ability to succeed.
 I work more hours per day than the average person.
 I see myself as controlling my own destiny.
 Compared to others, I am more likely to exercise self-control.
 I make the major decisions that affect my life.
 I know what I want to achieve.

TOTAL

Self-Analysis Generally, but not universally, successful entrepreneurs tend to be a little more hard-working than the rest of the population; they tend to be more goal-oriented; and they tend to have more confidence in their own ability to influence their futures. These are the characteristics that the self-scored test above is looking for.

Scores	
Above 38	well above average
34-38	above average
26-34	average
22-26	below average
Below 22	well below average

Memory Check 1.4
 True or False? A "small business," by definition, has fewer than 20 employees.

ii Get Help 1.1
 If you are unsure about your own suitability to run a business, arrange an interview with an employment or career counsellor through your community college or check with your local Service Canada office (1-800-OCanada) for any programs near you.

If you didn't get the score you wanted, don't worry about it. Remember, with self-assessment tests like this there are always questions of validity and reliability—if you were to have something different for breakfast tomorrow and were to rewrite the test, you might get a different score. There is little evidence that these tests can actually predict entrepreneurial accomplishment. Besides, the real value in tests like the one above is that they make you ask yourself about yourself. *Ask yourself: Am I the kind of person who can start and run a business?*

There is little doubt that a certain combination of personality, skills, and desire produces the ideal entrepreneur. But some of us have no inclination to run our own business, regardless of our talents in these areas. Circumstances, however, can make people believe that self-employment, though not their first choice, is the only option available to them: the graduate with a diploma but no job prospects, the aging "downsized" middle manager, the new immigrant with no Canadian work history, the mature homemaker who has been out of the workforce for many years and can't find employment. These people are often

categorized as "reluctant" entrepreneurs. Reluctant entrepreneurs are less likely to be committed to the business and often will abandon the process of starting their own firm as soon as a suitable job becomes available to them.⁶

The question of *desire* to start one's own business is perhaps much more important than ability. This desire is certainly influenced by a person's concept of being "in business." Many consider it a lot more prestigious to be president of a five-person company than to be manager of a 500-employee division of a giant organization. Most entrepreneurs have strong feelings about the importance of business ownership—they really want to do it. *Ask yourself: Do I really want to do it?*

reluctant entrepreneur
Someone who would rather work for an employer but is forced into self-employment because they cannot find a suitable job in their chosen field.

Memory Check 1.5
True or False? A freelance journalist is an entrepreneur.

Personal Demands

There is a strong emotional component to entrepreneurship. It is the passion that an owner has about his or her business that provides the tremendous amount of energy required to start a new venture. Right now, you probably spend too much time watching TV. If you go into business for yourself, that won't be a problem. Surveys show that business owners, especially at start-up, may work significantly more hours than the average employed person works. One Canadian study shows that entrepreneurs work about one-third more hours than salaried employees.⁷ About a third of entrepreneurs routinely work more than 50 hours per week.¹ This lifestyle is demanding: It's not for the dabbler, the hobbyist, or the part-timer. Furthermore, you have to know what you're doing. This is why *having worked for someone else in the same industry is one of the stronger predictors of new business success*. Unfortunately, many people go into a business where they have no experience. Lack of experience and not understanding the time demands—these are among the main reasons that the majority of new businesses fail. In fact, two-thirds of new micro-enterprises don't last 5 years¹⁰ and only 20 percent make it to the 10-year mark."

With all that extra work and all the responsibility and risk of running a business, the stress can be significant. Nevertheless, the research is still unclear on whether it's more stressful to be an employee or to be the boss. But if you've got a job, *ask yourself: Of all the people in my life, who gives me the greatest amount of stress?* If your answer is "my boss," you're in the same boat as most employed people. The great irony is that by becoming the boss yourself, in owning the company, you may work as though you were a slave to the business. Despite that, the majority of successful entrepreneurs report that they love the independence. *Ask yourself again: Do I really want to be my own boss? How badly?*

Get Help 1.2
The Business Development Bank of Canada has an interesting online quiz to help assess your potential as an entrepreneur. Go to www.bdc.ca and click on Advice Centre, then Benchmarking Tools, then Entrepreneurial Potential Self-Assessment.

Get Help 1.3
To read about recent Canadian small business success stories, go to <http://sbinfocanada.about.com/od/successstories>.

Family Issues

If you're involved in a committed relationship, the decision to go into business cannot be yours alone. Because of the time and financial demands (even for successful firms, it usually takes a good while to start making money), it is important that you have the total support of your life partner. Without this support, you may find your spouse and the business competing for your attention: One of them will have to lose.

Some couples resolve this by going into business in partnership, an arrangement that has its own set of advantages and disadvantages. When your life partner and your business partner are one and the same, you could end up together 24 hours a day, 7 days a week. This kind of closeness works well for some pairs, but for others, absence makes the heart grow fonder. *Ask yourself: How will starting a business affect my relationship with my life partner, spouse, or fiancé?*

Similar issues arise when you have children. Obviously, when starting a new business, you will have less time to devote to your kids than if you were employed or a stay-at-home parent. Home-based businesses may seem like a solution, but picture yourself on the phone with a demanding customer while a determined three-year-old tries to get your attention. (See "Home-Based Businesses" in Chapter 2.) When the kids are older, however, one of

Ui Memory Check 1.6
True or False? Most of the "entrepreneurial ability" tests are accurate predictors of one's ability to start a business.

Memory Check 1.7
True or False? "Junk research" is still of good quality even though it is not recognized by most scientists.

the big advantages of owning your own firm is that it can provide employment for family members. As children mature, the tendency to socialize less and less with parents can be offset by the closeness of working together. *Ask yourself: How will owning my own business affect my relationships with my children?*

Employee vs. Entrepreneur

There is lots of good news about being in business for yourself, including the money. Small businesses that are successful can provide their owners with incomes far above the average for employed people. The statistics don't always reflect this clearly, but still show entrepreneurs as making somewhat more than the average. The statistics, however, can be misleading. When small-business incomes are reported, they tend to include the failing companies (with little or no personal income for the owner) and they do not include the underground economy (the billions of dollars in unreported income that is funneled through small companies each year).¹¹ When working for an employer, there are many factors that limit the employee's income, including what society thinks is fair pay for a particular job and the labour market itself. *Ask yourself: Why would an employer pay any more for help than is necessary?* But when working for yourself, you can take home as much money as the business can produce. The sky's the limit. Every one of Canada's billionaires got that way by owning businesses, not by working for the government or big companies. If becoming wealthy is your goal in life, your single best chance for it is through entrepreneurship.

For a number of years, educators and employers in Canada have been co-operating to help foster employability skills in today's graduates. These include skills in

- oral and written communications;
- mathematics;
- time management;
- teamwork; and
- computer literacy.

Certainly, all of the above could be advantageous, not just in employees, but to the small business owner personally. In addition, however, the entrepreneur needs some skills in the following areas:

- *Financial planning.* A huge number of *potentially profitable* firms go bankrupt each year simply because of the entrepreneur's inability to understand and plan *cash flow*.
- *Sales/negotiation.* The entire profit-making process starts with convincing someone to buy your product or service. Profit can also depend on an entrepreneur's ability to make deals with suppliers, regulators, and even employees.
- *People management.* While not necessarily important at start-up, the eventual growth of a business is going to depend on employees, which the entrepreneur will have to recruit, train, and motivate.

These are entrepreneurial skills.

To be a successful entrepreneur, however, *you don't have to do it all on your own!* While employees may be judged on their personal skills, entrepreneurs are not. Entrepreneurs are judged solely on their ability to make profit. An entrepreneur who lacks financial skills can rely on an accountant for help in this area. A poor negotiator can partner up with a strong negotiator. It is also possible to start a business by buying a franchise where all of the management systems and training are provided. So, the real skill of the successful entrepreneur becomes the ability to assess himself or herself and seek help in any weak areas. *Ask yourself: What entrepreneurial skills do I have? Which do I need help with?*

underground economy All of the illegally unreported business and consumer transactions conducted for cash or barter on which taxes are not paid.

employability skills The general knowledge and abilities that employers seek in prospective employees. Examples are literacy, numeracy, time management, teamwork, and computer skills.

entrepreneurial skills The knowledge and abilities necessary to make profit in business. These include financial, negotiation, and people skills.

U Head Start Exercise

- 1.1** Prepare a brief résumé of your education and work experience. Then, in three or four short sentences, explain why a career as an entrepreneur would be appropriate for you (1 1/4 page maximum).

CI Memory Check 1.8

True or False? The majority of new businesses do not last for five years.

WHAT IS MY BUSINESS IDEA?

Causes of Demand

Every change produces a business opportunity, sometimes called a gap. The kind of change doesn't matter: political, economic, social, cultural, environmental, technological. . . . A growth in the number of school-aged children means a need for more photographers taking class and graduation pictures. An increase in purchasing via the internet means a need for more webpage designers. More online magazines means a need for more freelance journalists.

gap An unsatisfied need or opportunity in the marketplace, produced by some kind of change that has taken place.

Why is now a good time to start a business of the sort you are proposing? This is a natural question from lenders or prospective investors when approached by someone starting a business. The best way to answer this question is by pointing out some sort of change that has given rise to this business opportunity. For example: "There has recently been a big increase in home schooling, so I am starting an online service to sell teaching aids to parents who teach their kids at home." *Ask yourself: What was the change that produced an opportunity for my favourite band? My favourite restaurant?*

Specialization

The highest-paid medical doctors are the superspecialists—those who treat only a certain organ or fight a particular group of diseases. When something is wrong with your heart, you want only a cardiologist. Even though a family physician may be well enough trained to diagnose and treat you, if it's your heart you probably want to see a cardiologist. If you are accused of tax evasion, the lawyer who handled your will or real estate transaction may be perfectly competent to handle the problem. But you would rather have a specialized tax lawyer, even though you know it will cost you more.

It works pretty much the same for other small businesses: Generally, those that specialize make the most money.¹⁴ This isn't always an easy concept to accept. It might seem that the greater the variety of goods or services you sell, the more opportunity you will have to make money. But that's wrong. An electronics store that specializes in audio equipment does not have the overhead of a store that has to carry TVs, DVDs, cameras, computers, smartphones, burglar alarms, and so on. And the true audiophile shopping for those special speakers wants to buy them (and will willingly pay more) from a specialist.

There is also the issue of efficiency from specialization. If you're a freelance writer who specializes in speech writing, you can generate speeches more quickly and of better quality than the writer who does a magazine article one day, an instruction manual the next, and a promotional pamphlet the day after. Each of these writing styles has a time-consuming learning curve associated with it. Furthermore, you, as the specialist, have the advantage of being perceived as a monopoly: the right one (the only one) to deal with.

U Head Start Exercise

- 1.2** Make some notes explaining how you will make money by specializing in particular products or services (1/4 page maximum).

For small businesses, it is generally more profitable to specialize in a narrow range of products or services. But there is another way that a business can and should specialize: in

targeting Specializing in a particular group (or groups) of potential customers.

the types of customers that it aims to capture. This is called targeting and, generally, small businesses that target narrow groups of customers are more profitable than businesses that tend to see themselves as being for everyone.

Targeting

This is often a difficult concept for new business owners to accept, since the narrower the target that a business pursues, the fewer the potential customers that are available.

Let's say you own a CD store and you have never met anyone who didn't like music. So your store could be for "everyone." However, if your store targets a particular age group—say, 18 to 35—there will be fewer potential customers than if you target "everyone." Nevertheless, your business is likely to make more profit by going after this smaller group. And if your business narrows its focus to people in a particular geographic area—say, uptown neighbourhoods—there will be even fewer potential customers, but your business will likely make even more money. And if your business narrows its focus even more—say, to people in a particular economic group—it will likely make even more profit. It may seem strange since each narrowing of the target group leaves fewer potential customers, but it's true! You'll make more profit.

If your store is targeting people who are all the same age, all live in the same area, and all have the same incomes, the same education, the same attitudes, you can be fairly sure they will all listen to basically the same music. A business such as this can carry everything that its customers want without having the big expensive inventory needed to satisfy "everyone." In addition, advertising to this target group will be a lot cheaper than advertising to everyone (because they all live in the same small area). This saves you money, allowing for more profit.

U Head Start Exercise

- 1.3** Make a list of particular customer groups you could target and note why each might be a good idea (1/4 page maximum).

Location

location The general geographic area where a business can be found, expressed as a neighbourhood or municipality or even a region of the country.

site A specific place where business is conducted, expressed as a particular block, address, suite, or part of a building.

Memory Check 1.9
True or False? Specializing in a particular product or service is called "targeting."

Where you locate your business helps define your business concept or model. *Ask yourself: How important is the location to the success of my business?* Is there a difference between location and site? Where you put the business, in a general sense, is what we mean by location: a certain city, a certain region, or a certain neighbourhood. When we talk about site, we are being much more precise: a particular corner, an exact address, or even a specific part of a building. For example, you may decide to locate your business in downtown Halifax (a neighbourhood) but the site of your business might be the Halifax Shopping Centre, the first store on the right, inside the main doors from Mumford Street (a particular unit.)

For retail and consumer services businesses, site can be a critical factor to the success of the business. These are businesses where the customer comes to you. So, it is necessary to get a site that is accessible to your kind of customer, or even better, already has high traffic of your kind of customer.

For manufacturing or wholesale firms, site tends to be less important, but location is often critical. For example, if you plan on wholesaling precision bearings, it may be important that you are located in Southern Ontario, where most of your customers (machinery manufacturers) and most of your suppliers (metal cutting firms) will be found. But it won't make much difference whether your site is in downtown Hamilton or suburban Mississauga since both have access to local transportation.

For some companies, the site of the business is the owner's car, or a cell phone, or the back part of the basement. These are "home-based" businesses. You are most likely to have a home-based business when you either don't meet the customer face-to-face (e.g., mail-order or online businesses), or when meetings usually take place at the customer's premises (you go to them). The number of home-based full- and part-time businesses is growing rapidly as a result of new technologies and the increased contracting-out of work. In fact, you may be using this text as part of an online course where the instructor is working from his or her home.

The idea of working out of your home may be very appealing to you (work all day in your pyjamas and be able to fix lunch for the kids). However, the decision to work from home should always be based on what you're selling and to whom you're selling it. If your business is booking DJs for small local clubs, working out of your basement is great since your customers (the club owners) may believe that your low overhead will mean lower prices for them. But if you want to be a talent agent for high-priced models and actors, then producers will expect you to have an office in the business or arts district of the city: It's an issue of credibility.

At this point in the business plan, you are making a "working decision" about where to run your business. Later, in Section 2 of the business plan (Chapter 2), you will do a more detailed analysis of your location and site, which may lead you to revisit this decision. In practice, however, most entrepreneurs don't do a detailed analysis first and then open their firms where data shows the greatest likelihood of success. Instead, they open up in the location where they already live, have families, go to school, and know their way around. They are likely to pick sites that they are familiar with or where they have a connection with the landlord. If this is the case for you, you must stay aware of the fact that your choice of location should be influencing your choices of what you are selling and to whom you are selling it.

U Head Start Exercise

- 1.4 Write a brief description of the location for your proposed business and note one or two advantages of this selection (1/4 page maximum).

Defining the Business

The definition of your business is a statement of *what you're selling* and *to whom you're selling*. Let's say you have training in graphic arts and you worked for a sign manufacturing company. Perhaps, at the same time, there is an *opportunity* in the sign industry based on recent technological changes allowing for inexpensive computer-based design and colour printing. And let's say there is a store for rent on the main street of your hometown and you see it as an opportunity to start a "quick-sign" store. The two specialization questions you must ask yourself are

- What am I selling?
- To whom am I selling?

The easy answer is "*I am selling signs to anybody who wants to buy them.*" Unfortunately, this is also the wrong answer. If Shell Oil wants to buy 11 000 high-tech illuminated signs for its gas stations in Europe and North Africa, your small business obviously cannot supply them. In fact, the business you can afford to set up involves a single graphics computer with one printer that can print only on fibreboard, plastic, or paper surfaces to a maximum size of one square metre (i.e., no large illuminated signs like Shell needs). You are already specialized by the limitations of your company. So what you expect to be selling can now be defined as *small non-illuminated signs*.

CI Memory Check 1.10

True or False? A new business should try to have as wide a variety of potential customers as possible.

VI Memory Check 1.11

True or False? For the purposes of the business plan, the terms *location* and *site* are totally interchangeable.

CA Memory Check 1.12

True or False? Specialization in fewer products or services generally means more profit for a small business.

■ ■ Get Help 1.4

After you write out the definition of your business as completely as you can, show it to a journalism student, a marketing teacher, or the best writer you know. Ask them to summarize what you've written. Repeat this process several times. Try to remember that you are only getting editing help, and that the actual business concept must be your definition.

A Special Site for a Highly Specialized Retailer



After textile school, Diana Sanderson's love of silk weaving led her into creating scarves, shawls, and other garments that she started selling at craft fairs. Her clientele grew steadily until 1986, when she was able to open a studio on Vancouver's trendy Granville Island.

This site was originally a boiler room but was remodelled into a warm, inviting showcase for Diana and other artists to demonstrate their skills, teach others, and sell their fine creations. Today Diana is recognized around the world as an established silk weaver and clothing designer.

Although Granville Island is geared toward the well-heeled tourist traffic, a large portion of Diana's business comes from her own Vancouver-area clientele. To support

the area as an important tourist location, businesses on parts of the island receive rent subsidies. But this is not the case for the Silk Weaving Studio, which is in a more secluded, privately owned section of the island. Diana, however, is able to control her costs by sharing her studio space with several other weavers. Even though Diana is the lessee, decisions about the premises are generally made co-operatively by all the artists. The studio is also used to showcase the work of guest artists working in a variety of fibres. It is open seven days a week and visitors can watch artists at work in the weaving process.

As is more typical of arts-based enterprises than other categories of business, Diana explains that the various artists tend to be "complementary to each other, rather than competitive." Working in different styles, they produce different products but all appeal to the same upscale clientele seeking a less trendy, more classic look in their wardrobes. "One of the most exciting things for me," says Diana, "is when a client comes in wearing something they bought 15 years ago and it still looks great,"

Diana admits to being influenced by the tastes of her clients but would never produce something (and has even turned down requests to do so) just because it's trendy. She feels that the challenge for her is finding the right balance between business and art. For example, the business does not do typical retail promotion, other than her tasteful sign and websites (www.silkweavingstudio.com and sanjosilk.com), where visitors can see the quality and style of Diana's products.

Defining *what you're selling* also helps to define who the potential customers will be. Who is able and likely to buy the type of signs you are selling? Independent gas stations offering tune-up specials, real estate agents needing "for-sale" signs, pizza parlours pushing two-for-one deals, car dealers with finance rate discounts—these are all small retail and service businesses. Logic tells us that small companies such as these are not going to chase halfway across the country to buy signs; they will shop in their own geographic area. So maybe your market now becomes *small retail and service businesses within the town (or neighbourhood) where you are located*.

We are getting closer to a definition of the business. But remember, writing the business plan is really a process of rewriting, and the thing we are going to rewrite the most is the definition of the business. So, defining the business is often a process of *redefining* the business, many times. Therefore, our current definition is only a working definition, and we can expect it to be modified and refined when we look into issues of market research, sales strategy, location, competition, and so on.

— Head Start Exercise

- 1.5 Take a few minutes right now and write out the first few lines of the plan for your business idea. Briefly indicate what you will be selling and to whom you plan on selling it (1/8 page maximum).

DO I NEED A PARTNER?

The "business opportunities" column of the newspaper lists many people looking for business partners. Typically, these are *people with ideas* looking for *partners with money*. There are few legitimate ads from people with lots of cash but fresh out of ideas. People can and do find partners, but it's usually from less formal sources than newspapers. Relatives, fellow employees, classmates, friends . . . these are the people one is most likely to partner up with in a new business. In many cases, the partnership is formed before the concept for the business is clear and before anyone has asked whether they really need a partner. *Ask yourself: Do I really need a partner? Why!*

There are lots of legitimate reasons for having a partner: sharing the risk, increasing financial resources, personality reasons, reasons of expertise, and so on, but the fact that someone is your cousin or long-time friend is not, by itself, reason enough to include them in the business. You should not form partnerships because of past obligations, but rather for mutual future benefit.

Partner Personalities

You may well need a partner—sometimes more than one. The question then becomes, What personality traits and skills do you want in your partners to complement your own personality and skills? Ideally, your weaknesses will be their strengths and vice versa. Also keep in mind the extraordinary number of hours that you will be working with your partners. At the very least, you want people you will get along with.

Don't forget that starting a new business is an emotional undertaking and your relationship with any partner will be emotionally charged—that means conflict, even fighting. But the purpose of a partnership is to spend your time making profit, not war. Partnership conflict is inevitable and not totally counterproductive. It can often help to look at problems from more than one perspective, but protracted fights among partners are just bad for business. *Ask yourself: Am I likely to fight longer with someone who is just like me, or with someone who is my opposite?*

As with most human conflicts, the battle is likely to be over quickly if one of the partners is dominant. Forget about trying to find a partner with whom you are perfectly evenly matched. Having one of the partners dominate could well be to the advantage of both. And when partners cannot resolve conflict themselves, it is worthwhile to seek the help of a professional mediator. If mediation is not successful, partners can then turn to arbitration so that the conflict can be settled and they can get on with making some money. Over the past few years there has been tremendous growth in Alternative Dispute Resolution (ADR), and professionally designated mediators (Chartered Mediator—C. Med.) and arbitrators (Chartered Arbitrator—C. Arb.) are easy to find.

Partnership Agreements

We know that it is important to reduce conflict between partners, and one of the most effective ways to do this is with a detailed partnership agreement.¹ *Ask yourself: What kinds of issues are likely to be covered in a partnership agreement?*

The basic questions to be answered by a partnership agreement are:

- Who puts in how much of the capital?
- Who gets what portion of any profit?
- Who has authority over which decisions?
- What are the responsibilities of each partner?
- How can disputes among the partners be settled?
- How can the partnership be changed?
- How can the partnership be ended?

Memory Check 1.13

True or False? The definition of a business may change a number of times during the writing of a business plan.

Get Help 1.5

If you're planning to have your life partner as your business partner, you may want to look at *Partners at Home and at Work*, by Annette O'Shea and Sieglinde Malmberg, published by the Self-Counsel Press. Out of print now, but available in many libraries, it offers techniques for dealing with specific problems of a double-partnership arrangement.

mediation The use of a neutral third party to settle a dispute by assisting the disputing sides to come to a voluntary agreement.

arbitration The use of a neutral third party to settle a dispute by examining the arguments of the disputing parties and then imposing a binding decision on the parties.

partnership agreement

The contract between two or more people who are entering business ownership together.

Get Help 1.6

The website of the ADR Institute of Canada (www.amic.org) provides information on Alternative Dispute Resolution. It can help partners find appropriate mediators and arbitrators.

IA Memory Check 1.14

True or False? The decision of a mediator must be adhered to by the disputing parties.

These issues seem pretty simple, but simple issues become enormously complex if they are not clarified at the beginning of the relationship. What if you were to start a partnership with your friend? You agree that the friend will invest 60 percent of the capital to start the business and he will have 60 percent ownership. You will invest 40 percent, but you will have to borrow your initial investment from the friend. The friend will receive both his and your share of the profits until the borrowed amount is paid back. But what if there are no profits? Do you still owe the money to your friend?

Let's say you enter into partnership with two friends of yours who happen to be cousins to each other. At some point, the cousins decide that they would like to bring in a fourth partner, another of their cousins. You don't know the new cousin and are against the idea. What happens now? Can they outvote you? Do you have a veto?

You and a friend each invest \$5000 to start a partnership. A few weeks into the business, your friend tells you that he has changed his mind and wants out. You say, "Okay, you're out." The friend says, "Good, now give me back my \$5000." You explain that the money has been spent on equipment, but when the business starts to make money you will pay him the \$5000. Your friend wants his money immediately and insists that the equipment be sold and that he get his share. You refuse. Who is right?

If the above eventualities are not covered in the partnership agreement, they might have to be settled by a court and involve the expense of lawyers. Better to pay the lawyer less up front to have a proper partnership agreement drafted that all of the partners fully understand. *Ask yourself: What happens to the friendships in the above three examples?*

Head Start Exercise

- 1.6 Draft a brief list of provisions you would demand in any partnership contract (1 page maximum).

You can get a do-it-yourself partnership agreement from a business supplies store. However, partnership agreements are an area where paying for some legal advice can be a great investment. This doesn't mean you should be scared away from the idea of partnerships. Many of Canada's most successful businesses were started as partnerships. Just be sure that you "partner up" very carefully.

WHAT WILL MY BUSINESS MEAN LEGALLY?

One of the early decisions to be made in starting up a business is the selection of a legal form. Like other early decisions, you might change this one by the time you complete the business plan, or even at some point after the business is up and running. For the majority of new businesses, the choice of legal form is a simple decision of whether or not to incorporate. Nevertheless, you should know that more than two choices are available and understand the advantages and disadvantages of each.

Sole Proprietorship

This is the simplest, cheapest, and most common form of business. It is a business owned and operated by one person. It doesn't mean that the company has only one employee—it can have any number of employees. It just means that only one person has the inherent right to control the business. If you have a sole proprietorship, you and the business are one and the same as far as the law is concerned.

Let's say the owner of a sole proprietorship arts-supply store passes away. The owner no longer exists and, legally, the business no longer exists. Members of the owner's family will inherit the assets (i.e., the property) of the business (the sign, the art supplies, the cash register) just as they will inherit the owner's other personal assets: cash, clothing,

sole proprietorship A legal form of business where only one person owns and has the legal right to operate the company. The sole proprietor has unlimited liability for the company's debts.

broken guitar. The family may decide to keep the business going. But what they are doing in a legal sense is taking the inherited assets (the sign, the supplies, the cash register) and investing them into a brand-new business. The assets of the business are the personal assets of the owner.

And just as the owner *personally* owns the assets of the firm, so does he or she *personally* own the debts of the firm. This is what is meant by the expression **unlimited liability**: There is no limit to how much the owner is personally responsible for the debts of the business. If a sole proprietorship is closed down because it cannot pay its debts, the owner is still responsible for them; the owner must use personal assets to pay the debts.

Each province and territory has its own business registration rules. Generally, registration is required if you are operating a business under any name other than your own exact first and last name. Even then, it is a good idea to register because you may need the registration certificate to get other business documents and it's not expensive. If you do carry on a one-owner business without registering, you will be considered to have a sole proprietorship. If you carry on a business that has more than one owner and fail to otherwise register the business, you will be considered to have a general partnership.

General Partnership

The general partnership legal form is similar to sole proprietorship, but it applies to a business that has two or more owners, each of whom has the right to make decisions about the business and each of whom has *unlimited liability*.

This is the single most important issue to be aware of when entering into a general partnership. It means that each partner has 100 percent responsibility for the debts of the business: not just responsibility for their own share, but responsibility for the entire amount of debt. It means that you can personally be liable for any mistakes your partners make as far as the business is concerned. The implication here is that you must be prepared to have considerable trust in your partners and should know as much as possible about their financial circumstances as well as any agreements they might make on behalf of the business.

Despite some of the obvious inherent dangers, a general partnership is inexpensive to register and may offer significant tax advantages at start-up.

Corporation

People talk about the "big corporations," but size has nothing to do with legal form: A one-person company can be a corporation. The owners of a corporation are referred to as shareholders. Generally, for small corporations, owning 51 percent (or more) of the shares gives someone the power to decide who will run the company. Also, in most cases the percentage of shares a person owns reflects the percentage of any dividend (profit that the company decides to pay to shareholders) that the person will receive.

The owners of a corporation, however, unlike the above forms, do not personally own the assets of the company. When a business is incorporated, the law recognizes the company as an "*artificial person*," and it is this artificial person who owns the assets.

It is also the artificial person who is responsible for the debts, and this is what we mean by **limited liability**: The owner's responsibility for the debts of the business is limited to however much he or she has invested in the firm—the owner's personal assets are not at risk if the business has failed.

Compared to a sole proprietorship or general partnership, it is considerably more expensive to form a corporation, ranging from several hundred dollars for "do it yourself" to several thousand dollars for having one of the more expensive law firms handle the incorporation.

unlimited liability Total personal responsibility for the debts of a business.

general partnership A business where two or more people own and have the right to manage the company. Each owner in a general partnership has unlimited liability for all the debts of the company.

Memory Check 1.15
True or False? In a good business partnership, no one partner should ever be dominant.

Q | Memory Check 1.16
True or False? The decision of an arbitrator must be adhered to by the disputing parties.

corporation A legal form of business that exists separately from its owners (shareholders), who have limited liability for the company's debts.

limited liability A situation where company owners do not have personal responsibility for the debts of their company.

Get Help 1.7
Check with your provincial business registrations office for the cost of registering a sole proprietorship or general partnership.

limited liability partnership

A legal form of business available to professional firms that provides partial liability protection to the partners.

worker co-operative A legal form of business where the employees (at least a majority of them) are the owners of the company. Each owner has one equal vote in selecting management and directing the company.

Memory Check 1.17
True or False? In a sole proprietorship, the owner of the business has unlimited liability for company debts.

limited partners may not participate in the management of the company. In this form, there must be at least one general partner (there can be any number) who will have unlimited liability.

Limited liability partnership (LLP) is an increasingly popular form that applies to firms in self-governed professions (like lawyers and accountants). Be careful about confusing LLPs (as they are usually designated) with the limited partnership form. These kinds of firms are not permitted to incorporate, but the LLP form allows limited liability for the partners, provided that they carry insurance at sufficient levels to meet potential liabilities. The LLP protects you from being liable for the mistakes or wrongdoing of your partners in the firm only, not against liability for your own mistakes or wrongdoing. LLP is not available in all Canadian jurisdictions at the time of writing, but most have it at least under consideration.

Worker co-operatives exist largely to provide employment for their members. The employees of the company are the shareholders and they have the limited liability protection of corporations. Unlike corporations, however, where the number of shares owned can mean the number of votes in running the company, in co-operatives each member (owner) gets only one vote, regardless of how many shares he or she owns. In this sense, co-operatives are governed democratically. This form of business has been used successfully in artisan-based, food production, and forestry companies, and it could be applied to many emerging industries. For example, an information technology-based firm owned by a group of talented programmers could work as a co-operative.

The decision of legal form is usually influenced by

- initial cost
- liability
- tax considerations
- the image the entrepreneur wishes to project
- the number of investors and their financial circumstances

Choosing a legal form is one of the more complex planning decisions and often requires the advice of a lawyer, an accountant, or a marketing adviser. Nevertheless, a preliminary decision on legal form should be made in the early parts of the business plan. The Canada Business Network website (www.canadabusiness.ca) is a good place for information on legal forms. This site is referred to frequently throughout the text. Be cautious of U.S. sites in this area (their rules are a little different). If you have any doubts before deciding on a legal form, call a lawyer's office and start by asking how much they will charge you for

A History of Partnerships



In Canada, coffee is a hot topic. And no one knows this better than Vida Racovanovic, owner of The Canadian Barista & Coffee Academy. Vida is the sole owner of the company and plans to keep it that way, although, at different times, she has been involved with three different partners.

Vida's first coffee business was started when she was a freelance writer working with another writer on a guide to coffee houses in Toronto. In doing their research, the pair saw that there was no trade magazine for the Canadian coffee industry, which had to rely on several U.S. publications. Once the pair had their magazine up and running, they expanded the business by producing a major conference and trade show: The Canadian Coffee and Tea Expo. Then, a new partner was brought on board with the three owners all having equal shares in the magazine and the expo.

But the partnership was not a success, so Vida and the newest partner bought out the third. Unfortunately, the new two-member partnership also failed. So Vida bought out her remaining partner, operated on her own for a while, and then sold a half interest in both ventures to another new partner, who already had other publishing interests. This final partnership was eventually dissolved, with Vida taking full ownership of the expo and the partner owning the magazine. Vida eventually sold her rights to the expo but stayed within the coffee industry by starting the Canadian Barista and Coffee Academy. Here, she provides training to existing and would-be coffee house owners as well as to baristas, the espresso machine *chefs* of the coffee industry. The Academy is located on Toronto's busy downtown Esplanade and has its own coffee shop, the Academy Café.

After years of partnerships, some good, some bad, Vida is now the only owner of her small corporation. When asked if she would ever go into another partnership, Vida indicated that she would not rule it out. However, she urged caution for anyone thinking of doing so. "Get a draft partnership agreement down on paper, right from the start. And include details of everything: who puts in how much money, who is responsible for what, what will be the time commitments and remuneration for the partners . . . absolutely everything you can think of. And don't sign the actual agreement until you have had your lawyer look it over."

See the website for The Canadian Barista & Coffee Academy at www.canadianbaristaacademy.com.

HOW DO I GET STARTED?

The Business Plan

Most new businesses are started without the owner ever having written a formal business plan. But then, most new businesses fail within a year or two.

Pretty much every human activity is more likely to have a successful outcome if it is planned. This includes a chess game, an athletic contest, a vacation, asking someone for a date, and so on. The plan isn't always written out, but it does exist. A business, however, is much more complex than a chess game or a party. No reasonable person would attempt to build a house or a vehicle or anything else that complicated without a written plan. So it only makes sense to use a written plan in building a business. Having a written business plan will improve your chances of survival.¹⁷ *Ask yourself: What other reasons might I have for needing a business plan?*

Formal business lenders and investors require written business plans. If you want to borrow money from a bank or sell part of a business to investors (other than your grandparents), you almost always have to have a written business plan. There are many uses and variations in business plans, the details of which are covered in Chapter 12. But for most

Qi Memory Check 1.18

True or False? In a general partnership each of the partners can be held personally responsible for all of the company's debts.

Memory Check 1.19

True or False? In a limited partnership, all of the partners have limited liability.

Memory Check 1.20

True or False? An individual may be the only owner of a corporation.

IA Memory Check 1.21
True or False? An individual may be the only owner of a general partnership.

start-up businesses, all the necessary components of the basic business plan are covered in Chapters 1–5. Each of these chapters (including this one) covers one of the five components of the basic business plan:

- the business model
- feasibility
- marketing
- operations
- finances

At the end of each of these chapters, there is an outline for that section of the business plan. You will have already completed much of this work if you have been using the *Get Started* exercises.

On the principle that it is easier to fix up a bad plan than it is to write a great plan from scratch, start by writing something that is less than perfect—or even fairly bad. Just get something down on paper or into a computer. It can always be fixed up later. Remember, most of the work of writing a business plan is in rewriting. Section 1 of the plan lays the groundwork for Section 2, which must be completed before Section 3, and so on. But as the decisions for each section are made, they sometimes require you to go back and rewrite earlier parts of the plan.

Notice that the outline for Section 1 of the business plan starts with a summary, often called an *executive summary*. If you are using the plan for your own purposes and it is not intended for other readers, then the summary is really not necessary. For readers other than the entrepreneur(s), the summary is a valuable overview of what the plan is about. If you are using one, even though it is at the beginning of the plan, it will be written after the rest of the plan is completed.

If you want to be in business for yourself, the first step must be taken by you, the entrepreneur. You must start writing the business plan. There is little point in hiring a high-priced consultant to write a plan that is not made up of your ideas; you just won't follow it. That doesn't mean you can't get help for the process. Throughout this text there are tips on who and what can help you in preparing the plan. And if writing is just not your strength, there are lots of professional writers willing to proofread for you and fix up your grammar and spelling. But the ideas must be yours, because your real purpose in writing a business plan is not just to end up with the document. Rather, it is the process that's important. By having to prepare each element of the business plan, you are forced to think through all of the critical decisions involved in starting a business in a logical order—an order that will let you see contradictions and areas where your plan does not make sense. Writing it down forces you to make a better plan.

Ask yourself: What will be the most difficult part of writing a business plan? What will be the easiest? The biggest problem with writing a business plan is the same problem encountered in any type of writing: overcoming procrastination. It is amazing how creative people can be in finding critical things to do instead of writing the plan: looking at locations, calling suppliers, shopping the competition—these are the easy parts. But the writing has to be done, so just do it!

Take the first step and start writing.

ad Memory Check 1.22
True or False? An executive summary is necessary for all business plans.

8 Memory Check 1.23
True or False? Writing a business plan is largely a process of rewriting.

Answers to Memory Check Questions

1.1 F 1.2 F 1.3 T 1.4 F 1.5 T 1.6 F 1.7 F 1.8 T
1.9 F 1.10 F 1.11 F 1.12 T 1.13 T 1.14 F 1.15 F 1.16 T
1.17 T 1.18 T 1.19 F 1.20 T 1.21 F 1.22 F 1.23 T

Questions for Discussion

1. Identify a movie or TV show where the main character is a successful entrepreneur. Discuss whether the portrayal of the character is realistic or artificial.
2. "Eventually, everyone in Canada will be in business for themselves." How would such a system work and what evidence is there that we are moving in this direction?
3. Suppose that someone who owns a restaurant asks you to marry him/her. If you accept the proposal, how would your life be different from a life where you were married to a government employee?
4. Debate this proposition: "Canadian colleges and universities are in the business of training employees, not entrepreneurs."
5. Make a list of the major changes (political, social, economic, cultural, technological, etc.) currently under way in our society. Identify at least one entrepreneurial opportunity that each of these changes will create.
6. Identify how you could be highly specialized as a self-employed person in a variety of industries (e.g., golf, music, construction, auto repair, etc.). What are the advantages over being a generalist?
7. Compare the province or territory you are in with the closest U.S. state as potential locations for opening a new small business in an industry such as plastic moulding. Which location has the most advantages? What if the industry were TV animation, specialty chocolate manufacturing, or used computer refurbishing?
8. List a variety of ways that you could be cheated by a business partner. What kinds of provisions could you put in a partnership agreement to prevent your being treated unfairly by a partner?
9. Discuss the advantages and disadvantages of being married to your business partner.
10. Discuss how incorporation (vs. sole proprietorship or partnership) changes the image of a company. When would it be a disadvantage to have a corporate image?

Case for Discussion

Whitney Almeida was tired of hearing "don't do it." She had an idea for a business and everyone she went to for advice was trying to discourage her.

Her mother (homemaker, part-time store clerk): "Yes dear, but perhaps if you were married to someone wealthy, then you could have a business like that. Because let's face it, what you're talking about is really more of a hobby."

Her father (provincial government accountant): "Put in twenty years building a decent pension somewhere. Then you could take early retirement and play around with weird ideas like that."

Her aunt (lawyer, divorced): "These days, a woman has to be able to make a reliable living for herself. You need security. Go back to school, get a professional credential, then you can save money and invest a little of it in risky businesses."

Her uncle (independent plumbing contractor): "It's great to be in business for yourself, but nobody's going to buy what you want to sell."

Her boss (art gallery owner): "Trust me. You don't want all the headaches of trying to run a business. Look at me, I'm barely surviving."

Whitney did not feel convinced by any of them. She had a two-year diploma in graphic arts, had taken a part-time course in photography, and was working full-time in a small art gallery. The previous month, Whitney and her sister had taken a trip to Scotland, where they toured half a dozen ancient castles. Whitney had been particularly fascinated by the many old portraits decorating the castle walls. And on the plane ride home, half asleep, Whitney had envisioned her idea for a business: creating traditional formal portraits that were half painting, half photograph.