Components of the financial plan–*continued*

5. Financial requirements and sources schedule

This will outline the amount of capital you need to raise for your business, which projected costs are being covered, and the sources for that capital—owner investment, bank or other lender, partners, etc.

6. Sensitivity analysis

When you make a sensitivity analysis, you ask Òwhat if my underlying assumptions are off?Ó For instance, what if you end up with 15% fewer customers than you had projected; what if your costs increase by 10%; what if your price is set too high; what if the exchange rate goes against you by 5%? Take any Òwhat ifÓ scenario that you feel may apply to your business, and run through the numbers. Be aware that dropping your sales forecast by 15% does not necessarily translate to a simple 15% drop in net profit. The drop is usually significantly more, because many of your fixed costs remain unchanged. As you work through several scenarios, you will come to see which assumptions are the most sensitive to change. In other words, you may find that a 10% change in price up or down may not significantly alter your bottom line, but a small percentage change in number of sales will have a significant impact. Know where you are vulnerable and develop strategies to counteract the potential impact.

7. Assumptions used in preparing your forecasts

A problem with many business plans is that the words donÕt always add up to the figures. In other words, the business plan does not do a good job of linking information in the descriptive part of the plan (marketing, operations, human resource plan) with the financial plan. This linking is critical. While writing any part of your plans and especially the financial plan, keep a list of assumptions about how you arrived at your numbers. For instance, you are developing sales projections for your highway lodge/gas station. One assumption you make is that you will pick up 5% of highway travellers gas sales, because you are one of 2 gas stations located approximately one gas-tank full from a community that provides full services to 10% of all travellers. Note the assumption, number it and add it to a list of assumptions in the business plan, making it easier for you to recall how you determined the numbers and for others to understand your projection. Are your projections realistic and reasonable? Wherever possible, provide documents that can support your forecasts (example: industry financial ratios and norms).

Getting further help

8. Additional information

Other information that you may need to provide includes business valuation or appraisal on real estate; equipment appraisals; costing; accounts payable and accounts receivable details; inventory

FOR MORE INFORMATION

Tourism Industry Resource Center
100 Hanson St, Whitehorse; (867) 667-5449

Aboriginal Business Canada (Industry Canada)
Vancouver, B.C. (604) 666-3871

Basic Accounting
Self-Counsel Press

Business Planning Publications available from:
all major banks; Industry Science and Technology Canada (Aboriginal Economic Program); Business Development Bank of Canada; Dana Naye Ventures.

Canada-Yukon Business Service Centre,
201-208 Main St., Whse.; (867) 633-6257 or 1-800 661-0543

Dana Naye Ventures
409 Black St., Whitehorse; (867) 668-6925

Yukon Entrepreneurship Centre Society
411 Wood St., Whitehorse; (867) 393-3574

Setting and managing your financial targets

THE FINANCIAL PLAN may not be the heart of your business plan, but it is designed to ensure that cash Ñ the lifeblood at the heart of every business Ñ will be there when itÕs needed. In writing this plan, you will make forecasts of your sales, expenses, developmental costs, operating costs, cash flows and your financing needs, sources and timing. The financial plan will help you to set targets for your business and manage it once youÕre up and running.

A tool to raise finances

A second and equally important purpose for your financial plan is to convince potential lenders or investors to provide your business with capital. If you want the plan to work for you, it must be tailored both to your own needs and to the needs of your financing sources. All lending institutions will give you information about their specific requirements. Many of them have their own publications which can guide you through the process of preparing your financial plan. Other agencies such as the Canada-Yukon Business Service Centre, Tourism Industry Resource Center and Dana Naye Ventures, can also give you a great deal of useful information.

There are four questions you should bear in mind while preparing your financial plan:
¥ How will the company perform?
¥ What will the cash position be?
¥ What will the financial position be?
¥ What significant assumptions did you make?

Answering questions

Financial plans outline your projections and answer questions for you and your potential lenders or investors. In practical terms, your plan will draw together this information:

1. projected (also known as pro-forma or forecast) income statements for a 1-3 year period. Income statements are also known as profit and loss statements. If you are expanding or purchasing an existing business, you will also need to show copies of past income statements.
2. projected (opening) balance sheet. If you are expanding or purchasing an existing business, you will also need to show copies of past balance sheets.
3. projected cash flow statement Ñ detailed by month for the first year, annually for three years
4. capital and operating budgets Ñ details of start-up costs and capital improvements
5. financial requirements and sources schedule.
6. sensitivity analysis
7. assumptions used in preparing your forecasts
8. additional information

Sales revenue projections

The basis for most of the projections you make will be the Sales Forecast, usually prepared as part of the marketing plan. This forecast sets out how much of your product or service you expect to sell. It is derived from an analysis of your target market, the definition of your typical customers and a determination of the number of sales your business can expect to make to those customers. There are critical assumptions you will have to make along the way, especially the assumption of what percentage of the potential customers will be yours. Base these assumptions as much as possible on hard facts and figures. Since the financial plan depends on the accuracy of the sales projections and timing of cash flow resulting from sales, the integrity of the business plan as a whole will rest on these projections. Regardless of the techniques you use to make your sales forecasts, rely on your own common sense and good judgement in making your final decisions.

Bracketing your projections

The exercise of making projections is not a time for optimism. A conservative business plan will project sales lower than expected, while projecting costs higher. A good strategy here is to ÒbracketÓ your projections. Prepare both an optimistic and a pessimistic projection and then walk a path down the middle. Your potential lender or investor will likely want to see the effect of making this kind of

Projection becomes budget

variation to your sales projections.

Once you have your financing in place, you need to monitor your expenditures carefully while you are setting up your operation. Compare actual costs to your projections, so that you can deal with differences quickly. When you begin business operations, your projected financial statements will be your budgets. Your actual revenues and expenses should be compared to those budgets. Be prepared to act if there are major differences.

Components of the Financial Plan

LetÕs take a closer look at the components of your financial plan as outlined above .

1. Projected Income Statement

This is a forecast of how much you expect to receive in revenues and how much you will spend over the course of the next three years or more. You will start with your sales forecast to determine revenues and also your cost of sales Ñ that is, the goods you must purchase to make those sales. To those costs, you will add other expenses like rent, utilities, advertising, office expenses, repair and maintenance. You will also need to look closely at the cost of insurance. Tourism businesses often have unique insurance needs that can be costly for the business owner. The bottom line, your net income, equals your projected revenues minus your projected expenses. Sometimes, your first year or two will show a very low or even negative net income. Projections over 3-5 years, however, may well indicate long-range feasibility for your business.

Sample Projected Income Statement for the year ending Dec. 31, 1999, for:

Riverside Bed and Breakfast

REVENUE		
ACCOMMODATION SALES		
Swan Room	29,000.00	
Falcon Room	27,500.00	
Teal Room	22,000.00	
Nuthatch Room	19,500.00	
TOTAL ACCOMMODATION		98,000.00
GUIDED WALKS		
Evening stroll	10,000.00	
Sanctuary walk	13,000.00	
Swan song	4,500.00	
TOTAL GUIDED WALKS		27,500.00
MISCELLANEOUS SALES		
bag lunches	3,600.00	
birding books, supplies	1,250.00	
conference bookings	14,000.00	
other	2,500.00	
TOTAL MISCELLANEOUS		21,350.00
TOTAL REVENUE		**$146,850.00**
EXPENSE		
COST OF GOODS SOLD		
Food	10,250.00	
toiletries, housekeeping	4,500.00	
birding books, supplies	700.00	
miscellaneous	3,000.00	
TOTAL COST OF GOODS		18,450.00
ADMINISTRATION		
Accounting	500.00	
Advertising and promotion	12,750.00	
Bad Debts	1,000.00	
Depreciation	5,000.00	
Insurance: Liability & Property	4,500.00	
Interest and Bank charges	2,400.00	
Interest on long-term debt	9,600.00	
Licenses, fees and dues	1,200.00	
Office Supplies	2,750.00	
Repairs and Maintenance	5,000.00	
Telephone & Utilities	6,400.00	
Wages and employee benefits	48,400.00	
TOTAL ADMINISTRATION		99,100.00
TOTAL EXPENSE		**$117,550.00**
NET INCOME		**$29,300.00**

2. Projected Balance Sheet

A balance sheet is merely a schedule laying out your assets and the liabilities you incurred to buy the assets or generate revenue, as well as the equity you have in the business. This will contain the same asset and liability accounts as your ÒrealÓ business balance sheets will do, once the business is up and running.

3. Projected Cash Flow Statement

Net income does not equal cash. Businesses can fail due to lack of cash even when they are showing strong sales and profitability. This profit, for instance, can be tied up in accounts receivable, equipment and inventory Ñ leaving no cash to pay the bills. Preparing this forecast is to simply list all the cash payments and cash receipts you will make and receive, at the times you expect to make and receive them. This will show you, month by month, when you will need additional financial resource so that you can make appropriate arrangements.

When listing your cash receipts, remember that they go beyond merely cash sales to include long-term loan proceeds, sale of assets and capital infusions from owners or shareholders.

Your cash payments fall into three categories. The first is *development costs*, which are usually one-time and associated with starting up the business. They include such things as preliminary research and marketing costs, licences, legal and accounting fees. The second is *fixed asset costs*, which are often incurred at start-up as well, but are tangible and have a re-sale value. They include such things as land, buildings, equipment, vehicles, and signage. The third category is *operating and maintenance costs*. These are the on-going expenses of doing business, such as rent, utilities, wages, etc.

New entrepreneurs often miscalculate cash flow timing and underestimate the working capital they require. This is most true for start-up of a seasonal tourism operation. ÒWorking capitalÓ is the cash your business has available on a day to day basis to keep going. Your financial projections should show that you have allowed enough time to establish your customer base. You also need to show enough working capital to carry you through that first period of operation Ñ when you will likely have reduced revenues and no profitability.

One of the potentially troublesome aspects of cash flow management is Òaccounts receivable.Ó If your business will be invoicing customers and waiting for payment, you will have accounts receivable. It will often take 60 days or longer to get payment from a customer, even when your invoices state Ònet 30Ó. If your financial plan assumes that you will receive payments within 30 days, you may run into a serious working capital shortage. Some businesses can establish credit terms with suppliers (also known as Òaccounts payableÓ or Òtrade creditÓ) but most new start-up businesses have to work on cash payment terms at first.

4. Capital and operating budgets

How much will you have to spend before you can open your doors for business? Which costs are estimates, and which are firm quotes? Funds may be needed for purchasing equipment, buildings, inventory, leasehold improvements and furniture. This will form your capital budget Ñ a forecast of the money you need to purchase tangible assets. The operating budget is a forecast of the money you will need for the day to day operation of your business. DonÕt overlook pre-opening costs including legal and accounting fees, loan fees, insurance, deposits, business licence, stationery, advertising and brochures. Make sure that you provide for contingency funds to cover cost overruns or unforeseen costs.

Sample Projected Cash Flow Statement for the first three months of operation for:

Riverside Bed and Breakfast

	April, 1999		May, 1999		June, 1999	
	planned	actual	planned	actual	planned	actual
CASH RECEIPTS *(cash entering the business)*						
Cash on hand	4,000		–		–	
Cash Sales	3,000		7,500		11,500	
Accounts received	–		500		3,000	
Bank loan proceeds	20,000		–		–	
Other proceeds	10,000		3,000		–	
TOTAL receipts	32,000		11,000		14,500	
TOTAL Cash	37,000		11,000		14,500	
CASH DISBURSEMENTS *(cash leaving the business)*						
Accounting	300		–		–	
Advertising and promotion	7,500		1,750		1,250	
Birding books, supplies	600		–		–	
Capital expenditures	18,500		2,500		1,000	
Food	700		800		1,000	
Housekeeping supplies	1,200		200		300	
Insurance	2,250		–		–	
Interest and Bank charges	200		200		200	
Owner's withdrawal	–		–		1,500	
Licenses, fees and dues	700		300		–	
Miscellaneous supplies	800		100		100	
Office Supplies	800		–		100	
Payment, long-term loans	800		800		800	
Repairs and Maintenance	–		–		1,000	
Telephone & Utilities	500		400		300	
Wages, employee benefits	4,000		4,000		4,000	
TOTAL disbursements	38,850		11,050		11,550	
RECONCILIATION *(to show short term financing requirements)*						
Total Cash	37,000		11,000		14,500	
Minus total disbursements	38,850		11,050		11,550	
Surplus or [deficit]	[1,850]		[50]		2,950	
Increase or [decrease] in short-term loan	1,850		50		[1900]	
Closing cash balance	0		0		1,050	
Short-term bank loan balance at month end	[1,850]		[1900]		0	

Sample Projected Financial Requirements/Sources Schedule for:

Riverside Bed and Breakfast

FINANCIAL REQUIREMENTS	
Construction costs for room upgrades, 2 en-suites, hot tub & deck	34,000.00
Signage, landscaping, gazebo viewing platform, walkway construction	16,000.00
Framed bird prints, carvings, birder's library, audio & video, 2 spotting scopes	7,500.00
Logo and collateral materials development, marketing campaign	12,750.00
Bedroom, dining room, bird room furnishings	28,000.00
Computer, printer, fax machine, desk, filing cabinet, office materials	5,000.00
Operating costs until break-even	16,000.00
TOTAL financial requirements	**119,250.00**
PROPOSED FINANCING	
Second mortgage	32,500.00
Bank loan	42,000.00
Line of credit	10,000.00
Trade credit	750.00
Family investment	16,000.00
Owner investment	18,000.00
TOTAL proposed financing	**119,250.00**