

# **It's Time to Write Your Business Plan**

**By Jim Mulligan**

If you're looking to start a business, the thought of developing a business plan might seem daunting. Some even question the value of spending time on a business plan—especially when an accountant can determine what your business requires to be financially viable. The truth is, a business plan can be a straightforward document to prepare, and by going beyond the basic financial information, it can be your blueprint for franchise success.

## **What is a business plan?**

One of the purposes of a business plan is to get your new franchise financed; however, it does much more. Your first step in developing a business plan is to answer basic questions that isolate your true goals. These include: 'why am I interested in owning my own business?' 'what are my personal objectives?' and 'what motivates me?' You might also ask 'what level of risk am I prepared to take?' If you can answer these questions objectively, your business plan will erase doubts, fill in gaps, isolate your challenges and reveal your opportunities—both financial and personal.

A business plan is not a document you write once and then shelve. You will have it constantly at-hand, referencing and modifying it during all stages of your franchised business, from startup, through growth, all the way to the day you sell.

## **What does a business plan look like?**

A business plan can be one document or several; in digital or in print; written down or presented. Whatever form it takes, it should include everything you must consider when starting a business (including how you plan to succeed).

A good business plan requires a description of the business, information on the franchisor's team and an assessment of management, materials, market and money. It is not enough to explain the business; you must also explain how you can make it work.

While no plan is all-encompassing, yours should include as much relevant information as possible, presented in a clear, concise fashion. Consider using appendices for detailed information, such as your franchisor's marketing materials, product descriptions, financial disclosure documents and comprehensive financial statements.

## **Who reads your business plan?**

Your business plan should answer questions for anyone who reads it. However, it is first and foremost a document for you—it helps you develop a strategic map for success in your business.

It is the banker who will most closely review your business plan, as it is his or her job to assess your business-loan application. Your business plan could also attract potential investors or be a tool to hire managers. Lawyers and accountants are unlikely to read it.<sup>1</sup>

Some franchisors want to see a prospective franchisee's business plan, others don't. In any case, your first contact with a franchisor typically takes place before you meet with the bank, and perhaps even before you have fully drafted a business plan.

## **Initial research**

The first phase of your business plan is highly personal and may not require much outside research. However, as you move closer to isolating your ideal business venture, you'll need progressively more detailed information about markets, demographics and eventually, a particular franchise system.

Your bank can be a great source of business plan information. A bank that specializes in franchise financing has resources to help you better understand what your business plan needs. Your banker can even provide specific advice regarding the neighbourhood you have selected for your business. Don't hesitate to approach the bank for information and advice early on—even well before you've selected a franchise to buy.

Your franchisor should also welcome requests for information, assuming you've already met its minimum franchisee criteria. Not only can the franchisor offer a basic idea of the kind of financing you will need to get started, it can also provide you with information on current profits, timelines and some of the challenges you're likely to encounter. With this knowledge, you can put together a realistic and reliable picture of your franchise's prospects.

A quick Internet search will reveal many other resources for business plan information. Various federal, provincial or territorial websites offer free small-business services you can use. The Internet may also direct you to available presentation software, which may have built-in business plan templates you can use to create a more professional presentation.

## **What to include in your business plan**

When putting your presentation on paper, be brief. Use appendices for detailed information (such as your franchisor's marketing materials, product descriptions, financial disclosure documents and comprehensive financial statements), which will form the foundation for your financial package. An effective business plan must also address the 'four Ms' of business ownership: management, materials, market and money.

### *Management*

As a franchise owner, you are the key member of the management team. Therefore, your business plan should include how your unique skills will help build your franchise. It is also helpful to list other individuals who are involved in your business, and in what capacity. Will you be the only employee or will you hire staff? How much will you, your management team and your employees be paid? Are some individuals bound by contractual agreements? How will your organization be structured? To answer these questions, provide resumés, organizational charts and other relevant documents in your appendix.

Include a section listing all your professional support services, such as accountants, lawyers, consultants and bankers (perhaps external suppliers, as well). If you have a business partner, you may wish to include his or her contact information, as well.

### *Materials*

Each franchise has different needs. Prepare a guide explaining how you'll create your product or deliver your service. Provide basic business requirements—real estate, office space, equipment and vehicles—with financing specifics. Include a lead time for production, supplier lists, material costs and basic accounting matters, such as payment dates. Remember to provide any startup inventory requirements.

### *Market*

Your assessment of the market starts with an industry overview—trends, growth prospects, size of the franchise industry and seasonal and legal (regulatory) issues. Reinforce this with a complete description of the product or service you're going to be selling. Why do you believe in this product? What makes it unique? Who are your competitors and what are their strengths and weaknesses? What part does technology play in the creation or delivery of the product? Are there patents or other legal protections to be addressed? Do you have specific strategies to help you grow your share of the market? These are some of the factors that need to be included. If the product is highly complex, it is a good idea to provide corporate literature from the franchisor in your appendix.

There is another crucial question to answer: 'who are your customers and how will you find them?' A brief marketing plan can be a strong addition to your business plan—consider everything you must do to get your customers to buy. Also, take time to understand your customers in terms of age, gender, geography and income. Finally, consider your local competition. Does your product offer any distinct advantages? Is your target neighbourhood underserved? How would you describe the competition's financial prospects?

Advertising and promotions are an important element some franchisees neglect. Add to your business plan a list of the media you will use to communicate with customers, *e.g.* radio, newspapers and flyers. Some franchisors offer advertising as part of the franchise fee, so provide details of those costs. Should your franchisor offer marketing materials, you can list them in an appendix.

### *Money*

As a potential franchise owner, you'll need 'seed' money to get your business started. The rest will come from your bank. Your business plan's financial proposal will tell you exactly how much money you will need.

The financial proposal can be broken down into three sections: income statements, cash-flow management statements and balance sheets. Since your business is new, these statements will be based on assumptions regarding future events or operations over the next three to five years. Your prospective franchisor can provide you with approximate

projections; most can also provide references for you to contact regarding this information.

Before delving deeper into what each financial statement says about your franchise, you must understand the expenses your business will encounter. ‘One-time’ expenses include rent deposits, equipment down payments, vehicle purchases, starting inventory, franchise fees, business licences, permits and utility setups. ‘Operating expenses’ include your business’ day-to-day operations, such as salaries, rent, mortgage payments, supplies, utilities, professional fees and loan payments.

#### *Income statements*

Now that you know your expenses, you can work on your income statement. This monthly document summarizes your profit or loss based on your expenses and monthly sales. You’re just starting out, so income statements should be provided until your break-even period. The statement reveals to your bank the projected long-term performance of your venture.

#### *Cash flow statements*

Your cash flow statement reflects your company’s ability to stay in business. It is a snapshot of how much money your business has at a particular time. The cash flow statement compares your collected revenue (cash inflow) to your disbursements (cash outflow) and includes specifics of when revenue is collected and expenses paid.

#### *Balance sheets*

The last piece of the financial picture is the balance sheet. It outlines your assets, liabilities and equity. Simply put, the balance sheet indicates how much money you could receive after selling your business and paying your bills. This is something you can calculate well before your business is up-and-running.

### **Completing the financial picture**

With your detailed financial analysis complete, you can now proceed with the financial package and determine how much money you will need to open and operate the franchise from all resources (both shareholder equity and the bank), and where the money will be used. Your franchisor may provide you with specific details about how best to finance your business.

Your financial package should include all the financial solutions you will need, such as a lease for equipment, long-term loans for assets and an operating line for inventory and receivables financing. You can also add:

- Reasonable loan terms, rates and repayment arrangements;
- Contact information for accountants and financial information about your franchise partners and peers, including suppliers and your landlord; and
- Personal financial information relevant to your franchised business.

## **Know all the risks**

In many ways, a franchise is a low-risk approach to starting a small business. After all, the product or service you are planning to sell is part of a larger network with an established reputation. Give yourself added peace of mind by considering external factors that may affect your franchise's potential. They include:

- Health and safety issues;
- Increased competition;
- Shifting market trends;
- Decreased demand;
- Personal risk in producing or providing your service;
- Increases in raw material costs;
- Uncertain suppliers;
- New product failure;
- Employee turnover;
- Personal or employee injury; and
- Regulatory issues.

## **Obtaining financing**

It's now time to approach your banker for financing. Your well-researched business plan gives you the background you'll need to answer whatever questions the banker will pose. Here are some suggestions to help your meeting go smoothly:

- Try to keep your appointment to one hour. Reserve 30 minutes for your formal presentation and 30 minutes for discussion and questions. Practice your sales pitch beforehand.
- Provide a short agenda prior to your meeting. This lets the banker know how much time you will need.
- Don't be afraid to be passionate. This shows your banker you are committed and prepared to work hard.
- Take notes and ask questions.
- Keep in mind your business plan is a complicated set of documents. Give your bank representative plenty of time to understand your plan.
- After your meeting, keep in regular contact with your banker. Be ready to answer any questions and provide additional information.

## **Maintain your plan**

Many believe that once your business plan is accepted, your work is done. This is a misconception. In these preliminary stages of your franchise venture, your business plan is a living document. It should be updated to reflect shifting deadlines and unexpected costs. Keep your bank in the loop about any changes, including a late opening or other unforeseen events, both positive and negative. This will go a long way to maintaining the level of trust you've worked so hard to establish.

**What if you're turned down?**

In the unlikely event your proposal is rejected, keep an open mind. Rejections usually happen because the bank is looking for more equity than you can provide. The first thing a smart business person does after being rejected is ask the banker why. You'll find the banker happy to explain what went wrong and what you need to do to be approved. Once you have the information you need, reassess your business plan. A 'no' today may become a 'yes' tomorrow if you can provide satisfactory answers.

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**Notes**

<sup>1</sup> Remember: even the most professional looking business plan won't earn you a bank loan on its own. Bankers put a lot of stock in face-to-face interviews and if your proposed franchise has a physical location, the banker will likely pay it a visit, too.