The Launching Pad

Exploring Micro-Enterprises
For People with Developmental Disabilities

Presented by the BC Employment Development Strategy Network
for supporters of people with developmental disabilities
Welcome to The Launching Pad, a guide for those interested in exploring self-employment to serve people with developmental disabilities.

Let’s be clear right from the start: self-employment is not for everyone.

It is our hope that for those interested in learning more about the possibilities, the stories and strategies illustrated throughout this guide can help in deciding whether to move forward.

Everyone who wants to work should have the opportunity. That said, for many youth and adults with disabilities, working remains an elusive goal. The Community Living sector has taken great strides in recent years, developing a variety of supports and services to assist individuals to secure and maintain employment.

Supported employment successes have demonstrated that people with disabilities can enjoy meaningful and sustainable jobs. Recent developments in customized employment, social enterprise, and co-operative development provide further evidence that with the appropriate supports, people once considered ‘unemployable’ can enjoy satisfying work.

Self-employment or micro-enterprise development provides yet another option for individuals (and their supporters) to consider.

In this guide, you will learn about traditional approaches to business research and start-up, along with a newer tactic called ‘lean start-up’, which places business explorers in the field sooner, learning in ‘the real world’ whether and how to adapt their offerings. Peppered throughout the guide are stories of business start-ups, and lessons learned by these micro-enterprise ‘pioneers’ along the way.

Although some of the technical advice (such as specific steps for name approval and business registration) relate specifically to British Columbia micro-enterprise, the majority of the information contained in this guide will be of use across Canada.

The final Appendix includes worksheets that feed into the content of some of the explanatory sections of the guide: use these to note your own findings.
Examples of successful enterprises for people with developmental disabilities are not plentiful. Individuals must be surrounded by a team of supporters who are passionate and diligent, as success rarely comes without great effort and dedication.

We are grateful to the individuals and families in British Columbia who generously shared their own stories: their contributions helped to shape the content and style of the guide.

Have we scared you away yet? If not, do read on!

Dan Collins
Chair, BC Employment Development Strategy Network

The BC Employment Development Strategy Network is a group of organizations working collaboratively to promote employment for individuals with intellectual disabilities.

This Network, active since 2008, was originally established to spearhead the development of curriculum to support competency and skill development in the Community Living sector, as it relates to employment.

The Network has evolved its mandate over time, delivering a number of provincial initiatives related to the conversion of community inclusion services, producing informative guides on social enterprise and self-employment, and supporting the creation of a disability confidence index.

Members of the Network include enthusiastic representatives from:

AimHi Prince George
Burnaby Association for Community Inclusion
Chilliwack Society for Community Living
Community Living BC
Community Living Victoria
Delta Community Living Society

Inclusion BC
Inclusion Powell River
Langley Association for Community Living
North Shore Disability Resource Centre
PosAbilities
Richmond Society for Community Living
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The Launching Pad: Exploring Micro Enterprises for People with Developmental Disabilities
Appendix One

Laying the foundation: legal structures, and registration steps for start-up

Appendix Two

Recordkeeping basics: small business income tax and write-offs clarified

Appendix Three

Understanding financials: the balance sheet and income statement demystified

Appendix Four

Your mini business plan

The material in this guide is intended to provide only general information. Although we have made efforts to ensure that the content is accurate and timely, we cannot guarantee that the information is either. Nor do we guarantee the accuracy of any information contained on websites to which this guide provides links.

We advise against relying on information found in this guide as legal or accounting advice. Legal and accounting matters are often complicated. For assistance with your specific micro-enterprise situation, you may wish to contact a professional.
Section 1  Setting the stage

Supported employment, social enterprise, and self-employment through micro-enterprise

As families of people with developmental disabilities have galvanized over recent decades to fight for the rights of their loved ones, and as wins were gained, the vision has shifted from more basic forms of recognition and inclusion of their family members, to economic engagement in all of the forms that others enjoy.

From this groundswell of economic inclusion initiatives, we now have a menu of options to choose from, designed to meet the needs and capacities of the spectrum of people wishing to access employment and self-employment opportunities, perhaps even with the aspiration of economic self-sufficiency.

In its earlier work, the Community Living sector operated paid workshops based at the agencies themselves, organized recreational opportunities in the community, and connected folks to a range of volunteer opportunities.

Now, Community Living agencies host Employment Services departments that specialize in matching the wishes and talents of clients with supported employment beyond agency-based workshops. In the case of supported employment, adults with developmental disabilities (after a person-centred discovery process), are introduced to employers in the community, where they work in positions (some of which are customized to their needs), with some support from Employment Services staff. Over time, as the employee becomes more comfortable with the workplace and the tasks assigned them, the employment specialist ‘fades out’ to enable even more worker independence. Normally, the agency stays connected with both the employer and employee to ensure that the relationship remains healthy and supportive of both players.¹

In another expression of supporting economic goals for their clients, some agencies have created businesses that employ their clients, at minimum wage or better, with an eye to encouraging healthy and varied interface opportunities between workers, workers and clients, and workers and suppliers. These businesses, sometimes called ‘social enterprises’, have much more than profit generation as their goals. They feature a ‘multiple bottom line’ approach that includes meaningful worker engagement, intentional

¹ See www.employmentforall.ca for best practices in the area of supported employment.
In designing these businesses, agencies ensure high employment potential for their clients, room for varied skill levels, and opportunities to build positive experiences between the workers and the community. Some social enterprises also generate profits that flow back to the parent agency, to fund other Community Living programming although the main goal is employment, skills, and self-esteem building for adults with developmental disabilities who wish to work.

One example of a BC social enterprise is the Richmond HandyCrew Cooperative, spearheaded by the Richmond Society for Community Living back in 2007. The co-op’s 27 worker members enjoy an ownership and governance stake in the business, which provides services such as garden maintenance, minor repairs, painting, light carpentry, home maintenance, and moving services. The co-op is structured in such a way that new services can be added to the menu of offerings as worker interest and demand for the service dictates.

In Ontario, Community Living Glengarry has established a commercial laundry social enterprise to provide employment to its clients. White Swan Linen was launched in 1993 with a single laundry contract from Delta Airlines. Now, the business employs 12 people supported by three staff, handling contracts for seven airlines, four restaurants, two motels, a golf course, and more, serving Ottawa, Montreal, and Cornwall.

Other social enterprises exist beyond those owned by Community Living agencies, in which ‘social hiring’ is a crucial element of the business. The Canadian Mental Health Association supports The Cleaning Solution, a janitorial service staffed primarily by mental health consumers. Potluck Café and Catering is operated by a non-profit in the Downtown East Side of Vancouver to provide training and employment opportunities in catering and food service, to those who are traditionally excluded from the mainstream economy.

As yet another expression of providing earned income options, Community Living agencies are also encouraging their clients to start their own small businesses. Through a process called customized supported self-em-
ployment, specialized agency staff work with individuals to discover their interests and aptitudes, then support market and operational research to assist in making small business ownership a reality.

The most common phenomenon in the area of supported self-employment is the launch of the micro-enterprise. Generally speaking, micro-enterprises are relatively inexpensive to start, and provide income to the single business owner (i.e., usually no employees). Many of these small businesses are home-based, and most offer a tangible item for sale, although some are service businesses. The geographical market can be limited to the individual’s own community, but with the ease of internet selling these days, the market can also enjoy an international reach.

So you might be thinking: agency staff seems to have it covered. Why does the family member need to be involved?

Although it is still ‘early days’ for the practice of supported self-employment, across the board, agencies are finding that staff support just isn’t enough to make the enterprise a success. As you’ll note from the success stories included in the guide, families play a key support role in business development, promotions, and ongoing operations.

Often, if a client expresses interest in self-employment during an agency’s in-house discovery process, they will task the families with undertaking as much market research as possible, to demonstrate dedication to the plan.

The final appendix in the guide includes blank worksheets that will enable you to record this research, and establish your commitment to the process.

And remember: ‘no’ is a good answer to reach as early as possible, if the business concept doesn’t turn out to be feasible, the potential business owner isn’t as committed as they need to be, or you feel that this is too much for your family to take on.
Section 2  DisDaBomb really is ‘da bomb’ for local micro-entrepreneur

Thirty-two year-old Angela Lusignan is President and CEO of DisDaBomb Luxury Bath Experiences, a home-based bath bomb company based in Coquitlam, BC.

The bombs (or should we say ‘da bombs’?) are scented with natural ingredients that dissolve in the bath, leaving skin soft and fragrant.

Angela’s dad Kevin comments proudly, ‘when Angela participated in her first trade show, we watched her demeanour shift: she changed from a person with a disability, to a business person.’ Dressed in a sharp business suit, armed with business cards, and with her iPad preloaded with verbal greetings and invitations to purchase her bath bombs, Angela boldly positioned herself in front of her display table (while many hid behind theirs), demonstrating confidence that many start-up business owners take years to cultivate. Angela generated $600 in sales.

DisDaBomb began in 2010, when Angela was actively engaged in a brainstorming session with the people in her life. The core question was ‘what does Angela like to do?’ with the intention to explore the possibility of developing one of these concepts into a small business.

The results: Angela loves to do beadwork, bake, and make bath bombs. The group supported Angela to create products in all three areas. Test marketing was not performed in theory, with a clipboard, approaching ‘theoretical’ customers. Rather, Angela tested the three products ‘live’ at a school craft fair where her stepmother teaches. The bath bombs quickly sold out.

Looking back, Kevin comments that perhaps the products were priced too low, but the sales also demonstrated customer attraction to the bath bombs. From there, DisDaBomb was born. Moving beyond
this test show, the company officially debuted a few months later at a trade show featuring businesses owned by people with disabilities.

The bath bombs are produced in Angela’s garage, and a support staff works for Angela in areas such as marketing, logistics, and new product development.

Kevin observes that the staff team is there to support Angela in any case—whether for recreational activities, or to run a micro-enterprise. He felt that the highest and best use of staff time would be to experiment with business development.

Even though production takes place in isolation, community integration benefits occur regularly: picking up supplies, and interacting with customers.

The benefits of micro-enterprise for Angela include flexibility (when Angela doesn’t feel like making bath bombs, she doesn’t), inclusion opportunities, being able to do what she enjoys, accommodation of personal issues, and supporting a sense of purpose. Believing that goal setting is important, her team has set a stretch target of $20,000 in sales.

Recently, a UBC business student was recruited through Craigslist to upgrade the website www.disdabomb.ca, add e-commerce capacity, utilize social media to get the word out, and upgrade the product packaging.

The business is exploring entry into wholesale markets (so that the products can be sold through retail stores), expansion of the product line, and streamlining the molding process by getting custom molds made.

Seemingly against the grain of traditional business development, DisDaBomb is only now developing a business plan, and has not yet adopted a formal business structure. Only now does the team feel that they understand enough about the business to develop a reliable and accurate plan.
Along the way, the team studied the products of competitors (dialing back on scent), listened to customer feedback (too many rose petals in the bombs tended to muck up bathtub drains), and even made a connection to a corporate buyer who placed multiple $1,000 orders.

Kevin advises other supporters to take it slow when exploring micro-enterprise with their loved ones. What if Angela’s team had gone full speed ahead, and her passion for making bath bombs soon faded? What if there was no demand for the product? What if the costs of production were too high to support a move into wholesale?

Following the Lean Start-Up approach without even realizing it (see Section Five), the team used the real world to conduct their research, taking baby steps until they felt equipped to take the business to the next level. A key learning was that trade shows represented too high a cost, in terms of fees and labour, triggering a shift to e-commerce and wholesale exploration.

If the support team were to do it over again, they would have spent more time on the discovery process, but they are confident in the decision to take things slow.

Kevin stresses that a champion supporter is key. Even with a full-time management job of his own, Angela’s business is always at the back of Kevin’s mind, as he writes web copy in the evenings, sources new suppliers, considers alternative production pathways and product line expansion… and on it goes.

Staff are also important. If your loved one does not have a one-on-one staff supporter, Kevin recommends considering bringing peers together who have the same interests, and focusing the work of the staff person who is working with that group to develop an enterprise that supports the group’s passion.
Section 3 Discovery

Is micro-enterprise suited to your loved one?

Self-employment typically suits those who march to the beat of a different drummer.

We know people like this in our own lives, folks who, for whatever reason, are not at their best in a traditional work environment, and who shine when running their own businesses.

Examples of traits that might be best served by self-employment could include a reluctance or inability to work traditional hours, a clear preference for working at certain times during the day, a wish to work for oneself as opposed to an employer, or a desire to create a good or service to which a local employment match is not readily available.

Or your loved one might have a passion that is directly translatable into a business. We know a woman who is interested and skilled in baking. She happens to have an intellectual disability. Her mother is helping to connect her with a restaurant that doesn’t currently offer its own in-house baked goods, hoping that they can reach a deal in which the baker uses the restaurant’s commercial kitchen as headquarters for her new business, while also supplying the restaurant with fresh and delicious offerings.

Typically, we tend to view self-employed people as renegades and creative types, blending the idea of self-employment with entrepreneurship. Entrepreneurs tend to be sparked by innovation and business growth, continually bringing new ideas to market, and expanding their relevance and reach. Self-employed folks frequently build employment for themselves only (sometimes a few others as well), and tend to offer a more traditional good or service, often generating a relatively flat revenue stream once the business is established.

This is not intended to take the excitement out of self-employment through micro-enterprise! This is only to say that self-employment can indeed be accessible to folks with developmental disabilities, and could prove a reliable path for generating spending money and building self-esteem.

A first step in exploring whether micro-enterprise is a fit would be to embark on a discovery process with your loved one. A practice often used by Community Living agencies to determine personal genius in their clients,
discovery can be directed to the question of ‘is micro-enterprise suited to our loved one?’

Key elements of the process include reaching clarity on where and when folks are at their best, where and when they have the highest/lowest support needs, and what gets them out of bed in the morning.

Have a few chats with your loved one, in a relaxed environment. What home chores, or hobbies do they love, and what is it about those activities that excite them? Dig deep here—it could be that what you view as a love of washing the car could be transferable aptitudes for repetitive motion or close and detailed work.

Take a month or so, and begin to observe your loved one through this new lens of micro-enterprise suitability. Practice ‘HOWI’: hanging out with intent.

Build a list of strengths, interests, contributions, and skills based on targeted conversations and what you witness on a day-to-day basis in engaging with your family member.

**Andrew’s micro-enterprise**

Andrew spent most of his life in institutions, workshops, and group homes. The authors of *Making Self-Employment Work for People with Disabilities* and staff at the University of Montana’s Rural Institute developed an inventory of positive attributes that included Andrew’s friendly smile, his sense of humour, and his personality: which made those around him comfortable.

Andrew’s interests included his stuffed animal collection and his enjoyment of an existing volunteer position. He volunteered at the local nature centre, where he fed and groomed animals, interacted with other staff and volunteers (although he used little verbal language), and assisted with other chores.

Although the nature centre valued Andrew, they had no interest in hiring him. With Andrew’s input, a proposal was developed by his supporters, for Andrew to sell stuffed animals at the centre.

The proposal included assistance from supporters, who would manage his recordkeeping and inventory; and the nature centre staff, who would help with daily operation, such as money exchanges.

Sales flourished and a strong partnership grew as the business paid 10% of profits to the nature centre for rent and minor assistance with the largely self-serve micro-enterprise.
It may also be advantageous to involve the people who interact with your loved one in other environments, as they can add dimensions to the discovery that you may not have considered.

For the vast majority of small businesses, the owner does not possess all of the skills required to manage the entire enterprise. For example, they might use outside expertise for bookkeeping, or web design, or developing marketing materials. These services are usually paid for, but might also be provided by a friend or family member, or via a barter exchange for the enterprise’s goods and services.

Keep this reality in mind, as you observe and chat with your loved one. In other words, they need not have the skills and interests to handle every single component of the business.

On the other hand, if you determine that too many components would need to be handled through outside sources, perhaps this is not the best micro-enterprise idea for the individual. Or perhaps micro-enterprise is not for them after all.

The main conclusions of the discovery process are:

**Micro-enterprise is not a fit for the person**  OR  **Micro-enterprise could be a fit for this person**

If micro-enterprise could be a fit, the next step is to settle on one or more business ideas for further exploration. In many cases, some of these business ideas have already come to light within the discovery process itself.

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**Jennifer’s micro-enterprise**

Jennifer is 21 years-old and she owns and operates Jennifer’s Art Enterprises out of her parents’ home in the Rocky Mountains.

After leaving high school, her only choice was to enter her sheltered workshop operated by a local Community Living agency. She and her parents felt that this was an unreasonable outcome, after years of success in public schools.

Jennifer’s parents and a team of supporters from the local developmental disability agency developed an inventory of Jennifer’s positive attributes and strengths.

The business was designed around Jennifer’s love of using a sponge or rag dipped in watercolours and swirling it on a blank canvas. The canvases were then purchased by a local artist to use as a background for her art.

Jennifer also produces greeting cards and other products to sell. This is a small start financially, but she is making money, doing what she loves, and contributing to her community.
Section 4  Odd-Job Matt does odd jobs!

Sometimes the story behind the development of a particular micro-enterprise has a certain serendipity about it. The Langley venture called Odd-Job Matt is one such story.

About six years ago, Joey Emanuels was working as a relief staffer for Langley Association for Community Living (LACL). On one occasion, seemingly like many others, he was scheduled to work the overnight support shift at the home of Matt Forster, a young man with autism.

Earlier in the day, Joey had helped some friends to load his trailer for a trip to the local dump, but it had been closed for the day when he had arrived there with his load. His new plan was to return when his shift ended the next morning, so he parked at Matt’s house with the full trailer in tow, and thought nothing more of it.

Until morning.

Joey and other LACL staff on Matt’s team had been considering supporting Matt to shift to some form of supported employment down the road, and they had hit a bit of a wall helping Matt to make the connections between work, money, and the end result of more purchasing power, and greater choice in Matt’s life.

A light came on for Joey, as he left his shift that morning, and spotted the trailer loaded up and ready to go to the dump. He asked Matt if he’d like to help Joey out in exchange for $15 cash. Matt agreed, and expressed a wish to go to McDonald’s afterward. On the 15-minute drive to the dump, Joey asked Matt, ‘what happens when you work?’ At first the answer was ‘McDonald’s’ but within that short time, Matt understood that when you work, you make money, and money allows you to go to McDonald’s.

An abstract concept that LACL staff had brainstormed on how to communicate to Matt had just been demonstrated by connecting the real-life and immediate situation of work to money to greater choice.

When they arrived at their destination, Matt was enthusiastic about working. The truck was unloaded, Matt’s good work was reinforced by Joey, the two went to McDonald’s… and Odd-Job Matt was born.
In a sense, Joey had been engaged in a discovery process with Matt for the duration of their association together. Because Joey had already been supporting Matt for five years, he knew that Matt’s autism actually gave him an edge when it came to static, repetitive work, such as unloading that trailer: he would get into ‘the zone’ and perform these tasks effectively and with focus.

From that first job, Matt, Joey, and then other support staff simply carried on, with no website, business plan, or financial projections. Through word-of-mouth, including active referrals from Matt’s parents, Matt was engaged in jobs that included moving, junk removal, landscaping, small repair jobs, and as Joey describes it ‘anything else odd’. Joey experimented with everything from the company name, to rates, to types of bookings, and timing of the jobs.

About a year after the initial experience, with funds generated from the business, Matt purchased his first business asset—a $400 used trailer, which Matt and Joey then rebuilt from the ground up. Since then, with the financial backing of Matt’s parents, a new enclosed trailer has been added, which is pulled by a truck supplied by LACL.

Now six years into the business, they are contemplating a website (or perhaps a page on LACL’s own website), printed marketing materials, and strategic postings on Craigslist.

The order of this enterprise’s development flies in the face of traditional business planning. Joey applies the mantra ‘why not now’ over planning in isolation from real experiences. He also believes that starting small and growing gradually was the best way to go, in this situation. Along the way, they learned what jobs best align to Matt’s interests and aptitudes (large moves may be re-added to the menu in the future), they are certain that the work engages Matt’s skills and interests, and are heartened by the personal development that they have witnessed in Matt along the way.

Remembers Joey, ‘Matt was a complex individual to support behaviourally back then’. He was prone to angry outbursts and agitation. LACL staff, led by Joey, used self-employment as a positive behavioural support, setting the bar high, and communicating to Matt that calm behavior leads to good work, which results in being paid for a job well done. In the early days, Joey and Matt would playfully repeat to each other ‘we’re at work, no time for
games!’ Before long, and without Joey noticing the drastic change, calm became the new normal. Feedback from friends and family reflected that the new Matt was happier, less frustrated, more social, and friendlier.

As interactions with clients continued, Joey noticed that Matt became better able to sustain longer conversations with less effort, was more engaged in friendships, and seemed generally happier overall. Joey also links a reduction in frustrated outbursts to having a means of getting his communication and material needs met, which he didn’t have before.

In addition, Matt is viewed as a member of the broader community, and is appreciated by people who have been helped by him: Matt is proud of doing a good job for folks.

Between one and three jobs are booked for Matt weekly, depending on which staff members are working to support him. His 200-house paper route supplements his income.

Matt’s support team is intentionally folding more dynamic elements into the work, by making the jobs more complex. Building capacity beyond static elements carries into Matt’s days overall, resulting in greater comfort with more spontaneous and creative elements of life.

Matt’s business, which incorporates physical labour, added fuel to the fire when it came to his weight loss goal. In addition to a balanced diet and daily exercise, Matt’s physically demanding work helped him to lose 120 pounds. His newfound fitness level snowballed into a passion for physical activity. Matt is now in a position in which it is realistic for him to hire a personal trainer and afford a gym membership in an integrated setting.

The same ‘zone’ that Matt gets into when completing repetitive jobs also applies to exercise. Joey marvels at Matt’s determination when training. Joey remembers a specific time when he and Matt were undertaking a 10-kilometre training run in preparation for the Terry Fox run: ‘it felt like Matt was supporting me to complete the run more than I was supporting him. Matt felt like a teammate and we were training together for a tourna-
ment rather than me being a support staff person trying to help Matt finish.’ Recently, the pair completed the Ride to Conquer Cancer, a charity bike ride from Vancouver to Seattle. Matt, with the support of his network, helped to raise nearly $9,000 in honour of his aunt who had recently passed away from cancer before his completion of the ride.

Matt continues to be physically active and enjoys bike rides, ‘walk-jogs’ (as Matt says), skiing, rollerblading, hiking, swimming, working out, and various other physical activities. To put things into perspective, years ago Matt was limited to bike rides around his driveway only, due to fitness and behaviour challenges. Matt has come a long way since then, and has now started competitive power lifting to aid him in his fitness goals and to allow him to lift heavier items while using proper technique during his odd jobs. It is evident that Matt’s focus and determination will carry his business a long way for years to come, as it did for his fitness goals.

In addition to supporting his love of fitness and sport, Matt saves his business profits for recreational activities, including a Vegas trip, summer camping outings with friends, and restaurant meals. He is currently saving to go on a cruise.

Now, with Joey having moved to a management position within LACL, he has less one-on-one time with Matt, now 30 years old. Crucial to this success story is the fact that Joey had once operated his own moving business, was naturally entrepreneurial, and was supported by LACL to explore self-employment opportunities with Matt.

The challenge now lies in encouraging residential program staff now working one-on-one with Matt to take responsibility for business management, something that few support workers are familiar and comfortable with. Staff are gradually buying in over time, and Joey is adamant that new staff coming on board to support Matt should be asked about aptitude and interest in this now important area of Matt’s life.

For Odd-Job Matt, the five-year plan is to continue to add more dynamism to the work, to book more jobs and lengthen the work days (aided by new agency staff who are keen to engage in the business), perhaps grow to the point of adding non-agency staff that are paid by the enterprise, and ensure that Matt continues to be happy within his venture.
Section 5  ‘Just do it’ or ‘Plan and research’

Two approaches to business development

Traditionally, the pathway to developing a successful enterprise is thought to involve, at the very outset, feasibility research and a solid business plan. Until very recently, conventional post-secondary and community-based business programs invariably took this approach. Many still do. A business plan is still a requirement if one is approaching a bank for financing. We have all heard the adage: ‘fail to plan, and plan to fail’.

An alternative approach to business start-up is emerging. Inspired by the ‘lean manufacturing’ approach introduced in Japan by Toyota in the 1990’s, ‘Lean Start-Up’ is an approach that ‘favours experimentation over elaborate planning, customer feedback over intuition, and iterative design over traditional ‘big design up front’ development’.

Stanford, Harvard, Berkeley, and Columbia are among the universities leading the charge. Harvard Business School has even wound down its renowned MBA Business Plan competition in favour of Business Model competitions.

In a nutshell, a quick, rough planning tool called the Business Model Canvas replaces the business plan. The process of developing a Business Model Canvas represents a weekend of planning… versus months for a business plan.

The Business Model Canvas is best used as a brainstorming tool for groups, including the potential micro-entrepreneur and their support team. Areas mapped on the canvas include:

4 To access the Business Model Canvas, visit www.businessmodelgeneration.com/downloads/business_model_canvas_poster.pdf
5 For more detail on the Business Model Canvas, see the handbook Business Model Generation by Alexander Osterwalder and Yves Pigneur, John Wiley & Sons, Inc., 2010.
6 This summary was developed from Business Model Generation, pages 20-41. Readers are urged to review the book’s entire section (if not the entire book) before embarking on developing their own Business Model Canvas.
In many ways, the areas above do not differ greatly from some of the key sections in a business plan. Aside from language, the main difference lies in the amount of time that is spent in deliberating before bringing a test product to the world. Not all businesses are a fit for Lean Start-Up, but smaller, simpler ones tend to align with the approach. In other words, micro-enterprise could be a good candidate for Lean Start-Up.

Lean Start-Up uses these lessons learned from nearly a century of business planning:

1. Business plans rarely survive intact, after first contact with customers;
2. Five-year plans to forecast complete unknowns have limited value; and
3. Start-ups are not smaller versions of large companies.7

By casting aside the business plan approach in favour of ‘leaving the building’ and meeting prospective customers face-to-face, the Lean Start-Up

7 Ibid.
approach aims to take the assumptions out of business development as quickly as possible, by going directly to meet customers with what the ‘lean folks’ refer to a ‘minimum viable product’ or MVP.

An MVP is not a perfect version of the product or service being contemplated. Rather, it is an initial version of the product, intended to invite early customer feedback. The sooner we can get this feedback, the less time is wasted in following false assumptions. If the idea is not going to succeed: fail fast, fail small.

In the case of Angela Lusignan’s bath bomb business (see Section Two), her first craft fair introduced three possible products to the public: beadwork, baking, and bath bombs. Each product was less than perfect, with rudimentary packaging, and arbitrary pricing.

In contrast to this Lean Start-Up approach, a business plan would send the researcher out into the world with a clipboard to talk to theoretical clients about a yet-to-be developed product. One tends to finds a ‘halo effect’ or false positive result in this approach. With interviewees under no pressure to buy (because the product doesn’t yet exist!), they are more likely to communicate that they would indeed buy the product.

Arguably, the majority of business plans contain this overly positive feedback, and start-ups move ahead interpreting these results as assurance of future sales. Sadly, market research suggesting interest in a product doesn’t automatically translate to folks opening wallets once the good or service is actually offered. So, many months later, with time and money invested in these assumptions, start-ups can face a disconnect between their plans and real world purchasing habits.

In Angela’s case, she had a minimum viable product to offer, and knew through first-hand experience at the craft fair which of her three offerings resulted in the greatest sales. Armed with this knowledge, Angela’s team devoted resources to developing the bath bomb concept.

A related phenomenon is the concept of ‘pop-up stores’. These are living laboratories in which start-ups with an MVP to offer invest in a short-term rental of a retail space to gather real-life feedback from customers. Last summer, we saw a small soap company ‘pop up’ behind the Murchie’s Tea shop in Victoria. The space was temporarily and inexpensively decorated, and the soap maker was open for business. Packaging was temporary,
eliciting opinions from real people walking in the door. It is certain that the
soaper also invited feedback on pricing and varieties while testing her busi-
ness concept in a real-life situation.

Central to the approach of the Lean Start-Up is the ability to recognize
when one should ‘pivot’ to address the feedback that is being received. The
soaper would be keen to recognize patterns in client feedback. Perhaps she
learns that most people would use the soap for themselves when she had
assumed that they would be purchased as gifts: this reality would impact
final package design, and what outlets she approaches to retail the final
product. Perhaps she discovers that men would be interested in special
scents, when she initially had not thought of marketing her product to
men: this could spawn a more ‘masculine’ soap line, and a variant on the
current feminine branding.

We have already mentioned the story of a woman with developmental
disabilities who is a very talented baker. Mom wanted to take a half-year or
so to develop a business plan for her daughter, while also keenly aware of
the prohibitive costs of renting a commercial kitchen. She was challenged
to instead ‘just do it’, by seeking out an existing local restaurant with a
commercial kitchen which may be in need of baked items. Now, instead of
spending precious time on a business plan which may include inaccurate
assumptions, Mom is out seeking a partnership opportunity for her daughter. She may have the business well underway in less time that it would take to complete a business plan.

Whether you choose the traditional business plan path, or opt to explore Lean Start-Up by first developing a Business Model Canvas and quickly bringing a Minimum Viable Product out to the world for real-time feedback, it is important to understand the differences between the two approaches. We pick up the thread of traditional business planning in Section Eight.
So you want to start a micro-enterprise

Narrowing down the options

 Likely, your team has narrowed down some micro-enterprise product/service options in the discovery process.

For example, you may have determined that your loved one delights in interacting with people, or has a love of movies, or prefers to be alone; and perhaps your team has attached these ‘likes’ with possible offerings that could be sold through a business.

Or perhaps the business idea was clear from the start: Ben Simcoe was a natural entertainer, so his mother set out to construct an enterprise with him that would market that talent (see Section Seven).

If using the Lean Start-Up approach, the team might try a few ideas out at the same time in the real world—as Angela’s team did with baking, beadwork, and bath bombs at a local school’s craft fair.

If you have decided to instead develop a business plan, it makes sense to narrow down the business choice, to avoid having to create business plans for many enterprise ideas. Using the venture selection funnel helps to narrow down the ideas, saving time and other resources.

If you have already decided on a single business idea to explore, you can skip this process, which is only used to narrow down multiple ideas to the best one or two.

The process described here is called a venture selection ‘funnel’ because the approach involves beginning at the top of the funnel with many ideas, then through applying analysis to those ideas, coming out the end of the funnel with the best fit for your loved one. The process involves two discrete steps. We recommend that you gather your team over two separate occasions, to get the most out of the process, and to separate the two activities clearly. A third debrief session can also be included, to share results.

Combining food and fellowship in both sessions builds a fun environment, and encourages folks to brainstorm without restraint. Pizza works like a charm!
At the first session, the goal is to bring the potential business owner and their support team together to talk about the main motivators behind wanting to start a business, and the key requirements.

This is not the session where you discuss actual business ideas.

Every result is different, but by the time there are only pizza crusts remaining, the group may have two lists like this:

**Motivators for starting an enterprise**

- Revenue for Susan, outside of disability supports, so that she has pocket money, and more freedom to participate in social activities
- Self-esteem building and greater sense of self-determination for Susan
- Introducing Susan to more social / community integration opportunities
- Helping to break down public misconceptions about developmental disabilities
- Paving the way for others to start their own micro-enterprises

**Requirements for starting an enterprise**

- High involvement in the business for Susan
- Expose Susan to a variety of tasks
- Good fit with Susan's interests / skills
- Ability for Susan to take time off when she wishes, work partial days etc.
- Option for Susan to have time alone when needed
- Manageable start-up costs
- Local geographical range

Congratulate yourselves on a job well-done, and agree to meet again within a week. Type up the lists so that there is a clean copy of them. These will be used later.

At the second meeting (an ice cream party?), the potential business owner and their team will brainstorm on business ideas. Set aside the first process, and focus only on business ideas.

No idea is too large or too small, too practical, or too far-fetched. Analysis of the ideas beyond the most surface discussion is not encouraged. The
notion here is to take off the filters and have fun with this list. It might look like this:

**Business ideas to consider**

- Hot dog cart
- Cookie making business
- Jewellery business
- Dog walking service
- Tim Hortons franchise
- Pet sitting service
- Moving company
- Fashion design
- Lemonade stand
- Stand-up comic
- Cat groomer

Then comes the time to marry the lists generated at the two sessions. The team might choose two or three people from the larger group to take responsibility for this activity.

Marrying the lists involves taking a large piece of paper (it could be flip-chart size), and writing the motivators and goals down the left-hand side of the page. Then list the business ideas across the top of the same page. This final process involves indicating which business ideas align with the goals and motivators that the team decided were important to the enterprise. Using the examples above, the sheet might look like the sample below. We used only the first few business ideas because of space limitations, but your large page would include all business ideas. A sample grid is also included towards the end of this guide for your use.

In the sample below, we use multiple x’s for emphasis. For example, all ideas are deemed to generate revenue (the first motivator listed in the left column), but dog walking would yield less revenue than a Tim Hortons franchise).

You might also wish to assign greater ‘weights’ to some goals and motivators over others. As an example, flex time might be more important than changing public perceptions, so all other items being equal, you would
gravitate towards the business idea that offered flex time, even if the public education opportunities weren’t great. The decision to ‘weigh’ some elements over others should be made before finalizing the grid. This can be done by colour coding each item in the left column, for example, brown could mean lower priority, green could mean medium priority, and red could mean high priority.

**Venture selection results:**

<table>
<thead>
<tr>
<th></th>
<th>Hot dog cart</th>
<th>Cookies</th>
<th>Jewellery</th>
<th>Dog walking</th>
<th>Tim Hortons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>xx</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>xxx</td>
</tr>
<tr>
<td>Self-esteem</td>
<td>xx</td>
<td>xx</td>
<td>x</td>
<td>xx</td>
<td>xxx</td>
</tr>
<tr>
<td>Community</td>
<td>xx</td>
<td>xxx</td>
<td>x</td>
<td>xxx</td>
<td>xx</td>
</tr>
<tr>
<td>Public perceptions</td>
<td>xx</td>
<td>x</td>
<td>xx</td>
<td>x</td>
<td>xxx</td>
</tr>
<tr>
<td>Pioneering</td>
<td>xx</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>xxx</td>
</tr>
<tr>
<td>High involvement</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
<td>xxx</td>
<td>x</td>
</tr>
<tr>
<td>Susan’s interests</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>xxx</td>
<td>x</td>
</tr>
<tr>
<td>Flex time</td>
<td>x</td>
<td>xxx</td>
<td>xxx</td>
<td>xx</td>
<td>x</td>
</tr>
<tr>
<td>Alone time</td>
<td>x</td>
<td>xxx</td>
<td>xxx</td>
<td>xx</td>
<td>x</td>
</tr>
<tr>
<td>Low cost</td>
<td>xx</td>
<td>xxx</td>
<td>x</td>
<td>xx</td>
<td>No</td>
</tr>
<tr>
<td>Local</td>
<td>xxx</td>
<td>xxx</td>
<td>xx</td>
<td>xxx</td>
<td>?</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20</td>
<td>23</td>
<td>18</td>
<td>23</td>
<td>18?</td>
</tr>
</tbody>
</table>

Totalling the results is just one way of determining the relevance of the business to the person. For example, we need more information about whether a local Tim Hortons franchise would be available, so were unable to complete the ‘local’ box with confidence. But the Tim Hortons column also demonstrated a high-cost idea that Susan isn’t very interested in.

In our example, the ideas scored closely. If some ideas score low, give them less consideration and energy than the other ideas. In this example, cookies and dog walking might be given more consideration, perhaps moving on to a business plan for one or each.

If your team is taking the Lean Start-Up approach, both cookie making and dog walking represent low-cost start-ups, and the decision might be made to get out into the world and test each idea, being flexible enough to pivot to accommodate customer feedback.
Ben Simcoe has been ‘doing voices’ for most of his life. From cartoon characters, to political figures, and from songs to movies, impressions are a normal part of the 27 year-old’s communication style.

Finding the traditional school experience to be counterproductive to her son’s personal growth and educational development, Ben’s mom Debby home-schooled him since the third grade, feeling that it made more sense to put her energy into Ben rather than the school system. Plus, she had always wanted to be a teacher!

At age 13, Ben received a diagnosis of the recently discovered Fragile X Syndrome, a defect in the X chromosome, and an impairment that falls within the autism spectrum.

Calling themselves ‘free range’, the Simcoe family is unconnected to specific Community Living programming. They credit their family doctor as a ‘key encourager’, providing Debby and her husband Rod with the confidence to step to their own drummer when it came to supporting Ben. Among the doctor’s key messages were ‘you are Ben’s parents, you know what’s best for him;’ ‘don’t be afraid to think,’ and ‘everyone has value’.

His parents gravitated naturally to the idea of establishing a micro-enterprise for Ben once his home-schooling was completed. Debby asserts ‘we wanted a business because we didn’t want to see Ben working at a recycling depot’.

Ben’s passions seemed to be recreational (motorcycle riding, golf, bowling), not readily linking into a business idea. They briefly considered lawn maintenance—Ben loves cutting the grass—but Debby felt that she would be needed for physical labour, and as she ages, this might not be the most sustainable business choice over time.

The first business concept to be entertained in earnest was a grocery home delivery business called Simcoe’s All Stars. It represented a low start-up cost, would have Ben interfacing with community members, and would offer flexibility in work timing.
With Ben’s active involvement, the family took the traditional route of enterprise development, building a business plan, and investing time in market research. All roads led to the conclusion that there would be solid local demand for this service: they polled friends and strangers alike, and were told that it was a business concept whose time had come. The feedback received was that many families with two working parents didn’t have the time to do groceries, and would pay for the time-saving service.

The Simcoes invested about $5,000 in developing the business, and engaging in advertising and promotions, including a vehicle wrap, flyers, and signage at the community hockey rink (where, they assumed, many of those busy parents would be captive audiences).

When the rubber hit the road, they didn’t close a single sale. They doubled back to their original market research targets, letting everyone know that they were now open for business … and not a nibble. For Debby, the only explanation seemed to be that ‘as much as people complain about doing groceries, there must be something about it that they like, because they don’t want to give it up’.

After a year, they decided to examine other options.

Meanwhile, Ben had been involved in a rock band program offered by a local music supply store. Many of the participants were hesitant to perform, but Ben had a ‘bring it on’ attitude when it came to grabbing the mic, and belting it out. He also proved to be a natural drummer.

One day, the light came on. Debby turned to Ben and asked ‘would you like to be an entertainer?’ He looked back at her as if it was an obvious truth.

**Impressions, etc.** was born. The two went to work cataloguing how many ‘voices’ Ben could do… and came up with a whopping ‘opening inventory’ of 85 voices, including some that culled personalities from Ben’s related love of karaoke.

The two met with the Mission Association for Community Living to bounce the idea off of staff. Ben left the meeting with his very first gig: he would be the star entertainer at the group’s upcoming Annual General Meeting.

From there, Ben has not looked back. Now with a repertoire of over 125 impressions, he has performed at comedy clubs, for service organizations,
local events, graduations, fundraisers, and countless community groups. Ben was clearly the people’s choice at a talent show held by The Investors Group.

Having audiences weep with laughter and with heartfelt emotion (particularly during Ben’s rendition of Louis Armstrong’s ‘It’s a Wonderful World’) is not uncommon at the 15-minute performances, which Ben loves to deliver. He is eager to book even more engagements, which now number a few each month.

Recently, he took his first plane trip to deliver two performances in Kelowna (Ben is obsessed with airplanes) and wants to continue that flying trend. Debby has secured a 2-for-1 deal with Westjet, so contemplating audiences beyond a car trip is now feasible.

The Simcoes credit the UBC Centre for Inclusion and Citizenship with connecting them to a range of assistive programs for folks with intellectual disabilities and their families. Within the Centre’s menu of offerings is the Canadian Inclusive Lives Learning Initiative (CILLI). At the core of the program’s philosophy is the ‘free-range’ idea with which the Simcoe family so identifies. As described on the Centre’s website, ‘the program is made to teach, support, and inspire people to build their own skills and vision for having an inclusive life. It is based on the ideas of human rights, inclusion, and innovation.’

CILLI’s free one-year plain language program uses retreats and group phone calls to share information related to quality of life, community connections, supported decision making, employment, housing, financial literacy, advocacy, and more, through the frame of building self-determination and independence for participants.

Ben has his own company website, which features videos of his work (www.bensimcoe.ca), while Debby (who has a background in direct sales) is proactive in seeking new performance opportunities for her son. Now as the business grows momentum, groups are approaching Ben through word-of-mouth referrals. Initially, Ben performed for honoraria, but now the rate is $150 per performance, with discounts for non-profits.

Debby acts as Ben’s sounding board for new impressions, and is continually seeking new movies that they can watch together for the purpose of researching new character development.

See http://cic.arts.ubc.ca/learning/course-development/the-canadian-inclusive-lives-learning-initiative.html for more information on the CILLI program.
Until recently, Debby would sit close to the stage and call out characters’ names at live performances, but now, to foster even more independence, Ben brings a written list onstage, and prompts himself. Soon, this function will be handled through Ben’s laptop computer, by remote control.

The proud mom observes, ‘Ben is growing all the time. Being self-determining changes everything you do.’ Debby contends that there is also a ‘safety value’ in having Ben out performing, and having audiences connect to him. There is an element of ‘I know Ben, he’s a great guy, he’s one of us’.

Ben’s business features prominently in the personal ‘PATH’ that Spectrum Society for Community Living\(^9\) helped Ben to develop. Assisted by a graphic illustrator, Spectrum and Ben’s family worked with him to create a literal and figurative ‘picture’ of his future goals, mapped over five years. In addition to growing the business are more plane trips, building independence in meal preparation, and ultimately, living on his own in an apartment with a large yard.

Ben’s family knows from experience that whenever he meets people, folks fall in love with him. This would have been the case in the grocery delivery business as well, but Debby explains that ‘now that Ben is becoming more famous’, he is inspiring others with disabilities to follow their dreams, and to live the words of wisdom that came from their family doctor so many years ago: everyone has value.

Section 8  Market Research

Proving demand, exploring the competition… and setting the business apart

With Lean Start-Up, as detailed in Section Five, the business would launch after less research time, and with a ‘minimum viable product’, performing live real-time experiments with the product offered for sale immediately, while responding to customer feedback by potentially modifying the offering or some of the elements associated with it.

For those wishing to take a traditional approach to proving demand and getting a deeper sense of the environment in which the micro-enterprise would be operating, engaging in market research is an important phase of exploration.

At minimum, your market research should answer these core questions:

✓ Will people want what we plan to sell?
✓ Who will buy it? How often?
✓ What price are people willing to pay for it?
✓ Who are the competitors and what can set us apart from them?

Market research takes two forms: primary research is compiled from personal observation, while secondary research comes from other sources such as the internet, news articles, and industry publications.

Secondary research—examining existing information

Consider conducting secondary research first, in order to learn the language, trends, and standards of the industry. This information helps to conduct the primary research more effectively, as secondary sources provide a better idea of the questions we need to ask and highlights the areas in which more digging may be needed.

Secondary research boosts understanding of how the business under consideration really works. The less experience you have in the business being considered, the more secondary research is recommended, to give a better sense of the ‘industry backdrop’.

Grab a cup of tea. Do a Google search for websites related to the specific industry. Follow some of these ‘web
trails', taking notes on areas that most closely relate to the micro-enterprise being proposed.

Although each business being considered would have its own topic-driven websites, here are some general websites to explore as well:

- www.canadabusiness.ca/eng/page/2864/
- www.smallbusinessbc.ca
- www.statcan.gc.ca
- www.bizpal.ca/en/ (licenses needed, by locale)
- www.inc.com

Aside from the Internet, other sources of secondary research information could include:

- Chambers of Commerce / Boards of Trade
- Your local municipal hall
- Downtown Business Associations
- Newspapers
- Potential suppliers
- Similar businesses in other cities (they will feel less threatened by the prospect of competition if they are located outside of the intended service area).

**Primary research—building new information specific to your situation**

The most common form of primary client research is a survey or questionnaire. Usually the respondent is asked the questions, then replies verbally, with the researcher writing down the answers. This method is preferred over handing the target the survey and a pencil, as some of the verbal answers might prompt further discussion outside of the survey questions themselves.

Keep at top of mind the goal of surveying a 'representative sample'—that is, a group of people whose characteristics resemble the group that you will be aiming your business towards. Friends and family can be a safe practice group, but be sure to move on to the broader public, as uncomfortable as this might feel. If possible, engage the potential business owner in this work, as a way to get them more comfortable talking about their proposed
good or service, and to promote dynamic community experiences.

With traditional market research (as compared to Lean Start-Up activities), the offering is not yet developed. Rather, the task is to propose the good or service to the public hypothetically. The potential customer is more likely to be approached with a clipboard rather than a product. There is no pressure for survey targets to buy anything, as nothing is for sale. Honest feedback is encouraged.

A warning here about the risk of ‘false positive’ results that we mentioned earlier: folks generally want to be supportive, and particularly because the survey won’t translate to an immediate purchase, the tendency may be for the respondent to give more positive feedback than if they were required to put their money where their mouth is. We see this phenomenon at work in the market research performed for Simcoe’s All Stars (see Section Seven), the grocery home delivery service, which elicited very positive feedback, but not a single sale.

When drafting a client research survey, consider touching on these areas:

- Do the targeted customers currently buy a service or product like the one being considered?
- Where or from whom do they buy it?
- What price do they pay?
- How and why did they start buying from that company?
- How satisfied are they?
- What’s the best element that the other company offers (could be an aspect of their service, special business hours, price, etc.)?
- If the customer could improve one thing about the other company’s offering, what would it be?
- Why do they buy it—what needs are being satisfied?
- Is the product or service viewed by potential customers as a necessity?
- Where does the respondent live?
- How often do they buy the good or service?
- Would they definitely, maybe, or never buy this product / service from the micro-entrepreneur?
Below is a very basic sample survey, which was used by Langley Association for Community Living (LACL) in their research for a shredding business that would employ their clients, many of whom were already volunteering at social service agencies, doing the same work. The clients delivered the survey to prospective customers, with the assistance of LACL staff.

At the bottom of the survey, there is an option for the person/company being surveyed to give contact information—this is ‘gold’ in that these contacts could represent early adopters of the service at business launch.

---

**LACL worker co-op**

1. Have you used a professional shredding company in the past?
   - Yes
   - No Why not? _______________________________

2. Were you satisfied with the service you received?
   - Yes
   - No Why not? _______________________________

3. Where do you look when you are searching for a shredding company to handle your secure document disposal? (This will give hints on where to advertise.)
   - Newspaper
   - Phone Book
   - Internet
   - Chamber of Commerce
   - Word of Mouth
   - Other _______________________________________

4. Would you prefer a shredding service that came to you?
   - Yes
   - No Why not? _______________________________

5. Would the fact that the workers have developmental disabilities deter you from contracting with the company?
   - Yes
   - No Why? _______________________________

6. How many times a year do you use a shredding service? _______

7. What volume do you have shredded each time? _________________

8. What price would you pay for this service? ______________________

9. Would you pay more if the shredder came to your place of business?
   - Yes
   - No Why not? _______________________________

Name: ________________________________________________
Phone Number: _______________________________________
Service required: _______________________________________
Know your competition—competitor analysis

Depending on the business being considered, another market research activity might be to observe the competition. This could mean visiting their store, browsing their website, or phoning for information.

Note the competition’s strengths and weaknesses, with an eye to setting the micro-enterprise apart, for the better.

During the competitor analysis, try to find answers to these questions:

1. Who are the competitors already out of the gate?
2. How many (too few, too many) are in the market area?
3. Do the competitors’ businesses seem profitable?
4. What do they charge for their product or service?
5. Who are the strongest competitors, and why?
6. How are the strongest competitors positioned? In other words, who is their target market and what image do they project?
7. How do the competitors attract their customers?
8. What level of customer service do they provide?
9. What does their marketing material look like? (obtain and keep copies)
10. What skills do people in this industry need and have (communication, sales, technical, etc.)?

If you can locate a similar business in a non-competing geographical area that is willing to share their learnings, these are some sample questions that will unearth some key information:

1. How / why did you get into this business?
2. What related experience did you bring to the business?
3. How did you attract your first customers?
4. What is your biggest source of customers?
5. How do you promote your business?
6. What is your Unique Selling Proposition, e.g., what sets your business apart from the competition?
7. Where do you purchase your supplies?

8. What surprises did you encounter as you launched and operate your business?

9. What assumptions did you make that did not prove out?

10. What’s the smartest thing that you did in your business?

11. What’s the biggest mistake that you made?

12. How long did it take for your business to show a positive cash flow?

13. How long did it take until you were generating a level of profit that was sustainable? Was the timing behind or ahead of plan?

14. Do you have any other advice to share?

**Know yourself—SWOT analysis**

Another helpful exercise is the creation of a SWOT analysis. This activity can be undertaken when exploring a business concept, but is also carried out by businesses that are already going concerns. SWOT stands for: strengths/weaknesses/opportunities/threats.

- **Strengths** are *internal*, positive attributes—what the business does well.

- **Weaknesses** are *internal*, negative attributes—what the business does not do so well.

- **Opportunities** are *external* conditions that are ‘exploitable’, value-added, or marketable—what the business can do better or differently to achieve positive outcomes or improve performance.

- **Threats** are *external* conditions—what the business has no control over: competitors’ actions, taxation, governmental regulations, social changes, cultural shifts, etc. These elements could damage business performance.
Keep these elements at the back of your mind when undertaking market research activities. Once you have a handle on your potential customer, the industry backdrop, and competitive realities, compile the strengths/weaknesses/opportunities/threats related to the micro-enterprise situation. Then ask:

- How can we **Use** each Strength?
- How can we **Stop** each Weakness?
- How can we **Exploit** each Opportunity?
- How can we **Defend** against each Threat?

**Determining business feasibility**

Armed with the results of your primary and secondary market research, business feasibility can be determined. Your research to this point should enable you to answer these questions:

- Does this business fill an actual need in the marketplace?
- Can this product or service be produced at a profit?
- Can this business compete with other businesses that provide a similar offering?
- Does this business align with the capacity and goals of the potential business owner?
- Does the potential business owner have the skills to produce the product or provide the service at a standard that the market expects?
- How much help is the potential business owner going to need, and is this possible?
- What other mentors will be necessary for this business to be successful?
- Can the required start-up funds be accessed?

**Testing the business idea**

Testing the business idea before investing too much time or money can save resources and correct presumptions. By making a few early test sales, some vital information can be gained. This step resembles the Lean Start-Up approach, but is at a smaller scale.
The potential business owner may discover that

✓ they are very nervous with customers;
✓ they like dealing with people;
✓ producing the good or service takes longer or less time than predicted;
✓ the projected costs associated with producing the good or service are grossly over or under the actual costs;
✓ providing the offering is more difficult than initially thought; or
✓ they can't get anyone to buy the product or service.

To attract a customer or two, some sales calls may have to be made, or a flyer could be designed and sent out. This is also an excellent time to test the effectiveness of these marketing methods.
Section 9  Boy’s passion for sewing draws in the entire family

Whenever it was time for sewing class at Kai St. Pierre’s school, the young boy was eager to get started. Even when it was time for other programs, Kai would head to the sewing room, hoping for more time at the machine, where he was assisted and guided. His teacher noticed his interest, and put a bug in his parents’ ears, suggesting that Kai pursue his passion at home, potentially as a micro-enterprise managed by his family.

Bags were a stand-out for Kai, who seemed just as delighted and proud to contribute to their creation as he was to watch the pleasure in the faces of the lucky recipients of his work. Says Karen, ‘Kai can’t talk, he can’t write, he can’t read… but he’s Kai, and he can sew, and he loves it, and he’s a superhero!’

Home-based business runs in the St. Pierre family’s blood. In their hometown of Kelowna, dad Jason had, in the past, operated a landscaping business, while mom Karen runs a house cleaning venture. Adding a few sewing machines to the mix didn’t seem like too much of a stretch.

But his parents had no sewing experience. They took classes with Kai’s own teacher, and watched YouTube videos galore: with a few donated sewing machines, the family was off to the races. Sourcing vintage fabrics, buttons, and other adornments became part of the fun, naturally spawning a ‘green’ business.

With additional exposure to sewing, Kai learned to use the sewing machine pedal unassisted, began to sew with less assistance, and followed a straighter line. The family began to use the craft as a means of also helping Kai to practice counting, identify colours, and recognize images in the fabric’s patterns. They continue to incorporate learning elements into the work.

In mid-2013, Kai Bags made its first sale on Facebook and the business began to build organically, through this social media tool and by word-
of-mouth. One of the family’s key learnings is that one can run a micro-business like this mainly through the no-cost technology of Facebook, coupled with the capacity to accept credit card payments.

Soon, Kai Bags was regularly invited to participate as a guest vendor at local craft shows. Four bags were sold at their first show, followed by four more bags at their second (most of the bags range in price from between $30 and $45), surpassing the 50-bag mark in sales within the first five months of active selling. Appearances at public events seem to drive web-based sales.

Many purchasers of Kai Bags are folks who are in the market for a handmade, unique, and durable bag, but others purchase because they wish to be supportive of a micro-enterprise showcasing someone with a disability. In addition to demonstrating their support by buying a bag, many people donate fabrics and buttons (Karen now describes herself as ‘button-obsessed’!), with a recent ‘button drive’ on Facebook bringing in quite a yield. A local thrift store puts buttons aside for Kai, donating them to the business.

In addition to watching their sales climb, Karen has noticed a positive change in Kai. As someone who was shy and uncomfortable engaging with new people, Kai now loves delivering his product to homes, and hams it up at the shows, blowing kisses, and joyfully taking money. Beyond his only ‘meltdown’ at the very first show, Kai now asks to stay for the duration of the shows. He also clearly understands the link between production and sales, and never seems sad to see one of his bags ‘go’.

On the production side, Kai is encouraged to pick out fabrics and buttons, cuts and pins along with his mother’s guidance, sews with assistance, helps with labeling and packaging, and of course, accompanies the new Kai Bags to local owners, delivering his trademark hug along with the bag.

Kai’s brother Evan also sews, so a typical evening at the St. Pierre household finds everyone in the home sewing room, working away, and hanging out together. The rest of the family ‘sets the scene’ with Kai joining in if he feels inclined: sewing should remain magical for Kai, never forced. With a busy social and school schedule, Kai tends to sew for about an hour each night.
Karen’s hope is that as Kai gets older, and eventually graduates from school, that he will be even more involved. The hope is to grow the business for him over time, so that when Kai is ready for a larger work schedule, sales levels will support more ‘Kai hours’.

Ironically, cobblers’ children go barefoot: Karen has found that house cleaning at her own home has fallen by the wayside to some extent, to make room for the new business. Karen has also scaled down paid cleaning work by one day per week, to accommodate Kai Bags.

Kai, now 14 years old, shows no signs of fatigue from the business. He has cultivated an identity linked to the bags, and wearing one of his many signature fedoras, is a ‘cool kid’ at school. The business is increasingly attracting media attention and public buzz, with Kai becoming recognized and celebrated within the community. Kai Bags has also begun to donate a portion of its proceeds to charity.

Future plans include incorporating some of brother Evan’s excellent visual designs as iron-on elements; launching a production line to scale up the business while complementing the one-of-a-kind bags; and using a portion of Kai Bags profits to launch a foundation to support capacity building for other children with Down syndrome.

Each bag takes between two and four hours to make, with at least one new bag being added to the online inventory each week. To visit the Kai Bags website and very active Facebook page, see www.kaibags.ca and https://www.facebook.com/bagsbykai
Section 10 Money matters

Considering cash flow, pricing, and potential funding sources

Cash flow
Completing a cash flow projection is an extremely useful exercise, which is performed to ensure that there is enough cash on hand to cover costs as they come in. This is especially useful during the start-up period of the micro-enterprise, when costs are likely to greatly exceed sales.

To create a cash flow projection, jot down all expected start-up costs. These expenses are generally paid up front, and could include such items as equipment, supplies, promotion and branding, insurance, a business license, and so on. These are generally one-time only fees, or expenses that are only paid annually. Clearly, more cash is needed for business launch than for general operations, especially since there are no or low revenues coming in to cover expenses at the beginning.

Next, estimate expenses that will come in over the next year. Start with totals (e.g., $1,000 annual advertising budget), then map out those months in which these will likely be paid (e.g., half at business launch, with the remainder spent quarterly).

Do the same with revenues: what will the total revenues be, and which months will the cash likely flow in?

These are examples of some of the categories that might be used in a cash flow projection. Not all are meaningful for all businesses.

Cash in
✓ Sales, commissions, or fees
✓ Loans (repayable)
✓ Grants (non-repayable)
✓ Owner’s contribution

Cash out
✓ Advertising and promotion
✓ Business tax, fees, licenses, dues, memberships, and subscriptions
✓ Computer hardware / software
✓ Equipment
✓ Insurance
✓ Interest
✓ Legal, accounting, and other professional fees
✓ Maintenance and repairs
✓ Meals
✓ Motor vehicle expenses
✓ Office expenses
✓ Owner's draw (money taken from the business for personal use)
✓ Purchases for resale (including inventory)
✓ Property taxes
✓ Rent
✓ Salaries, wages, and benefits (including employer’s contributions)
✓ Supplies (not for resale)
✓ Telephone and utilities
✓ Travel

An example of a possible cash flow projection for a small lawn care business is included on the next page. Note that revenues are concentrated around the growing season, while some expenses are paid regularly, despite the fact that there is no incoming revenue to offset these costs in the month during which they are paid.

Although not technically an expense in a small business, even owner’s draws are included in the cash flow projection, as money taken for personal use represents cash flowing out of the business.

The names of the categories need not match those used by the Canada Revenue Agency. The cash flow projection is an internal working paper for the business.

In this example, the business relies on a $10,000 grant, a $5,000 loan, and a personal injection of $650 of June’s own savings, all in order to maintain positive cash flow to cover start-up costs, and the off-season. Income doesn’t start to flow until the third month, and only slowly until high season begins in late spring.

At the bottom right corner, we see that this cash flow projection only provides June with $126 to enter the next year. We know that the cost of a
### JUNE’S LAWN CARE

**PROJECTED CASH FLOW YEAR 1, 2014**

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<th>Feb-14</th>
<th>Mar-14</th>
<th>Apr-14</th>
<th>May-14</th>
<th>Jun-14</th>
<th>Jul-14</th>
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<tr>
<td><strong>Closing balance</strong></td>
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<td>4,422</td>
<td>3,385</td>
<td>2,698</td>
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<td>2,587</td>
<td>1,300</td>
<td>263</td>
<td>126</td>
<td>126</td>
</tr>
</tbody>
</table>
business license alone is $150, due the following month. And this scenario involves June taking no owner’s draws in December. To improve cash flow, there are only two possible strategies: increase cash in, or decrease cash out.

A blank cash flow document is included in the worksheet section of the guide, for your own use. Use any 12-month period that includes your initial month of launch as the first month on the worksheet.

**Establishing pricing**

Thorough analysis of prices charged by competing businesses helps to determine the going rate for a product or service. In order to be competitive in an established marketplace, a new business will typically set its pricing within this range.

In other instances, businesses may be able to charge premium prices for their products or services by adding a unique element, known as ‘value added’ or ‘market niche’.

Octopus Strategies, in its *Social Enterprise Marketing Toolkit*, presents a value spectrum for considering ‘fair value’ when setting prices. The options are:

1. **Less for less**—offer a lesser quality item for a lower price
2. **Same for less**—offer a comparative item for a lower price
3. **More for same**—offer a higher quality item for a price equal to regular items
4. **More for more**—offer a higher quality item for a higher price

Think twice about undercutting the competition on price, unless you have a unique edge that reduces your costs dramatically. Otherwise, competing on price could likely result in a ‘race to the bottom’, in which no one in the industry generates sustainable profits.

In deciding what price to set your offering(s) at, consider:

1. **Consumers**—how much are they willing to pay?
2. **Competitors**—whether your offering can be differentiated from the rest, and how saturated the supply of these items is generally
3. **Cost**—don’t forget to include overhead and soft costs such as utilities, space, licenses, insurance, and promotions
Potential funding sources, and other forms of support

It could prove difficult to acquire conventional small business loans or attract investors for business start-ups.

In addition, interest rates and other payment terms associated with traditional loans could result in high levels of anxiety-causing debt. As a general rule, banks do not make small business loans unless substantial collateral is available.

Financial creativity and resourcefulness is highly recommended, with loans being considered a last resort, particularly given the likely small scale of the business. After determining that the business is viable, consider these options:

- Where applicable, borrow equipment from friends and family (for example, for a lawn mowing business) and then purchase once the enterprise is on its feet
- Approach your local Community Living Association to determine whether they provide grant or loan seed money (‘patient capital’) for micro-enterprises
- Consider partnering with an existing business, in a mutually beneficial relationship
- Connect with Community Futures BC’s Entrepreneurs with Disabilities Program (EDP)\(^{10}\) to discuss patient loans and business advisory supports
- Compare the EDP offerings with Vancity Credit Union’s ABLED Loan Program\(^{11}\)

\(^{10}\) www.cf-edp.ca/
\(^{11}\) www.vancity.com/BusinessBanking/Financing/Loans/SmallBusinessAndStartup/ABLED/
Section 11 Creating a mini business plan

Basic components for moving ahead

You may feel overwhelmed by the idea of building a business plan as you support the potential business owner to move forward with enterprise exploration.

As explained earlier, the Lean Start-Up approach uses a shorter document called a Business Model Canvas, at which point, the potential business owner gets out into the world, and uses their direct experience of attempting to market the good or service as a living laboratory that enables them to ‘tweak’ their approach and offerings to adapt to real-world feedback.

If you are following the more traditional route of the business plan, you will spend more time in the formation stage before presenting the world with the good or service. By virtue of the fact that the business plan will contain some assumptions that can only be tested in the real world, we counsel against planning to a state of paralysis. Consider a mini business plan.

The good news is that your mini business plan will build on much of the areas already outlined. So if you have undertaken some of the exploration already described in the guide, you could be closer to a completed mini business plan than you think.

As a supporter to the potential business owner, try not to be intimidated. In simple businesses, some of the sections described below would not apply, and others will be very simple to complete.

The point is to plan to the depth that applies to the nature and scale of the business. An industrial factory, for instance, will require a much more sophisticated business plan than a home-based cookie business!

After a title page and a table of contents, the opening section of a business plan is the Executive Summary. This one- to two-page section outlines the key points of the plan. As such, it is usually written last.
A typical **Executive Summary would include:**

- a brief overview of the business, including a description of the product or service;
- a rationale for why the entrepreneur is going into business;
- who the customers are, identifying:
  - the primary and secondary market(s) (e.g., 60% of the sales are to retailers and 40% are to end users), and
  - the methods of distribution to their market(s) (e.g., consumer sales are made through home parties, a website, retail distribution);
- highlights of financial results, such as expected annual sales and profits, how much money is needed to start the business, and what any borrowed money will be spent on;
- a brief statement that communicates why the business will succeed;
- reference to parts of the business plan that support the claims of success (e.g., letters from interested customers, survey results, key findings on the competition).

Following the Executive Summary, you might include a **Vision and Mission Statement for the micro-enterprise.**

A **vision statement** describes the future successful expectations of the business. It should be clear, specific, and realistic. For example, ‘Our vision is to help Langley families to live happier and healthier lives by providing the freshest, tastiest, and most nutritious local produce.’

A **mission statement** is a brief statement that expresses the purpose or function of the business and how the business will fulfill its purpose. For example, ‘Our mission is to become the number one produce store in Langley by selling the highest quality and freshest farm produce in a friendly environment.’

Next, add **Business Objectives to the plan.**

These are goals, which are divided into short-term (less than one year), and long-term (one to five years). The best-crafted objectives are realistic, measurable, and specify when the objective will be achieved. Here are some examples:
• To generate $15,000 in sales by December 31, 2014.

• To serve a minimum of 8 clients each month, from October to December, 2014.

• To repay our $3,000 loan through business profits by September 30, 2014.

• To participate in three Christmas craft shows this season.

The **Company Snapshot** is a very brief section, consisting of rationale and ownership details.

First, describe why the individual has decided to start this particular business, and the reasons why the business is expected to succeed.

Next, lay out the ownership details of the business:

1. Name the owner(s)
2. State the legal structure (most likely a sole proprietorship—see Appendix One)
3. Give the legal name of the business

The **Products and Services** section includes many items that were crystallized during the market research process, namely:

- a clear description of the products and/or services to be offered, their key features, and benefits to the customer;
- why customers will purchase these from the business;
- the production and/or service process;
- competitive advantages;
- insight into any future products or services that might be offered in the future.

This section can be 1–2 pages. Feel free to pepper it with photos or sketches that visually demonstrate the product, if suitable for the business.
The **Management and Staffing** section should describe the management and staffing structure of the business. This section should also detail:

- the expertise and experience of the business owner and team, outlining the strengths and weaknesses of the owner/team and how weaknesses will be dealt with;
- associated support persons such as accountants, bookkeepers, lawyers, family, and other mentors;
- the entrepreneur’s duties, as business owner.

The **Business Operations** section outlines such details as:

- proposed hours of operation
- licenses, and insurance coverage that apply, including costs, and planned times of acquisition
- any special municipal by-law requirements
- relevant organizational charts, time management plans, or schedules
- suppliers to be used by the business, including specific terms of payment that might apply
- a facilities description where applicable (address, description of the site, size of the space, major improvements needed)

The **Industry Overview** section details some of the key findings from your primary and secondary market research.

- describe the industry or sector that the business will be operating within;
- discuss the industry’s size, trends, key products or services, customer buying habits, and the overall industry outlook;
- outline seasonal and timing factors that may affect the industry (i.e., if the industry is seasonal/dependent on a certain time of year).
- present an overview of the positioning of the business relative to the competition, including descriptions of competitors;
- outline the SWOT analysis—strengths, weaknesses, opportunities, and threats (as discussed in Section Eight);
- explain how the business will overcome any weaknesses or threats (identified in the SWOT);
- outline competitive advantages that the business will feature;
- describe why the business will succeed, using competition as the starting point.
If you’ve not spent much time researching this area, the Marketing Strategy is the section that will likely require the most effort to generate.

Take your time: cutting corners on this section is not advisable, as it explores how the business will get its offering into the hands of paying customers.

This section delves deeper into the intended target market, the marketing strategy itself, the competition, and suppliers.

First, returning to your market research activities, summarize the secondary research sources that you accessed, and the primary research methods (usually surveys) used. Then, share your findings in support of the feasibility of the business. In other words, what compelling evidence has your market research unearthed that argues for the launch of this business?

Define the target markets of the business—for each different group, include the intended customers’ age range, gender, income level, geography, social situation, etc.

In terms of expected purchase levels, how often will the customers purchase the good or service, and how much are they willing to pay? In terms of customer habits, describe the level of service / selection that the target customers expect.

Revisit your previous work on costing and pricing, and detail the cost of providing the good or service (including indirect or ‘soft’ costs such as facility overhead, insurance, memberships, advertising, etc.) and the proposed selling price. Subtracting the cost from the price gives your profit on each item,¹² which should also be included here.

Next come the crucial details of marketing and promotion. Be sure to include enough information so that this section can be revisited when needed, and used as the marketing plan for the business.

How will the business be promoted?

☑ Traditional advertising
☑ Press releases (you might include a few samples)

¹²Note that as more units are sold, the soft cost per unit decreases, increasing the profit on each item. This is because the soft costs are being spread across more units sold.
• Discounts / coupons
• Giveaways / contests
• Website / ecommerce
• Social media (Facebook, Twitter, etc.)
• Wholesale (selling to retail stores, which then mark up the product and sell it to the public)
• Direct selling (multi-level marketing)

**Where will the business be promoted?**

• In the neighbourhood
• In a few communities within the home city
• Across the home city
• In multiple cities / across a region
• Across the province
• Across the country
• Internationally

**When will the business be promoted?**

Will there be a steady promotional effort all year, or will the focus be concentrated around certain seasons/holidays?

This is also the place to mock up a logo, a flyer, a webpage—whatever applies to your situation.

Consider ways to measure successful promotions, pricing, customer service, product quality, and product selection.

Also, incorporate methods of tracking your clients. Who are they? How did they learn about the business? What products/services do they prefer?

Armed with clear answers to these questions, you can focus on what works, and proactively meet client expectations.

Most of the work for your **Financial Plan** can be pulled from your cash flow statement (see Section Ten).

This section presents sales and cost forecasts (and therefore profit predictions), and outlines what amount of money needs to be injected into the business to get it going, and
keep it afloat before it reaches sustainability, and begins to feed profits to
the business owner.

Begin this section with a summary of the highlights, which are drawn from
the details to be given further in the section.

1. Share the sales projections over the next few years along with the expected
rate of increase in those sales over the same period, and beyond (for ex-
ample, ‘we expect to generate our first sales in the third month of business,
with a 10% month-over-month increase for the next 21 months, then 20% annual growth beginning in year three’).

2. Share the assumptions that have been made in the projections (for exam-
ple, ‘we have assumed that Susan will be working on the widgets 20 hours
per week, producing 2 widgets per hour’ or ‘we have assumed that the cur-
rent local interest in princess-themed birthday parties will continue for the
duration of our projection’).

3. Tell the broad story of the cash flow projections (for example, ‘assuming
that our sales growth projections are accurate, and drawing on a start-up
loan from family for $500, Robert’s business will have repaid the loan and
will be generating a $400 monthly income for Robert by month six’).

4. Insert your cash flow projection (from Section Ten) into the mini business
plan at this point. Then feed the asset, liability, sales, and expense amounts
into projected financial statements (balance sheet and income state-
ment—see Appendix Three for more details on these statements).

Finally, place any documents that may be relevant, but have not been
included in other sections of the business plan, in the final
section, which holds Appendices.

Depending on the nature and scale of the enterprise, these might include
some combination of:

✓ resume of owner(s);
✓ letters of intent from suppliers;
✓ letters of support from the target market;
✓ contracts/pending contracts;
✓ samples of:
  • advertising,
  • business cards,
  • pictures of product;
✓ legal documents pertaining to the business;
✓ samples of competitors’ ads;
✓ certificates and awards;
✓ equity list (list of assets that the potential business owner is putting into the business);
✓ professional and personal references;
✓ flow chart / business organization chart;
✓ floor plans.
Appendix One  Laying the foundation: legal structures, and registration steps for start-up

Now that the planning and exploration stage is complete, you’re ready to ‘start’ your business.

Legal structures

As part of your planning process, you would have chosen a legal structure for your business. Most likely, for a business of a small scale, you would choose to form a sole proprietorship.

The main forms of legal business structures in Canada are sole proprietorships, partnerships, and corporations. Their characteristics are listed here:

Sole proprietorship
Choosing a sole proprietorship is the simplest way to set up a business. As a sole proprietor, the owner is fully responsible for all debts and obligations related to the business. A creditor with a claim against a sole proprietor would normally have a right against the sole proprietor’s assets, whether business or personal: this is sometimes referred to as ‘unlimited liability’.

The sole proprietor is said to be self-employed.

Advantages of sole proprietorships include:

- Low start-up costs
- Easy to form
- Lower-cost income tax preparation (part of regular personal tax return)

Disadvantages of sole proprietorships include:

- Unlimited liability (described above)
- Lack of continuity in business organization, in the absence of the owner
- Somewhat greater difficulty in raising capital (as compared to a corporation)
- Other businesses can operate under the same business name
Partnership

A partnership is an agreement in which the entrepreneur and one or more people combine resources in a business.

In a general partnership, the entrepreneur and one or more other owners would share the management of a business, and each partner would be personally liable for all debts and obligations incurred. This means that each partner is responsible for, and must assume the consequences of, the actions of the other partner(s).

The following should be considered when developing a partnership:

Terms of the partnership

In order to establish the terms of the partnership and to protect oneself in the event of a disagreement or dissolution of a partnership, a partnership agreement should be drawn up, with the support of a lawyer.

Profit sharing

Each partner would share in the profits according to the terms of the partnership agreement.

General or Limited Partnership?

A limited partnership involves limited partners who combine resources. They are not involved in managing the business and cannot be liable for more than the amount of capital that they have contributed. This is known as limited liability.

A limited partnership also involves general partners, who are involved in management. General partners are fully liable for the debts and obligations of the business, but may be entitled to a greater share of the profits.

Advantages of partnerships include:

✓ Low start-up costs
✓ Easy to form
✓ Lower-cost income tax preparation (part of regular personal tax return)
✓ Broader management base than a sole proprietorship (offering more stability)

Disadvantages of partnerships include:

✓ Unlimited liability
✓ Divided authority
✓ May be challenging to find suitable partners
✓ Possible development of conflict between partners
✓ Partners can legally bind each other without prior approval
Lack of continuity in business organization, in the absence of the partners

Other businesses can operate under the same business name

**Corporation or Limited Company**

A corporation, also known as a limited company, is a legal entity that is separate and distinct from its members (called shareholders). Most companies in BC are incorporated under the *BC Business Corporations Act*. Other provinces have their own legislation. Some companies incorporate federally.

When a company is incorporated, it acquires all of the powers of an individual, an independent existence—separate and distinct from its shareholders—and an unlimited life expectancy. In other words, the act of incorporation gives life to a legal entity known as the corporation, commonly referred to as a ‘company’.

A company can acquire assets, go into debt, enter into contracts, and sue or be sued.

Ownership interests in a corporation are usually easily changed. Shares may be transferred without affecting the corporation’s existence or continued operation.

The following characteristics distinguish a corporation from a partnership or sole proprietorship:

**Limited liability**

Normally no member can be held personally liable for the debts, obligations or acts of the corporation beyond the amount of share capital the members have subscribed. Each shareholder has limited liability. A creditor with a claim against the assets of the company would normally have no rights against its shareholders, although in certain circumstances shareholders may be held liable.

**Perpetual succession**

Because the corporation is a distinct legal entity, its existence does not depend on the continued membership (ownership) of any of its members.

**Advantages of incorporating include:**

- Limited liability (described above)
- Lowest business tax rates (15% small business federal plus 2.5% small business provincial (BC) in 2014)\(^\text{13}\)
- Ownership is transferable
- Continuous existence beyond the life of the shareholder

\(^{13}\) [www.cra-arc.gc.ca/tax/bsnss/tpcs/crprtns/rts-eng.html](http://www.cra-arc.gc.ca/tax/bsnss/tpcs/crprtns/rts-eng.html)
✓ Separate legal entity
✓ The business name is protected
✓ It is relatively easier to raise capital

**Disadvantages of incorporating include:**

✓ Corporations are closely regulated. For example, the *BC Business Corporations Act* requires all companies to file an annual report and also file any changes to the location of company offices and its directors. The company is also required to maintain certain corporate records.

✓ This is the most expensive form of business to organize. Higher start-up costs related to professional fees for legal and accounting services are incurred.

✓ More extensive tax reporting is necessary. Annual accounting fees can average around $2,000, assuming that the regular bookkeeping is handled internally.

✓ Shareholders (directors) may be held legally responsible in certain circumstances.

**Register the proposed business name, then the business itself**

In BC, the business name must be registered with the BC Registrar of Companies if the intent is to operate under a business name as a sole proprietorship, a partnership, or a limited company (corporation).

If the plan is to operate ONLY under a first and last name (e.g., Bob Smith rather than Bob’s Candles), then there is no need to register the business (although it must pay income tax like any other business!). Although using only the first and last name may seem like an easy route, and therefore the best to take, with only a first and last name, it will be more challenging to market the business. For example, Bob Smith and not Bob’s Candles would appear on business cards, marketing materials, etc. In addition, Bob would not be able to open a business bank account. So, for the added steps and minimal one-time cost involved ($31.68 to request the business name, then an additional $40 to register the business if it’s a sole proprietorship or partnership), going the ‘official’ route should be seriously considered.
Before registering in BC, the business name must be approved by the provincial government. So, these are the two steps:

1. Obtain approval to use business name.

2. Register the business.

**Step 1. Obtain approval to use business name**

Go to Name Requests Online www.bcregistrynames.gov.bc.ca/nro/ to request a business name, for a cost of $31.68, paid by credit card. The Name Approval Request is only the first of the two steps.

On the Name Approval Request Form, list three business name choices in order of preference. If the first one is approved, the other two will not be reviewed, so it is important to list the names in order of most preferred to least preferred. The price is the same whether listing one, two, or three choices, so it is best to choose three. If for example, only one choice is listed, and it is not approved, then the submission of a new name request with a new fee payment would be required.

It is important to note that if another corporation already holds the name being requested, then it cannot be used. If another sole proprietorship or partnership already holds the name, then it can be used.

A business name must have three parts:

- a distinctive element (e.g., ‘Bob’s’)
- a descriptive element, (e.g., ‘Candles’)
- a corporate designation (only if incorporated, e.g., Ltd., Inc., Limited)

Once the business name has been approved, 56 calendar days are granted to complete the business registration procedure. If the business is not registered within 56 days of name approval, the business name approval process will need to be undertaken all over again (including having to pay a second time).

**Step 2. Register the business**

To register a sole proprietorship or partnership in BC, a Declaration for Proprietorship or Partnership Registration form must be submitted, along with the $40 fee, using the OneStop Business Registration website, at www.bcbusinessregistry.ca.
To complete small business registration, these elements are needed:

- name approval request number (from first step just described);
- approved business name;
- the start date of the business; and
- a physical street address in BC.

To register a corporation, many use the assistance of a lawyer and accountant. That said, others choose to incorporate without assistance. To complete BC corporate registration alone, these items are needed:

- name approval request number;
- approved business name;
- an Incorporation Agreement; and
- the company’s Articles of Incorporation.

A BC Incorporation Application can be filed online at a cost of just under $400.\(^\text{14}\) Once the Certificate of Incorporation is received, one must:

- Purchase a corporate minute book;
- Purchase a corporate seal;
- Complete corporate by-laws, organizational minutes and issue shares; and
- Open a corporate bank account.

If the business owner has a PWD (Person with Disability) designation, Register for the Ministry of Social Development’s ‘Self Employment [income reporting] Program’

Since 2008, the BC Ministry of Social Development has held responsibility for self-employment of British Columbians holding the Persons With Disabilities (PWD) designation, in addition to those who meet the persons with persistent multiple barriers criteria.

It is highly recommended that during the research period for business launch, the contents of the web link below be thoroughly reviewed for policy details of this special Self Employment Program (SEP). This important link can be found here:

www.gov.bc.ca/meia/online_resource/employment_strategy_for_persons_with_disabilities/sep/policy.html

\(^{14}\) See www.corporateonline.gov.bc.ca/corporateonline/colin/accesstransaction/menu.do?action=overview&filingTypeCode=ICO&from=main for more details on establishing a corporation in BC yourself.
After a review of this material, it is important that the individual self-employment scenario be reviewed with an Employment Assistance Worker at the Ministry.

**Unless the individual is formally accepted into the Self-Employment Program, they are not allowed to deduct expenses from business income.** In other words, they report gross sales to the Ministry, and would likely have amounts clawed back as excess earnings that would likely have already been paid out as business expenses. This is not a desirable position to be in, and would likely render the business a failure in short order.

**So, it is very important to communicate with this program about self-employment intentions prior to business launch.**

When the individual is formally accepted into the SEP, then business expenses are viewed as an allowable deduction, when claiming income earned.

**Register for GST, payroll, corporate tax, PST, WorkSafeBC accounts as appropriate.**

The Canada Revenue Agency (CRA) business number (BN) consists of two parts: the nine-digit registration number (like a special Social Insurance Number for the business) followed by the account identifier (two capital letters). The four (federal) CRA business accounts and the account identifiers are as follows:

- corporate income tax (RC);
- import / export (RM);
- payroll deductions (RP); and
- GST (RT).

If the business needs at least one of the four accounts listed above, then it is essential to apply for a BN. The most common BN accounts for small business are GST and payroll. BN registration is free, and can be done in BC, online, using the OneStop Business Registration website, at [www.bcbusinessregistry.ca](http://www.bcbusinessregistry.ca).

The suffixes at the end of the account types (e.g., RC, RM, RP, and RT) denote sub-accounts within the main Business Number account. It is very important (especially if more than one sub-account has been opened, such as GST and payroll) that the suffixes be listed on cheques when remitting money to the Canada Revenue Agency. For example, if the BN is 12345 6789, then a GST remittance would be 12345 6789 RT. The payroll remittance would be 12345 6789 RP.
**Goods and Services Tax (GST)**

The Goods and Services Tax (GST) is a federal sales tax that applies at a rate of 5% to the supply of most goods and services in BC.

Although the consumer ultimately pays the GST, businesses are responsible for collecting and remitting it to the government. Businesses that must register or that register voluntarily for GST are called registrants.

Registrants collect the GST on GST-taxable sales, and pay the GST on most purchases they make to operate the business. Registrants can claim a credit, called an input tax credit (or ITC), to recover (in full) the GST they pay on their business purchases by deducting this from the GST that they collect. If they pay more GST than they collect, then they can claim a GST refund (this is distinct from the personal GST tax credit that low-income individuals are entitled to). A GST refund is most common during a business start-up period, as start-up expenses will likely exceed sales.

Businesses must register for GST when taxable worldwide revenues exceed $30,000, over any four consecutive calendar quarters. If it is projected that sales over any 12-month block of time will exceed $30,000, it’s probably wise to register for the GST sooner rather than later.

Registering early (or becoming a ‘voluntary’ registrant) gives businesses certain advantages, such as the right to claim back all GST paid on business expenses. So, although GST collection is optional up to the $30,000 revenue threshold, we advise registering for GST at launch. This is for two reasons: firstly, one can take advantage of input tax credits (ITC’s), and secondly, clients have the impression that the business is a ‘serious player’ (this may or may not be a priority depending on the nature of the business). Invoice without charging GST, and clients know that the business is bringing in less than $30,000 annually.

A word of warning, however: if a business is registered for GST, it must collect the GST from clients, and remit it to the government (less any GST paid out on business expenses), regardless of whether its sales reach the $30,000 threshold.

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**Payroll**

If the business hires employees, there is a responsibility to deduct *employee income tax*, *EI* (Employment Insurance), and *CPP* (Canada Pension Plan) amounts from the employees’ paycheques; and remit the deductions to the government, usually on a monthly basis.

The deductions for one month are generally due on the 15th of the following month. For example, September payroll remittances are due to the government on October 15. If this deadline is missed by even a day, steep late filing penalties could be assessed. Take this deadline seriously.

Not only does the business remit the amounts that are withheld from the employees (by deducting the amounts from the paycheques). The business is also required to pay an employer’s portion of the deductions. The employer matches the employees’ CPP amount, and pays 1.4 times their EI amount. There is no employer contribution required for employee income tax.

It is also important to note that a **sole proprietor or a partner in a partnership** is not technically on payroll, because the legal structure dictates that the business and the person are one and the same (and one cannot pay oneself!). So **in the case of a sole proprietorship or partnership with no staff, there is no need to open a payroll account** (with no payroll deductions taken from the ‘pay’ cheque, which is technically considered an owner’s draw).

What some often don’t realize is that both the employer’s and the employee’s portion of CPP is due on the net profits of the business (business income minus expenses) so it’s a good idea to put aside about 10% of net profits (i.e., up to the 2014 annual cap of $4,851.00) of cash for this purpose, for year-end. This applies ONLY if the business person is not considered to be disabled under the CPP.

In the case of a **corporation** (since the owner and the business are distinct legal entities), the owner is in fact on staff of the business and does require that a payroll account be opened (with payroll deductions taken for the owner/shareholder). Note that owners of businesses are EI exempt—since they cannot lay themselves off!—so there is no need to deduct EI in any case.
2014 CPP rate: 4.95%, to maximum of $2,425.50 annually—maximum annual self-employment contribution (as a sole proprietor or partner) is $4,851.00.

2014 EI rate: 1.88%, to maximum of $913.68 annually—self-employed individuals are exempt, as they cannot ‘lay themselves off’ and pay EI. The same exemption applies to shareholders who are not at arms’ length from a corporation.

**Provincial Sales Tax (PST)**

A business in BC must register for a PST number and charge (7%) PST if it sells tangible **goods** (as opposed to services) within the province of BC, to an end user. Some goods are exempt, but these are few. A few services (called ‘taxable services’) also require that PST be collected. These usually involve services (e.g., repairs) to a PST-taxable good.

Unlike the GST, there is no minimum sales threshold. Also unlike the GST, the PST paid on business expenses is **not** deducted from PST collected, to arrive at a lesser amount payable.

If you’re unsure about whether or not your good or service should have PST applied, contact the Ministry of Finance at 1.877.388.4440 or visit the PST website.\(^{16}\)

Generally, PST is remitted monthly, and is due on the last day of the month following the sale. The business is entitled to hold back a small amount (up to $198.00) each month, as a ‘commission’ for collecting the tax on the provincial government’s behalf. Note that this commission is considered as taxable business income, so it must be declared as such for income tax purposes.

In the case of businesses that are selling inventory (such as reselling computers purchased whole) or items that have been made (such as candles), a PST exemption can be obtained on the purchase of any PST-taxable inventory, or materials that go directly into the product (e.g., wax, wicks, but not office supplies or any other item not for sale). This is because, unlike GST, **PST is only charged to the end user of the item.**

\(^{16}\) [www2.gov.bc.ca/gov/topic.page?id=589542DDDB6347F7A7C80C1783F4BA6D](http://www2.gov.bc.ca/gov/topic.page?id=589542DDDB6347F7A7C80C1783F4BA6D)
Virtually all employers in BC must register for WorkSafe BC coverage, and pay assessments. The cost of coverage depends on the type of industry that the business is engaged in and the amount of its assessable payroll.

The more ‘risky’ the business, the higher the rate (the forestry industry, for example, has the highest assessed rates in the province). For smaller businesses, WorkSafe BC remittances are generally made annually, and are paid as a calculation of the assessed rate for the industry, multiplied by the wages that were paid during the period.

In an incorporated company (or corporation), all active shareholders or officers are regarded as employees of the company (registration with WorkSafe BC is therefore mandatory if the business is incorporated).

Voluntary coverage is available to a sole proprietor and their spouse. This means that if the business is a sole proprietorship (or partnership) with no staff, WorkSafe BC does not require that coverage be taken. In some industries, customers require that the vendor (even a sole proprietorship) hold their own WorkSafe BC coverage—this ‘requirement’ tends to be driven by those industries (construction is an example), and not by WorkSafe BC themselves.

To double-check to see if the business should register for WorkSafe BC coverage, contact the Employer Service Centre at 604-244-6181 or toll free at 1-888-922-2768.

One can register for WorkSafe BC coverage online at www.worksafebc.com

Obtain a business license

A municipal business license must be obtained by any business, regardless of its size, where it is based (e.g., in the home or in a commercial space), how frequently it engages in active sales (e.g., seasonal businesses), or even whether it is officially registered with the BC Registrar of Companies.

The license can be obtained at the Municipal or City Hall in which the business operates. Most offer this service online. Prices vary by municipality and the scope of the venture, but generally, small businesses can expect to pay approximately $140 annually for a business license. Some municipalities now offer blanket coverage for larger regions, at a higher rate.
**Open a company bank account**

A company bank account helps to segregate business income and expenses from other types of income, and personal expenses.

At the very least, the micro-enterprise owner can open a subaccount within their existing personal bank account, thereby segregating the business activities from personal activities.

If the business is operating under a business name (and not just the person’s first and last name), a business bank account is needed, in order to cash cheques written in the name of the business.

Small business accounts are quite inexpensive to maintain, with the normal monthly service fees running between $10 and $20 monthly. These costs are, of course, considered to be business expenses and can be written off (subtracted from taxable business income).

Refrain from starting the company cheques at #1—this communicates that the business is brand new! The same advice applies to numbering sales invoices.
Appendix Two  Recordkeeping basics: small business income tax and write-offs clarified

Tax filing deadlines, tax rates, and fiscal year-ends for sole proprietorships

Sole proprietorships file business income on the regular personal tax return
In the case of sole proprietorships, the business and the owner are considered as one and the same, so business activities are reported on a special form within the regular personal income tax return.

This form, called the T2125 Statement of Business or Professional Activities, can be found online.17 The T2125 form contains sections in which to enter business revenues and business expenses. It forms part of the personal income tax return or T1.

The net profit (revenues minus expenses) is simply carried forward to the second page of the personal tax return, where it is added to all other sources of income and taxed at the same personal tax rate as other forms of personal taxable income.

If expenses exceed revenues (meaning that the business shows a net loss), this amount is similarly carried to the second page of the general personal tax return, where it actually reduces overall taxable income.

It is perfectly normal for a business to incur a loss during its initial start-up year, but after three years of consecutive losses, expect a call from the Canada Revenue Agency asking what your intentions are!

Income tax rates for sole proprietorships
Because the business owner and the sole proprietorship are considered as a single legal entity, personal income tax rates are applied to the net profit (sales minus expenses) of the business.

For current federal and provincial tax rates, check the CRA webpage at www.cra-arc.gc.ca/tx/ndvdls/fq/txrts-eng.html. Remember that a basic personal amount is tax-free (in 2014, the first $11,038 of income), in addition to a possible Disability Amount which flows through the completion of Form T2201, Disability Tax Credit Certificate—see www.cra-arc.gc.ca/tx/ndvdls/tpcs/ncm-tx/rtrn/cmpltng/ddctns/lns300-350/316/menu-eng.html for more information.

17 See www.cra-arc.gc.ca/E/pbg/ft/t2125/
**Fiscal year-end of sole proprietorships**

Because the business and the owner are considered to be indivisible, the sole proprietorship must take on the same fiscal year (or operating period for tax purposes) as an individual. This means that the fiscal year starts on January 1 and ends on December 31.

The exception is the first year of business: in this case, the fiscal start date is the day that the business was launched, and the fiscal end is December 31. This initial year is called a ‘stub year’ because it rarely covers a full 12-month period.

**Filing deadline of sole proprietorships**

The filing deadline of sole proprietorships mimics those of personal tax deadlines, because the business activity is simply being reported on the owner’s personal tax return.

That said, a personal tax return that contains business activity benefits from a filing extension from the regular April 30 tax filing deadline: to June 15. This extension applies to the spouse of the business owner as well, regardless of whether or not the spouse is involved in the business operations. A word of caution: if there is tax owing, interest begins to accrue on May 1! So this deadline extension should only be taken advantage of if the tax filer is certain that there is no income tax owing.

**Basic income and expense categories**

As explained in the previous section, in the case of sole proprietorships, business activities are reported on a special form within the regular personal income tax return, called the T2125. This may seem like a complicated form, but the point is simply to list business revenues, then deduct expenses. The result of revenues minus expenses is the taxable income of the business.

All financial reporting to CRA uses the same income and expense categories. It is advisable to sort paperwork in these same categories, as all reporting will have to be made in this ‘language’ when reporting business activities to the government.

This section of the guide reviews the most commonly used income and expense categories, or ‘accounts’.

**If the business is a GST registrant** (collecting and remitting GST), it is important that the income and expenses are recorded for tax purposes without the GST included. The GST flows in and out of the business when GST claims are filed. Including the GST in income and expenses would result in being taxed on GST (on the income side), and claiming GST as an expense...
when it has already been claimed for credit (on the expense side).

**If the business is not a GST registrant,** include all GST associated with the expense as part of the expense account.

**Income**

**Gross sales, commissions, or fees**—this is the main sales account. All business sales are recorded here.

**Expenses**

**First a note: in some expense categories, remember to exclude any expenses related to home and car expenses. The treatment of these ‘special expenses’ will be explored towards the end of this section.**

**Advertising**—not only is this account for traditional advertising such as print ads, but it's also for any form of promotion that the business takes on. This could include pens with the company logo, website costs, gift certificates for special clients, printing of flyers, etc.

**Business tax, fees, licenses, dues, memberships, and subscriptions**—this account is where the cost of the annual business license is allocated, as well as any other business-related fees or dues, and business-related magazine subscriptions.

**Insurance**—this account is not for home insurance. It is for insurance related directly to the business, such as property insurance (only if the business is located in a commercial space) or liability insurance.

**Interest**—this account is not for home mortgage interest. It is for interest related directly to the business, such as mortgage interest on a commercial space, or interest on a business loan or line of credit. Bank service fees are also posted to this account.

**Legal, accounting, and other professional fees**—this account is where legal and accounting expenses are posted.

**Maintenance and repairs**—this account is not for car or home repairs. It is for repairs and maintenance to business-related equipment such as special machinery, and computers. In the case of a business located in a commercial space, this is the account used to record costs of upkeep associated with that space.

**Meals and entertainment**—it is essential to note that only 50% of meals and entertainment related to the business can be recorded as an expense. This is regardless of how many people are partaking in the activity. Like-
wise, only half of the GST on meals and entertainment can be claimed as an input tax credit (for refund by the federal government, in cases of businesses charging GST). Having said this, always record the full expense amount (but only half of the GST if the business is a GST registrant). At the end of the year, the tax preparer will assume that the amount recorded is 100%, and will only claim 50% when filing taxes. If only half of the expense amount is recorded initially, the tax preparer will likely split it in half again! The business can write off at 100% up to six staff events per year.

**Office expenses**—this account is for any office supplies that cost less than $250 *per unit*. If the item costs $250 or more, and it is not a consumable, then it will likely need to be amortized (also known as depreciation), so should be posted to an asset account. See the section on ‘special expenses’ below. For a piece of computer software that costs $249, it is considered to be an expense (and would therefore go in this category); but if it costs $250, it would be posted to an asset account called ‘Computer Software’ and amortized. For a used iPad that costs $200, it is considered to be an expense (and would therefore go in this category); but if it costs $250, it would be posted to an asset account called ‘Computer Hardware’ and amortized.

**Supplies**—this account is as unique as the business. This category captures any supplies that are needed to operate the business, but are not for resale, nor are they office supplies. The same $250 rule applies as was described under ‘office supplies’ above. For a non-consumable supply or tool that costs $249, it is considered to be an expense (and would therefore go in this category); but if it costs $250 or more, it would be posted to an asset account called ‘Equipment’, and amortized.

**Purchases**—this account is used to record all items purchased for resale to a client. This can be either an ingredient or a finished product. For a business that offers a service only, this account would not be used.

**Property taxes**—this account is *not* for home property taxes. It is for property taxes related directly to businesses located in a commercial space. For home-based businesses, this account would not be used at all.

**Rent**—this account is *not* for home rent. It is for rent related directly to businesses located in a commercial space. For home-based businesses, this account would not be used at all, unless, for instance, an offsite storage space is being rented.
Salaries, wages, and benefits (including employer’s contributions)—this account is for wages paid to employees (not the withdrawals of a sole proprietor), as well as any special benefits (such as medical insurance or extended health) that are offered to employees. Also residing in this account are WorkSafe BC payments, and the employer’s portion of EI and CPP deductions for staff.

Travel—this account is not for expenses related to a personal vehicle, but does embrace all other travel expenses. These could include public transportation (busses, ferries, taxis, etc.), car rentals, hotel accommodations, airfare, etc. Limit of two business-related conventions per year.

Telephone and utilities—this narrowly named account actually includes more than ‘telephone and utilities’. ‘Telephone’ includes all forms of modern telecommunications which could include a fax machine, a cell phone, a pager, an internet connection, and more. Utilities to be recorded here are for commercial business space, but not home-based business. Likewise, if the business shares a telephone line with the primary residence, only include business-related long-distance charges here, but not the monthly base cost of the residential telephone service.

Special expenses

Amortization—if a purchased item is not for resale, and costs more than $249 per unit, and if it will be used beyond the current year (tools, computers, software, furniture are all examples) then it is considered to be an asset rather than an expense. Since the item will be used beyond the current year, it is expensed a bit at a time (in an account called ‘amortization’), year-by-year (this process is called ‘amortization’ or ‘depreciation’).

For tax purposes, there are many different classes of property, and their depreciation rates vary from 4% to 100%, based on the estimated life of that asset category (software, for example has a much higher depreciation rate than land, meaning that it will be taken entirely into expenses in a much shorter time). Some common capital cost allowance (CCA or depreciation) classes at a glance:
To complicate matters just a bit further, the ‘half-year rule’ dictates that for the year of purchase, only half of the amortization rate applies (so only 10% amortization applies to a $750 table during the first year of purchase, then 20% thereafter). It does not matter whether the table was purchased in January or December: the half-year rule still applies.

Also noteworthy is that the assets are not amortized in equal parts (i.e., a 20% amortization rate does not mean that the asset will be neatly expensed after five years). Rather, the declining balance method is used, which means that the rate only applies to the amount remaining (called ‘net book value’), rather than the purchase amount. This means that the net book value continues to decline over a longer amount of time than might be expected.

An example:

Table purchased in 2014 for $1,000

Amortization rate for the table is 20% (Class 8, above)

Half-year rule applies, so rate is only 10% for 2014, then 20% thereafter

Amortization calculation for 2014: $1,000 x 10% = $100 amortization expense / $900 remains as an asset

Amortization calculation for 2015: $900 x 20% = $180 amortization expense / $720 remains as an asset

Amortization calculation for 2016: $720 x 20% = $144 amortization expense / $576 remains as an asset

Amortization calculation for 2017: $576 x 20% = $115 amortization expense / $461 remains as an asset

...and so on...

Generally, the individual preparing the tax return deals with these details. For your part, be sure that assets are not posted to expense accounts.
It is noteworthy that amortization is an ‘optional’ expense: this means that if it is of no tax benefit to use the expense, then the business can opt out of claiming amortization expenses until a year when they are of greatest benefit. This keeps asset values high until such time that the expenses are beneficial. Often the amortization expense is not used during the first year of business, in cases where expenses already exceed revenues.


**Business use of home—for home-based businesses**

For businesses operating from home, a portion of business expenses related to square footage used for business can be expensed.

‘Business use of home’ is the only type of expense that cannot be used to further a loss. In other words, if the expenses of a business already exceed revenues, then the home expenses cannot be claimed. The good news is that they can be carried forward to a future year, when two years’ worth of home expenses will be waiting! Sometimes only a portion of the home expenses are used, to bring the net profits down to zero, and the remainder of the expenses are carried to the next year for use at that time.

The calculation of home expenses is quite simple, and is composed of two steps.

Firstly, the percentage of business use square footage must be calculated. This is done by dividing the business square feet by the total square feet of the home. For example, if the business space used is 200 square feet, and the total square footage of the home is 2,000, then the business percentage is 200/2,000=10%.

Keep in mind that the business square footage must be used exclusively for business: use of the dining room to package the product does not count, because the dining room serves a ‘home’ purpose in addition to business. If however, a spare bedroom is renovated to become an office, this is allowable, because the room is used as an office only. If someone also sleeps in that room, then only the space within the bedroom containing the desk and chair would be counted as business square footage.
The second step is, over the course of the year, to retain all home expense documents. This would include all household bills related to mortgage interest (but not principal), rent, utilities, property taxes, strata fees and other maintenance costs, insurance, and the monthly home telephone charge (if being used for business). Then, the percentage (in our example, 10%) is applied to all household bills. This is the amount that can be claimed as a business expense. If the business is a GST registrant, this is the percentage of GST on household bills that can be claimed for credit as well.

Traditionally, the home business expenses don’t appear on ‘the books’ of the business, and are only introduced when the annual income tax return is prepared.

Cost of goods sold—for businesses that hold inventories for resale

Only when the business sells a tangible product does it contemplate the idea of ‘cost of goods sold’.

The concept is based on the reality that a business cannot claim as an expense something that it has not yet sold. In other words, inventory is considered an asset, and only becomes an expense once it is sold. If Bob purchases wax and wicks in December 2013 but does not sell the associated candles until January 2014, the ingredients cannot be expensed until 2014.

In cases where the business holds an inventory, it is essential to take year-end inventory counts. This count represents the actual cost of the inventory, not the price that it will be resold for. The year-end count represents the dollar amount that cannot yet be expensed. The year-end inventory amount becomes next year’s opening inventory (so there is no need to count inventory twice).

Motor vehicle expenses

If the business is using a vehicle for both personal and business use, the same philosophy applies as with the home business expenses. Where square footage was used in the home calculation, kilometres driven are used for the vehicle calculation.

Over the course of the year, you would maintain an envelope in the car, where all car expenses are stored. These include gas, repairs, insurance (and interest payments if the car is financed).

At the end of the year, you would then calculate what percentage of those bills are business expenses. This is directly tied to the kilometres driven for
business purposes over the course of the year. To begin to calculate business kilometres driven, the total kilometres driven are required. This is calculated by subtracting the odometer reading at the beginning of the year from the year-end odometer reading.

Over the course of the year, you would keep a logbook noting details of all business trips. After each business use of the car, the date, purpose of the trip, and number of kilometres driven should be noted. At the end of the year, adding the business kilometres in the logbook will provide the second half of the calculation.

Then, divide the business kilometres driven (from the logbook) by the total kilometres driven (derived from the odometer reading). This will provide the percentage of business use of the vehicle. If the business is a GST registrant, this is the percentage of GST on vehicle bills that can be claimed for credit as well.

This percentage is then applied to all vehicle bills. This is the amount that can be claimed as a business expense. Traditionally, the motor vehicle expense doesn’t appear on the income statement until year-end, due to the fact that the allowable business use portion of expenses (km percentage) isn’t known until the year’s logbook is tallied.

**Accrual method of accounting**

When reporting to the BC Ministry of Social Development’s Self Employment Program, cash basis reporting is requested. This means that sales are reported in the month in which the money was collected, and expenses are reported in the month in which they were paid. This is called cash-basis accounting.

For most other purposes, the accrual method of accounting is used. For example, when reporting to CRA for income tax purposes, the activity is reported for the year in which it occurred, and not necessarily when the money flowed.

For example, using the accrual method of accounting, if Bob’s candles were sold to a client in December 2013, but the money was not received until January 2014, it must still be claimed as 2013 revenue for tax purposes, because the actual sale was transacted in 2013. On the expense side, if Bob purchased new office supplies on his credit card in December 2013, but did not pay the credit card bill until January 2014, it is still a 2013 expense, since he made the purchase in 2013.
For more detailed information on business expenses, see

For information on bringing personal assets into a business, see
Appendix Three

Understanding financials: the balance sheet and income statement demystified

The balance sheet

The balance sheet is, simply put, a demonstration of what the company owns and what it owes on a specific day. This document is sometimes called a ‘statement of financial position’.

Items that the business owns are called assets, and can include cash and investments, accounts receivable (money owed by clients), and different types of equipment.

Amounts that the business owes are called liabilities, and can include accounts payable (or bills owing to suppliers), and loans to be paid.

This document is called a ‘balance sheet’ because the assets are equal to the liabilities plus the owner’s equity (or shareholders’ equity, in the case of corporations).

The owner’s equity section of the balance sheet consists of the total draws (withdrawals) and contributions of the owner to date, plus the accumulated profits and losses of the business since the day it opened its doors (this is called ‘retained earnings’). Retained earnings does NOT mean money owed to the owner.

An example of a balance sheet for Bob’s Candles appears on the next page. The total assets ($1,618) equal the total liabilities ($943) plus the owner’s equity ($675). This is the balance sheet equation (assets = liabilities + owner’s equity) in action.

Some explanations

Note that the balance sheet shows what Bob’s Candles owns (assets) and owes (liabilities) on a distinct day: September 30, 2014. The balance sheet does not span time as the income statement does. For example, the $256 balance of the bank account may change tomorrow, or a client might pay their bill, reducing the accounts receivable account from its present $372 balance.

There are two sections each for assets and liabilities: these are called ‘current’ and ‘long-term’. The current accounts are ones that will be converted
to cash (if assets) or paid (if liabilities) in less than a year (this is called ‘liquidity’). We expect that Bob’s clients will pay him within a year, so we include that in the current assets section. The loan from Bob’s parents is in the long-term liabilities section—this tells us that the loan does not have to be paid back this year.

The company equipment is included as a long-term asset because it is not expected to convert to cash—Bob needs to use the equipment to make candles. Note that there is a section below the original $850 cost of the equipment that shows that $85 of it has been expensed as amortization. This amounts to 20%, with the half-year rule applied. The amount to be amortized at the end of 2014 (or the equipment’s net book value) is $765.

The owner’s equity section demonstrates that since the business opened, Bob’s withdrawals from the business have exceeded his contributions to the business by $1,200. A negative balance for this account is perfectly normal within a sole proprietorship or partnership. If the balance was positive, it would mean that Bob has contributed more money to the business than he has taken out—this would be less than ideal.

Retained earnings are the sum of all profits and losses in years 2013 and prior.

The current earnings line demonstrates that from January 1, 2014 to September 30, 2014, Bob’s Candles net profits (revenues minus expenses) are $855. This amount is calculated on the income statement, and is the link that ties the balance sheet and the income statement together.
### Bob’s Candles

**Balance Sheet at September 30, 2014**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Vancity Credit Union</td>
<td>256.00</td>
</tr>
<tr>
<td>Vancity CU shares</td>
<td>25.00</td>
</tr>
<tr>
<td>Petty cash</td>
<td>50.00</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>372.00</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>703.00</td>
</tr>
<tr>
<td><strong>Long-Term Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>850.00</td>
</tr>
<tr>
<td>Less: amortization to date</td>
<td>(85.00)</td>
</tr>
<tr>
<td>Net equipment value</td>
<td>765.00</td>
</tr>
<tr>
<td>Investment (bond)</td>
<td>150.00</td>
</tr>
<tr>
<td><strong>Long-Term Assets</strong></td>
<td>915.00</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>1,618.00</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
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<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>282.00</td>
</tr>
<tr>
<td>GST Owing</td>
<td>61.00</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>343.00</td>
</tr>
<tr>
<td><strong>Long-Term Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Loan from parents</td>
<td>600.00</td>
</tr>
<tr>
<td><strong>Total Long-Term Liabilities</strong></td>
<td>600.00</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>943.00</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>OWNER’S EQUITY</th>
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<tbody>
<tr>
<td><strong>Owner’s Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Investments and draws made by Bob</td>
<td>(1,200.00)</td>
</tr>
<tr>
<td>Retained Earnings—previous years</td>
<td>1,020.00</td>
</tr>
<tr>
<td>Current Earnings</td>
<td>855.00</td>
</tr>
<tr>
<td><strong>Total Owner’s Equity</strong></td>
<td>675.00</td>
</tr>
<tr>
<td><strong>TOTAL OWNER’S EQUITY</strong></td>
<td>675.00</td>
</tr>
</tbody>
</table>
The income statement

The income statement is the most used and closely scrutinized financial statement, and reflects the financial position of a business over a span of time.

The income statement shows sales minus expenses, resulting in a net profit or loss (also called ‘the bottom line’). This is the amount that is taxable at year-end.

An example of an income statement for Bob’s Candles appears on the next page, for a nine-month span of time (or period) ended September 30, 2014. The total revenues amount to $7,823. The net profit (revenues minus expenses) equals $855, an amount that flows to the bottom of the balance sheet.

Some explanations
Bob uses three different sales accounts (retail shows, wholesale, and miscellaneous), because it is useful to track which areas are working best in terms of candle sales. At the end of the year, all three accounts will be consolidated and claimed on the sales line of the income tax return.

Because Bob purchases items for resale (candle wicks, wax, scents, etc.), his income statement has a cost of goods sold section that tracks these costs quite apart from his general expenses. A service business would likely not have a cost of goods sold section on its income statement. During tax preparation for Bob, opening and year-end inventories are factored in, in order to calculate allowable expenses for the year (one cannot claim as an expense inventory items that have not yet been sold).

In Bob’s case, expenses related to cost of goods sold ($2,600) are added to the total general expenses ($4,368), then are subtracted from the total revenues ($7,823), to yield a net profit of $855.
### Bob’s Candles

**Income Statement for January 1 to September 30, 2014**

#### REVENUES

**Sales Revenue**
- Sales—retail shows: $3,743.00
- Sales—wholesale: $3,400.00
- Sales—miscellaneous: $600.00

**Total Net Sales Revenue**: $7,743.00

**Other Revenue**
- Miscellaneous Revenue: $68.00
- Interest Revenue: $12.00

**Total Other Revenue**: $80.00

**TOTAL REVENUES**: $7,823.00

#### EXPENSES

**Cost of Goods Sold**
- Purchases during the year: $2,400.00
- Freight on purchases: $200.00

**Total Cost of Goods Sold**: $2,600.00

**General & Administrative Expenses**
- Advertising: $750.00
- Business licenses and dues: $250.00
- Interest and bank charges: $98.00
- Maintenance and repairs: $322.00
- Meals and entertainment: $299.00
- Office supplies: $172.00
- Supplies (and small tools): $628.00
- Professional fees: $100.00
- Travel: $1,298.00
- Telephone: $451.00

**Total General & Administrative Expenses**: $4,368.00

**TOTAL EXPENSES**: $6,968.00

**NET INCOME**: $855.00
Appendix Four  Your mini business plan

Vision statement for the business __________________________________________________________
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Mission statement for the business __________________________________________________________
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Detailed description of good or service to be offered __________________________________________
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Business objectives (measurable and time-specific goals) ______________________________________
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Rationale for starting the business

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Legal structure of the business

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Management and staffing of the business

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Description of business operations

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Industry overview: secondary research—key findings from internet and other research, related to the business and the industry

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Key questions for customer survey

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Key findings from customer survey

Competitor analysis
1. Key competitors and their offerings
2. Common pricing

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3. What sets them apart

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4. How they market to customers

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5. How we could improve upon their offerings

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6. Is there room for another business like this?

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### Competitor analysis summary results

<table>
<thead>
<tr>
<th>Competitor Name</th>
<th>Competitor Strengths</th>
<th>Competitor Weaknesses</th>
<th>Our Opportunities</th>
<th>Our Threats</th>
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</table>
Interview with a similar business in another region

1. How / why did you get into this business?
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2. What related experience did you bring to the business?
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3. How did you attract your first customers?
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4. What is your biggest source of customers?
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5. How do you promote your business?
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6. What is your Unique Selling Proposition, e.g., what sets your business apart from the competition?
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7. Where do you purchase your supplies?
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8. What surprises did you encounter as you launched and operate your business?

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9. What assumptions did you make that did not prove out?

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10. What’s the smartest thing that you did in your business?

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11. What’s the biggest mistake that you made?

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12. How long did it take for your business to show a positive cash flow?

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13. How long did it take until you were generating a level of profit that was sustainable? Was the timing behind or ahead of plan?

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14. Do you have any other advice to share?

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### SWOT analysis

<table>
<thead>
<tr>
<th>Internal Strengths (Our Own Strengths)</th>
<th>Internal Weaknesses (Our Own Weaknesses)</th>
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<tr>
<th>External Opportunities (Not Including Competition)</th>
<th>External Threats (Not Including Competition)</th>
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</table>
1. How can we **Use** each Strength? ______________________________________________________
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2. How can we **Stop** each Weakness? ______________________________________________________
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3. How can we **Exploit** each Opportunity? ________________________________________________
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4. How can we **Defend** against each Threat? ______________________________________________
   ____________________________________________________________________________________
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Is the business concept feasible?

✓ Does this business fill an actual need in the marketplace?

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✓ Can this product or service be produced at a profit?

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✓ Can this business compete with other businesses that provide a similar offering?

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✓ Does this business align with the capacity and goals of the potential business owner?

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______________________________________________________________________________
✓ Does the potential business owner have the skills to produce the product or provide the service at a standard that the market expects?

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✓ How much help is the potential business owner going to need, and is this possible?

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✓ What other mentors will be necessary for this business to be successful?

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✓ Can we access the start-up funds required?

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Marketing strategy  Describe the target market and how the offering will be promoted
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_______________________________________________________________________________
Notes on competitors’ pricing ______________________________________________________
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_______________________________________________________________________________
_______________________________________________________________________________
_______________________________________________________________________________
_______________________________________________________________________________
Our pricing is framed as:
☐ Less for less
☐ Same for less
☐ More for same
☐ More for more
Specific proposed prices ____________________________________________________________
_______________________________________________________________________________
_______________________________________________________________________________
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_______________________________________________________________________________
Potential funding sources and other forms of support
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_______________________________________________________________________________
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_______________________________________________________________________________
### Venture Selection grid (can flow to multiple pages)

<table>
<thead>
<tr>
<th>Idea 1</th>
<th>Idea 2</th>
<th>Idea 3</th>
<th>Idea 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td>Motivator or goal 1</td>
<td></td>
<td></td>
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<tr>
<td>Motivator or goal 2</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Motivator or goal 3</td>
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<td></td>
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<tr>
<td>Motivator or goal 4</td>
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### YOUR MICRO ENTERPRISE

#### PROJECTED CASH FLOW: YEAR 1

<table>
<thead>
<tr>
<th>Month</th>
<th>CASH IN:</th>
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**Total Cash In:**

**Total Cash Out:**

**Opening Balance:**

**Closing balance:**
About the Writer

Stacey Corriveau is the founding Executive Director of the BC Centre for Social Enterprise, a Canadian charity that has been providing technical supports to community-based organizations wishing to explore the operation of business ventures with multiple bottom lines since 2005.

See www.centreforsocialenterprise.com

Stacey’s formal educational background covers business, technical writing, and the arts. She holds professional certificates in community economic development, sustainable community development, public policy advocacy, and small business counseling. Nothing relaxes her more than sipping tea and tackling a bank reconciliation. Really.