

Canada Business

New Brunswick



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Business Plan for Small Service Firms

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A business plan can provide the owner-manager or prospective owner-manager of a small service firm with a pathway to profit. This publication is designed to help an owner-manager in drawing up a business plan.

In building a pathway to profit you need to consider the following questions:

- What business am I in?
- Where is my market?
- Who will buy?
- Who is my competition?
- What is my sales strategy?
- What merchandising methods will I use?
- How much money is needed to operate my firm?
- How will I get the work done?
- What management controls are needed?
- How can they be carried out?
- When would I revise my plan?
- Where can I go for help?

As well as many more.

No one can answer such questions for you. As the owner-manager you have to answer them and draw up your business plan.

A Note on Using This Publication

It takes time, energy and patience to draw up a satisfactory business plan. Use this publication to get your ideas and some of the supporting facts down on paper. Bear in mind that anything you leave out of the picture will create an additional cost, when it crops up later on. If you leave out or ignore enough items, your business is headed for disaster.

Also keep in mind that your final goal is to put your plan into action. More will be said about this near the end of this publication.

What's in This for Me?

You may be thinking: Why should I spend my time drawing up a business plan? What's in it for me? If you've never drawn up a plan, you are right in wanting to hear about the possible benefits before you do your work.

A business plan offers at least four benefits. You may find others as you make and use such a plan. The four are:

1. A plan gives you a path to follow. It makes the future what you want it to be. A plan with goals and action steps allows you to guide your business through turbulent economic seas and into harbours of your choice.
2. A plan makes it easy to let your banker in on the action. By reading, or hearing, the details of your plan he will have real insight into your situation if he is to lend you money.
3. A plan can be a communications tool when you need to orient sales personnel, suppliers, and others about your operations and goals.
4. A plan can help you develop as a manager. It can give you practice in thinking about competitive conditions, promotional opportunities, and situations that seem to be advantageous to your business. Such practice over a period of time can help increase an owner-manager's ability to make judgements.

Why Am I in Business?

Many enterprising Canadians are drawn into starting their own business by the possibilities of making money and being their own boss. But the long hours, hard work, and responsibilities of being the boss quickly dispel any preconceived glamour.

Profit is the reward for satisfying consumer needs. In order to see profit, however, you must be prepared to do the work. Often a new business will not show profits for its first few years. This being the case, what are your reasons for becoming a small business owner?

Every small business owner-manager will have his or her own individual reasons for being in business. For some, satisfaction comes from serving their community. They take pride in serving their neighbours and giving them quality work which they stand behind. For others, their business offers them a chance to contribute to their employees' financial security.

There are as many rewards and reasons for being in business as there are business owners. Why are you in business?

What Business Am I in?

In making your business plan, the first question to consider is: What business am I really in? At the first reading, this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." But hold on. Some owner-managers go broke and others waste their savings because they are confused about the business they are in.

The changeover of barbershops from cutting hair to styling hair is one example of thinking about what business you're really in.

Consider this example also. Joe Riley (fictitious name) had a small radio and television store. He thought of his business as a retail store though he also serviced and repaired anything he sold. As his suburb grew, appliance stores emerged and cut heavily into his sales. However, there was an increased call for quality repair work.

When Mr. Riley considered his situation, he decided that he was in the repair business. As a result of thinking about what business he was really in, he built up his repair business and has a contract to take care of the servicing and repair business for one of the appliance stores.

Decide what business you are in and write your answer on a piece of paper. To help you decide, think of the answers to questions such as:

- What inventory of parts and materials must you keep on hand?
- What services do you offer?
- What services do people ask for that you do not offer?
- What is it you are trying to do better, more of, or differently from your competitors?

Marketing

When you have decided what business you're in, you have made your first marketing decision. Now you are ready for other important considerations.

Successful marketing starts with the owner-manager. You have to know your services and the needs of your customers.

The narrative and work blocks that follow are designed to help you work out a marketing plan for your business. The blocks are divided into three sections:

- Section One: Determining the Sales Potential
- Section Two: Attracting Customers
- Section Three: Selling to Customers

Section One: Determining the Sales Potential

In the service business, your sales potential will depend on the area you serve. This is how many customers in this area will need your services? Will your customers be industrial, commercial, consumer, or all of these.

When picking a site to locate your business, consider the nature of your service. If you pick up and deliver, you will want a site where the travel time will be low and you may later install a radio dispatch system. Or, if the customer must come to your place of business, the site must be conveniently located and easy to find.

You must pick the site that offers the best possibilities of being profitable. The following questions will help you think through this problem.

In selecting an area to serve, consider the following:

- population and its growth potential;
- income, age, occupation of population;
- number of competitive services in and around your proposed location;
- local ordinances and zoning regulations;
- type of trading area (commercial, industrial, residential, seasonal).

For additional help in choosing an area, you might try the local chamber of commerce and the manufacturer and distributor of any equipment and supplies you will be using.

You will want to consider the next list of questions in picking the specific site for your business.

- Will the customer come to your place of business?
- How much space do you need?
- Will you want to expand later on?
- Do you need any special features required in lighting, heating, ventilation?
- Is parking available?
- Is public transportation available?
- Is the location conducive to drop-in customers?
- Will you pick up and deliver?
- Will travel time be excessive?
- Will you prorate travel time to service call?
- Would a location close to an expressway or main artery cut down on travel time?
- If you chose a remote location, will savings in rent offset the inconvenience?
- If you chose a remote location, will you have to pay as much as you save in rent for advertising to make your service known?
- If you chose a remote location, will the customer be able to readily locate your business?
- Will the supply of labour be adequate and the necessary skills available?
- What are the zoning regulations of the area?
- Will there be adequate fire and police protection?
- Will crime insurance be needed and be available at a reasonable rate?
- I plan to locate in _____ because?
- Is the area in which you plan to locate supported by a strong economic base? For example, are nearby industries working full time? Or part time? Did any industries go out of business in the past several months? Are new industries scheduled to open in the next several months?
- Write your opinion of the area's economic base and your reason for that opinion.
- Will you build?
- What are the terms of the loan or mortgage?

- Will you rent?
- What are the terms of the lease?
- Is the building attractive?
- Is the building in good repair?
- Will it need remodelling?
- What will be the cost of the remodelling?
- What services does the landlord provide?
- What is the competition in the area you have picked?
- What is the number of firms that handle your service?
- Does the area appear to be saturated?
- How many of these firms look prosperous?
- Do they have any apparent advantages over you?
- How many look as though they are barely getting by?
- How many similar services went out of business in this area last year?
- Can you find out why they failed?
- How many new services opened up in the last year?
- How much do your competitors charge for your service?
- Which firm or firms in the area will be your biggest competition?

Section Two: Attracting Customers

When you have a location in mind, you should work through another aspect of marketing. How will you attract customers to your business? How will you pull customers away from your competition?

It is in working with this aspect of marketing that many small service firms find competitive advantages. The ideas which they develop are as good, and often better, than those which large companies develop with hired brains. The work blocks that follow are designed to help you think about image, pricing, customer service policies, and advertising.

Image

Whether you like it or not, your service business is going to have an image. The way people think of your firm will be influenced by the way you conduct your business. If people come to your place of business for your service, the cleanliness of the floors, the manner in which they are treated, and the quality of your work will help form your image. If you take your service to the customer, the conduct of your employees will influence your image. Pleasant, prompt, and courteous service before and after the sale will help make satisfied customers your best form of advertising.

Thus, you can control your image. Whatever image you seek to develop, it should be concrete enough to promote in your advertising. For example, "service with a smile" is an often used image.

Write out what image you want customers to have of your business.

Pricing

In setting prices for your service, there are four main elements you must consider:

- materials and supplies;
- labour and operating expenses;
- planned profit;
- competition.

Further along in this publication you will have the opportunity to figure out the specifics of materials, supplies, labour, and operating expenses. From there you may want the assistance of your accountant in developing a price structure that will not only be fair to the customer, but also fair to yourself. This means that not only must you cover all expenses but also allow enough margin to pay yourself a salary.

One other thing to consider. Will you offer credit? Most businesses use a credit card system. These credit costs have to come from somewhere. Plan for them. If you use a credit card system, what will it cost you? Can you add to your prices to absorb this cost?

Some trade associations have a schedule for service charges. It would be a good idea to check with the trade association for your line of business. Their figures will make a good yardstick to make sure your prices are competitive.

And, of course, your prices must be competitive. You've already found out your competitors' prices. Keep these in mind when you are working with your accountant. If you will not be able to make an adequate return, now is the time to find out.

Customer Service Policies

Customers expect certain services or conveniences, for example, parking. These services may be free to the customer, but not to you. If you do provide parking, you either pay for your own lot or pick up part of the cost of a lot which you share with other businesses. Since these conveniences will be an expense, plan for them.

List the services that your competitors provide customers.

Now, list the services that you will provide your customers.

Service	Estimated cost

Advertising

Once you have an image, price range, and customer services, you are ready to tell prospective customers why they should use your services.

When the money you can spend on advertising is limited, it is vital that your advertising be on target. Before you can think about how much money you can afford for advertising, take time to determine what jobs you want advertising to do for your business. The points that follow should be helpful to your thinking.

The strong points about my service business are:

My service is different from my competition in the following ways:

My advertising should tell customers and prospective customers the following facts about my business and services:

When you have these facts in mind, you now need to determine who you are going to tell it to. Your advertising needs to be aimed at a target audience, which are those people who are most likely to use your services. On a piece of paper, describe your customers in terms of age, sex, occupation, and whatever else is necessary depending on the nature of your business. This is your customer profile. For example, an auto repair business may have a customer profile of "male and female automobile owners, 18 years old and above". Thus, for this repair business, anyone over 18 who owns a car is likely to need its service.

The customer profile for my business is:

Now you are ready to think about the form of your advertising and its cost. You are looking for the most effective means to tell your story to those most likely to use your service. Ask the local media (newspapers, radio and television, and printers of direct mail pieces) for information

about the services and the results they offer for your money. How you spend your money is your decision, but don't fall into the trap that snares many advertisers.

As one consultant describes this pitfall: "It is amazing the way many managers consider themselves experts on advertising copy and media selection without any experience in these areas."

The following blanks should be useful in determining what advertising is needed to sell your strong points to prospective customers.

Form of Advertising	Size of Audience	Frequency of Use	Cost per Unit	= Estimated Cost

Once you have a figure on what your advertising for the next 12 months will cost, compare it to industry averages. Since advertising expense is one of the operating ratios (expenses as a percentage of sales) which trade associations and other organizations gather, finding this information may be easier than you think. If your estimated cost for advertising is substantially higher than the industry average, you may want to take a look at your costs. Determining how much to spend on advertising comes down to the question, "how much can I afford to spend and still do the job that needs to be done?"

Section Three: Selling To Customers

To complete your work on marketing, you need to think about what you want to happen after you get a customer. Your goal is to provide your service, satisfy customers, and put money into the cash register.

One-time customers can't do the job. You need repeat customers to build a profitable annual sales volume. When someone returns for your service, it is probably because he was satisfied by his previous experience. Positive word of mouth spread by satisfied customers is the best (not to mention least expensive) form of advertising.

If you have already decided to work on a strictly cash basis, you may want to rethink your decision. Many people like to buy on credit. Often a credit card, or other system of payment (i.e. debit) is needed to attract and hold customers.

Fixtures and Equipment

No matter whether or not customers will come to your place of business, there will be certain equipment and furniture you will need in your place of business which will allow you to perform your services. List that equipment and its cost to you.

Parts and Materials

You will probably need some kind of parts or materials to provide your service. List them and their cost to you.

Before you make any supply arrangements, examine the supplier's obsolescence policy. This can be a vital factor in service parts purchasing. You should also look at the supplier's warranty policy.

Now that you have determined the parts and materials you will need, you should think about the type of stock control system you will need. A stock control system should enable you to determine what needs to be ordered on the basis of what is on hand, what's on order and what is being used. Some trade associations and suppliers provide systems to members and customers.

When you have decided on a system for stock control, estimate its cost.

My system for stock control will cost me \$ _____ for the first year.

Overhead

List the overhead items that will be needed. Examples are: rent, utilities, office help, insurance, interest, telephone, postage, accountant, payroll taxes, and licences or other local taxes. If you plan to hire others to help you manage, their salaries should be listed as overhead.

Getting the Work Done

An important step in setting up your business is to find and hire capable employees. Then you must train them to work together to get the job done. Obviously, organization is needed if your business is to produce what you expect it to produce, namely profits.

Organization is essential because you, as the owner-manager, cannot do all the work. As your organization grows, you have to delegate work, responsibility and authority. A helpful tool in getting this done is the organization chart. It shows at a glance who is responsible for the major activities of a business. An organization chart for a small service business will reflect the fact that the owner-manager does most of the managing.

An additional aid is determining both what needs to be done and who will do it. List each activity that is involved in your business. Next to the activity, indicate who will do it. You may do this by name or some other designation such as "worker #1". Remember that a name may appear more than once.

Put Your Plan into Dollars

At this point, take some time to think about what your business plan means in terms of dollars. This section is designed to help you put your plan into dollars.

The first question concerns the source of dollars. After your initial capital investment, the major source of money is the sale of your services. What dollar volume of business do you expect to do in the next 12 months?

Expenses

In connection with your annual dollar volume of business, you need to think about expenses. If, for example, you plan to do \$100 000 in business, what will it cost you to do this amount of servicing? And even more important, what will be left over as profit at the end of the year? Never lose sight of the fact that profit is your pay. Even if you pay yourself a salary for living expenses, your business must make a profit if it is to continue year after year and pay back the money you invested in it.

Start-up Costs

If you are starting a new business, list the following estimated start-up costs:

Fixtures and equipment	\$
Starting inventory	\$
Office supplies	\$
Decorating and remodelling	\$
Installation of equipment	\$
Deposits for utilities	\$
Legal and professional fees	\$
Licences and permits	\$
Advertising for the opening	\$
Operating Cash	\$
Other Expenses	\$
Total	\$

Whether you have the funds (savings) or borrow them, your new business will have to pay back these start-up costs. Keep this fact in mind as you work on the "Expenses" section, and on other financial aspects of your plan.

Break Down Your Expenses

Your quick estimate of expenses provides a starting point. The next step is to break down your expenses so they can be handled over the next 12 months.

Matching Money and Expenses

A budget helps you to see the dollar amount of your expenses each month. Then from month to month the question is: Will sales bring in enough money to pay the firm's bills on time? The answer is "maybe not" or "I hope so" unless the owner-manager prepares for the peaks and valleys that are in many service operations.

A cash forecast is a management tool which can eliminate much of the anxiety that can plague you if your business goes through lean months.

Is Additional Money Needed

Suppose at this point you have determined that your business plan needs more money than can be generated by sales. What do you do?

What you do depends on the situation. For example, the need may be for bank credit to tide your business over during the lean months. This loan can be repaid during the fat sales months when expenses are far less than sales. Adequate working capital is necessary for success and survival.

Whether an owner-manager seeks to borrow money for only a month or so, or on a long term basis, the lender needs to know whether or not the store's financial position is strong or weak. Your lender will ask to see a current balance sheet.

Even if you don't need to borrow, have your accountant draw up a balance sheet of your firm's financial condition. Moreover, if you don't need to borrow money, you may want to show your plan to the bank that handles your store's checking account. It is never too early to build good relations with your banker, to show that you are a manager who knows where you want to go rather than a store owner who hopes to make a success.

Control and Feedback

To make your plan work you will need feedback. For example, the year end profit and loss statement shows whether your business made a profit or loss for the past 12 months.

But you can't wait 12 months for the score. To keep your plan on target you need readings at frequent intervals. A profit and loss statement at the end of each month or at the end of each quarter is one type of frequent feedback. However, the income statement or profit and loss statement may be more of a loss than a profit statement if you rely only on it. You must set up

management controls which will help you to ensure that the right things are being done from day to day and from week to week. In a new business, the record-keeping system should be set up before your business opens. After you're in business is too late. For one thing, you may be too busy to give a record-keeping system the proper attention.

The control system that you set up should give you information about stock, sales, and distributions. The simpler the system, the better. Its purpose is to give you current information. You are after facts with emphasis on trouble spots. Outside advisors, such as an accountant, can be helpful.

Stock Control

The purpose of controlling parts and materials inventory is to provide maximum service to your customers and to see that parts and materials are not lost through theft, shrinkage, errors, or waste. Your aim should be to achieve a high turnover on your inventory. The fewer dollars you tie up in inventory, the better.

In small business, inventory control helps the owner-manager to offer customers efficient service. The control system should enable you to determine what needs to be ordered on the basis of what's on hand, what's on order and what has been used.

In setting up inventory controls, keep in mind that the cost of the inventory is not your only cost. You will also have costs such as the cost of purchasing, the cost of keeping control records, and the cost of receiving and storing your inventory.

Sales

In a small business, sales slips and cash register tapes give the owner-manager feedback at the end of each day. To keep on top of sales, you will need answers to questions such as: How many sales were made? What was the dollar amount? What credit terms were given to customers?

Disbursements

Your management controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to be penny-wise and pound foolish. You need to know what major items, such as paying bills on time to get the supplier's discount, are being handled according to your policies. Your review system should also give you the opportunity to make judgements on the use of funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also keep you aware that tax monies such as payroll income tax deductions, are set aside and paid out at the proper time.

Break-Even Analysis

Break-even analysis is a management control device because the break-even point shows how much you must sell under given conditions in order to just cover your costs with no profit and no loss.

Profit depends on sales volume, selling price, and costs. Break-even analysis helps you to estimate what a change in one or more of these factors will do to your profits. To figure a break-even point, fixed costs, such as rent, must be separated from variable costs, such as the cost of sales and other items listed under controllable expenses on the expense worksheet.

The formula is:

Break-even point (in sales dollars)	=	Total fixed costs / (1 - total variable costs / corresponding sales volume)
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An example of the formula is: Bill Jackson plans to open a laundry. He estimates his fixed expenses at about \$9,000 the first year. He estimates his variable expenses at about \$700 for every \$1,000 of sales.

Break-even point	=	\$9,000 / (1 - 700 / 1,000)
	=	\$9,000 / (1 - .70)
	=	\$9,000 / .30
	=	\$30,000

Is Your Plan Workable?

Stop when you have worked out your break-even point. Whether the break-even point looks realistic or way off base, it is time to make sure that your plan is workable.

Take time to re-examine your plan before you back it with money. If the plan is not workable, better to learn it now than to realize six months down the road that you are pouring money into a losing venture.

In reviewing your plan, look at the cost figures you drew up when you broke down your expenses for one year. If any of your cost items are too high or too low, change them. You can write your changes in the spaces above or below your original entries. When you finish making your adjustments, you will have a revised projected statement of sales and expenses for 12 months.

With your revised figures, work out a revised break-even point. Whether the new break-even points look good or bad, take one or more precautions. Show your plan to someone who has not been involved in working out the details.

Your banker or other advisor outside of your business may see weaknesses that you had failed to notice. They may put a finger on strong points which your plan should emphasize.

Put Your Plan Into Action

When your plan is as near on target as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a pleasant dream that evaporates over the breakfast coffee.

A successful owner-manager does not stop after he has gathered information and drawn up a plan, as you have done in working through this publication. He begins to use his plan.

At this point, look back over your plan. Look for things that must be done to put your plan into action. What needs to be done will depend on your situation. For example, if your business plan calls for an increase in sales, one action to be done will be providing funds for this expansion.

Have you more money to put into this business?

Do you borrow from friends and relatives? From your bank? From your suppliers by arranging liberal commercial credit terms?

If you are starting a new business, one action step may be to get a loan for fixtures, employee salaries, and other expenses. Another action step will be to find and hire capable employees.

Keeping Your Plan Up-To-Date

Once you put your plan into action, look out for changes. They can cripple the best made business plan if the owner-manager lets them.

Stay on top of changing conditions and adjust your business plan accordingly. Sometimes the change is within your company. For example, several of your employees quit their jobs. Sometimes the change is with customers. For example, their desires and tastes shift. Sometimes the change is technological as when new raw materials are put on the market introducing the need for new processes and procedures.

In order to adjust your plan to account for such changes, an owner-manager must:

- be alert to the changes that come in your company, line of business, market and customers;
- check your plan against these changes;
- determine what revisions, if any, are needed in your plan.

The method you use to keep your plan current so that your business can weather the forces of the market place is up to you.

Read the trade papers and magazines for your line of business. Another suggestion concerns your time. Set some time - two hours, three hours, whatever is necessary - to review your plan periodically. Once each month, or every other month, go over your plan to see whether it needs adjusting. If revisions are needed, make them and put them into action.

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