

**Secondary Manufacturing in Wood Products:
A Guide to Writing a Business Plan**

Working Paper 96.03

by

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ABSTRACT

This report provides an outline to the components of a business plan and the suggested content within each of these components. A series of worksheets is provided to facilitate the cohesive preparation of a business plan. A glossary on terminology is also provided. The focus of the discussion is around secondary manufacturing in wood products.

INTRODUCTION

This publication was completed to assist individuals and companies interested in assessing a new business investment, expanding an existing business, or developing a new product line or market within the BC secondary wood products industry. The publication is designed to provide a structure to answer and test ideas using basic business principals and to illustrate many of the financial questions involved in making investment decisions in secondary manufacturing in wood products. There is a glossary of standard financial terminology and a package of worksheets to support the development of a business plan.

In addition, this publication will complement the efforts of various public agencies that are working in concert with private sector investors to assess forestry business opportunities.

Financial investment is a complex task with inherent risks. The development of a comprehensive business plan is a useful means to identify, assess and plan for these risks. However, it is important to recognize that a proper business plan is only a component of and not a formula to a successful business.

This publication will assist interested parties in thoroughly assessing and presenting the options. There is no magic path.

British Columbia, similar to most jurisdictions that operate a substantial forest products industry, is actively engaged in the promotion of additional manufacturing from the timber harvested or imported. This intervention is encouraged by a range of objectives. These include the standard government goals of employment, economic activity and regional development; public concerns about extensive forest management and a domination of commodity-grade exports; and achieving increased forest land preservation with an acceptable level of consequent structural labour displacement.

Within British Columbia the secondary manufacturing sector in wood products constitutes a significant component of the economic activity in forestry and it would appear the level of activity is increasing. Table 1 provides a summary of employment and sales information for secondary manufacturing in BC.

Table 1 Secondary Manufacturing in British Columbia

	Sales (\$ billions)	Employment ('000)
1991	1.54	11.7
1994	1.93	14.0

Source: FRDA Report #203 and CFS Working Paper 96.04

The significance of secondary manufacturing in BC reflects the strength of a selection of fundamentals. BC has high quality timber, an established secondary manufacturing capital base, a solid positioning in the two major global markets for forest products (US and Japan), research support, and institutional support (e.g., Small Business Forest Program, Forest Renewal BC, and producer associations). A recent addition, which will complement the sector growth efforts, is the development of a number of advanced training programs tailored to sector needs.

The main components of the mix of secondary wood products manufactured in BC are kiln dried material, finger-jointed lumber, and rib and re-saw material. Much of this is actually commodity-grade in terms of market performance.

Figure 1 provides an inventory of the various secondary wood products.

The major challenges to expanding the range and value of secondary wood products include wood supply (in terms of quantity, quality, price and price volatility), the real cost of labour (this reflects both cost and productivity) and the market margins. These challenges require thorough consideration as part of any assessment of a business opportunity in secondary manufacturing.

Figure 1 Taxonomy to Secondary Manufactured Wood Products¹

Log Products		
Chopsticks	Firewood	House Logs
Pilings	Poles	Poles/Treated
Posts	Posts/Treated	Log Homes
Shakes	Shingles	Wood Novelties/Log
Primary Lumber Products		
Boards	Cants	Flitches
Lumber/Industrial	Veneer	
Intermediate Lumber Products		
Cut stock	Door Stock	Edge Glued Components
European Joinery	European Window Stock	Finger Jointed Stock
Furniture Components	Ladder Stock	Laminated Components
Laminated Stock	Metric Stock	Moulding, Panel Blanks
Pallet, Crating Stock	Paneling/MDF	Paneling/OSB
Paneling/Particle Board	Plywood	Prefab Building Components
Sawmill Specialty Products	Staircase Components	Turning Squares
Final Lumber Products		
Boxes, Bins & Crates	Casegoods/Cabinets, Doors	Conservatories/Gazebos
Coffins	Countertops	Decking
Doors	Doors/Garage	Fencing
FJ Dimension Lumber	Flooring	Flooring/Engineered
Furniture/Commercial	Furniture/Household	Furniture/Patio
Furniture/RTA	Garden Products	Ladders
Millwork/Architectural	Millwork/Custom	Mouldings
MSR Lumber	Pallets	Pattern Stock
Prefab Buildings & Manufactured Homes	Pressure Treated Lumber	Siding
Staircases	Stakes, Lathe, Strips & Batten	Structural Laminated Beams
Trusses	Turned Wood Products	Windows
Wood Novelties/Lumber		

¹Information derived and modified from Directory of Secondary Manufacturing of Wood Products in British Columbia. Wilson & Ennis. FRDA, 1993.

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WHY PRODUCE A BUSINESS PLAN

A business plan is an important tool for assessing the opportunity of or managing a new forest products business or an existing company. It is a structured approach to gathering ideas and information on the potential and feasibility of a new venture and a good monitoring device once it is established. A business plan is mainly for the benefit of the company/entrepreneur but it is also the primary instrument in trying to inform others about the business. These might include commercial lenders, investors, potential partners, business advisors, and government agencies. A business plan is most effective when developed for a multi-year time horizon because it allows for the progression of the market response. This requires the use of realistic projections and assumptions and that the plan be updated as new information becomes available. A business plan should be flexible and an annual update will prove to be a valuable source of information.

This business plan guide is targeted to secondary manufacturing in the forest products industry. It is not the only formula for producing a business plan; there are many satisfactory variations that could be used. This guide should be used as an aide to completing a meaningful business plan. Some sections of a business plan will require specialized information and skills, which the individual entrepreneur may not possess, it is important that professional expertise be drawn upon in these sections. Included at the end of this guide are a glossary of terms, a package of worksheets and a list of additional sources of information.

The worksheets are designed to help organize the elements and content of and to simplify the preparation of a comprehensive business plan. As such, the worksheets will support the efficient preparation of a comprehensive business plan.

WHAT ARE THE COMPONENTS OF A BUSINESS PLAN

Any good business plan must contain several key components. You should adapt each component to the types of products and services your company provides or intends to provide. Below is a list of the key components you need to include. The degree of detail in any component will be based on the specific needs of your company. However, it is a good idea to develop each section so it can be drawn upon to produce a tailored plan for presentation to specific audiences.

The following is a standard structure to a business plan.

- a. Title Page And Statement Of Purpose
- b. Table Of Contents
- c. Executive Summary
- d. Introduction
- e. Industry Description
- f. Business Profile
- g. Sales And Marketing Plan
- h. Human Resources Plan
- i. Operating Plan
- j. Financial Plan
- k. Risks And Weaknesses
- l. Planning For The Future

You may elect to add other sections such as timber supply licenses or arrangements, supply or service contracts, or environmental laws and regulations which play a key role in your business. In addition, you might want to add information such as resumes, financial data, market data, maps, graphics, and tables in appendices in order to provide detailed information without compromising the flow of the main business plan.

DEVELOPING A BUSINESS PLAN

Section A: Title Page and Statement of Purpose

The title page should list the name of business, the principals, address and phone, the name of who prepared plan, and the name of the recipient of the plan. The statement of purpose should include reflect the target use of the plan. If the plan is intended as strategic analysis for internal use then the statement of purpose would simply be the company's mission statement. However, if the plan is part of a financing proposal you should answer questions like why and how much money is needed, what is the risk to the lender, why does the loan or investment make financial sense.

This is an initial pitch to the document so make it short and effective. In this section consider including:

Purpose of the Business

- Company description
 - Clearly define your main business activity
- Description of the product or service
 - Clearly define the products or services
 - How do you plan to make money?
- Explain why there is a demand for your product.
 - Why will you succeed where others have failed?
 - What is so unique about you that will make you successful?
 - Who are you serving and why will they benefit?
 - How will you serve your market?
 - How do you fit into the market?
 - What are your strategic or competitive advantages?
 - What are the advantages of your products?
 - If you have several products or services how do they fit together?
 - Do they complement each other?
- Goal(s) of the company
 - Do you have a Mission Statement, i.e., what is your vision for this company?
- Company Management and Advisors
 - What special human resources are available to your company?
 - Include lawyers, accountants, consultants, friends etc.
 - It is a good idea to attach resumes of you and your expert resources in an appendix.

Section B: Table of Contents

This listing of the contents of the business plan, referenced by page, allows information to be located quickly. It is best to complete this after the rest of the document has been done.

Section C: Executive Summary

The executive summary presents only the essential information to the reader in a fashion which makes the reader interested in considering your business plan. Position this section as a stand-alone to encourage the reader to invest time in your proposal. Make sure all the information in the summary appears in detail in the body of the business plan. Be concise and consider including the following:

- company name and location
- description of the business plan content
- purpose of the business plan
- company product or service description
- financial resources (equity, debt, commitments)
- financial projections and any investment funds sought
- projected payback period and contingency plans
- market description and potential
- marketing strategy (nature of competitive advantage)
- industry description (competitive analysis)
- business goals and objectives
- expertise of the management team
- linkages to other private or public objectives (job creation)

Section D: Introduction

The introduction should be short and limited to informing the reader on the content in the business plan, the purpose of the plan, and how the information is to be presented.

Section E: Industry Description

This section should provide a detailed description of your industry and how your company fits into the industry. This section will help to track trends in the industry and your company's relative position. It will also provide valuable information to people with less knowledge of the industry (including target sources of investment funds).

In this section consider including:

1. History

- Describe the industry background
 - What is the industry's main source of competition?
 - Does the industry make a competitive return on capital?
 - What is the distribution of profits in the industry?
 - What is the industry's bankruptcy rate?
- Describe the current industry: size, structure, and level of integration
- If your company already operates in this industry or a related industry it would be helpful to report the history of your company, name, date and place of formation, legal structure, discuss subsidiaries (also affiliated companies or predecessors) and degree of ownership and any involvement your company has had in the development of the industry.

2. Trends and Projected Growth

- Describe important industry trends (e.g., price, concentration, integration, technological, regulatory, social, demographic, environmental, geographical, lifestyle, etc.)
 - Do trends change quickly or slowly in this industry?
 - If so, why?
- Describe industry growth.
 - Do you have growth rate numbers?
 - What are your sources of information?
 - Are there barriers to entry? What are these (access to wood, capital, regulatory, institutional, etc.)?
- Note relevant information from and access to research and development efforts.
 - Does the available research suggest anything about future industry trends and opportunities?

3. Key Success Factors In This Industry

- What will distinguish your product from the competition?

- What competitive advantage do you have? Is this sustainable?
 - Do you have alternate markets? Are export markets an alternative?
 - What is the market demand?
 - What is the trend in consumer spending? Is the economy healthy?
 - Is the exchange rate favourable?
 - Does new technology offer you a competitive advantage?
 - Do you have a secure supply for your inputs? How are input prices determined?
 - Do you have any alliances related to purchasing inputs, manufacturing or marketing?
- Describe any proprietary features: patents, exclusive rights, licenses, copyrights

4. Your Company's Market Niche

- How will your company fit into the industry? How will the company differentiate/distinguish itself?
- Describe your market niche. How will this respond to changes in demographics, population migration, and to changes in disposable income and taxes?
- You need a detailed analysis of the competition to determine your company's market niche.
 - What is the competition's size, market position, image, and business strategy?
 - Are competing products sold on price strategy, or quality of product, or service characteristics?
 - Describe the price/product mix and where your product fits in.
 - What are the potential substitute products and how will these effect your market?
 - What are your competitor's strengths and weaknesses?
 - What are your strengths and weaknesses?
 - What information can you provide about your target customers and suppliers?

Section F: Business Profile

This section should provide a detailed description of your product, any services you provide, and the manufacturing process. Be clear and concise and use appendices where appropriate. Use diagrams, pictures, etc., to convey information efficiently and quickly. If your company only offers custom services, such as kiln drying, include this in the business plan.

In this section consider including:

1. Product Description

- Include a clear description of the product.
- Describe important characteristics/attributes of your product.
 - What is your target customer and why will they buy your product?
- What is the target product quality and how will this be reached?
- Describe anticipated performance and use for your product.
 - Why will your product be demanded?
- Describe important production technologies.
- What stage is your product at (design, prototype, development, established product, mature)?
- For a multi-product firm outline the relative importance across products.
 - How do they fit together? Are they complementary in production or marketing?
- Describe any requisite legal, regulatory or approval requirements and their current status.

2. Service Description

- Describe any associate technical service to your product.
 - Will you provide instructions on such things as maintenance, assembly to the retailer or wholesaler?
- Describe marketing service.
 - Will you provide sales support to retailer, wholesalers or customers by way of educating them on manufacturing process, construction materials, assembly, and product quality?
 - Will you provide catalogues, brochures, 1-800 number, e-mail, etc.?
- Describe replacement and repair services.

- Will you develop field support policies (this can be key to exports)?

3. Production Process Description

- Explain the production process (including costs). Show unit production costs in relation to total cost of product in the income statement.
- Describe production machinery and equipment (a flow chart can be useful).

Section G: Sales and Marketing Plan

This section describes such things as the market, competition, product strategy, price strategy, promotion strategy, distribution strategy and sales strategy. For many purposes this is the most important section for both a new business venture and an established company. It is easier to have an idea and to develop a product than it is to turn this into a financially successful business.

In order to improve upon the financial viability of your investment it is imperative that good quality research of your intended market be completed. Relevant market information can be difficult to get and expensive. However, without this information it will be next to impossible to secure commercial financial investment and the viability of your own investment funds are exposed to unnecessary risks.

The importance of this section should not be underestimated. If you cannot adequately provide the information requested below it is doubtful your business venture is viable. It is also important that this information be presented effectively. The use of graphics, charts and tables can serve to greatly enhance the professional quality and appearance of a business plan.

In this section consider including:

1. Market Size and Trends

- Show total market size and describe any market segments (these may be based on geography, price, product features, etc.).
- Describe any target local or regional market.
- Show your forecast market share and explain why.
- Show industry growth rates (short and long term).
- Describe market trends (volume, value, production cost, exports, etc.).
- Describe your firm's market growth.
- Identify sources of information.

- Describe the anticipated impact of any relevant economic, demographic, social, political, technological, and regulatory trends.
 - Is the industry entering the mature market stage?
 - Are new entrants coming on stream?
 - Are substitute products making gains?
 - What area of the industry is the most innovative?

2. **Competitor Analysis**

- Discuss the competition (including expected future sources).
 - What makes them successful?
 - What are their pricing and non-pricing strategies?
Discuss the expected response of competitors and how your business is prepared for this (e.g. losses during a start-up period). How will this response be financed?
- Include information on competitive products, sources, production methods, costing, annual sales, markets, etc.
- Discuss competitor business practices and investment trends..
 - Are there any established manufacturers in other markets which have or are planning to move into your target market?

3. **Target Market and Positioning Strategy**

- Describe your final market (final consumer).
- Describe your direct market (wholesalers, retailers, etc.).
- Discuss current customer base (names, locations, sales volumes).
- Describe how your company will position itself to secure expand sales.
 - Do your sales targets and volumes make sense for the logistics of your business?
- Describe any links you have with industry associations or any strategic alliances and how you will benefit from such relations.
- Explain how your company distinguishes itself from the competition.
- Describe any contracts, licensing, and franchising opportunities.
- Identify your target market. Why is it the target?
- Profile target market purchase decision factors.
 - What are the buying habits?
 - Why do they want the product?
 - What is their buying criteria?

- How important is price, quality, timeliness of delivery, reliability of service, financing, product selection, and sales and support staff to your customer?

4. Marketing Mix Strategy

- a) Product Strategy
 - Describe your product.
 - Describe how it differs from the competition
 - Will you be able to expand into new product ranges easily and will you be able to be innovative and flexible?
- b) Price Strategy
 - How will you establish your pricing? How will this relate to the competition?
 - How will any related services be priced?
 - How will you provide for price changes in response to market signals?
 - What are the standard industry mark-ups?
 - Discuss the relationship between price and demand for your product.
 - Does demand reflect influences other than price? Do you have any influence on price?
 - If it does then have you asked your customer what features and benefits they are concerned with?
 - What are your customers needs?
 - What kind of cost savings are customers interested in?
 - Describe any payment discount strategies. How does this compare with the industry norm?
- c) Promotion Strategy
 - Describe advertising plans How do these fit with the industry practice?
 - What are the priorities, strategy and costs of your planned promotions?
 - How will you evaluate the outcomes?
 - Describe any industry association memberships and other strategic alliances with relation to promotion.
 - Describe planned direct sales calls.
 - Describe any major market drives.

- Describe any in-plant showroom. Will this include on-site sales?
 - Describe any established forums which provide buyer contact.
 - Describe the contribution of your sales force.
- d) Distribution Strategy
- Describe distribution paths for your product. Discuss any planned incentives for distributors to carry your product.
 - Describe the competition distribution system.
 - Comment on significant trends in distribution and what the implications are for your business.
 - Describe your experience with established distributors.
 - Describe territorial considerations.
 - Discuss any planned or active distribution alliances for your product.
- e) Sales Strategy
- Describe your sales force
 - Describe the function of your sales force.
 - How will they contact customers?
 - What level of sales do you expect by each sales person, each product, and so on?
 - Describe how your sales strategies are designed to evolve.
 - Describe how you identify and pursue new customers
 - Describe terms of sales.
 - Describe anticipated delivery time periods.
 - Describe typical or anticipated order size.

Section H: Human Resources

This section should explain the initial or current organizational structure of the business and provide an outline on how this is planned to change as the company grows.

In this section consider including:

1. Organizational Structure

- Describe firm's organizational structure (include a chart).
- - Describe relevant tax and legal attributes of your structure (joint-venture, partnerships, subsidiaries, holding companies, etc.). Show organization of management and administrative staff.

2. Management Team and Staff

- List key managers and describe contributions to your business (include resumes in an appendix).
- Discuss the tasks of the labour force
 - How flexible is your workforce? What are skill levels?
 - How flexible is organization to utilize all the work force skills?
 - What is the supply situation for required labour and skills?
 - What is the wage and salary structure? Will the operation be union certified? What are the implications?
 - What is the benefits packages? What are all the employee-related costs (e.g. workers' compensation, pensions etc.)? How much will they cost?
- Describe your human resource policies and procedures you plan to implement. Is there an employee training plan?
 - What are the planned hours of operation, shift-work schedule, and holidays?
 - Will you have part-time and full-time employees?
- Describe any directors and business advisors and their talents (include any existing contract obligations).

Section I: Operating Plan

This section describes the physical aspects of the business such as the location of facilities, labour and management, materials and the production schedule.

In this section you should provide the short- and long-run plans for both production and labour. This would include a description of all manufacturing sites, management and labour. This should be a narrative presentation of operations linked to a numerical presentation in the financial plan (Section J). This section should include a information on input costs (this can be in tabular form).

In this section consider including:

1. Location of Business

- Describe manufacturing location and the attributes of this location.
 - Factors which influence location decision might include cost, consumer access, transportation facilities, production requirements, sources of inputs such as labour and raw materials, proximity to related industries, environmental considerations, etc.
 - Have you considered what your employees find attractive about a particular location (proximity to affordable accommodation, schools support services, recreation, etc.)?
 - What are the design features of the building(s)? -- - What is the function?
 - How about future expansion options?
- Provide facility costs (both total cost and cost per square foot).
- Will the location be a lease or purchase? Why?

2. Labour

- List management (include resumes in appendix).
- Show annual compensation, benefits and any bonus provisions.
- List labour force.
- Show annual labour costs (include future contract obligations).
- Describe any labour benefits package and the costs.
- Note any labour unions and the implications.
- Discuss availability and stability of work force (is it seasonal or cyclical).
- Describe special labour requirements.

3. Material Inputs

- Identify sources of inputs.
 - Is there more than one supply source available to you?
 - Include any long-term supply agreements.
- Show input costs.
 - Will there be variation in quality of product, delivery, choice, reliability etc.?
- Identify shipping and handling costs (and any transport alternatives).
- Describe influences on input availability.
 - Does the supplier serve buyers with large demand swings?
- Describe anticipated cost trends.
- Describe usual purchase terms and delivery times.

4. Production Schedule

- Describe planned production schedule.
- Describe contingencies for start-up delays.
 - Identify what these potential delays might be (e.g. compliance with environmental regulations, safety regulations, etc.).
- Provide any provisions to allow for additional shifts. How will this fit market demand?
- Describe how production and work in process will be managed.
- Describe quality and inventory control procedures (both inputs and outputs).

5. Long-term Plans

- Breaking into an export market is typically a difficult thing to achieve. Often the biggest single barrier is to demonstrate that your company is a credible business venture. This barrier can be overcome through the development of a credible presence in the domestic market and drawing upon this financial base to pursue an often more competitive export market.
- Describe a medium-term (e.g. five year) goal for the business and the planned steps to achieve that goal.
- Describe your business environment and work attitudes.
- Discuss any flexibility that has been included to allow for future expansion, product, diversification, and integration.

Section J: Financial Plan

This section describes the financial aspects of the business such as the capital requirements, financing arrangements, projected balance sheets, projected operations and cash flow statements, and analysis of investments.

Balance sheets and income statements should be projected for five years.

This is the most technical section of your business plan and professional help, such as an accountant, will likely be required. In this section many of the sub-sections should be presented in standard accounting form. Worksheets have been included in Appendix 2 to this report. In employing the worksheets to develop a business plan some sections will be better presented in narrative form and that graphics and charts will be more effective tools to display information in others. PC software is available to support the preparation of many standard accounting forms.

Reasonable information on product prices, production figures, and input costs are required to adequately complete this section. The numbers used need to be referenced to a credible source (more than one source is better). It is extremely important to use good information in making your projections. Include all assumptions used in preparing the financial statements.

It is also beneficial to discuss fiscal responsibility and issues of financial control. This might include any planned internal audit procedures and the cost accounting policies and methodologies employed. Generally it is difficult to secure outside financing in the absence of the applicant bearing a degree of financial responsibility.

Finally, do best case, worst case, and most likely case scenarios when presenting any uncertain aspect of the financial plan. Identify the key levers/factors that drive the outcomes from these scenarios. This will

serve to illustrate the degree of risk. Present any planned procedures to reduce this risk.

In this section consider including:

1. Ownership Structure

- Identify equity holders.
- Discuss any management function of owners.
- Identify any claims held by public sector.
- Describe any stock situation.

2. Capital Requirements

- Provide a clear breakdown of capital requirements. This is particularly important in negotiations with lending institutions; which as often finance assets differently from operational loans (term versus revolving debt).
- Project capital requirements across the five years.
- Show requirements for land, buildings, construction, interest charges during construction, machinery, transport equipment, tools, supplies, and office furniture and equipment.
- Itemize requirements and deployments.
- Note depreciation schedule against asset classes.
- Include a reserve for payment of taxes and interest charges. Itemize capital contingencies.
- It is recommended that you allow for at least a 15% discrepancy in your fund requirements. Start up costs can easily increase due to problems such as late delivery of key equipment, government license delays, environmental approval delays, exchange rate fluctuations, etc.
- Note sources of information used in developing financial estimates and statements.

3. Financing Plan

- Describe all sources of funding for your business (include working capital such cash, any receivables, and inventories).
- Identify any economic development loans and grants from public and private agencies.
- Detail the financial position carried by you and your investors.
 - Business plan advisors recommend a minimum contribution of 20% of your own equity.

- Describe any confirmed or proposed equity support.
- Describe required loans (purpose, term, amortization period, interest rate, drawdown fees, etc.).

4. Initial Balance Sheet

- Provide a first year pro forma balance sheet and projected balance sheets for a five year span.
- If applicable, provide a current balance sheet.
- Be prepared to provide your Personal Financial Statements (most lending institutions will require them).

5. Statement of Projected Operations and Cash Flows

- Project cash flow for 5 years: monthly for year 1, quarterly for years 2 and 3, and annually for years 4 and 5. Reliable price information is crucial.
- Divide the statement into sales plan and financial plan components.
- Explain any assumptions you make with footnotes (e.g. basis for pricing, basis for costs, mark-up rates). Discuss seasonal influences.
- Provide sensitivity analyses on key financial estimates.
- Describe cost system and budgets you will use.
- Discuss the scale and scope of production. How will how costs respond to changes in production volumes?
- Identify government regulations and environmental constraints which may cause serious lags in operation plans and impact cash flows.

6. Investment Criteria

- Complete an internal rate of return and return on equity calculation.
- Estimate the required payback period.
- Calculate break-even point (what sales level is required).
- Calculate net present value of any investment decisions.
- Commercial lenders typically require debt itemization, an interest coverage ratio, and debt to equity ratios.
- Sensitivity analyses will be required to indicate the strength of your financial figures.
- Environmental Issues
 - Describe issues, regulations, licenses, review processes.
 - Describe anticipated compliance costs and ability to meet the requirements technically and economically.

Section K: Risks and Weaknesses

This section discusses events and problems which could effect the conclusions presented in the business plan. It is impossible to control for all events and it is important to illustrate that a degree of risk management has been included within the development of the business plan.

A selection of aspects which should be considered include changes in the economic climate, demographic changes, the accuracy of assumptions, adverse market trends, changes in the exchange rate in target markets, technological change, new entrants, and the effects of increased material, energy, transportation, and other costs.

Section L: Planning for the Future

This section outlines the strategies and measures needed to be taken to ensure continued success.

It will help to project your company over a ten year horizon and to develop the planned long-term expectations. It is useful to include a sensitivity analysis around the assumptions used in developing your estimates. This will provide insight on the strength of the figures.

Use industry business-sector statistics to measure the success of your business relative to the norm. Use measures such as industry growth rates, sales levels, cost ratios and expense levels. Much of this information can be acquired from industry or business associations and various government agencies.

Identify industry trends and topics which will need to be monitored and how you will do this. Identify any areas which need special attention by management.

- Develop performance indicators for all aspects of your business.
 - Such indicators are inventory turns, sales per employee, sales per product line, changes in the cost of goods, machine downtime, employee grievances, employee sick days.
- Develop a framework and plan to deal with possible negative events in the future such as strategies to deal with suppliers, acquiring human resources, or financial adjustments.
- Continue to update your business plan to insure that you stay on target to your goal.

Closing Comments

Preparing a proper business plan is a demanding task but the rewards from the information produced will be considerable to those who invest the time to do the job properly. While there is no formula for success in the forest products business, the preparation of a proper business plan will serve to improve the ability of the investor to assess the true merit of the opportunity be considered.

APPENDIX 1

GLOSSARY OF TERMS

Appendix 1

GLOSSARY OF TERMS

This is not an exhaustive list of the terms needed to complete a business plan. For more information on these and other financial planning terms refer to an accounting or business textbook.

Accounts Payable

The amount owed to suppliers as a result of credit purchases for inventory or services, other expenses (e.g. utilities), or taxes.

Accounts Receivable

Total of money owed to the business by its customers who purchased goods or services on credit.

Administrative Expenses

Operating costs incurred in the normal course of running a business, such as telephone, management and office salaries, professional fees, property taxes, and so on.

Assets

The entire resource of a person or business, tangible and intangible, such as accounts and notes receivable, cash, inventory, equipment, real estate, good will, and so on.

Average Age Of Account Payable Measure

The average period of credit taken in business transactions determines the extent to which the working capital of the business is supplied by credit obtained from trade suppliers. The use of this measure over successive accounting periods is helpful to determine whether current liabilities are being paid more promptly or less promptly than in the past (remember to take note of seasonal effects). The ratio can be calculated as follows:

$$\text{Average daily credit purchases} = \frac{\text{Credit purchases for the year}}{365}$$

$$\frac{\text{Outstanding accounts payable}}{\text{Average daily credit purchases}} = (\text{Days})$$

Balance Sheet

A statement of the financial position of a business showing what assets it owns, what obligations are owing to outside parties, and the owners' stake in the enterprise.

Break-Even Point

The level of operations of a business at which revenues equal expenses. This is usually expressed as the dollar volume of sales required to cover both fixed and variable expenses.

Capital

The owner's equity or financial interest in the business. It can be in the form of the proprietor's or partners' capital, or, if incorporated, in the form of common stock, preferred shares and retained earnings.

Closing Inventory

The value of the total inventory or the number of units that a business has on hand at the end of the period.

Corporation

A legal entity, with or without share capital distinct from those parties or individuals that own it.

Cost Of Goods Sold (COGS)

The total cost to the business of the goods sold during an accounting period.

Current Assets

Unrestricted cash or other assets that, in the normal course of operations, may be converted into cash, or consumed, into the production of income within one year from the date of the Balance Sheet.

Current Liabilities

Outstanding debts of the business that are expected to come due within one year of the date of the Balance Sheet. This is current payables and liabilities.

Current Ratio

The current ration is a ratio of current assets to current liabilities. This ratio is also called the working capital ratio as it shows how much larger current assets are to current liabilities which by definition is working capital (see definition of working capital). For example, a current ratio of 2:1 indicates that current assets are twice the amount of current liabilities. A sound ratio is generally held to be at least 2:1.

Depreciation

A method of spreading the cost of a fixed asset over several accounting periods so that expenses are matched to the revenues they help produce.

Debt To Equity Ratio

The debt to equity ratio relates the capital funds contributed by the owners (owner's equity) to the owners of the funds contributed by other persons at a fixed rate of interest. The relationship as expressed by the ratio is referred to as the amount of financial leverage or capital gearing. The ratio is calculated as follows:

$$\text{Debt to Equity Ratio} = \frac{\text{Long - term debt}}{\text{Owner's Equity}}$$

Disbursements

Funds paid out of a business in settlement of obligations.

Drawings

Withdrawals of assets (usually cash) from a business by a sole proprietor or a partner

Equipment

All machinery and equipment used by the business to earn revenue.

Equity

The financial interest of the owner's of a business consists if their capital contributions plus the amounts of any profits which they have left in the business. This financial interest in the business is called the owner's equity.

Financial Statements

Formal reports (prepared from accounting records) describing the financial position and performance of the business.

Fixed Assets

Property or equipment of a tangible nature, owned by a business for use in its operations (not for sale) and expected to have a useful life of several fiscal periods.

Fixed Costs

Fixed amounts that do not vary with changes in the volume of sales or production (i.e. rent, depreciation, interest payments). Note that some

costs will have a fixed and variable cost component (see definition of variable costs).

Forecast

An estimate or prediction of a future happening (sales, expenditures, profits, and so on).

Gross Profit

The difference between Net Sales and the Cost of Goods Sold. Important in financial analysis, since it helps to evaluate sales performance, buying policies, mark-ups, and inventory controls.

Gross Profit Ratio

Gross profit is the difference between the revenue from the sale of goods (merchandise and/or services) and the cost of the goods sold. This margin between sales and cost of sales provides the funds out of which the business pays all its operating expenses and, if the operations are profitable, retains a surplus which represents the net income of the business.

The Gross profit ratio is calculated as follows:

Incorporation

The legal process of bringing a company into existence.

Interest Coverage Ratio

The interest coverage ratio, also known as the Debt Coverage Ratio, is an indicator used to assess the ability of a business to meet its interest payments on its loans. It is calculated by dividing net income before interest charges and income taxes by the amount of fixed interest charges for the accounting period.

Internal Rate Of Return

The internal rate of return, also known as the Discounted Cash Flow Rate of Return, is the rate of return which equates the present value of the future cash inflows generated from an investment with the present value cost of the investment (cash outflows).

Inventory

The dollar value (cost or market, whichever is lower) of all the stock of physical items that a business uses in its production process or has for sale in the ordinary course of doing business.

Inventory Turns

Inventory turns, also commonly referred to as the inventory turnover ratio, expresses the number of times that a business has sold, or turned over its average inventory. It is calculated by dividing the cost of sales (cost of goods sold) during the accounting period by the amount of the average inventory. The average inventory is calculated by taking the average of the twelve month-end inventory figures during the year.

Labour Expense

The total direct cost to the business for its employees during an accounting period. Includes in addition to actual wages paid the cost of all fringe benefits, unless listed separately.

Lease

A legal contract covering the use of property drawn up between the owner (lessor) and another (lessee) at a given rent, for a stated length of time.

Leasehold Improvements

Renovations and other improvements done to the leased property at the expense of the lessee.

Liability

An amount owed to another, not necessarily to be paid immediately. An obligation to remit money or services at a future date. Current liability is due within the year.

Long-Term Liabilities

The balance of outstanding term loans less the current portion (see definition of Current Liabilities)

Net Present Value

The calculation of the net present value is a time-adjusted method of evaluating capital investment projects when the benefits and costs of the projects occur at different times over the expected life of the investment. The net present value is the difference between the present value of cash inflows (or benefits) from an investment and the present value of the cash outflows (or costs) from the investment. If the difference is positive then the project is viable but if it is negative then the investment project should not be undertaken.

Net Profit

This excess after all expenses of an accounting period are deducted from all revenue of the same period.

Opening Inventory

The value of the total inventory or the number of units a business has on hand at the beginning of the period.

Operating Forecast

The anticipated earnings of a business determined by estimating sales and subtracting expected expenses.

Operating Income (Or Profit)

The excess of revenue of a business over the expenses pertaining thereto, excluding income derived from sources other than its regular activities.

Overhead

Costs not directly applicable to production (e.g. administration, management salaries)

Partnership

An association of two or more partners in a business enterprise.

Prepaid Expense

An expense paid in advance during an accounting period (for example, a two-year insurance premium), part of which will be "used up" in the upcoming accounting period. The unused portion of the expense is considered a current asset and recorded as such on the Balance Sheet.

Payback Period

The payback period is the time required to recover the original investment from the cash inflows generated by the investment. If the cash inflows are uniform over the life of the investment, the payback period is determined by dividing the net investment by the annual net cash inflow. When the annual cash inflows are not uniform, the payback computation takes a cumulative form. Each year's net cash inflow is accumulated until the amount equals the initial investment. Note that this measure ignores the time value of money and therefore should be used with caution and should be used primarily as an indicator of the risk of the investment.

Profit

Total revenue less total expenses for a period of time calculated in accordance with generally accepted accounting principles.

Rate Of Return On Capital Employed

The rate of return on capital is a profitability ratio which measures the effective use of capital by relating the amount of income earned to the amount of capital used to earn that income.

Rate Of Turnover Of Raw Materials

This measure is not unlike the Inventory Turns ratio defined above except this measure is specifically concerned with the rate at which raw material inventories turnover.

Receipts

The amount of money received from sales or other sources.

Revenue

The gross proceeds received by a business from the sale of goods or services during an accounting period.

Sales

The total value of goods sold or revenue from services rendered. Returns and discounts must be shown as a reduction from total sales.

Sales To Employee Ratio

This is a measure which can be used to indicate the effectiveness of a business' marketing strategies.

Sales To Product Line Ratio

This is a measure which can be used to indicate the success of a product line and to indicate the effectiveness of a business' marketing strategy associated with the product.

Selling Expenses

Those operating costs directly related to the selling of the product or service (selling salaries, commissions, advertising, and so on).

Sole Proprietorship

An unincorporated business wholly owned by one person.

Term Loan

A loan having a fixed term of repayment greater than one year, and a monthly or seasonal principal reduction schedule.

Variable Costs

Expenses that vary directly with the changes in the volume of sales or production, e.g., raw material costs and sales commissions. Note that some costs will have a variable and fixed component (see definition of fixed cost).

Working Capital

The excess of current assets over current liabilities.

APPENDIX 2

WORKSHEETS TO

DEVELOP A BUSINESS PLAN

**EXECUTIVE SUMMARY- The Company
FORM 1**

BUSINESS NAME

CONTACT

BUSINESS ADDRESS

TELEPHONE

FAX

E-mail

BUSINESS TYPE

REGISTRATIONS AND LICENSES

MISSION STATEMENT

KEY BUSINESS ACTIVITIES

PRODUCTS AND SERVICES

BUSINESS RESOURCES AND FINANCING NEEDS

Broad Description of the Company

General Market Description

HISTORY

Describe Background of industry:

Describe current industry:

History of your company:

TRENDS AND PROJECTED GROWTH

Describe trends:

Describe industry growth:

Industry R&D:

KEY SUCCESS FACTORS

Differentiate your company:

Describe unique features of your product or service:

Describe competitive advantages:

Describe proprietary features

Describe R&D plans:

YOUR COMPANY'S MARKET NICHE

Explain how your company fits into industry:

How is your company different?

Describe your market niche:

Describe the competition:

PRODUCT DESCRIPTION

Generally describe your product:

Describe important attributes:

Describe intended quality level:

Describe anticipated performance:

Describe important technologies:

Describe technical status of product:

Describe how products and services are related:

Describe regulatory conditions:

Discuss technical and legal considerations

SERVICE DESCRIPTION

Technical service:

Marketing services:

Replacement and repair:

Field Support:

PROCESS DESCRIPTION

Production process:

Machinery and equipment:

Attainable production levels:

MARKET SIZE AND TRENDS

Total Market:

Local and regional markets:

Market share:

Industry growth:

Market trends:

Firm's growth:

Sources:

Other trends:

COMPETITOR ANALYSIS

Direct Competitors:

Foreign competition:

Statistics:

Location of competition:

Competitors expansion:

TARGET MARKET AND POSITIONING STRATEGY

Final market:

Direct market:

Present customers:

Expansion plans:

Industry links:

Contract and franchising opportunities:

Target markets:

Typical customers:

**MARKETING MIX STRATEGY
PRODUCT STRATEGY**

Product:

Differences:

PRICE STRATEGY

Prices:

Competitors' prices:

Industry mark-up:

Price and demand relation:

Pricing policy:

Discounts:

PROMOTION STRATEGY

Advertising:

Industry affiliations:

Sales calls:

Expositions:

Showroom:

Additional contact:

Sales channels

Sales force

Promotions

DISTRIBUTION STRATEGY

Distribution paths:

Competitors' path

Trends

Distributors

Territories:

SALES STRATEGY

Sales force

Function of sales force

Terms of sales:

Sale to delivery:

Order sizes:

ORGANIZATIONAL FORM

Organizational structure:

Tax and legal attributes:

MANAGEMENT TEAM AND STAFF

Management team:

Administrative staff:

Key managers:

Job descriptions:

Human resource policies:

Advisors:

OWNERSHIP

Principals:

Owners' involvement:

Stock:

Other interests:

Location of business

Location:

Attributes:

Features of facility requirements:

Costs of facilities:

Labour

Management & salaries:

Production management & salaries:

Labour force & salaries:

Fringe benefits:

Unions:

Staff additions:

Compensation:

Stability of work force:

Skills & training:

Materials

Raw log requirements-

 Supply Agreement:

 Forest Licenses:

 Small Business Forest Enterprise Program:

 Open market Logs:

Other wood fibre requirements-

Freight Method and Costs:

Material availability:

Cost trends:

Terms of Purchase

PRODUCTION SCHEDULE

Production schedule:

Start-up delays:

Alternative schedules:

Production accounting:

Inventory control:

Long-term Plans

Goals

Means to achieve goals:

Requirements for success:

Expansion:

FINANCIAL PLAN		FORM 8A
CAPITAL REQUIREMENTS		
	VALUE	NOTES
MACHINERY		
Equipment		
Land & Buildings		
WORKING CAPITAL		
12 MONTH SALARIES		
CONTINGENCY FUNDS		
RECEIVABLES		
INSERT CHARGES		
INVENTORY		
TOTAL WORKING CAPITAL		
MISCELLANEOUS TOOLS & SUPPLIES		
OFFICE FURNITURE & EQUIPMENT		
TOTAL		
FINANCING PLAN		
SOURCES-		
EQUITY - Personal		
Other		
GRANTS/LOANS		
Bank Financing - Working Capital		
Short Term (Equipment)		
Long Term (Land/Building)		

BALANCE SHEET

	Year 1	Year 2	Year 3	Year 4	Notes
ASSETS					
CURRENT ASSETS					
FIXED ASSETS					
(LIKE DEPRECIATION)					
TOTAL ASSETS					
LIABILITIES AND OWNERS' EQUITY					
EQUITY					
CURRENT LIABILITIES					
LONG TERM LIABILITIES					
OWNERS' EQUITY					
TOTAL LIABILITIES AND OWNER'S EQUITY					

FINANCIAL PLAN		FROM 8C
PERSONAL BALANCE SHEET		
	VALUE	NOTES
ASSETS		
CURRENT ASSETS		
FIXED ASSETS		
(LESS DEPRECIATION)		
TOTAL ASSETS		
LIABILITIES		
SHORT-TERM DEBT		
LONG-TERM DEBT		
TOTAL LIABILITIES		
PERSONAL NET WORTH		
PERSONAL LIVING EXPENSES		
Monthly Expenses	Monthly Costs	Notes
Accommodation		
Food		
Clothing		
Automobile		
Loans		
Family		
Taxes		
Personal		
Entertainment		
Total Monthly Living Expenses		

FINANCIAL PLAN CONTINUED										FORM 8D		
SALES PLAN (project 5 years)												
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
UNIT SALES												
DOLLAR SALES												
INCOME STATEMENT												
(\$)	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
SALES												
COST OF GOODS SOLD												
Materials												
Total Materials												
Direct Labour												
Overhead												
Total cost of goods sold												
GROSS PROFIT												

INCOME STATEMENT CONTINUED

ITEM	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Selling, General, & Admin Expenses												
Total S,G & A Expenses												
Operating Profit												
Other Income												
Earnings Before Taxes												
Results Of Operations Earnings Before Taxes Depreciation												
Cash Available From Operations												

FINANCIAL PLAN

FORM 8F

CASH FLOW BUDGET

Item	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Cash Receipts												
Cash Sales												
Accounts Receivables												
Term Loan Proceeds												
Sale of Fixed Assets												
Other												
Total Receipts												
Cash Disbursements												
Rental Expenses												
Management Salaries												
Salaries and Wages												
Supplies & Materials												
Professional												
Utilities												
Telephone												
Repairs & Maintenance												
Licences & Municipal Tax												
Insurance												
Other Operating Expenses												
Capital Purchases												
Interest Paid on Loans												
Loan Payments												
Income Tax												
Dividends												
Payments on Accounts Payable/inventories												
Other Cash Expenses												
Total Cash Out												
Surplus (Deficit)												
Closing Cash Balance												

FINANCIAL PLAN CONTINUED		FORM 8G		
INVESTMENT CRITERIA				
Project A		case 1	case 2	case 3
Present Value of Benefits (cash inflows)				
Present Value of investment (cash outflows)				
Net Present Value				
Internal Rate of Return				
Profitability Ratio				
Payback Period				
Project B				
Present Value of Benefits (cash inflows)				
Present Value of investment (cash outflows)				
Net Present Value				
Internal Rate of Return				
Profitability Ratio				
Payback Period				
Project C				
Present Value of Benefits (cash inflows)				
Present Value of investment (cash outflows)				
Net Present Value				
Internal Rate of Return				
Profitability Ratio				
Payback Period				
BREAK EVEN CALCULATIONS				
ITEMS		DOLLARS	IN UNITS	
A) Selling Price per unit (Sales Value divided by Sales Volume)				
B) Variable Cost per unit (Variable Costs divided by Sales Volume)				
C) Contribution of each unit sold towards recovery of the Fixed Cost (Subtract Part B from Part A)				
D) Fixed Costs (Expenses)				
F) Break-even Sales Level - in units (Fixed Costs divided by Part C)				

Changes in economic conditions:

Accuracy of assumptions:

Adverse market trends:

Input price shocks:

Long-term expectations:

Sensitivity analysis:

PLANNING FOR THE FUTURE				FORM 10A		
SALES COMPARISONS (OPTIMISTIC/REALISTIC/PESSIMISTIC)						
	Monthly Sales			THIS YEAR	Cumulative Sales	
	THIS YEAR	LAST YEAR	VARIANCE		LAST YEAR	(Year-to-Date)
						VARIANCE
MONTH 1						
MONTH 2						
MONTH 3						
QUARTER 1						
MONTH 4						
MONTH 5						
MONTH 5						
QUARTER 2						
MONTH 7						
MONTH 8						
MONTH 9						
QUARTER 3						
MONTH 10						
MONTH 11						
MONTH 12						
QUARTER 4						
YEAR END						

PERFORMANCE INDICATORS

FINANCIAL RATIOS
(%)

	Industry Avg.	Business Results	Variance	Comments and Strategies
Net profit to Sales				
Gross Profit Ratio				
Return on Investment				
Current Ratio				
Average age of Account Payable				
Inventory Turns				
Rate of Turnover of Raw Materials				
Rate of Return on Capital Employed				
Debt to Equity Ratio				
Interest Coverage Ratio				
Sales Increase/Year				
OTHER INDICATORS				
Sales to employee ratio				
Sales to product line ratio				
Machine Downtime				
Employee Grievances				
changes in the cost of goods				

POTENTIAL PROBLEM ANALYSIS

Potential Problems

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Consequences

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Risk

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Preventative Measures

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Response

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LONG-RANGE PLANNING

Company Goals and Objectives

Time Frame

Additional Management, Production or Marketing Skills
Required

Comments

Special Managerial Attention Areas

Funding or Financial Assistance Required

APPENDIX 3

INFORMATION RESOURCES

Appendix 3 INFORMATION RESOURCES

Resource Libraries and Statistics

Advisory Services
Statistics Canada
Sinclair Centre
Room 340F, 727 West Hastings
Street, Vancouver, BC V6C
3C9
Tel: (604) 666-3691
Toll Free: 1-800-663-1551

BC Stats
Central Statistics Branch
Ministry of Government Services
553 Superior Street
Victoria, BC V8V 1X4
Tel: (604) 387-0327

Publications
Canadian Forest Service
Pacific Forestry Centre
506 West Burnside Road
Victoria, BC V8Z 1M5
Tel: (604)363-0600

Resource Library
BC Business Information Centre
601 West Cordova,
Vancouver, BC V6B 1G1
Tel: (604) 660-3900
Toll Free: 1-800-972-2255

Vancouver Public Library
750 Burrard Street
Vancouver, BC V6Z 1X5
Tel: (604) 665-2287

Greater Victoria Public Library
735 Broughton Street
Victoria, BC V8W 3H2
Tel: (604) 382-7241

University and College Libraries

General Business Information

The Canada/British Columbia
Business Service Centre
601 West Cordova Street
Vancouver, British Columbia
V6B 1G1
Tel: (604) 775-5525
Toll Free: 1-800-667-2272

Business Info Centre
712 Yates Street, 2nd Floor
Victoria, BC V8V 1X4
Tel: (604) 356-5777
Fax: (604) 356-5951
Toll Free: 1-800-661-2891

Federal Business Development
Bank
601 West Hastings
Vancouver BC V6B 5G9
Tel: (604) 666-7800

or

990 Fort Street
Victoria, BC V8V 3K2
Tel: (604) 363-0161