



**The Aboriginal Finance and Management
Capacity Development Series**

Developing Business Plans and Funding Proposals

A Practical Guide for Aboriginal Management



AFOA

Aboriginal Financial Officers Association of Canada

*The best source of information and training
on Aboriginal finance and management*



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Introduction

There is an increasing need for First Nations to develop their own sources of revenue and to move away from their dependence upon federal financial transfers. With this in mind, greater emphasis is being placed on the development of community owned business and development corporations. A **Business Plan** is a vital tool that can help assess whether the development of a new business or the purchase of an existing business is prudent.

This paper is intended for First Nations and those who work with them – it will help you better understand the business planning process and the key elements of an effective business plan.



I Business Planning

It is risky to commit the resources of your community or organization to a business venture without first preparing a **Business Plan** to guide its development.

A business plan fully explains all aspects of your planned business. Planning is key if you want to be successful – not doing so will increase the likelihood of failure. The first section of this paper entails a review of some basic information on Business Planning.

a Business Plan Basics

| | |
|--------------------------|--|
| What is a Business Plan? | <ul style="list-style-type: none">✓ Document that describes the future path of a business✓ Document that 'sells' your business concept✓ Management tool used to track, monitor and evaluate your business progress✓ Planning tool✓ Summary of how you intend to organize and operate your business✓ Blueprint for long-term success |
| Why prepare one? | <ul style="list-style-type: none">✓ Forces you to think about and confirm all the important aspects of your potential business✓ Identifies the investment and cash needs of your business (i.e. how much you will need and when you will need it)✓ Helps raise funding from outside sources✓ Establishes a benchmark for comparative purposes against actual results over time✓ Assesses the industry in which your business will operate✓ Assesses the viability of your business idea✓ Provides direction to your business idea (i.e. serve as a 'road map')✓ By following your business plan, it will assist in your overall management and capacity development✓ Business Plans help identify your customers and all other market considerations such as competition and pricing |
| Who reads it? | <ul style="list-style-type: none">✓ Your band council, who may be the main investor✓ Your development corporation board, who has the final say in investment decisions✓ Potential outside investors or partners✓ Financing agencies; banks, aboriginal capital corporations |

b Key Elements of an Effective Plan/Proposal

*'The strategic value of a business plan is derived from the information you collect and the knowledge you acquire during this process'*¹

The following is a list of suggestions that will help ensure your business plan is read and easily understood. Your business plan or proposal is the document that presents your business idea – as such, it is important that it accurately reflects what you want to do, and how you are going to do it. A business plan:

- 1 Needs to be well organized, easy to read, and presentable
- 2 Needs to leave a favourable impression as it is the 'first impression' your business will leave with outside interests,
- 3 Should be concise and to the point (i.e. keep your plan at a summary level - supporting documents can be included as appendices
- 4 Should include community input (i.e. a business consultant will ensure the community has a say in the development of the plan, and that the community understands it)
- 5 Should be based on current research in all relevant areas, such as:

¹ www.smallbusinessbc.ca

- 1 equipment costs
- 2 operating costs
- 3 marketing costs
- 4 customer data
- 6 Should utilize a format that is relevant to your type of business and industry
- 7 While there are no hard and fast rules, a plan should be between 10 – 25 pages in length

c The Business Planning Process and Business Plan components

I Project Initiation to Evaluation

Business planning for a First Nation should be a part of the larger planning process for the community. Ideally, business ideas will flow from your community strategic plan, which takes an in-depth look at the current and desired positioning of the community. Business opportunities may present themselves in the results of a Strength, Weakness, Opportunity, and Threat (SWOT) analysis of your community.

In many instances business development activity is undertaken by a First Nation community in isolation – they fail to consider the community as a whole and its operations and responsibilities. It is best to avoid this. The preferred approach is to generate business ideas from within the First Nation, in sync with its condition (financial and organizational) and abilities, rather than from third parties who may not have a sound understanding of your community's current situation and dynamics.

By taking a planned approach your community will focus only those potential business initiatives that have a realistic chance of succeeding, that are a good fit with your community's resources, and are in line with your overall community objectives.



Sometimes the best decision a community can make with regard to business development or investment in a specific project is not to proceed. Communities can save valuable time and financial resources by reviewing all business opportunities in detail and only pursuing those ideas that are a good community fit at the outset – this suggests they have a reasonable chance of succeeding.

After prioritizing the business opportunities available to your community, the next step is to determine the feasibility of the business ideas generated. A feasibility study is a process undertaken prior to business planning that will consider, at a high level, whether or not a business idea is worth pursuing to the next step.

2 Should your community get into this business?

A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question, "Should we get into this business?" Answering this question requires a preliminary assessment of both community and project considerations. In other words, you need to determine whether or not the project works, and whether or not it can work for your community.

Some of the key questions to consider during this phase (and need to be captured in a feasibility study) include;

- Do we have the personnel required to carry out this business?
- Can we acquire the human resources necessary?
- Will this project, and the respective industry, work within our territory? For example, how far away are your potential customers?
- Is there a market for the proposed business idea? How big is the market? What is the state of the industry?
- Is the business legal? Do provincial or federal regulations allow for this kind of business?
- What are the major potential risks? Can our community live with these potential risks?
- Is there a cultural fit between the project and our community?
- What level of investment is required? Is it within the means of the community?



3 The Business Plan Document

Once your community has narrowed down its business ideas through analysis and review of a feasibility study, the next step is to build on the idea and generate your business plan.

The following elements are the main components of a business plan. These are the subject areas your readers will expect to see – your objective is to anticipate questions and provide answers to them.

| Business Plan Components | |
|--------------------------|-------------------------------------|
| I | Cover Sheet |
| II | Executive Summary |
| III | Table of Contents |
| IV | Business Description & Overview |
| V | Products and Services |
| VI | Market Analysis |
| VII | Key Management and Staffing |
| VIII | Operational Plan |
| IX | Marketing Plan |
| X | Financial Plan |
| XI | Implementation Plan |
| XII | Appendices and supporting documents |

| Business Plan Component | Description |
|-----------------------------------|---|
| Cover Sheet | As noted earlier, your business plan is the first impression anyone will have of your business and business idea. Use your cover sheet to capture reader interest. Your cover page should be interesting and informative – it should compel readers to read more! |
| Executive Summary | This section should be prepared last, and should summarize the key points of the business plan. Keep it to 1-2 pages. This may be the only section a potential investor reads, so make it interesting and informative. This section should also summarize your financial request. If you are requesting a \$25,000 loan, note it here and indicate how you plan to repay it. |
| Table of Contents | Make sure the table of contents is reader-friendly. Your goal is to provide a clear path to the information a reader might be looking for in your plan. And be sure the page numbering is, in fact, correct! |
| Business Description and Overview | Introduces the reader to your business. Describe your business: <ul style="list-style-type: none">• type of business (e.g. retail, service)• ownership type and structure• location, address and contact person• start date• current state of the operation |
| Products and Services | A description of the products or services your business plans to provide. This should include a discussion on how your product is unique, and the features or advantages it will provide to those who seek out your product/service. If applicable, information on any technical advantage or information on patents or pending trademarks should be included. Remember, your business plan is a marketing tool that aims to generate investor interest – don't under-sell your business. |

| | |
|-----------------------------|--|
| Market Analysis | <p>This section details the homework and research you have conducted to assess your potential market. It also addresses a number of market related issues, including;</p> <ul style="list-style-type: none"> • total market for your product • who you are targeting • who your competition is and how you plan to compete against them • 4 P's discussion (Product, Price, Place and Promotion) |
| Key Management and Staffing | <p>Most readers are aware that your business plan is an important document – but it is just that - a document. Aside from getting their investment back, readers will want assurances that your company has the management and personnel in place to actually carry out the plan.</p> <p>This section of your plan outlines your most important asset, your organization, and the team that will get the job done. Specifically;</p> <ul style="list-style-type: none"> • background info (resumes) on key personnel, including yourself • an organizational chart that outlines who is doing what • technical abilities and skill sets important to the business |
| Operational Plan | <p>This section provides an overview of how the business will operate. It will show how your business will make the connection between your product/service and your market. This portion of the plan should include:</p> <ul style="list-style-type: none"> • Description of facilities; • Operational structure; • Selling and manufacturing process; • Scheduling; • Description of day-to-day operations; and • Product delivery processes |
| Marketing Plan | <p>A market analysis describes the size and nature of your potential market. A marketing plan shows how you intend to reach your market and generate interest. Information should include:</p> <ul style="list-style-type: none"> • promotional plan (brochures, advertising, tradeshow, etc); • staffing; and • pricing strategy. |
| Financial Plan | <p>Your financial plan allocates estimated and actual dollar figures to all that is discussed in your plan. Key information that should be captured includes:</p> <ul style="list-style-type: none"> • initial investment (start-up) costs • source of funds for start up • 3 year financial forecasts captured in; <ul style="list-style-type: none"> • Balance sheet • Cash flow statements • Income statements |
| Implementation Plan | <p>This section illustrates to potential investors that if they do provide funding to your project, that you know what to do next to get started.</p> <p>Your plan should list key activities with dates for completion. Key activities could also include:</p> <ul style="list-style-type: none"> • acquisition of equipment • buying inventory • hiring of staff |

| | |
|-------------------------------------|---|
| Appendices and supporting documents | <p>It is important to demonstrate that the information you acquired as a result of your research is credible and relevant. If you are proposing to sell electronics, for example, and the extent of your market research is a really good discussion with your cousin Phil, lenders may not see this as very credible.</p> <p>Include in appendices all relevant additional information that is referenced in your plan. This could include:</p> <ul style="list-style-type: none"> • full equipment cost quotes/estimates • market data (e.g. Stats Can reports) |
|-------------------------------------|---|

d Business Planning Tools

One of the more highly referenced business planning tools is the **Interactive Business Planner (IBP)** which can be found at <http://www.cbsc/ibp>

This site, which is well-referenced, is an interactive web-based business planning tool. The website prompts the user for information to be included in your plan. Templates are also available for service and product based businesses.

II Funding Proposals to Government

First Nation communities face increasing community demands to deliver new and expanding programs and initiatives. To access provincial or federal funding, communities are generally required to apply via a proposal submission process. Many programs provide proposal templates from which to follow, in general all proposals should include the following elements:

- Invest the time and resources to ensure you present a thoughtful, professional proposal that addresses all of the required elements
- Provide detailed information on your communities ability and experience to carry out the proposed program
- Demonstrate by including a section in your proposal that clearly shows that you understand the program requirements
- Outline in your proposed work/approach section, clearly how you intend to approach the project to meet its deliverables
- Reporting and timing should be clearly outlined in a schedule, which illustrates that you know what is required and when it is scheduled to be complete and reported upon.
- Cost is usually a major component of any proposal. Include a complete and detailed breakdown of all the costs associated with the proposal

In summary, ensure your proposal includes the following elements:²

² Adapted from *Guide to Proposal Writing - ISSP*

| Proposal Section | Comments & Recommendations |
|---|---|
| A Proposal Summary | Every proposal should contain an executive summary of the proposal. This summary is important as it may be the only section of the submission which is read. It should be a concise summary of all the main elements of your proposal and should not be more than 1 or 2 pages. Your summary appears at the beginning of your proposal, but is best prepared last, after you have completed all the sections of your proposal. Most importantly it should answer a key question...Why should the funding agency give you funding? |
| B Introduction | This section introduces and describes your proposal and proposed project to the reader. You should also provide background information of your community or organization in this section, highlighting past achievements in similar projects. Provide enough information to ensure that an uninformed reader can clearly understand who you are, and the project you wish to receive funding for. |
| C Statement of Need (Fit to Program Requirements) | The program you are applying to has been set up to address a certain need for your community or organization. In this section you should clearly describe your community's situation, and how the program can address it. Provide statistical data to backup your statements and accompany your qualitative data. Make it easy to understand how the program's objectives match your community's needs. |
| D Project Goals & Objectives | In this section of your proposal, clearly describe the goals and objectives that you will accomplish with the requested funding. Your projects goals should be in line with the stated goals and objectives of the program you are applying to. Ensure that you make a distinction between your goals and objectives. Objectives are more specific and along with goals should indicate the desired outcomes, and not describe the activities that will be undertaken. Also ensure that your project's goals are realistic in relation to your community or organization, while at the same time, will make a meaningful difference. |
| E Project Methodology | <p>This is a key section of your proposal as it describes the approach you will employ to carry out the project activities to reach its goals and objectives. This section should include the following sub-sections:</p> <ul style="list-style-type: none"> • Introduction to approach • Specific Activities that will be undertaken • By Project Phase or • by Goal/Objective or by • Date Order <p>This section should also describe the resources that you will use to complete the project, including staffing and financial plan. A work plan could also be developed to illustrate how the project will be completed and by when.</p> |
| F Project Outcomes | It is important to highlight the changes and improvements that your project will enable. This is captured as your project outcomes, and will include both short and long term benefits of the project. This section is key, as your projects successful outcomes usually becomes your funding agencies successful outcomes. If they can demonstrate their success through your efforts, your proposal has a better chance of receiving funding. |
| G Detailed Budget | <p>Most programs that you will be developing proposals for will have a funding limit. This section of your proposal illustrates how you will conduct your project within the program financial limits. This limit may be a dollar amount or % of project, or both. The funding agency may have a prescribed format for budget submissions, it is important to follow their directions, including allowable expenditures.</p> <p>This is also an opportunity to demonstrate how you will leverage this programs funding with other sources, including your own.</p> |



III Pro-Forma Financial Documents

A complete Business Plan must include pro-forma balance sheets, income statements and cash flow statements.

[info from www.smallbusinessbc.ca]

Balance Sheet – The Balance Sheet is a snap shot of the business at any point in time. In the case of a business start-up, it is often the starting balance sheet. A balance sheet is made up of three parts.

Assets: Things a business owns

Liabilities: Debts a business owes

Equity: The owners' investment and re-investment in the business

This is extremely important as it gives the reader a snap-shot of how the business is being financed through the owners' money (equity) or through the creditors' money (liabilities).

Cash Flow Statements – A Cash Flow Forecast is probably your most important financial tool. It is your cash flow that shows you if, and when, you will run out of cash essential to run your business. It allows you to take action before problems occur and even do "what if" calculations before taking on new projects. The cash flow is a 12-month projection that forecasts the receipts and disbursements for your business. In a start-up situation, it is preferable to have a start-up month to specifically show the reader the costs incurred to start the business.

Income Statements – The purpose of the Income Statement Forecast is to project the revenues and expenses of your business over a given period of time – usually one year. Other terms for this are budgeted income statement or pro forma income statement. There are three things that need to be predicted to forecast your income statement: the sales projection, the cost of goods projection and the overhead projection.

i Pro-Forma Balance Sheet:

[source: www.firstbusiness.ca/guides/gasstation.xls]

| | Projected Balance Sheet |
|--------------------------------------|----------------------------|
| | End of year I |
| Assets: | |
| Current Assets: | |
| Cash - Business Account | \$62,153 |
| | |
| Fixed Assets: | |
| Equipment | \$100,000 |
| Depreciation, 20% | (\$20,000) |
| Building & Land | \$245,000 |
| Depreciation, 5% | (\$12,250) |
| Inventory | \$75,000 |
| | |
| Total Assets: | \$449,903 |
| | |
| Liabilities: | |
| Current Liabilities: | |
| | |
| ACC FCF Loan | \$64,162 |
| | |
| Total Liabilities: | \$64,162 |
| | |
| Owners' Equity: | |
| | |
| Opening Balance | \$225,000 |
| Add: net income for year | \$35,741 |
| INAC MBPP Contribution | \$125,000 |
| Owners' Equity - end of year | \$385,741 |
| | |
| Total Equity and Liabilities: | \$449,903 |

ii Pro-forma Cash-flow Projection

[source: www.firstbusiness.ca/guides/gasstation.xls]

| | 3 YEAR CASH-FLOW PROJECTIONS | | |
|---------------------------------|------------------------------|-----------|-----------|
| | Year 1 | Year 2 | Year 3 |
| Cash Receipts: | | | |
| Opening Cash Balance | \$0 | \$62,153 | \$125,192 |
| FCF Loan | \$76,500 | | |
| INAC MBPP | \$125,000 | | |
| Owners Equity | \$125,000 | | |
| Revenue: | | | |
| Tobacco | \$118,000 | \$129,800 | \$142,780 |
| Grocery/ Misc. Sales | \$61,000 | \$67,100 | \$73,810 |
| Fuel | \$171,000 | \$188,100 | \$206,910 |
| Total Revenue: | \$350,000 | \$385,000 | \$423,500 |
| Total Cash Receipts (a): | \$676,500 | \$447,153 | \$548,692 |
| Cash Expenditures: | | | |
| Start-up costs: | | | |
| Site Preparation | \$95,000 | | |
| Equipment & Installation | \$100,000 | | |
| Fuel | \$50,000 | | |
| Conv. Store | \$50,000 | | |
| Inventory | \$25,000 | | |
| <i>Borrowers Fee (2%)</i> | \$1,500 | | |
| | \$321,500 | | |
| Operating Costs: | | | |
| COG's: | | | |
| Tobacco | \$88,000 | \$96,800 | \$106,480 |
| Grocery Purchase | \$21,500 | \$23,650 | \$26,015 |
| Fuel | \$90,965 | \$100,062 | \$110,068 |

| | | | |
|---|------------------|------------------|------------------|
| | | | |
| Loan Repayment | \$18,722 | \$20,424 | \$20,424 |
| Supplies/ Materials | \$3,000 | \$3,300 | \$3,630 |
| Equipment Repair/ Maintenance | \$5,500 | \$6,050 | \$6,655 |
| Wages & Benefits | \$32,000 | \$35,200 | \$38,720 |
| Accounting & Legal | \$1,500 | \$1,650 | \$1,815 |
| Bank Charges | \$4,250 | \$4,675 | \$5,143 |
| Business License | \$150 | \$165 | \$182 |
| Business Insurance | \$5,000 | \$5,500 | \$6,050 |
| Freight | \$1,440 | \$1,584 | \$1,742 |
| Insurance | \$2,760 | \$3,036 | \$3,340 |
| Utilities | \$2,640 | \$2,904 | \$3,194 |
| Vehicle Expense | \$12,000 | \$13,200 | \$14,520 |
| Travel | \$900 | \$990 | \$1,089 |
| Communication: land line/ cell/ fax/ Internet | \$1,800 | \$1,980 | \$2,178 |
| General Expenses | \$720 | \$792 | \$871 |
| | | | |
| | | | |
| Total Operating Costs: | \$292,847 | \$321,962 | \$352,115 |
| | | | |
| Total Cash Expenditures (b): | \$614,347 | \$321,962 | \$352,115 |
| | | | |
| End of Year Cash Balance (a-b): | \$62,153 | \$125,192 | \$196,576 |
| | | | |
| Closing Balance: | \$62,153 | \$125,192 | \$196,576 |
| | | | |
| COG'S; | \$200,465 | \$220,512 | \$242,563 |
| | | | |
| Assumptions: sales and costs anticipated to increase at 10% per annum. | | | |

iii Proforma Income Statement

[source: www.firstbusiness.ca/guides/gasstation.xls]

| | Projected Income Statement - 3 year period | | |
|--|--|-----------|-----------|
| | Year 1 | Year 2 | Year 3 |
| Income: | | | |
| Tobacco | \$118,000 | \$129,800 | \$142,780 |
| Grocery/ Misc. Sales | \$61,000 | \$67,100 | \$73,810 |
| Fuel | \$171,000 | \$188,100 | \$206,910 |
| Gross Sales: | \$350,000 | \$385,000 | \$423,500 |
| Expenses: | | | |
| ACC FCF Loan Interest Expense | \$7,884 | \$7,167 | \$5,486 |
| Depreciation expense | \$32,250 | \$27,638 | \$23,856 |
| Tobacco | \$88,000 | \$96,800 | \$106,480 |
| Grocery Purchase | \$21,500 | \$23,650 | \$26,015 |
| Fuel | \$90,965 | \$100,062 | \$110,068 |
| Supplies/ Materials | \$3,000 | \$3,300 | \$3,630 |
| Equipment Repair/ Maintenance | \$5,500 | \$6,050 | \$6,655 |
| Wages & Benefits | \$32,000 | \$35,200 | \$38,720 |
| Accounting & Legal | \$1,500 | \$1,650 | \$1,815 |
| Bank Charges | \$4,250 | \$4,675 | \$5,143 |
| Business License | \$150 | \$165 | \$182 |
| Business Insurance | \$5,000 | \$5,500 | \$6,050 |
| Freight | \$1,440 | \$1,584 | \$1,742 |
| Insurance | \$2,760 | \$3,036 | \$3,340 |
| Utilities | \$2,640 | \$2,904 | \$3,194 |
| Vehicle Expense | \$12,000 | \$13,200 | \$14,520 |
| Travel | \$900 | \$990 | \$1,089 |
| Communication: land line/ cell/ fax/ Internet | \$1,800 | \$1,980 | \$2,178 |
| General Expenses | \$720 | \$792 | \$871 |
| Total Expenses: | \$314,259 | \$336,342 | \$361,033 |
| Net Income: | \$35,741 | \$48,658 | \$62,467 |
| Assumptions: opening balance includes assessed land value of \$100,000.00 plus equity | | | |



IV Glossary of Terms

Accounts Payable – Short-term debts incurred as a result of day- to-day operations

Accounts Receivable – Monies due to your company resulting from day-to-day operations

Assets – Items that you own, or are due to you, in your business (e.g. cash, equipment, accounts receivable) that have a positive financial value

Balance Sheet – A 'point in time' financial snapshot listing all of the assets, debts, and equity in your company

Break Even Analysis – A mathematical equation that determines the volume of sales needed to allow your business to cover all of its costs exactly - no profit is made

Business Plan – A written plan that defines your business goals, marketing activities, method of production, managerial strengths, and expected financial results for a specific time period. It is a written outline that evaluates all aspects of your business

Capital – The funds and assets invested in a business by the owners

Capitalization requirements – The amount of funding required to cover initial costs until the business becomes self-sustaining

Collateral – Assets that can be pledged to guarantee a loan

Current Assets – Assets that can be quickly converted to cash

Current Liability – A debt due in less than 12 months

Depreciation – A non-cash expense of doing business (e.g. depreciation in the value of machinery or equipment)

Direct costs (variable) – Costs that will differ depending on the volume of business production (labor, material, supplies, utilities)

Financial statements – Reports that summarize the financial condition of the business; usually include balance sheet, statement of operations (or profit/loss statement), and cash flows statement

Equity – An ownership interest in a business

Income statement – Shows income and expenses and resulting profit or loss over a specific period of time

Indirect (fixed) costs – Costs that remain constant regardless of the business activity level (advertising, telephone, travel, general/administrative expenses, depreciation, insurance)

Liquidity – Ability of your company to pay your short-term debts

