

**SOLUTIONS MANUAL**

**Business Plan  
Business Reality**

*Starting Your Own Business in Canada*

THIRD EDITION

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# *PART 1 – STARTING A NEW BUSINESS*

## **CHAPTER 2**

# **FEASIBILITY: HOW DO I KNOW IT WILL WORK?**

Please note: The Overhead Slides and Lesson Notes shown here in Word format are also provided in PDF and PowerPoint formats.

# **FEASIBILITY: HOW DO I KNOW IT WILL WORK?**

## *Where Will I Locate My Business?*

*Location*

*Customer Proximity*

*Transportation*

*Suppliers*

*Services*

# **WHERE WILL I SITUATE MY BUSINESS?**

*Traffic*

*Visibility*

*Parking*

*Surrounding Firms*

# **WHERE WILL I SITUATE MY BUSINESS? cont...**

## *Home-Based Business*

*Advantages*

*Disadvantages*

*Image*

# **WHERE WILL I SITUATE MY BUSINESS? cont...**

## *Leasing the Premises*

*Basic Rent*

*% of Sales*

*Maintenance*

*Period*

*Renewal*

*Leasehold Improvements*

# **HOW MUCH OF MY KIND OF BUSINESS IS OUT THERE?**

*Market Potential  
Relevance*

*Other Marketing Research*

# MARKETING RESEARCH (CONT..).

## *Information Sources*

*Primary*

*Secondary*

*Sources of Help*



# WHO AM I COMPETING AGAINST?

*Direct Competition*

*Indirect Competition*

*Assessing Competitors*

*Primary*

*Secondary*

# HOW MUCH BUSINESS WILL MY FIRM GET?

## *Sales Forecast*

### *Sources*

*Industry Statistics*

*Customer Buying Intentions*

*How Long It Takes to Get Customers*

*Expert Opinion*

*How Much Business the Competition Gets*

*All the Business Out There*

*The Amount the Firm Can Handle*

# **SALES FORECAST (cont..).**

*Multiple Sources*

*Level of Detail*

*When To Forecast*

# **HOW CAN I PROTECT THE BUSINESS?**

*Small Business Insurance*

*Broker*

*Policy*

*Insurance Types*

# HOW CAN I PROTECT THE BUSINESS? (cont..).

## *Security and Loss Prevention*

*Pilfering*

*Shoplifting*

*Embezzlement*

*Burglary*

*Robbery*

*Fraud*

# INTELLECTUAL PROPERTY

*Patent*

*Copyright*

*Trademark*

*Industrial Design*

*ICT*

# **CREDIT AND COLLECTIONS**

*Decision to Grant Credit*

*Potential Problems*

*Collections Steps*

# **THE BUSINESS PLAN, PART II: FEASIBILITY**

*Location*

*Site Selection*

*Site Expenses*

*Market Potential*

*Competition*

*Sales Forecast*

*Protecting the Business*



## CHAPTER 2 LESSON OUTLINES

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### OH 2.1 FEASIBILITY: HOW DO I KNOW IT WILL WORK?

*Can you ever accurately predict whether a business idea will work?*

**Where Will I Locate My Business?** *What's the difference between location and site?*

**Location** *(Give examples) What are the relevant issues of location?*

**Customer proximity** *Means? What type of business is this important for?*

**Transportation** *What types of business most worry about transportation issues?*

**Suppliers** *What types of business want to be close to their suppliers? Why?*

**Services** *What sort of services might a business want to be close to? Why?*

*LEARNING TASK: find a web site that advertises some particular political jurisdiction (country, city, province, state) as being an ideal place to locate a business. What are the arguments they offer?*

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### OH 2.2 WHERE WILL I SITUATE MY BUSINESS?

**Site** *Why is the issue of site most important to retail and consumer service businesses?*

**Traffic** *How do we measure traffic flow? Pedestrian traffic?*

**Visibility** *For which types of business is visibility most important?*

**Parking** *What are some of the issues around parking?*

**Surrounding Firms** *What sort of firms would a particular retailer wish to be close to?*

*LEARNING TASK: identify a store that always seems to be changing owners or business format. See if you can spot a problem with the site.*

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### OH 2.3 WHERE WILL I SITUATE MY BUSINESS? (cont).

**Home-Based Business** *When is "home" an appropriate site?*

**Advantages** *For what kind of person is it an advantage to work from home?*

**Disadvantages** *What are the obvious problems of working from home.*

**Image** *How can a home-based business still maintain a "corporate" image?*

*LEARNING TASK: search the web and find at least one service for sale that is intended to support the home-based entrepreneur.*

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## OH 2.4 WHERE WILL I SITUATE MY BUSINESS? cont...

*(Remind about definition of SITE)*

**Leasing the Premises** *Should most businesses lease or buy the site? Why?*

**Basic Rent** *(or Minimum Rent) Why does a landlord want this?*

**% of Sales** *Why does a landlord want this?*

**Maintenance** *What does this cover? How is this calculated?*

**Period** *How long does a new business want the lease to last? Why?*

**Renewal** *What problems could occur when the lease expires? Prevention?*

**Leasehold Improvements?** *Definition? Who owns these at the end of lease?*

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## OH 2.5 HOW MUCH OF MY KIND OF BUSINESS IS OUT THERE?

*Based on What? (What you're selling, Whom you're selling to).*

**Market Potential** *(Not just how much your firm will get: the total) Define?*

**Relevance** *Why need to know this? (Basis for all strategic decisions).*

**Other Marketing Research** *(Define.) Examples?*

*LEARNING TASK: go to the library and identify one Statistics Canada publication that relates in some way to the industry you are involved with.*

*LEARNING TASK: find a retail business and count the traffic going by the business site over a period of several hours.*

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## OH 2.6 Marketing Research (cont..).

*What is the #1 mkt. research priority? (Finding out the market potential)*

**Information Sources** *Will go to which research source first? Why?*

**Primary** *Definition? Examples?*

**Secondary** *Definition? Find where? Examples?*

**Sources of Help** *(Most can't do on own.) Inexpensive help?*

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## OH 2.7 WHO AM I COMPETING AGAINST?

*Why is it important to study your competition?*

**Direct Competition** *Define? (Give examples)*

**Indirect Competition** *Define (Give examples)*

**Assessing Competitors** *What kinds of things do you want to know about competitors?*

**Primary** *Examples of primary research on competition?*

**Secondary** *Sources of information that exists on competitors?*

*LEARNING TASK: name your favourite restaurant. Make a list of its direct and indirect competitors.*

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## OH 2.8 HOW MUCH BUSINESS WILL MY FIRM GET?

*How accurate is sales forecasting? Calculating market potential?*

**Sales Forecast** *(More of an art) Which method should you use for a new firm? (Should use multiple methods.)*

**Sources**

**Industry Statistics** *Sources? Access?*

**Customer Buying Intentions** *Find out how?*

**How Long It Takes to Get New Customers** *(Could be based on experience)*

**Expert Opinion** *Who would experts? Talk to just one? (Average opinions)*

**How Much Business the Competition Gets** *Compared to what? (Correlations)*

**All the Business Out There** *Called what? (Market potential)*

**The Amount of Business the Firm Can Handle** *A.K.A.? (100% capacity)*

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## OH 2.9 SALES FORECAST (cont..).

**Multiple Sources** *If lots, which one to use? (Weighted ranking issues)*

**Level of Detail** *How much work and effort to use? (Depends on financial need).*

**When To Forecast** *For how long in the future? (3 yrs. Or, depends on term of any loan)*

*LEARNING TASK: find a business that relies on going out and selling its product or service one-on-one. Interview a salesperson and ask how many hours/days of selling it takes to get each new customer.*

*LEARNING TASK: find a retail business where you can observe the cash register without creating a nuisance. Calculate the value of sales for a ten-minute period. It may take several visits to accomplish this or achieve a rough average.) Multiply this number by 6 and then by the number of hours the store is open per day and then by the number of days it is open per year. How valid is this estimate?*

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## OH 2.10 HOW CAN I PROTECT THE BUSINESS?

**Small Business Insurance** *Do you have to have insurance? Why? Why not?*

**Broker** *How is this different from an insurance agent?*

**Policy** *Is this a contract between you and the broker? Who then?*

**Insurance Types** *What can you get insurance on? What can't you get it on?*

*LEARNING TASK: contact an insurance agent and get a quote on insurance for the business you are planning.*

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## OH 2.11 HOW CAN I PROTECT THE BUSINESS? (cont..).

*(Insurers often require that you have other types of protection)*

### **Security and Loss Prevention**

**Pilfering** *Who is likely to commit? Means of protection?*

**Shoplifting** *Who is likely to commit? Means of protection?*

**Embezzlement** *Who is likely to commit? Means of protection?*

**Burglary** *Who is likely to commit? Means of protection?*

**Robbery** *Who is likely to commit? Means of protection? Resist?*

**Fraud** *Who is likely to commit? Means of protection?*

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## OH 2.12 INTELLECTUAL PROPERTY

**Patent** *Protection for what? Period? Where? Cost? Assistance?*

**Copyright** *Protection for what? Period? Where? Cost? Examples?*

**Trademark** *Examples of trademarks? Definition? Where? Cost?*

*(Following are less important for small business.)*

**Industrial Design** *Covers? Period? Examples?*

**ICT** *Covers? Period? Examples?*

*LEARNING TASK: identify a recent legal case over intellectual property. Discuss the outcome.*

*LEARNING TASK: create some sketches of "visual symbol" trademarks (logos) that do not show the company name. Calculate what percentage of people you show them to can identify the company. What does this say about the value of trademarks?*

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## OH 2.13 CREDIT AND COLLECTIONS

*Which customer groups are likely to pay bills on time? Who is unlikely to?*

**Decision to Grant Credit** *What sorts of businesses must extend credit?*

**Potential Problems** *How do you decide who is a good credit risk?*

**Collections Steps** *What excuses will people give for late payment? Responses?*

*LEARNING TASK: interview a small business owner and ask them if they have ever had problems collecting money owed to them. How did they handle it?*

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## OH 2.14 THE BUSINESS PLAN, PART II: FEASIBILITY

*Review with pages 4 -- 48 of text.*

**Location** *Details to include?*

**Site Selection** *Details? Pictures? Layout?*

**Site Expenses** *(Details from lease) What if business is home-based?*

**Market Potential** *How much detail*

**Competition** *(Both direct and indirect) Examples of competitive advantages?*

**Sales Forecast** *How many estimates needed? Minimum? (3)*

**Protecting the Business** *Why is this so important to lenders? Investors?*

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## CHAPTER 2 CASES

### *Handout*

#### ANGELICA

#### CASE 2A

When she was an Electrical Technology student, Angelica worked summers for a company that installed burglar alarm systems in new homes during construction. Her job consisted of rough-wiring homes for complete alarm systems.

Her boss, Harry, owned the company and he would make deals with home builders to install the basic wiring in all their units at low cost. The home salesperson would offer the purchaser of the home the option of purchasing an expensive alarm system. If they agreed, the installation would go to Harry's company, which would complete the system after all of the carpentry had been done at a very high profit. The profit would be shared with the home builder, but Harry would also make a commission if the home owner signed up with an alarm monitoring company.

When new home owners declined the installation, Harry would wait until several months after they had moved in and then make a sales call, offering to install the same system at a price far below what the owners would have paid to the home builder. If the deal was made, Harry would install the system at a lower profit, but it would not be shared with the builder. Harry would also have the chance of earning commission by getting the home owner to sign with a monitoring company. These "after-market" sales were especially easy to make if a few break-ins had occurred in the neighbourhood after the new home owners had moved in.

Harry died. Angelica heard the news on the day she graduated from college. She knew that the four or five largest home builders in the West end of the city would need a new supplier. Buying Harry's company was not really an option because the only real assets were an old truck full of wiring. (Harry purchased all his supplies as required on a daily basis). Harry had no written contracts with the builders (he worked on a hand-shake) and all his employees were casual labour or electrical students working in the summer.

Angela decided to move quickly. She realized that she could borrow start-up money from one of the government-sponsored programs if she could put together a Business Plan.

1. What will Angela identify as her site? Why?
2. Who will she identify as her primary "market"? Explain.
3. Who will be Angela's direct competition? Indirect competition? Explain.
4. How will Angela go about assessing the "market potential"? Give details.

## *Handout*

### **GORDON**

### **CASE 2B**

As a Fashion Design student, Gordon had won several awards. After graduation, he worked for two years as assistant manager in the costume department of the country's largest theatrical supply outfit.

Gordon is now ready to start his own business and he has decided to specialize in custom-designed business suits for wealthy women executives. He knows that this is a growing market segment and that most of his potential customers are on a tight schedule, have offices in the downtown area and drive their own cars.

The problem facing Gordon now is his choice of a site and he has narrowed it down to three very different options.

Option One is a small retail store (300 square feet) in the most prestigious mall in the city. Although the mall has the usual department stores, it also has many high-end clothing, jewellery and accessory stores. The mall is located at the junction of two major highways and is easy to reach from downtown as well as the rest of the city. Parking is plentiful and free and the mall provides a host of services (security, utilities, maintenance, snow removal, common advertising) included as part of the rent. The mall charges an annual rent of \$100 per square foot plus 5% of gross sales. In Gordon's case this would work out to about \$3 000 per month total rent. The mall is offering a 5 year lease with two additional 5 year terms available for renewal at a rent geared to inflation.

Option Two is a tiny store in the city's most prestigious shopping location. The area houses the most expensive hair salons, restaurants and boutiques. It is very close to the central business district (a ten-minute walk), public transit and the main downtown shopping area. There is no on-street parking in front of the store and only one spot is provided for use of staff at the back. There is a high-rise car park available one block away and the rates are the highest in the city. There is a lot of well-heeled pedestrian traffic in front of the store, especially at lunch times and in the evenings. The owner of the building is offering a flat rent of \$2 000 per month for a 5 year term. He says he may sell the building at the end of five years, but if he doesn't, he is willing to rent for another five at terms to be negotiated then. The rent does not include heat, light, garbage fees or water and Gordon estimates that these will run about \$400 per month. In addition, Gordon would have to remove his own snow and provide his own security systems and any minor maintenance.

Option Three is to run the business from his home. Gordon, a sister, and a brother jointly inherited the family home from their mother and all three of them live there. It is a large detached brick house in an older part of the city that is undergoing some urban

renewal but is not quite considered a trendy area. Two accountants and a dentist conduct business from their homes on the street. The house itself is quite elegant with a ground floor parlour that could easily be turned into a studio/salon for Gordon. This would not be a problem for his brother and sister, who are both unmarried airline pilots and spend a great deal of time away. They would be happy to have Gordon at home most of the time "just to keep an eye on the place". The street is zoned for both residential and commercial uses. Parking is available for free on the street but spots are often hard to find. The house has a narrow driveway that is a little awkward to get into but will hold two compact cars. Rent would be free. Any minor costs would be offset by the tax deductions for using a portion of the home for business.

Gordon has identified a list of issues that are important to him in his selection of a site. These include overall cost, parking, the image presented to his customers, services, surrounding businesses, convenience for the customer and the length of time the site will be available for his use.

1. What is your first choice for a site? Give a single reason for your choice.
2. Work out a "points" system to quantify the suitability of each of the sites, taking into consideration the relative importance of each issue, and how each site ranks on each of the issues. Start by looking at the issues Gordon has listed and rank each on a scale of 1 to 10. Then look at each site and decide how well it meets each of the criteria on a scale of 1 to 10. How can you translate this into a single score for each of the sites, so that they can be compared objectively?
3. Discuss any differences in the outcomes using the different decision-making techniques.



## CHAPTER 2 TEST BANK

### A) MULTIPLE CHOICE

Select the "most correct" option:

1. It is best to be situated right next to your competition if you are selling something:
  - a. that is basically a “convenience” item.
  - b. that is not particularly expensive.
  - c. that is particularly expensive.
  - d. that customers tend to “shop” before buying.
  
2. Extrapolation means:
  - a. projecting new values based on facts known about similar situations.
  - b. obtaining money by threats.
  - c. using more good manners than necessary.
  - d. making up numbers out of thin air.
  
3. The specific address where a business can be found, refers to the:
  - a. location.
  - b. site.
  - c. market area.
  - d. drawing area.
  
4. Which of the following is a source of *primary* marketing research information?
  - a. government statistics.
  - b. business publications.
  - c. trade associations.
  - d. a questionnaire survey.
  
5. The first *marketing research* priority for a new business is to determine:
  - a. consumer lifestyle and trends.
  - b. customer buying behaviour.
  - c. market potential.
  - d. advertising effectiveness.
  
6. Leasehold Improvements are usually paid for by the:
  - a. landlord.
  - b. lessee.
  - c. real estate agent.
  - d. business broker.
  
7. The rent for commercial properties is usually stated in terms of:
  - a. a flat annual rate.
  - b. annual cost per square foot of floor space.
  - c. a monthly rent.
  - d. a weekly rent.

8. Generally, new firms are better to:
  - a. lease the property where the business is situated.
  - b. buy the property where the business is situated.
  - c. have a short-term rental with no contract.
  - d. always start a home-based business.
  
9. The sales forecast for a brand new business is not based on:
  - a. industry statistics.
  - b. how long it takes to get new customers.
  - c. expert opinion.
  - d. past sales of the company.
  
10. A patent gives protection for:
  - a. an invention.
  - b. a creative work.
  - c. an ornamental design.
  - d. all of the above.

#### B) TRUE OR FALSE

1. T. F. In an “on-line” or “web-based” business, the location is usually irrelevant.
  
2. T. F. The terms “location” and “site” are totally interchangeable.
  
3. T. F. The decision on whether to work from your home should be based on your personal convenience.
  
4. T. F. It is generally better for a new business to lease, rather than own, their premises.
  
5. T. F. A separate estimate of *market potential* is required for each different customer group a business is targeting.
  
6. T. F. A new business should use several methods of estimating *sales forecast*.
  
7. T. F. A visual symbol is generally protected by copyright.
  
8. T. F. A company's customers may, themselves, represent a form of competition.
  
9. T. F. A new business will generally make sales forecasts for at least five years.
  
10. T. F. Traffic analysis has little importance for a retail type of business.

C) FILL IN THE BLANKS

1. How important "location" is to your Business Plan depends on \_\_\_\_\_ you are selling and \_\_\_\_\_ you are selling to.
2. Retail and consumer service businesses should try to be situated right next to a \_\_\_\_\_ business.
3. How much money a particular group of potential customers will spend on a particular product or service is called \_\_\_\_\_.
4. Businesses similar to your own, in terms of size, location services and the customers they are pursuing, would be classified as competition.
5. The value of business that my firm is expected to get is called the \_\_\_\_\_.

D) SHORT ANSWER

- 1) In three or four sentences identify the major disadvantages of having a home-based business.
- 2) List and briefly explain several techniques for forecasting the sales of a new business.

E) ESSAY

1. Discuss the major considerations for the "site" of a retail business. (1 page max).
2. Identify and explain the major types of protection a business can use for intellectual property. (1 page max).

## CHAPTER 2 TEST ANSWERS AND MARKING NOTES

### Test Bank

Difficulty Level: (e) = easy, (m) = medium, (h) = hard

#### A) MULTIPLE CHOICE

1d (m); 2a (m); 3b(e); 4d(e); 5c(m); 6b(h); 7b(m); 8a(m); 9d(e); 10a(m)

#### B) TRUE/FALSE

1T(e); 2F(m); 3F(h); 4T(m); 5T(h); 6T(e); 7F(m); 8T(e); 9F(h); 10F(m)

#### C) FILL IN THE BLANKS

1. what, whom (h); 2. complimentary (h); 3. market, potential (m); 4. direct (m); 5. sales forecast (m)

#### D) SHORT ANSWER

1. A complete answer should include how this might affect the image of the business (related to "what" the business is selling and to "whom" as well as the practical considerations of interruptions and never getting away from work (m)
2. Depending on the number of marks assigned, a point for listing any one of the seven techniques in the book (pgs. 33-36) and a point for each brief explanation should be awarded. (h)

#### E) ESSAY

1. Traffic volume, traffic times, visibility, accessibility, parking, surrounding businesses and lease issues are major points which should be explained for full marks.
2. Patent, copyright and trademark are the major types of protection to be explained, while bonus marks can be awarded for discussion of industrial design and ICT.

## Cases

### 2.A

1. Angela will be selling digital photographic equipment, software and installation of same. This will be a home based business although students may identify the site as Angela's truck.
2. The key is for students to clearly define the customer group that Angela is targeting: in this case the companies in the geographic area who use security badges. Even though most of the work comes initially from the Badge printer, most of the profit comes from the ultimate customers themselves.
3. Direct competition will be similar small firms, but indirect could include the customers themselves and even companies that subcontract some of the work that the new systems will do.
4. Market potential must be defined as how much Badge printing companies spend. Students should explain as specifically as possible how she could calculate the market potential. (Nothing vague like: "go to the library" or "use secondary information").

### 2.B.

This case requires students to design their own weighted ranking system. The actual system is not so important as the fact that have a way of making a subjective decision more objective.

## Business Plan

The suggested marking scheme for Part 1 of the Business Plan marks the plan out of 50 points (since roughly 50 separate pieces of information are required from the student).

Each plan starts out with full marks and points are deducted in three categories:

- Thoroughness* (One point is deducted for each missing item – see below).
- Feasibility* (One point is deducted for any item that is incorrect or illogical)
- Writing* (One point is deducted for each grammar, spelling, or style error to a maximum of one third of the total; in this case, 17 points maximum).

For details of the Business Plan Part 2, see pages 44-48 of the text. Points covered:

1. name location; describe surrounding pop; data (3pts).
2. other location factors (2pts)
3. name site; describe parking, close firms, visibility, traffic, data (5pts)
4. appropriate for "what" selling; appropriate for "whom" selling to (2 pts)
5. lease arrangement; terms for rent maintenance, renewal (or home info) (4pts)
6. define Market Potential: \$ from "who" for "what" (3pts)
7. relevant data (3 items) ;sources (6 pts).
8. calculations, explanation, dollar value (3 pts)
9. name; locate; describe direct competitors; sales estimate (4 pts)
10. name; locate; describe indirect competition (3pts)
11. competitive advantages (2pts)
12. sales forecast estimates; rank; produce range (4pts)
- 13 calculate single forecast; explain (2pts)
- 14 insurance; premiums; payment schedule (3pts)
15. protection against theft (2pts)
- 16 intellectual property; protection (2 pts)
- 17 credit policies; collections (2 pts)