



STARTING A SUCCESSFUL BUSINESS IN CANADA

Jack D. James, MBA, LLB

Self-Counsel Press

(a division of)

International Self-Counsel Press Ltd.

Canada USA

CONTENTS

PREFACE	xv
1 WHY GO INTO BUSINESS FOR YOURSELF?	1
2 SETTING YOUR MONEY GOAL AND ATTAINING IT	5
1. Money Versus Your Personal Life	5
2. Attaining Your Financial Goal	6
3 WHAT KIND OF BUSINESS IS BEST FOR YOU?	9
4 HOW TO GET STARTED	13
1. What Type of Business Structure Should You Choose?	13
1.1 A proprietorship	13
1.2 A partnership	14
1.3 A corporation	16
1.4 What to do if it is a husband/wife business	21
2. Federal Requirements and Regulations You Should Know About	22
2.1 Goods and services tax (GST)	22
2.2 Federal excise tax	23

2.3	Customs duties	23
2.4	Federal income tax	24
2.5	Employment insurance	24
2.6	Canada Pension Plan	24
2.7	Privacy Acts	25
3.	Provincial Government Requirements and Regulations You Should Know About	26
3.1	Licensing	26
3.2	Sales tax	26
4.	Municipal Government Requirements and Regulations You Should Know About	26
4.1	Licensing	26
4.2	Municipal taxes	27
4.3	Building requirements	27
4.4	Hospitalization	27
5.	Miscellaneous Information You Should Be Aware Of	28
5.1	Weights and measures	28
5.2	Packaging and labelling	28
5.3	Patents, copyright, trademarks, and industrial designs	29
5.4	Product standards	30
5.5	Immigration and citizenship	31
5.6	Foreign investment	31
5.7	Consumer protection	31
5	FINANCIAL FORECASTING FOR A NEW BUSINESS	33
1.	Major Items to Consider	33
1.1	The market	34
1.2	Prices	34
1.3	Materials	34
1.4	Competition	34
1.5	Facilities and equipment	34
1.6	Employees	35
1.7	Production costs	35
1.8	Financial considerations	35
1.9	Working capital	35
2.	Be Sure of Your Sources	36

3.	What Forecasts Do You Need and How Do You Prepare Them?	37
3.1	Income and expense forecast	37
3.2	Cash flow budget	38
3.3	Break-even analysis	38
6	HOW TO GET MONEY	43
1.	What Financing Alternatives Do You Have?	44
1.1	Equity	44
1.2	Borrowed money	45
2.	Plan Your Financial Requirements	47
3.	Where Do You Go to Rent Money?	48
3.1	Personal sources	49
3.2	Banks	50
3.3	Institutional term lenders	54
3.4	Credit unions	54
4.	Using Your Home to Raise Money	54
5.	Other Sources of Money	55
5.1	Leasing	55
5.2	Accounts receivable (factoring)	55
5.3	Venture capital	55
5.4	Angel investors	56
5.5	Private placement (minimum \$500,000)	57
5.6	Franchising	57
5.7	Going public (minimum \$1 million)	57
6.	More Tips on Approaching Your Lender	58
7.	Government Help	60
7.1	Business Development Bank of Canada	60
7.2	Industry Canada	61
7.3	Specialized federal programs to help you	61
7.4	Provincial programs	63
7.5	Confused? Call your local Canada Business Service Centre	63
8.	Employment Incentives	63
8.1	New jobs	64
8.2	Skills development	64
8.3	Hard-to-employ persons	64

7	WHAT ABOUT FRANCHISING?	67
1.	What Is Franchising?	68
2.	Advantages and Disadvantages	69
3.	Beware the Hard Sell	70
4.	Where Do You Start?	70
5.	Check Out the Franchisor	71
6.	The Franchise Contract	71
8	WHAT ABOUT BUYING A BUSINESS?	73
1.	Advantages of Buying	74
2.	Locating and Purchasing a Business	74
2.1	Select carefully	74
2.2	Seek opportunities	74
2.3	Properly evaluate each opportunity	75
2.4	Establish a fair price	75
2.5	Location is important	77
2.6	Ensure that the transaction is handled properly	77
2.7	Tax considerations in buying a business or franchise	78
3.	Financing the Transaction	79
9	LOCATION — HOME OR OFFICE?	81
1.	Rented Premises	82
2.	Operating at Home	83
3.	Taxes and Your Home	83
4.	Your Personal Life Versus Your Business Life	84
10	SALES AND MARKETING	85
1.	Product or Service — Which Do You Sell?	85
2.	Marketing Techniques	86
2.1	What is the right product?	86
2.2	What is the right price?	86
2.3	What is the right place?	86
2.4	What is the right promotion?	86
3.	Satisfying Your Customers through Services	86
4.	How to Attract Customers	87
4.1	Are you reaching the customers?	88
4.2	Do-it-yourself advertising	88

4.3	Get free advertising or publicity through news releases	88
4.4	Add something — and multiply sales	89
4.5	What’s in a name? Plenty!	90
4.6	Dramatize differences	90
5.	The Importance of Your Sales Staff	90
6.	Using Persuasive Pricing	91
6.1	Help a customer unload	91
6.2	When you cut the price, say why	91
7.	The Big One-Time Order — Do You Take It?	92
8.	The Giant Customer	92
9.	You Needn’t Be Best	92
10.	How to Select New Products	92
10.1	The “ideal” product for a small business	93
10.2	Product life	93
10.3	Make product appraisal a continual practice	93
11.	Wrong Location? Capitalize on It	93
12.	Move Your Merchandise to Where the Customers Are	93
11	WINNING THE WAR ON PAPER	95
1.	Don’t Be a Paper Collector	95
2.	Keep Your Desk Organized	95
3.	Bunch for Efficiency	96
4.	Cut It Off at the Source	96
5.	Take Shortcuts	97
6.	What Records Should You Keep?	97
7.	Use Technology That Will Help You	97
12	KEEPING THE BOOKS	99
1.	Finding an Accountant	99
2.	Tips on Keeping Your Books (and Staying out of Trouble)	101
2.1	Employee pay records	101
2.2	Accounts receivable	102
2.3	Accounts payable	103
2.4	Other requirements	104
2.5	What you should know about financial statements	104

13	WHAT ABOUT COMPUTERS?	109
1.	Plan	109
2.	Hardware and Software	111
2.1	Software applications	111
2.2	Operating systems	114
2.3	Hardware	115
3.	Networking	117
4.	The Internet	118
4.1	Business on the Internet	118
4.2	Connection options	120
5.	Security	122
5.1	Virus and malware protection	122
5.2	Backup systems	124
5.3	Powerline conditioning	124
5.4	Office security	125
6.	Ergonomics and Your Environment	126
6.1	Ergonomics are important	126
6.2	What files?	127
6.3	Other considerations	127
7.	Choosing a Supplier	128
8.	Training	129
9.	Administration	129
10.	Rules	130
11.	Conclusion	130
14	USING TAX LAWS TO YOUR ADVANTAGE	131
1.	Introduction	131
2.	Income and Taxes in Canada	132
3.	Maximize Deductible Expenses	132
3.1	Keep every receipt	133
3.2	Accounting and legal expenses	133
3.3	Advertising and promotion expenses	134
3.4	Business entertaining and meals	134
3.5	Business tax, fees, and licences	135
3.6	Depreciation	136

3.7	Car or truck expenses	136
3.8	Convention expenses and holiday trips	137
3.9	Cost of goods sold	138
3.10	Delivery, express, and freight	138
3.11	Interest, exchange, and bank charges	139
3.12	Maintenance and repairs	139
3.13	Office expenses, petty cash, postage, and stationery	139
3.14	Medical and dental expenses	140
3.15	Office expenses (in the home)	140
3.16	Property taxes	140
3.17	Rent	141
3.18	Salaries, wages, allowances, and bonuses	141
3.19	Supplies and materials	141
3.20	Telephone, light, heat, and water	141
3.21	Travel expenses	142
3.22	New product development	142
4.	Where Does the Money at the Bottom Line Go?	142
4.1	Incorporate to save tax dollars	142
4.2	Splitting your income	143
4.3	Set up tax shelters	144
4.4	Delay tax payments for a year — or how to choose a fiscal year-end (Corporations only)	144
4.5	Estate planning benefits	144
4.6	Use salary and bonus accruals to save taxes	144
4.7	Planning for your retirement	145
4.8	Interest-free and low-interest loans to employees and shareholders	145
5.	What If You Have Business Losses?	146
15	INSURING YOUR BUSINESS (AND YOURSELF)	147
1.	Introduction	147
1.1	Agencies	147
1.2	Direct salespeople	147
1.3	Clubs and associations	148
1.4	Insurance brokers or consultants	148
2.	Watch Those Loopholes	148

3.	What Coverage Does Your Firm Need?	149
3.1	Loss of physical assets	149
3.2	Liability to third parties	149
3.3	Business interruption	150
3.4	Loss or sickness of key people	150
3.5	You can afford some self-insurance	150
3.6	All about business life insurance	150
3.7	Taxes and insurance	151
16	WHAT TO DO WHEN YOU ARE SHORT OF CASH	153
1.	Have Suppliers Bill You on Your Best Day	154
2.	Use Discount Day Payment	154
3.	Refinance Fixed Obligations	155
4.	Spread Out Major Purchases	155
5.	Make Every Day a Billing Day	155
6.	Plug Loopholes	156
7.	Keep Aware of Past Due Accounts	156
8.	Cut Off the Deadbeats	156
9.	Develop Short-Term Credit Terms	157
17	HOW TO FIND AND KEEP GOOD EMPLOYEES	159
1.	Hire or Contract Out?	159
1.1	Costs	160
1.2	Space	160
1.3	Replacement	160
1.4	Availability	160
1.5	Cross-promotion	160
2.	How to Find Employees	160
3.	How to Keep Employees	161
3.1	Pride	161
3.2	Consistency	162
3.3	Listen and communicate	162
3.4	What about the person who does not fit in?	163
3.5	Compensation	163
4.	How to Evaluate Employees	163
5.	Handling Creative People	164

6. What about a Health Benefits Package?	164
7. Use Share Option Plans	164
18 MORE SUCCESS TIPS	165
1. Constantly Review Your Financial Goal	165
2. Never Stop Learning	165
2.1 Use your public library	166
2.2 Know how to read books	166
2.3 Use the Internet	166
3. Your Competition Can Help	166
4. Make Your Own Decisions	168
5. Use Time Effectively	168
6. Keep Expenses Down	168
7. If You Want Something, Ask for It	169
8. Does the Weather Affect Your Business?	170
9. Know How to Protect Your Product	170
10. Know How Much Past-Due Accounts Really Cost You	170
11. Look Before You Cut Prices	171
12. Use Pareto's Law to Advantage	171
13. Know Where to Go for Outside Help	173
13.1 Government programs	174
13.2 Suppliers can help you	174
13.3 Join organizations that can help	175
13.4 Use your banker for credit information	175
13.5 Free student aid	175
14. Discover How to Get Better Telephone Service	175
14.1 Ask your telephone company to help you save money	176
14.2 Telephone options	176
14.3 Consider Interconnect	178
14.4 Consider VOIP	179
15. Do You Need a Buy-Sell Agreement?	180
16. Why Not Export?	182
APPENDIX — PREPARING A BUSINESS PLAN	189

SAMPLES

1	Income and expense forecast	40
2	Cash flow budget worksheet	41
3	Break-even chart	42
4	Balance sheet (Sole proprietorship)	105
5	Partner's equities (Part of balance sheet for partners)	106
6	Shareholder's equities (Part of balance sheet for a corporation)	106
7	Profit and loss statement	106
8	Buy-sell agreement	183

TABLES

1	Effective annual interest rate	154
2	Short-term credit possibilities	157
3	Sales increase needed when prices cut	172



1 WHY GO INTO BUSINESS FOR YOURSELF?

Most people, when asked this question, will automatically answer: “To make profits.” Well, “profits” sounds nice and rates a pass on any business exam you might take; however, in reality, “profits” is very far from the real reason why people go into business for themselves.

Some simply have to start a business because they can’t hold a job anywhere else. Others are driven by some compulsion for power and feel that running a business is the most expedient way of obtaining that power. Still others have such a craving to be independent that they have to be free to make their own decisions in all aspects of their lives, including how they earn their livings. People with inherited money often need something simply to play around with. Some use

their businesses as a way to make them feel more secure or wanted by their employees, suppliers, creditors, or whomever. And the list goes on and on.

As a matter of fact, people who are truly successful at running their own businesses are those who profit from the things they enjoy doing most — because then profits and their ambitions and lifestyles go hand in hand. Work becomes play, or at least it does not become distasteful or boring like a lot of jobs that are available today. In this category are such people as skiing or sailing instructors, pilots, hobbyists who turn their hobbies into businesses, and so on.

“What enjoyment can I possibly get out of selling a hamburger?” you might ask. Well, perhaps there is not much intrinsic value in what

you do, but there may be plenty of trade-offs that make the role of an independent business person worthwhile.

A big business is not necessarily a good business. The right size, from my point of view, means that it suits the needs of the people working within the organization. In fact, you can truly be called a successful business person if your business suits your lifestyle — not just if your business is large. I believe this could be true even if the business loses money, although because of the lack of profits you may have a dispute with the traditionalists on this point. But keep this in mind: if you are truly happy doing what you are doing, who can challenge the fact that you are not successful?

The only problem with losing money is that over a period of time you will have to cease doing the activity you like so much because, no matter how much you enjoy something, there are certain other basic things you need, such as food and shelter. Therefore, over the long run, for a business to be truly successful, there has to be more money coming in than going out.

The point is, while you may be happy running a certain kind of business, regardless of its profit picture, sooner or later you must pay attention to the bottom line. Running a business for reasons that do not coincide with the financial health of a business will sooner or later lead to disaster. At this point you are far better off to step out of the picture and let someone else run the business. Both you and the business will be happier.

You must plan for success and follow your plan. The old adage “plan your work and work your plan” is even more true today. It is strange how most people spend more time planning

vacations than they do planning to pay for vacations! In other words, they put the cart before the horse. In business, you must have a horse (product, service, or skill) before you worry about the cart (capital, methods).

Furthermore, try to use your own skills and talents. You are a human being with special traits, skills, talents, experience, and life needs. Don't sell yourself short.

I remember a former air force pilot and glider enthusiast who was working in a warehouse. It bored him, and the pay was poor. Finally, he analyzed his situation, quit his job, formed a gliding club, charged reasonable membership fees and instruction rates, and is now rich, happy, and doing what he loves. He even designs and builds personalized gliders — and makes lots of money doing it! Can you see now how doing what you like best can pay off in profits?

Another friend of mine, an ex-naval officer, medically unfit for further service, couldn't forget the sea. Instead of crying in his beer, he bought, on a low-payment plan, a used fishing boat and now runs his own pleasure-fishing charter service. He's happy as his own boss and growing steadily richer. That's what I mean by turning your hobby or first love into a professional business.

Don't let these two stories fool you however. If you are in business for yourself, the hours are long and hard, and you are never really away from responsibility. You will know plenty of disappointments and failures. You must be able to make the final decision because the buck-passing stops at your desk. Failures cannot be explained away. The condition of the business is always there to destroy any illusions you may have.

Because of these problems, many (in fact, most) businesses do not make it. Naturally, the reason for any business failure is bad management. However, this does not really help you to understand why a business fails.

Management covers almost every aspect of human behaviour. Bad management can mean anything from not being honest with yourself to not being able to take a frank look at your strengths and weaknesses, needs and desires.

The most commonly pinpointed problem of a new business is that of undercapitalization. The owner typically overestimates the revenue and underestimates the costs and the length of time needed to get established. The business simply runs out of gas before it reaches the top of the hill and is able to coast, or it meets unexpected detours on the way and never gets back on the road to success.

The undercapitalization may be the result of lack of experience or knowledge, or because of one of the psychological reasons discussed above. All too often, a person with a little money and an idea jumps into a business opportunity only to become a mortality statistic by the end of the first year of operation.

To run a business successfully, you need the following five things:

- (a) A product, service, or idea
- (b) Some experience and knowledge in the area you are interested in
- (c) A battle plan or strategy
- (d) Capital (money)
- (e) A complete and honest assessment of your own character, which shows “you’ve got what it takes” to succeed

Now that you’ve got (or are putting together) the first four of these, there’s the nagging question of the fifth qualification: do you have the necessary personal qualities to run your own business? Some characteristics that are essential to business success are the following:

- **Drive:** That is, responsibility, vigour, initiative, persistence, and health. You must do more than dream; you must act. You waste no time blaming others. You take risks (although not wildly so) and can live comfortably with the uncertainties associated with these risks.
- **Thinking ability:** This includes original thinking, creative thinking, critical thinking, and analytical thinking. You are curious and have vision. You are never quite satisfied or content; there’s always a better way.
- **Human relations ability:** This is comprised of emotional stability, sociability, cautiousness, consideration, cheerfulness, co-operation, and tact. You are persistent and keep trying. You don’t make the same mistake twice but keep on trying until you hit the right combination.
- **Communications ability:** This is a combination of verbal and written communications. You must be persuasive and able to influence bankers to supply money, employees to work harder and better, suppliers to furnish materials at the lowest cost, and customers to buy.
- **Technical knowledge:** This means an all-encompassing knowledge of the business, your product or service, and your market.



2

SETTING YOUR MONEY GOAL AND ATTAINING IT

1. MONEY VERSUS YOUR PERSONAL LIFE

By now you've decided either that you can turn your main interest in life into a profit-making business or that you need to be your own boss — in other words to be independent.

To be independent you need to make a certain amount of money. You need to reach your “money goal” as fast as possible.

That approach to making money is the *only* way you can get the money you want to do the things you want to do before you are too old, too tired, and too disillusioned to care.

Let's dispel any misgivings about making money. Making money is not a mysterious, awesome secret meant only for a chosen few. Far

from it. Actually, making money is just about the easiest thing to do in this world — provided you have a money goal, skills, knowledge, and the drive to get what you want out of life.

Simple formula, isn't it? It is somewhat harder to put into practice, however, for in order to reach your money goal, you must have motivation, know-how, and a workable money plan with a time limit.

There are many interpretations of “need.” People need houses, food, clothing, cars, vacations, love affairs, paintings, music, and books. For you, the big need is money: a certain amount of money within a certain period of time — in other words, *as soon as possible*.

You are no exception to the rule. You need all the things that most people need. All the

ordinary needs mentioned are vital to everyday living, but to get them you need money.

“But,” you argue, “some successful business people are millionaires many times over, yet seem to devote 24 hours a day to work. Really, they cannot enjoy that kind of grind day in and day out — or can they?”

The truth is, of course, that they truly do enjoy their work and the money is strictly a way of keeping score. (That’s what can happen when you work at something you like.)

Now, perhaps this way of living is not to your liking; there is no doubt that people like this sacrifice other things in life, such as their family and friends. But no one is asking you to spend 24 hours a day at the job — and you don’t have to in order to become successful. Almost anyone can start a business and run it with modest success, provided the business does not over-tax his or her abilities.

To fulfill your personal needs, you should make sure that you take care of all your life’s responsibilities and yet leave enough creative energy to reach your financial goal. In other words, break life’s needs down and handle them in order of their importance.

You should allot a sensible portion of the day to your leisure, as relaxation ultimately helps you to work harder. Also, you should be sure to get enough sleep; otherwise, you’ll be too tired to work. Without good health, you can’t do anything. Furthermore, you do have your family to think about. Don’t neglect them.

I am sure you know or have heard of some very rich business people who devote their whole lives to making money and are millionaires because of it but have no home or family life. To

me, the very reason for being in business is so that you have the time and money to enjoy the people and things you love.

2. ATTAINING YOUR FINANCIAL GOAL

You should write down the financial goal (say, per month) that you would like to attain at the end of a five-year period when your business is firmly established and you can afford to relax a bit. (Don’t forget to make allowances for inflation.)

Next, list the amounts of money that you need just to get by. Be ruthless in listing only those things that are unavoidable expenses. After that, go through the list and see which of those you can cut without causing undue hardship. For example, suppose your car costs \$600 a month for gas, maintenance, and insurance. Do you need such a big car? Do you fill up at discount stations? Can you do some of your own repairs? If not, do you have a mechanical friend who could do the repairs in exchange for something you can do?

Here is another example. You own a house and are paying off a rather large mortgage. Do you know that, by using part of the house for business purposes, you can write off part of those mortgage payments, not to mention part of the taxes, maintenance, and utilities payments?

Trivial you say? Not so. If you are paying off a mortgage now costing, say, \$600 per month (most of which is interest) plus taxes, maintenance, and utilities of another \$300 per month, for a total of \$900, you actually need to earn about \$1,400 at today’s tax rates to pay that \$900 mortgage and maintenance payment every month. By using, say, one-third of the house for business purposes, for storage, or for an office,

you can write off approximately \$300 per month, which saves you \$100 per month in taxes. That's \$1,200 per year — almost enough for a vacation (see chapter 14 for details).

These are only a couple of examples. You would be amazed at the savings that can result from a little critical analysis of your spending habits.

“But,” you say, “I’m not going into business to scrimp and save.” That’s not the point. The purpose of this whole exercise is to determine for yourself what you need to live on while establishing your business.

By doing this and adding on your other business costs — goods, advertising, other people’s wages, rent, etc. — you can easily determine your break-even point or, in simpler terms, what you need to sell on a month-by-month basis to make it. And, don’t forget, even if you are forced to spend less (temporarily), you have attained something that is priceless in the exchange: personal independence.

This is what we’ve established so far:

- You have a desire to do certain things.

- You have an idea about how to use that desire to make money.
- You know that your special skills and ability must be used professionally to get that money.
- You know that you need a certain amount of money to get by (while building your business).
- You know definitely that you will never get that amount of money by working for someone else; so, you will start your own one-person business in order to get that money.

Now, make a move. Get into action. Take the first steps right away.

A great number of people never succeed in becoming independent simply because they are afraid of failure. Some people, strange to say, are even afraid of success. Two-thirds of the things that people fear will happen can never happen.

So start now to be your own boss and make your own decisions. Put your money goal plan into action and start your own money-making business today!

Do these characteristics describe you? There are some people who are simply not cut out to be owners or managers of small businesses.

Let's face it: it's easy to say yes to all the above — and in your own mind the assessment is perfectly objective. However, if you plan to start a business, you have to be positive. Believe you are going to be successful and act like it every day you are working with it. A positive mental attitude does wonders for small businesses.

One word of caution, however: do not let this attitude blind you to potential risks. Always keep one eye looking for potential liabilities and problems — because they *will* happen, and the ultimate success of your business depends on how you handle them.

But you are not alone. Remember, Canada has more than one million small businesses (defined as any firm that is “independently owned and operated”).

Small businesses are important to the solution of Canada's unemployment problem. Politicians are finally waking up to the fact that it is the small business that is relatively labour intensive and provides employment opportunity and not the large (often foreign-owned) conglomerate. As a result, public purse strings are loosening up, and tax laws tend to favour small business.

Small businesses are also vitally important to the social health of this country. They contribute to the social fabric of what Canada is today and provide a vehicle for entrepreneurs.

Small-business people are hardworking, dynamic, innovative, progressive risk-takers — all qualities that we, as a country, desire.