



Snapshots™

NEWCOMERS: STARTING A BUSINESS IN CANADA

Making a dream a reality

Have you always dreamed of starting your own business and becoming your own boss? That may be one of the reasons you decided to come to Canada. Or, perhaps you ran your own business in your country of origin and you would like to apply that expertise here.

That can be a good choice. Small, independent businesses add greatly to the Canadian economy; they provide employment, economic growth and revenues to governments through the taxes they pay. And many a small business has become a large business through the vision and drive of the business owner. Because of the role small business plays in economic growth, federal and provincial governments fund numerous programs to assist entrepreneurs in getting their businesses off the ground.

There is a lot involved in establishing and building a business, however, it is important to approach this challenge in a carefully considered and strategic way. Here are some factors to consider when starting a business.

Create a comprehensive and detailed business plan

There are two primary reasons for doing this. First, you want to test your business concept. What seemed like a great idea with tremendous potential may – after careful consideration and analysis – be unrealistic. Your business plan will detail:

- Your product or service. Do consumers need or want what you plan to offer?
- The marketplace. Are there already products or services in the marketplace that will compete with your product? Are similar products or services on the horizon?
- Price point. At what price can you produce your product or service and how does that compare to your competitors?
- Your marketing strategy. How will you market and advertise your business?

Second, you want to develop a budget, essentially an estimate of the expenses and revenues your business will generate over the next year or so. Then you can figure out how you will finance your new venture.

You may be in the fortunate position of having the financial resources to fund your start-up personally. In this case, your budget will allow you to weigh your probable returns against your financial risk. Or, if you have to seek outside financing either from friends and family or from financial institutions such as banks, your lenders will want to see a detailed budget. They will want to be sure that your business can generate the funds it needs for you to repay your loan.

Finance your business

If you are in the latter category and need to raise money to launch your business, there are generally two ways to go: by taking on debt or by selling shares or equity in your business.

Equity. Friends and family might be willing to give you money for your business start-up in return for becoming part owners in your business. They would become equity shareholders – sharing in the risks, if the business fails, and the rewards, if it thrives.

If you do decide to sell shares in your new business venture, you will want to have formal, legal agreements in place. You will want to spell out how much say your shareholders have in the way you run your business, how much and how often dividends will be paid, and even how you buy back those shares at some future date.

Debt. Borrowing money is the other option. In this scenario, you borrow money for a set period of time and promise to repay the money at the end of that period. You also pay interest on the loan for the privilege of having had the use of the money. Your obligations and responsibilities will be detailed in a legal document.

You can turn to private-sector financing – friends, family, the banks or venture capitalists, for example – or look to government programs for funding.

There are many sources of private-sector loans. The [government of Canada website](#) outlines the various options. But be forewarned: if you seek a loan from an arm's-length financial institution, such as a bank, your lender will want to see a detailed business plan with cash flow projections, as discussed above. Your lender may also require collateral, a physical asset that can be claimed by the lender if you are not able to repay your loan. Collateral provides your lender a measure of security. This may entail pledging personal assets such as a home. Even if you incorporate a business, you may have to pledge personal assets when seeking debt financing.

There is also the government-funded [Canada Small Business Financing Program](#). It will provide financial support of up to \$500,000 to eligible businesses with less than \$5 million in annual revenues.

Its objectives are:

- to help new businesses get started and established firms make improvements and expand;
- to improve access to loans that would not otherwise be available to small businesses; and
- to stimulate economic growth and create jobs for Canadians.

Build your team of professional advisors

When you start a new business, you will need a team of professional advisors on your side. They will advise you of your rights and responsibilities and help you avoid costly mistakes.

Accountants. Professional accountants are trained in analyzing businesses, creating financial statements and dealing with taxation. All of these skills will come into play when you are starting a business. First off, as mentioned above, you will need a detailed budget to show potential investors. Once your business is up and running, you will need financial statements both to show your financial backers and to help you assess the strength of your business. And, of course, you will have to file tax returns. A certified accountant will help you with all of these tasks.

Lawyers. There are many legal aspects to starting and running a business. Your lawyer can suggest the appropriate legal structure for your business and, if you decide to incorporate, provide the legal expertise you'll need. A good lawyer will also be on top of laws and regulations – federal, provincial and municipal – that affect your business.

Financial institutions. It is always a good idea to have a strong relationship with your financial institution, but even more so when you are starting a business. Banks, credit unions and caisses populaires are in the business of lending money. They want to lend you money, but they also want assurance that they will get their money back. All the large financial institutions have departments that specialize in dealing with small-business owners. And the more comfortable the bank is with you as a potential borrower, the more likely you are to get the loan and the bank's ongoing support.

Your financial advisor. Starting a business is a big financial event in your life and you will want the support of a financial advisor. He or she can recommend strategies to help you safeguard your assets.

Register your business

Regardless of your business structure, you will need to register aspects of your business with the appropriate level of government. Your municipal government, for example, takes care of business licences, building codes and health inspections. Health taxes and Worker's Compensation come under provincial or territorial jurisdiction, while you will go to the federal government for a business number, as required by the Canada Revenue Agency (CRA) for both income taxes and for General Sales Tax/Harmonized Sales Tax (GST/HST) purposes. To obtain a business number, contact the CRA at [Business Number \(BN\) registration](#).

An alternative: Buying a franchise

Franchising is a way of doing business that is half way between working for someone else and being your own boss. There are two ways to do it. You can purchase a product/trade name franchise from a franchisor, which gives you the right to use that name or trademark in your business. Or you can purchase a business format franchise, which means the franchisor provides you with a full range of services and support. In return, you agree to conduct business in conformity with the rules laid out by the franchisor. Think McDonald's.

Franchising has its advantages and disadvantages. For example, on the "pro" side:

- You are buying an established business and brand, so start-up costs will be lower and your time to start-up shorter;
- The franchisor will usually provide financing and training; and
- Potential customers will already be familiar with the business.

On the "con" side:

- The more successful the overall franchise, the more you will pay to buy a franchise;
- The terms of conducting the business are usually carefully defined, which means you can't exercise a lot of individual control; and
- The franchisor may require ongoing payments.

Before you make any business decisions, consult legal and accounting professionals. You can check out Canadian franchise businesses on the [Canadian Franchise Association website](#).

Once you've launched your new business, ask me to provide you with additional information on Owning and Managing a Small Business.

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