



# DISTILLING YOUR DREAM

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## **THE** Step-by-Step **Kit** for Business Plans

S A M P L E   C H A P T E R S

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*Distilling Your Dream: The Step-By-Step Kit for Business Plans* by Diane Tarshis

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# INTRODUCTION

## CHAPTER 1

# Welcome to *Distilling Your Dream*

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As an admirer of fine whisky, I've noticed that writing business plans and distilling whisky work in much the same way:

**A distiller cooks the ingredients until the best parts rise to the top.**

The better the ingredients, the better the finished product. Distilling is the essence of what I do with my clients, and it's what I help you do here.

**dis·till v.** *Extract the essential meaning or most important aspects.*

*Distilling Your Dream* is the result of my work with countless startups over the last 20-plus years. Since I launched my firm Startup Distillery in early 2000, I have worked with entrepreneurs in industries ranging from biofuels to retailing to medical devices.

I've worked with startups of all sizes, too. Some were designed to remain small, while others laid the groundwork for growth. Some chose to bootstrap (self-finance), while others secured outside investors (family and friends; angel investors; venture capital). Still others opted for bank loans or more creative financing options.

Through the years I've learned a lot about what it takes to launch a successful business, as well as what investors look for in a startup. Yet in all my years of working with inspiring, passionate founders, one frustration remained: how to help those with unlimited dedication, commitment and passion, but limited budgets.

Until now.

Modern technology has changed everything, and now I can finally share my knowledge and experience at an affordable price. The digital boom makes it easy for me to share what I've learned in a way that won't blow your budget.

*Distilling Your Dream* takes my decades of accumulated experience and puts it right in your hands. I'm giving you the keys to the kingdom and not holding back a single thing. This is the very same guidance I give my other clients.

If you run into a part that's hard for you, you can even hire me for a few hours to help you through it. I offer three budget-friendly options in packages of 1, 3 or 5 hours at [startupdistillery.com/products](http://startupdistillery.com/products).

By the time you finish reading this book, you will:

1. Understand all the wide range of ingredients needed to build a profitable business.
2. Have the tools to develop a roadmap that helps you launch a growing business.



**Diane Tarshis**

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## CHAPTER 2

# Who This Kit is For

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This kit (or book, I use the words interchangeably) is for those who want to turn their passion into a successful business. Whether this is brand new to you or you have some experience—even if you’ve launched a business before—this kit will help you:

- Understand the key elements of your business.
- Think through each of those elements ahead of time, so you can launch a *successful* business.
- Develop a roadmap for what you plan to do and how you’ll do it.
- Clearly communicate your vision so you can attract investors, customers, partners—even employees.

### Bonus!

A business plan provides valuable information you can use immediately in other parts of your startup. With very little effort, you’ll be able to repurpose parts of your business plan for other important tasks, such as:

- Pitches
- Budgets
- Website content
- Job postings

### Existing businesses, too.

This kit is designed to help both new *and* existing companies. Whether you’re hoping to launch soon or you already have an existing company that needs help getting to the next level, you’ve come to the right place.

Once you begin reading, you may notice that I often refer to my audience as “startups.” The truth is, it was simply easier for me to address a single audience when writing. If yours is an existing business, don’t be concerned.

Over the years, I’ve worked with a number of business owners who have been running their companies without a business plan for more than a decade. I’ve assisted them using the exact same principles I describe here. The same goes for existing businesses preparing to launch a new division.

So whether yours is a startup or a business that’s been around for years, this kit will help you develop a strategy for growth.

## CHAPTER 3

# Three Legs

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Imagine the foundation of your startup as a three-legged stool:

### **The business plan is one leg.**

As you know, a one-legged stool isn't very stable (neither is a two-legged stool, for that matter). It takes all three legs to make it rock-solid.

### **First, what is a business plan?**

There are two distinct parts to any business plan:

- The narrative (I call it 'The Words')
- The financial projections (I call them 'The Numbers')

A business plan serves two purposes. First, it tells a story by sharing your vision/concept, including the numbers that support that story. Second, a business plan acts as your operating blueprint. It's a roadmap designed to show what you're going to do and how you're going to do it—and the numbers function as both budgeting and benchmarking tools.

#### NOTE



The words drive the numbers, not the other way around.

So what are the other two legs of our metaphorical stool?

#### 1. A qualified lawyer.

A lawyer helps make sure your startup is operating legally in every way, and that both you and your company are legally protected as needed.

## 2. A qualified accountant.

An accountant can help make sure your startup's financial projections are accurate, and can help you set up bookkeeping and tax routines that will keep you in good shape when it comes to Uncle Sam.

Although these professional services aren't free, they'll save you money in the long run *and* help you sleep better at night. All three legs—business plan, lawyer and accountant—are indispensable if you want to launch your business from a solid foundation.

### More about accountants.

Speaking of accountants, I can't emphasize enough how important it is to have a qualified one go over your financial projections with you.

An accountant is trained to properly advise you, catch any miscalculations and explain anything you don't understand. Regardless of how wonderful your accountant is (or your bookkeeper, for that matter), it's your responsibility to make sure that you understand everything that affects your business financially.

Don't feel shy or embarrassed about asking questions. Anyone who tries to make you feel stupid for wanting to learn is *not* someone you want to trust with your company's financial health.

## CHAPTER 4

# The Promise

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So you have an idea to start your own business. You're ready to get going, but something is holding you back. There's so much to do, you're probably wondering, "Where do I start?"

You *dream* of...

- Customers banging down the door and a month-long waiting list
- \$1 million in sales
- Being the envy of your competitors, generating buzz without lifting a finger

At a minimum, you *hope* for...

- A respectable income (you're not greedy)
- A stable, growing business (you're reasonable)

It's exciting, and scary, all at the same time. There's so much to think about:

- What products and services should you offer?
- What should you charge?
- How do you get customers to buy from you?
- How do you get them to *keep* buying from you?

The smart money is on writing a business plan. Some call it a strategic plan, some may call it a summary. Whatever you call it, you'll need a roadmap for *what* you plan to do and *how* you plan to do it.

### Gathering the right ingredients.

The first step in building a successful business is to gather the right ingredients—and writing a strong business plan is at the top of the list. The time you spend now will save you countless hours down the road. That's because you're taking the time to think proactively and work through challenges ahead of time.

What's more, you'll be better prepared to explain your idea to others, such as prospective investors, partners, employees.... *and* customers.

### Pushing past the fear and doubt.

Let's face it, most people would rather not spend their time writing a business plan. They'd rather be working.

Maybe you bought this kit because you know that writing a business plan for your startup is a good idea. Or people have been telling you that you need one. Or someone has asked to see yours. It doesn't matter. Whatever prompted you is a good reason, because writing a business plan is one of the most important steps you'll take towards building a *successful* business.

Even so, perhaps you're still worried that writing it will be hard. It's not. Really, it's not. It takes some time and effort, but you can handle that. It takes a bit of know-how, too—but that's what I'm here for. I'll walk you through this process one step at a time. So we'll do it together... virtually. And it won't hurt a bit, I promise.

### A business plan for *your* business.

Many a startup has tried the quick 'n easy route by using a readymade template or software, or by hiring a firm that asks you 20 questions and serves up your business plan 10 days later. That's fine for people who are starting a one-size-fits-all kind of business, because those are one-size-fits-all business plans. Don't you want a business plan that fits *your* business?

That said, it's important to understand that this kit won't write your business plan for you. Even when I work with clients one-on-one, I don't do it *for* them; I do it *with* them. But if you put in the work, by the time you finish you'll know your business inside and out because you've addressed the thorniest, most challenging issues, as well as the mundane.

Frankly, I think the *process* of writing your business plan is more valuable than the business plan itself. That's because my process is carefully designed to help you understand and think about the essential elements of your startup ahead of time. That way, you end up with a plan that works for *your* specific business.

### The promise.

So here's my promise to you:

- I'm going to walk you through the essential steps of writing a powerful, effective business plan.
- I'll explain each section of the business plan one step at a time. That way, you can write a plan that helps you launch your business and take you closer to your dream.

It should go without saying, but I'm going to say it anyway... this kit will not be 100% perfect for 100% of the startups out there. Nothing can be, really. But most of it will be valuable in helping you develop a strong foundation for your business.

## CHAPTER 5

# Improving Your Odds

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In this chapter we'll talk about why writing a business plan is so important for any startup—and why it will improve your odds of success.

### Minimize risk.

Some say business planning is a waste of time, while others say you should be able to figure it out on your own. I say that's just plain *ridiculous*.

No matter what your industry or your experience, writing a business plan helps you think through the key elements of your business ahead of time, before money and customer satisfaction are on the line. Yes, industries and markets are changing fast, but not so fast that you get a free pass when it comes to knowing your customers' wants and needs or understanding your market.

Issues that may, at first glance, seem mundane and simple—such as describing your business—can be more complicated than you might expect. For example, is your consignment shop simply selling used children's clothes, or are you solving a problem for parents who want to save money and raise socially responsible kids?

Putting words to paper forces you to focus on exactly *what* you plan to do and *how* you will do it. Many business plans fail—and that means businesses fail—because they're built on vague concepts like “vision” and “mission” and “goals.” Broad concepts like these are simply smoke and mirrors. They sound good, but where are the details? Where's the substance?

### Build a solid foundation.

In order to build a successful business a startup needs a solid foundation. Think about building a house; without a solid foundation, the house will collapse. The same goes for your startup, but in this case the business plan is your foundation.

It also functions as a dynamic blueprint for launching and running your business. I say ‘dynamic’ because a business plan is *not* a rigid, static document. A business plan is meant to be a flexible tool—it’s your foundation, not a prison.

Once you launch, your business will continue to evolve. So should your plan, giving you a foundation from which you can identify new opportunities and adapt to changing market conditions.

### Think proactively.

Most founders do either an okay job or a lousy, half-assed job on their business plans. They launch their businesses, hit the ground running, and before they know it they’re fighting fires without a working extinguisher, reacting to the nonstop, day-to-day challenges of running their business. They have little or no time to step back, look at the big picture, and think strategically.

That means little or no time to stop and ask themselves:

- “Is this business model working?”
- Am I building a strong customer base?
- Are we turning new customers into repeat customers?
- Can I bring in enough revenue and, more importantly, earn enough profit to grow my business?”

They don’t have time for those questions because they didn’t do their homework. In other words, they didn’t take the time to think things through ahead of time. Instead, they’re spinning their wheels trying to figure out why customers aren’t buying their widgets. “But our widgets are awesome! Why isn’t anyone buying them?” If they had done their homework, they would have known that customers don’t want more of the same.

Writing a business plan is your golden opportunity to think proactively. The advantage of going through this process now, before you launch, is:

**You’re thinking about the big picture *and* the details.**

So take advantage. The time you spend up front is an investment in your startup, one you can’t put a price on.

### Some good news for you.

The fact is, 99% of your competition is lazy, trapped in short-term thinking or following the latest fad that says business plans are passé (a rationalization for laziness if ever I heard one).

This is good news for you.

If you do your *Distilling Your Dream* worksheets, and if you think about how to apply those answers to your startup, you will have a powerful, effective business plan for your business, and they won't.

Once you open your doors you'll inevitably shift into "firefighter mode," but you'll be ahead of the game because you're *prepared*.

Now, let's move on to Step 1!

# **STEP 1:** THE PREPARATION

Before we dive in and begin distilling your business plan, let's talk about what's inside this kit and how to use it.

## CHAPTER 6

# What's Inside

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There are two distinct parts to any business plan: the narrative (I call it 'The Words') and the financial projections (I call them 'The Numbers').

Likewise, there are two parts to *Distilling Your Dream... The Words* and *The Numbers*.

### **The Words includes:**

#### 1. The Distilling Process.

The thinking and purpose behind each section of a business plan's narrative.

#### 2. Instructions.

How to use the worksheets most effectively, how the worksheets and templates work together, and some helpful hints.

#### 3. Worksheets.

These help you tackle each section of the business plan's narrative, one at a time.

Worksheet 1 – Describe Your Business

Worksheet 2 – Products & Services Offered

Worksheet 3 – Market Analysis

Worksheet 4 – Business Location

Worksheet 5 – Competition

Worksheet 6 – Management Team

Worksheet 7 – Personnel

Worksheet 8 – Purpose & Use of Funds

Worksheet 9 – Introductions

#### 4. Narrative Template.

Transfer your worksheet answers into this template. It's a fully editable document designed for the narrative portion of your business plan.

## 5. Bonus! Pitch/Summary Template.

This template helps you regardless of format—slide deck, business model canvas, or Google/Word doc.

### CAUTION



Don't start your summary until you've finished all your worksheets. After all, you can't summarize what you haven't written, right?

### *The Numbers includes:*

#### 1. The Distilling Process.

The thinking and purpose behind each spreadsheet used in a business plan's financial projections.

#### 2. Instructions.

How to use the worksheets most effectively, how the worksheets and template work together, and some important reminders.

#### 3. Worksheets.

How to tackle each spreadsheet.

Worksheet 10 – Equipment List

Worksheet 11 – Balance Sheet

Worksheet 12 – Projected Profit & Loss Statement

Worksheet 13 – Cash Flow Projections

Worksheet 14 – Sources & Uses of Funds

#### 4. Financials Template.

Most of your work will be done directly in the template itself. Each spreadsheet is part of a fully editable document. I've even built in some basic formulas for you, as well as including examples of line items that may be relevant to your business.

## CHAPTER 7

# How to Use This Kit

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### Setting expectations.

Before you dive into the lessons in this book, I want to set some expectations to help keep this process as stress-free and exciting as possible. Yes, I said ‘exciting.’ That’s because I think starting a business is an exciting adventure!

If you do the things I tell you to do, you’ll be on your way to thinking like a successful business owner in no time.

But... you have to do your homework (better known as the worksheets). A startup doesn’t grow by itself; you have to *do the work*. I’ve designed this kit to teach you not only WHAT you need to think about, but HOW to think about it.

### How this kit will work for you.

This business plan kit isn’t just a formula. It walks you through all those startup issues you wish you could ignore, but know you can’t (or shouldn’t).

The worksheets are a series of important questions you need to ask yourself, think about, and apply to your startup in order to launch a successful business. Maybe some of the issues I’m going to cover are ones you’ve already thought about. At first glance, you may THINK you’ve answered these questions, but most people tend to give quick, off-the-cuff, superficial answers.

That’s not good enough.

A successful business plan goes deep. The founder commits—fully commits—to doing both the homework and research necessary to get at the details. I’m here to help you drill down to the detailed information that’s relevant to *your* startup.

**EXAMPLE:** Describe your business.

**Superficial answer:** XYZ is an online resale shop for kids' clothing.

**Meaningful answer:** Buying new baby clothes is expensive, and even wasteful when you think about it since babies outgrow their clothing after only a few wearings. We sell like-new baby clothes for families who want to save money and be socially responsible. Families get to choose whether to receive cash, store credit, or instead donate the clothes to a local children's charity.

This kit will help you focus on *doing things the right way*. I'm going to get you thinking about:

- Your products, services and pricing
- Who your customers are and why they're going to buy from YOU
- How you compare to the competition and how you can set yourself apart
- How much money you'll need to be sure you can pay your bills, as well as yourself.

Right now this may sound a bit daunting. But I *know* you can do this. I believe in you. And best of all, I'm here to help you!

**Wait! There's one more thing you need to know.**

And this one thing is *incredibly important*:

CAUTION	
	You <b>CANNOT</b> phone this in.

I know, I know, for most people, doing worksheets seems like a form of mental torture. But here's the bottom line: If you don't do the work, you won't get the results you want. So every time you see a new worksheet I want you to ask yourself this:

**"Will doing this worksheet make it easier for me to launch a *successful* business?"**

If the answer is YES, then do the worksheet. (Keep in mind that I designed all the worksheets so that you'll always answer YES. Shocking, I know.)

# **STEP 2:**

## **THE DISTILLING PROCESS**

– The Words –

In this section I provide step-by-step instructions to help you distill your business concept to its most essential elements so you can develop your business plan's all-important narrative.

## CHAPTER 10

# How to Describe Your Business

(What problem are you solving for *paying* customers?)

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In this chapter I'll help you think about:

- The problem
- Your solution
- Why customers will *pay* for your solution

By the time you finish reading this chapter you will be able to describe your business in terms of the problem people are experiencing, and why those people will pay for your solution.

Talking about your business this way is far more effective than simply stating what your business is or does (saying, “I sell widgets” isn’t especially illuminating).

Let me show you what I mean.

### Establish a frame of reference.

Describing your business is the first step in writing your business plan. It seems so simple—deceptively simple, in fact.

If an investor asks you to describe your business, and you own a restaurant, most people simply say “I own a restaurant” and leave it at that. You *could* answer that way, but you’re not describing it in a way that’s especially compelling. When it comes to describing your business it’s not really about stating what it is, it’s about the problem you’re solving for customers—paying **customers**.

Better that you describe it in terms of:

1. The problem are you solving or the need isn’t being met
2. Your solution

### 3. And why people will pay for your solution

#### Define the problem.

A business exists to solve problems, so rather than thinking in terms of changing the world or selling the next big thing, it's important to focus on the problem you're solving or the need that exists in the marketplace.

#### Describe your solution.

Telling people that your solution is better than what's currently available isn't good enough. You've got to describe your solution in terms of how it makes their lives easier or better.

In other words, you need to explain:

- How your solution solves their problem
- Why it makes sense both practically and financially

#### Why will people pay for your solution?

Let's assume you've identified a problem and your solution is the best thing since sliced bread. You've struck gold, right? Well... not so fast.

- Does your idea make sense?
- Do people even agree that it *is* a problem?

If so, are there *enough* people willing to pay for your solution? If the answers are yes, you need to be able to prove it with supporting facts. *That's* when you know you have a real business opportunity.

#### Two examples:

What follows are two scenarios that illustrate what I'm talking about. Note: these examples are brief—what you write in your business plan should include a few more details to help investors relate to both the problem and your solution.

**SCENARIO #1**

You've invented a robot that takes out the kitchen garbage. You could simply describe your business by saying, "I sell robotic kitchen garbage removal systems" or "I sell robots that take out the garbage for you." But your business is actually more than that. Here's what I mean:

**The Problem:**

Your current kitchen garbage removal system is human and, therefore, totally unreliable. Perhaps you or someone else in your family needs constant reminding. Tempers flare, arguments ensue.

**Your Solution:**

You've invented *Trash-bot*, a robot that automatically takes out the garbage at the touch of a button. Set the timer and *Trash-bot* automatically and reliably removes your overflowing garbage bag, transports it to your outdoor trash can and neatly places it inside (closing the lid afterwards, of course). Upon returning, *Trash-bot* neatly places a replacement garbage bag in your kitchen garbage receptacle.

**Why Customers Will Pay:**

Who wouldn't?! Most people I know (including me) hate taking out the garbage, or having to nag other family members to do it. It stinks (no pun intended) having to go outside in all kinds of weather, usually at night. And the job is relentless. I hate having to take out the garbage. Every. Single. Day.

**NOTE**

This is also where you can talk about the customers who have already paid to use the *Trash-bot* prototype, or the focus groups validating that customers are willing to pay for such a robot, and at what price. You get the idea.

**SCENARIO #2**

You want to open a diner in your neighborhood.

**The Problem:**

There aren't any affordable, family-friendly restaurants in your neighborhood. Everything is too expensive or too fancy. Families and singles want good food at a fair price, in a place that's welcoming and looks nice. More specifically, families want a place to take the kids, and singles want a convenient place to meet friends, whether for dinner or after a night on the town.

**Your Solution:**

A diner with clean, modern aesthetics; good food at a fair price; value for your dollar; comfortable and reliable. A place to get breakfast all day, great omelets, sandwiches, hot dinners.

**Why Customers Will Pay:**

The location is on a bustling street with lots of foot traffic and a major subway stop, as well as high-end, pricey restaurants and stores; several bars are nearby in the area. Lots of families with young children live within walking distance and they're craving a casual place with good food. The same goes for singles. You know this because you've done your homework—according to the local neighborhood association, chamber of commerce and focus groups, there's a clear need.

**Helpful Hints:****The importance of structure.**

When describing your business it's surprisingly easy to veer off-track without realizing it. Yes, you've got a lot to say; so it's tempting to put it all down on paper right at the beginning. I get it. But talking about your entire concept in one long paragraph is too confusing for the reader—so don't do it!

The structure of your business plan is important for two reasons:

- It makes it easier for others to follow your vision and understand your perspective.
- It makes it easier for you—the founder—to be sure you don't inadvertently skip over important details that need to be addressed.

Imagine the difference between reading a book that's one long paragraph (making it easy to zone-out and miss important details) and one that has well-defined chapters with separate paragraphs and headings.

If you think of your business plan as a roadmap, a plan without structure is like a map that shows the start, the finish, and only a blue line in-between. A business plan needs more than that to be effective.

Including the highlights along the way is important, not only because they draw the reader into your story, but because you're forced to address details and tackle issues you may not even be aware of at first glance. Ultimately, you'll be less likely to run out

of gas, so you'll arrive at your destination ready for whatever awaits you, even if it's not entirely what you expected when you first began.

### One step at a time.

As I explained earlier, it's really easy to find yourself talking about your great idea (your solution) before you describe the problem customers are experiencing. Similarly, it's easy to talk about your amazing products and services before describing your solution.

It's hard, I know. Even I get off-track when I'm working on a first draft. That's okay. The key is to go back and edit what you've written.

Be sure to define the problem before you explain your solution, and be sure to explain the solution without describing the details of your products and services (I promise we'll talk about them to your heart's content in the very next chapter).

### Fear and inertia.

When it comes to attracting customers, it's important to understand that their fear and inertia are your worst enemies. It's harder than you think to persuade people to change the way they do things.

Even if your solution makes more sense, is more efficient and will save people lots of money, it's just plain *hard* to change people's habits. Believe it or not, emotion and routine play a big role in people's buying decisions. As much as we'd like customers to be logical, that's often simply not the case.

Fear of the unknown has kept many a customer tethered to their lousy cable company or unreliable Internet service provider. They worry: Will the new company be worse? Will I have to learn a whole new system? What if I decide to switch back, will there be a financial penalty?

Then there's inertia. Sometimes, it just takes too much effort to make a change—physically, mentally or emotionally.

**in-er-tia [in-UR-shuh] n.** *When someone or something maintains its current state of momentum or rest unless or until it's changed by an external force.*

So it's important to ask yourself: Is your solution irresistible enough to overcome fear and inertia?

Even though your solution may be better than what’s currently available, it has to overcome people’s natural resistance to—and fear of—change.

### Proprietary products and features are special.

When a product is patented, has a patent pending, or is legally protected in some other way, it’s important to talk about it right up front.

Even though features are typically addressed in Section B (where you’ll describe your products and services), proprietary features are so special that they deserve a special shout-out right up front in Section A (where you first describe your business). I like to mention anything proprietary right after the solution, under its own subheading.

Especially when you’re trying to attract outside investors, it’s important to hook your audience right from the get-go. Proprietary products and/or features are unusual enough (and attractive enough) that they qualify for special treatment and need to be emphasized. They separate you from the pack, so be sure to take advantage of them.

## WORKSHEET 1

### A. Describe Your Business



**CROSS-REFERENCE:** For a refresher, see Chapter 10 (p. 22)

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#### 1. What problem or frustration are customers experiencing? What need isn't being met?



**REMINDER:**

DO NOT talk about your solution here. Only talk about the problem or frustration people are experiencing.

**2. What is your solution?**



### 3. Why will customers be willing to pay for your solution?

#### HELPFUL HINTS:

1. Giving a broad (and vague) explanation saying that your solution is better than what's currently available isn't good enough. Explain your solution in terms of what needs aren't being met or what frustrations people are experiencing.
2. Resist the urge to describe your product or service here.
3. Saying that your product or service is superior is not good enough; the same goes for superior customer service.
4. Keep in mind that when it comes to attracting customers, your worst enemy is inertia. It's harder than you think to get people to change the way they do things. It's hard to change patterns—even if your solution is more efficient, more cost effective, more logical, etc.

**in-er-tia** [in-ur-shuh] n. *When someone or something maintains its current state of momentum or rest unless or until it's changed by an external force.*

**After you've written your answer**, read it and ask yourself—*really ask yourself*—if your solution is compelling enough to overcome customer inertia. Even though your solution may be better than what's currently available, it has to overcome customers' natural resistance to and fear of change.

**FOR PRODUCTS ONLY:**

- 4. List any proprietary features.** (Anything that is patented or otherwise legally protected as being usable only by you.)



**NOTE:**

Even though features are typically addressed in Section B (*Products & Services Offered*), proprietary features are so extra special and unusual that they deserve a special shout-out up front in Section A (*Describe Your Business*).

# **STEP 3:**

## **THE DISTILLING PROCESS**

– The Numbers –

In this section, I explain the nuts-and-bolts of financial projections in simple, easy-to-understand language. I also detail how to prepare real, practical, defensible financials for your business.

## CHAPTER 23

# The Difference Between Profit & Loss and Cash Flow Statements

(The difference between profit and liquidity)

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In this chapter I'll explain:

- Profit & loss statements\*
- Cash flow statements
- The difference between the two

### NOTE



In this book I tend to use the words *statements* and *projections* interchangeably, but I don't mean to mislead you.

*Statements* refers to historical financial information.

*Projections* refers to future, estimated financial information.

Business plans **always** use financial *projections*. Your accountant will prepare *statements* for you to see how your startup did (financially) during the previous time period.

We'll talk about the kinds of information you need in your projected P&L statements\* and cash flow projections, what these two types of financial statements tell you, and the similarities and differences between them. As always, I promise I'll keep it simple.

\*Also referred to as P&Ls or income statements.

### Some similarities, some differences.

Profit & loss statements and cash flow projections are easy to mix up if you're not used to reading them. At first glance they look a lot alike. Both show revenues, cost of goods sold, and operating expenses, but the bottom lines are very different.

That's not all, though. There's another very important, yet subtle distinction: how the numbers are entered. Here's a short explanation of what I mean (more details later in this chapter):

**P&L Statement:** Revenues and variable expenses (which are usually a percent of anticipated revenues) are based on the invoice date, while fixed expenses are divided evenly across the year.

**Cash Flow Statement:** Revenues and expenses are based on when cash moves into and out of your bank account.

### What *is* a profit & loss statement?

A P&L is a summary of a company's financial activities during a specific time period. It shows a company's profitability by presenting its:

- Revenues
- Costs associated with buying or making the products/services
- Expenses associated with operating the business

In other words, it shows your revenues, your expenses, and what's left after paying all those expenses. That way, you can see whether your revenues are greater than the cost of providing your products and services.

### What *are* cash flow projections?

Cash flow projections show how much money you anticipate flowing into and out of your company's bank account.

**To be continued...**

**[END OF SAMPLE]**