



DISTILLING YOUR DREAM

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

S A M P L E C H A P T E R S

DIANE TARSHIS

Copyright Notice:

Distilling Your Dream: The Step-By-Step Kit for Business Plans (Education Edition)
by Diane Tarshis

Copyright © 2019 by Startup Distillery, LLC

All rights reserved. No part of this publication may be used, reproduced, or transmitted in any manner whatsoever without written permission of the author.

Legal Notice:

By using *Distilling Your Dream: The Step-By-Step Kit for Business Plans (Education Edition)* you agree to Startup Distillery's terms of use as published at startupdistillery.com/terms. Please review them carefully. If you do not agree to be bound by these terms, you must stop using this business plan kit immediately.

TABLE OF CONTENTS

INTRODUCTION

1. Welcome to <i>Distilling Your Dream</i>	1
2. Who This Kit is For	2
3. Three Legs	3
4. Improving Your Odds	4

STEP 1: THE DISTILLING PROCESS - THE WORDS

5. An Introduction to <i>The Words</i>	6
6. How to Think About Your Business	9
7. How to Think About Your Products & Services	14
8. How to Think About Your Market	21
9. How to Think About Your Business Location	25
10. How to Think About Competition	29
11. How to Think About Your Management Team.....	34
12. How to Think About Staffing	39
13. Understanding Executive Summaries	42

STEP 2: THE DISTILLING PROCESS - THE NUMBERS

14. An Introduction to <i>The Numbers</i>	46
15. An Introduction to Financial Spreadsheets	48
16. How to Prepare an Equipment List	51
17. The Difference Between Profit & Loss and Cash Flow Statements	53
18. How to Prepare P&L Statements and Cash Flow Projections	58
19. How to Prepare a Sources & Uses of Funds.....	65
20. Understanding the Balance Sheet.....	69

STEP 3: THE FINISH

21. Extras to Consider	72
22. The Gift That Keeps on Giving.....	75

INTRODUCTION

CHAPTER 1

Welcome to *Distilling Your Dream*

Writing business plans and distilling 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+ 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. I love helping founders bring their ideas to life, so when entrepreneurship expanded into high schools, I began mentoring students and soon adapted *Distilling Your Dream* to help make the most of class time.

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

1. Understand 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
Founder and Principal
[Startup Distillery](#)

CHAPTER 2

Who This Kit is For

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

STEP 1:

THE DISTILLING PROCESS

– The Words –

In this section I provide step-by-step instructions to help you distill your business idea to its most essential elements so you can flesh out your startup's all-important narrative.

CHAPTER 6

How to Think About Your Business

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

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 deceptively simple.

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:**One step at a time.**

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.

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 change.

WORKSHEET 1

A. Describe Your Business



CROSS-REFERENCE: For a refresher, see Chapter 6 (p. 9)

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 2:

THE DISTILLING PROCESS

– The Numbers –

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

CHAPTER 14

An Introduction to *The Numbers*

When it comes to the two parts of a business plan, I refer to the financial projections as “the numbers.” If the words are your story, then the numbers are there to support that story and show that your startup can grow into a profitable business.

Vocabulary 101.

People in the startup world tend to throw around financial terms assuming that everyone understands them. But not everyone does.

Since I want you to understand what they’re talking about—and what *I’m* talking about when I use them, I’m going to explain them here. My goal is to make all the jargon a lot less intimidating and a lot more understandable. I’ll try to keep my explanations as simple as possible—and I promise to use plain English whenever I can.

By the time you’re done reading this chapter, I guarantee you won’t hyperventilate when you see the words “cost of goods sold.” Sound good?

Terms to know.

Cost of Goods Sold is the cost of buying or making the goods you sell, and includes expenses such as ingredients and packaging costs.

Gross Profit (or gross margin) is the amount left after selling a product and subtracting the costs associated with buying/making it and then selling it. Costs such as operating expenses and loan payments are not included—that would be net profit.

$$\text{Gross Profit} = \text{Revenues} - \text{Cost of Goods Sold}$$

To be continued...

CHAPTER 17

The Difference Between Profit & Loss and Cash Flow Statements

(The difference between profit and liquidity)

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'll try to keep it simple.

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

What is a projected profit & loss statement?

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

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

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

What's *in* a projected profit & loss statement?

P&Ls include line-by-line categories of information about a company's anticipated financial activities.

The five most important categories are:

1. **Revenues:** The total amount you expect to earn from all of you're the products and services you're selling.
2. **Cost of Goods Sold:** What your company spent to buy or make what you're selling (usually calculated as a percent of anticipated sales).
3. **Gross Profit:** How much money your business expects to make before subtracting out operating expenses.

$$\text{Revenues} - \text{Cost of Goods Sold} = \text{Gross Profit}$$

4. **Operating Expenses:** How much you expect to spend on day-to-day business operations, including such things as payroll, marketing expenses, rent, and utilities.
5. **Net Profit (Loss)*:** The company's expected profit or loss during the period.

$$\text{Gross Profit} - \text{Total Expenses} = \text{Net Profit (Loss)}$$

* When it comes to financial statements, negative numbers are often shown with parentheses around them rather than a minus sign in front so that they're easier to see.

To be continued...

[END OF SAMPLE]