

Saimaa University of Applied Sciences  
Faculty of Business Administration Lappeenranta  
Degree Programme in International Business

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## **Business Plan for natural product online store**

Thesis 2017

## **Abstract**

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The purpose of this thesis was to develop a business plan for a natural product online store. Another objective was to learn how to write a business plan using the knowledge received during the studies at Saimaa University of Applied Sciences.

The thesis in general can be divided into two parts: theoretical and empirical. Theoretical consists of such parts as food systems, home gardening, corporate social responsibility and theory on writing business plan, while empirical consists mostly of business plan itself.

Final outcome of the thesis was that author managed to conduct a market research and complete the business plan. Author hopes that this work will be helpful for those who are interested in food business and in launching a business in general.

Keywords: business planning, online store, corporate social responsibility

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# **1 Introduction**

In this section readers will be introduced with the topic and with the reasons of why author has chosen the topic. This section familiarizes the reader with the aims, limitations and the outline of the conducted work. Moreover, informational background related to the topic is presented here as well.

## **1.1 Justification for the topic choice**

The process of choosing topic for the thesis was rather complicated. The topic of the thesis is “Business plan for natural product online store”. Below is justification of the choice.

Author picked up this kind of topic, because the decision was to combine all received knowledge during the studies in University and reflecting that knowledge in writing a business plan. In author’s point of view, business plan is the best way to show and reflect knowledge received from university’s International business study program, because business plan combines in itself knowledge about marketing, laws, accounting, sales strategy, logistics and other subjects.

The reason why natural product online store was chosen as my enterprise is my personal interest in this kind of establishment. Moreover, healthy life style has become a big trend in recent years, and natural food is the biggest part of it. People all around the world becoming more and more concerned about what they eat and drink. Consumers became more aware about food composition,

they do not want their food to be genetically modified or to contain artificial preservatives and dyes. Consumers want to eat natural products. Natural products market is growing immensely.

## **1.2 The aims of the thesis**

The aim of the thesis is to create a detailed business plan for a small social responsible start up in Russia and find out what kind of factors are needed to establish and successfully conduct one. This thesis might be helpful for those people willing to start their business in this particular field in Russia. Also it will be a great example of social responsible approach to an online start up.

## **1.3 Thesis limitations**

Bachelor's thesis length is usually 40-60 pages. Therefore, it is important to narrow the focus of the author on certain aspects. In this work I will concentrate on the business plan itself, theoretical aspects related to it and social responsibility approach. Financial planning will be limited, because this business plan is mainly for internal purposes. Marketing research will be conducted through interviews with owners of online stores in related field.

## **1.4 Research methods**

The main part of the work will be divided into two parts: providing theoretical framework and writing a business plan itself. There will be a marketing research based on interviews with entrepreneurs working in the same field.

## **1.5 Natural product definition**

Organic and natural are common words on food labelling. Product can be labelled natural if it is not containing any artificial ingredients or added colour and if it is minimally processed. Minimal processing means that the product was processed in a manner that does not fundamentally alter the product. The label must include a statement explaining the meaning of this term. (Meat and Poultry Labelling Terms, United States Department of Agriculture Food Safety and Inspection)

The definition for organic is stricter and and more narrow. Organic is the most regulated type of food labelling. In order for a product to be labelled organic it needs to be certified by USDA.

Organic foods are produced, manufactured and handled in ways that meet the USDA organic standards. Natural food, on the other hand, are generally processed in a manner that does not fundamentally alter the product. (Bradford 2015.)

## **1.6 Natural product certification in Russia**

Laws and standards about natural product certification are not existing in Russia. Every manufacturer could label their agricultural products as organic or eco. Some manufacturers in order to confirm the environmentally friendly background of their products are undergoing through European certification. Euro-leaf is one of the most popular labelling for organic products. This labelling is obligator for all organic products sold in EU. Unfortunately, there no official Russian label for organic products.

## **1.7 Natural product market**

Organic is one of the fastest growing segments of modern world agriculture and consumer demand for organic products continues to grow.

Natural products market is represented by a wide range of consumer products that grow in sales each year. These products are organic foods, dietary supplements, pet foods, health and beauty products and more. Generally, natural products are counted those excluding artificial ingredients and that are minimally processed. (Natural Products Association 2010.)

Here are some numbers and data representing the U.S. market of organic products. American consumers spent more than \$43 billion on organic in 2015, 4,2\$ billions more than in 2014. U.S. organic export increased on 60% in 2015. Nearly 3 quarters of supermarket shelves in U.S. contain organic products.

Millennial parents choose organic more than any other generation. Millennials are pushing the growth for organic, especially in urban population centers. (Organic Trade Association 2016.)

13% of all fruit and vegetable sales are organic. Organic fruit and vegetables sales is the largest of all categories, which is estimated at \$14,4 billion in sales in 2015. (Organic Trade Association 2016.)

## **1.8 Food systems**

Another important concept for this thesis is food systems. Because the core product of authors' business plan is food itself.

On 21 November 2014 passed a very important event, it was the Second International Conference on Nutrition (ICN2). This event was a milestone in promoting the connections between agriculture and nutrition. The conference published the Rome Declaration on Nutrition. This is a political document that includes obligation to reduce malnutrition in all its forms. Also this document included the framework for action, this framework for action is a policy that delivers policy options and strategies to countries to achieve those commitments.

Investment policy of the public sector refers to governmental expenditures aimed at increasing future social benefits. In agriculture and the food industry, such investments are aimed at increasing production, productivity, accessibility, access and consumption of healthy food. They can also be used to attract investments in the healthy food systems. Examples of investment policies include creating value chains, supporting small farmers and family farmers, and improving infrastructure. Examples of investment policies include creating value chains, supporting small farmers and family farmers, and improving infrastructure.

According to the FAO (2013), food systems affect the availability and accessibility of diverse, nutritious foods and, thus, the ability of consumers to choose healthy diets. However, links to the food system and nutrition outcomes are often indirect - mediated through income, prices, knowledge and other factors. Moreover, food system policies and measures are not often designed for nutri-



tion as their main goal, so impact can be difficult to monitor, and researchers sometimes conclude that food system measures are ineffective in reducing malnutrition. Government policy plays an important role in the impact of agriculture and food systems.

### **1.9 Components of food systems**

Food systems cover many stages in the transformation of natural resources and human resources into food for the maintenance of human life. These steps - from "farm to flush" - include cultivation, collection, processing, packaging, distribution, marketing, trade, consumption and disposal of waste. Most of these stages are named the supply side of the food system and are often associated with complex supply chains, although short and simple food supply chains can and still provide healthy options in many communities. The "demand side" is equally diverse, it depends on price, location, consumer preferences, knowledge, tastes, cultural habits and perceptions. Choosing the right public and private investments can make each of these steps more efficient in producing several outcomes, including enhanced nutrition.

The latest analyses use five important characteristics to determine the types of food systems: demography, agricultural productivity, environmental sustainability, the availability and variety of food and access to it. Demography reflects the degree of urbanisation in the country and, consequently, the transition between the village and the city and the accompanying changes in lifestyle and diet, as well as changes in food value chains. Consumption characteristics are partially reflected in the availability and diversity of food. The lack of data precluded a more accurate categorisation of food systems. However, five domains represent key features of food systems. The purpose of the typology of the food system is to retreat from classifying countries exclusively in terms of productivity indicators to a more refined conceptualization of food systems. The typology insists that several indicators can be used to measure how the food system affects the nutritional outcomes in the country. This multidimensional definition represents the approach used to understand health systems since 2002 and has been postponed since then (United Nations System Standing Committee on Nutrition. 2016. Investments for Healthy Food Systems.)

### 1.9.1 Nutrition and health outcomes by food system category

The whole following chapter is based on “Investments for Healthy Food Systems” by United Nations System Standing Committee of Nutrition. There are no good or bad food systems. However, they facilitate to more or less wanted nutritional outcomes (for example, healthy child growth versus not healthy), health (normal blood sugar compared to diabetes) and the environment (healthy or contaminated soil).

Table 1 demonstrates a common description of the results obtained from the range of the food systems. When observing this table, it is vital to regard that many results are produced in the particular food system; Even when countries are in the same typology, there are significant differences in different countries in these results. Moreover, food systems identified at the country level are still highly aggregated and do not take into account important cross-country differences, which are better reflected in the supply chain analysis.

Food systems outcome	Food system 1	Food system 2	Food system 3	Food system 4	Food system 5
	Industrial (high productivity and urbanization)	Mixed (high productivity and lower urbanization + emissions)	Transitioning (urbanization same as system 2 but lower productivity)	Emerging (lower urbanization and productivity than systems 1-3)	Rural (lowest urbanization and productivity)
Food diversity and reliable availability	Divers diets, high packaged processed foods and animal protein.	Divers diets, balanced in protein sources.	Diverse diets with high fresh food and protein intake.	Less diverse, range of professional foods, high fresh foods.	Less diverse, low animal and other protein.
Food accessibility	Low budget share spent on food; stable prices.	Low budget share spent on food; stable prices.	Moderate budget spent on food, higher price volatility	High budget spent on food, higher price volatility.	High budget spent on food, high price volatility.

Health and nutrition	Mostly over-weight/diabetes.	Mostly over-weight/diabetes.	Less over-weight, some stunting.	High stunting, low child overweight, high adult overweight	High stunting, double burden, emerging child overweight.
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Table 1. Outcomes by type of food system. (United Nations System Standing Committee on Nutrition 2016, p. 11.)

Generally, as countries switch from rural to industrial, diets become more diverse, containing more packaged processed foods and more proteins of all types, especially animal protein. Less rely on basic food and, as a rule, less volatility in food prices. The share of family budgets spent on food is reduced from 50% or more in countries with rural food systems to less than 20% in countries with industrial food systems. According to the typology, countries with rural and emerging food systems are those with low income. There is a big issue of undernutrition in those countries, and some are undergoing through increasing of prevalence of overweight and obesity. Those countries can profit from big spectrum of investments, especially into infrastructure and productivity improvements in agriculture and also strategies to empower the supply of more wide food choices to their people, either through commodity value chains or household production. Most of this investments will enhance agricultural and economic outcome in the upcoming years.

On the other hand, countries with transitional food systems already possess more varied diets with good proportion of fresh foods and protein. In transitional food system dominates consumption of packaged foods. In general, transitional food systems usually provide satisfactory diversity and access to food, but can improve their economic and medical benefits with the right investments into cold-chain technology and dealing with post-harvest challenges.

For industrial and mixed food systems it is important to align public policy with health and nutritional objectives, in order to support production of fresh products. There needs to be policy and management changes that stimulate healthy consumer behaviour and limit certain big industrial production practices and

authorities. These changes are not so expensive in terms of finance, but are politically tricky. (United Nations System Standing Committee on Nutrition. 2016. Investments for Healthy Food Systems.)

### **1.10 Home gardening in Russia**

Large scale agriculture is dominant in major of civilised countries and many people are dependent on it, but not in Russia. Russian people feed themselves. Russian agricultural economy is small scale, it is organic and held by nation's people's hands. Russian people love to grow their own food; it is a historical fact. This habit is feeding Russians for centuries. It is more than just a hobby or habit; it is a massive contribution to Russia's agriculture. (Sharashkin 2008, p.6.)

51% of Russia's food was produced by dacha communities and small farmers in 2011. Dacha communities contributed 40% of food production, independent farmers made 11%, the rest 49% were produced by large agricultural enterprises. Another interesting statistics according to Russian statistics service is that in 2011 dacha gardens generated 80% of the countries fruit and berries, more than 66% of the vegetables, 80% of the potatoes and 50% of the milk. Thus, Russia is the nation of gardeners living off the land. (Jensen 2013.)

Food gardening heavily contributes to local, regional and national economies in many countries of the globe. This is especially noticeable in Russia, where more than 35 million families possess own small garden-plots, most of which are held for growing food for own purposes and for the market.

It is possible to say that Russia's household agriculture is the vastest in any industrially developed nation.

Output of foodstuffs is not the only benefit of home gardening. These activities also contribute to environmental sustainability, community food security, promoting social connections among gardeners, boost local economies and cultivate connection to plants and the Earth.

One of the reasons for such a phenomenon of self-provisioning in Russia, is a response to poverty and survival strategy. This phenomenon is a good reflection of current economic situation in rural areas. Another reason for self-provisioning in Russia is in cultural heritage, Russians have been doing it for centuries.

Another important fact is regional differences in Russia. Commercial agriculture is mostly located in regions belonging to Southern European Russia, because this part of the country has the best soil. While, private gardening exists all over the country.

### **1.10.1 Land usage**

In private household agriculture production of 1-dollar worth of output needs much less land than in commercial agriculture. In 2006, 53% of the country's total agriculture output was coming from household gardens which hold only 2,9% of agricultural land, when last 47% of commercial agricultural enterprises' and individual farmers, required 97,1% of agricultural lands. (Rosstat 2007, p. 69.)

In this way, household production needs 38 times less land area in order to make 1-dollar worth of output. Such productivity has three reasons behind it. Firstly, usage of land resources is much fuller among householders and farmers than among agricultural businesses. Secondly, householders put much more labour into the work on the land, which gives higher levels of productivity. Also, householders approach to work is more responsibly, which means better quality of labour. Thirdly, households are more integrated into the usage of land. While companies used to grow mono crop on their land, households grow a variety of products on their gardens.

Households own very limited plot sizes, that is why it should be intensive. Only with intensive approach households can achieve such level of efficiency in growing annual and perennial products. Production of households is highly diversified.

Regularly gardeners have a surplus of production, which they share on a voluntary basis with members of family and friends or sell on the market.

### **1.10.2 Environmental effect of home gardening**

Private households gardening has a positive effect on environmental in comparison with agricultural enterprises. There are multiple reasons for it. First, land sizes owned by households are very moderate. Second, gardeners do not use heavy machinery, when producing and harvesting food. Third, supply chain of their production is more simple, they do not need complicated transportation in their chain. Thus, gardeners do not consume at all or very little Earth's resources. Fourth, gardeners in Russia do not use artificial fertilisers on their land. Which means that products grown by households can be called at least natural.

### **1.11 Food embargo in Russia**

In summer 2014 a ban on importing certain agricultural production and raw materials from countries that had sanctioned Russia took power. Extension of this ban took place in June 2016 in Moscow. (Vidal 2017.)

Food embargo significantly damaged Russians by raising the food prices. As a result, according to Rosstat, from June 2014 to June 2015, the consumer price index rose by 18.8%. The most expensive were biscuits (+ 21%), macaroni (+ 23%), beef meat (+ 22%), sunflower oil (+ 29%), caramels and sweets (+ 30%), margarine and stew (+ 33%), Rice and frozen fish (+ 37%), apples (+ 38%), semi-smoked sausage (+ 19%), cheeses (+ 18%).

Three of the champions of the rise in price among the products were black tea (+ 40%), carrots (74%) and, of course, all beloved buckwheat (+ 89%). All this has been superimposed on the economic recession and the reduction in real disposable money income of the population (-3.1% for the first half of 2015) and real wages (-8.5%). The Russians began to save and switched to the consumption of cheaper goods.

According to the Public Opinion Foundation, over 63% of Russians in the last three months have begun to save money on food choices. About 40% of them began to buy products of cheaper brands, 30% of economizing on food Russians refused some products or generally reduced the volume of purchases.

Such negative dynamics in prices, incomes and consumer preferences undermined the retail trade turnover, which fell by 16% in the first half of 2015.

The introduction of sanctions, of course, caused a number of inconveniences to the Russian food retail. Last years became a stressful period for this business, which was sharply changed by the rules of the game. The market was not ready to limit the number of supplying countries.

### **1.11.1 Making money on food embargo**

Although the embargo brought losses to domestic consumers, the business on the other hand earned from this situation. Of course, a full-fledged substitution of imports of goods of Russian production did not happen, but the domestic output increased. In the first half of 2015, the production of food products (including tobacco and beverages) increased by 2% compared to the same period of the previous year (the growth was 2.5% without tobacco products). The producers of cheeses were especially distinguished, which showed an increase of 27.5%. The production of canned vegetables increased by 26%, meat, by 11.4%, poultry by 8.5%, drinking water by 5.8%. (Gazeta.ru 2015.)

Russian agriculture remained one of the few sectors that, despite the general Russian crisis, showed stable growth. The growth was 3.7%, for the first half of 2015, Rosstat recorded plus 2.9% Growth in production and demand for domestic products, coupled with the devaluation of the ruble, led to the fact that Russian companies showed a record profit in 2015. The chance was taken not only by manufacturers, but also by retailers. The embargo became one of the reasons for the increase in prices, thus allowing the business both to increase its own margin, and to find means for survival in a difficult economic period. (Gazeta.ru 2015.)

The balance of pluses and minuses of the food embargo is not yet in favour of the Russians. Yes, the business was able to make a bit more revenues, but at the same time investing programs stopped. Wages were not raised. Prices significantly increased. Range and variety of products on the shelves reduced. Also products lost in quality, which affected level of life. Positive effect for entrepreneurs in Russia is that embargo caused a product gap, allowing domestic

businesses to put their products on the shelves of supermarkets instead of Europeans, which were there before.

## **2 Corporate social responsibility**

Over the last years there has been significant growth in such activity as corporate social responsibility (CSR). Government action has also encouraged this trend. At the world economic forum in Davos on 31<sup>st</sup> of January 1999, UN secretary-General Kofi Annan urged global business to adopt to Global Compact, nine principles covering corporate behaviour relating to human rights, labour and environment.

Here are listed nine principles covering corporate behaviour:

Human rights

Business should:

- 1.Support and respect the protection of internationally proclaims human rights within their sphere of influence;
- 2.Make sure they are not complicit in human right abuses.

Labour

Business should uphold:

- 3.The freedom of association and the effective recognition of the right to collective bargaining;
- 4.The elimination of all forms of forced and compulsory labour;
- 5.The effective abolition of child labour;
- 6.The elimination of discrimination in respect of employment and occupation.

Environment

Business should:

7. Support a precautionary approach to environment challenges;



- 8.Undertake initiatives to promote greater environmental responsibility;
- 9.Encourage the development and diffusion of environmentally friendly technologies.

Most definitions of corporate social responsibility describe it as a concept whereby firms include social and environmental concerns in their business operations on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment, and the relations. (Commission of the European Communities 2001, p. 8.)

Some popular definitions of CSR are;

“Actions that appear to further some social good beyond the interests of the firm and that which is required by law” (McWilliams & Siegel. 2001, page 117).

A concept whereby companies integrate social and environmental concepts in their business operations and in their interactions with their stakeholders on a voluntary basis (European Commission 2002, p. 5).

The commitment of business to contribute to sustainable economic development working with employees, their families, the local community and society at large to improve their quality of life (World Business Council 2005).

Thus, there are many interpretations for the definition of CSR, and they might seem subversive.

Corporate social responsibility is not a charity. Charity should be left for special foundations. To simply summaries, CSR means that companies should conduct their core functions of making revenues by the provision of their products or services, but by doing it in a socially responsible way. (Allouche 2006, p. 12.)

Nowadays CSR became a big thing. Many industries are considering it as a vital tool in promoting and improving their public image. Companies make significant public commitments to principals of ethical behaviour and good things. Unfortunately for most of the companies this CSR approach is just a PR.

## **2.1 Corporate social responsibility issues**

There is a range of social issues that business must address. Social issues are different depending the nature of the firm, and they are changing over times. Over the years such kind of issues as environmental conservation, community development, occupational health, product safety received great attention. A business cannot deal with all kind of social issues, that is why it is important for a firm to concentrate on some specific social areas.

In the frames of this thesis researcher is going to concentrate on two types of social issues. First one is environmental, second one is poverty amongst householder's communities in Russian regions.

## **3 Business planning**

The main outcome of this thesis is detailed business plan for natural product online store. Before going to the business plan itself, theoretical framework behind the business plan will be presented in this chapter.

“A business plan is any plan that works for a business to look ahead, allocate resources, focus on key points, and prepare for problems and opportunities. Businesses need plans to optimize growth and development according to plans and priorities.” (Berry 2004, p. 9.)

### **3.1 Business planning then and now**

Fundamentals for business planning have not been changing for decades. Values of a business plan are still the same, the value of a plan is in decisions it causes. Business plan is a process; without regular changes it is useless.

However, details in business planning have changed, as the world changes. Decades ago, plans were actual for months without changes, nowadays every few weeks they require updates. The plans themselves became shorter, nowadays it is hard to see a business plan longer than 25 pages, when in the 20<sup>th</sup> century investors wanted to see hundreds of pages in a business plan. (Berry 2013.)

### **3.1.1 Business planning in 21<sup>st</sup> century**

Traditional planning might look meaningless, if to take into consideration the fact that there is a rapid pace of change in modern world. Forces of technology and social changes are changing lives and every aspect of doing business. Reality changes very fast.

There are some new approaches to planning in 21<sup>st</sup> century. Business plan should be counted as continually changing document. Business plan should adapt to latest thinking of entrepreneur on how the company will succeed. Primary research should be conducted, such as speaking with suppliers or customers in order to validate critical assumptions. (Folta 2014.)

### **3.2 Standard outline**

Usually business plans contain the standard set of elements. Sometimes formats and outlines vary, but still plan will contain executive summary, description of a company, product, market, forecasts, human resources and financial part. Executive summary needs to be short and interesting.

### **3.3 Executive summary**

Executive summary is the thesis statement of a business plan. This statement answers on such questions as who, what, where, when, why and how. It compiles who you are, what your company is doing, where is it going, why is it moving in particular direction and how it will get there. Executive summary can be approached from two perspectives depending on what kind of use is it for. If the plan is for internal use, the statement should summarize the business itself. It would be a brief overview of the company's goals and statement of how it will focus to meet its projections. Executive summary should provide the reader with the feeling of uniqueness of your business and the qualification. It is better to write summary in the final steps, when all other parts are ready. (Pinson 1987, p. 25.)

### **3.4 The organizational plan**

The first significant section of a business plan addresses organizational moments of a business. First section of organizational plan includes mission, business model, strategy, strategic relationships, swot analysis. Second section includes description of a product or service.

#### **3.4.1 Mission, business model, strategy**

A mission statement is a short explanation of companies' philosophy and purpose, the meaning of the existence of an organization.

Business model is simply the way how business will generate profits.

Short-term and long-term objectives and their realization is a strategy. (Anatomy of business)

### **3.5 Marketing plan**

This part emphasizes all core elements needed for successful marketing plan. It is important for a marketing plan to be clear, direct and easily understood company document.

Before preparing a marketing plan, all information needs to be gathered. Company should gather:

- Latest financial documents, including profit and loss statement, operating budgets and recent sales figures
- A list of current product or service line
- Understanding of company's marketplace (competitors, customer's profile, distribution channels, trends).

(Ferreri 1999)

#### **3.5.1 Market situation**

Market situation part must answer all the following questions:

- What is your product line?
- What is your size of you market?
- How is sales and distribution managed?
- What is your geographical sales area?
- Description of target customers.
- Who are the competitors?
- What were the sales dynamics in previous years?

Most of this information can be provided by management team. Also, it is important to take into consideration ideas of all company's members. (Ferreri 1999)

### **3.5.2 Threats and opportunities**

Threat and opportunities part mostly concentrates on future trends for current market. List of question can help with identifying future position:

- What are the negative trends?
- Is actual version of product ready for success in the current market?
- What are the favourable trends in the market?
- What problems might be caused by competitors' actions?
- Is the demographic situation favourable?

Information on trends can be found in various places. It is possible to get information on trends from local business reporters, local chambers of commerce, professional associations. (Ferreri 1999.)

### **3.5.3 Marketing objectives**

Marketing objectives section should represent the picture of the future. Each of marketing objectives is a reflection of company's intensions alongside with numbers. Every marketing objective contains at least couple of goals. Here is the most common objective categories: introduction of new products, extension

of current market share, entering new markets, cross-selling of products, new profitable contracts, increasing margin, enhancing the product. (Ferreri 1999.)

### **3.6 Customer analysis**

It is impossible to underestimate the role of customers for a business. Customer is a core thing for every business. Customers are in charge of delivering profits to a business. Every business or marketing plan starts with a simple question: who is your target customer? This is why in order to complete target, business must know its customers. There are some common questions to be asked about demography to make a customer's portrait.

#### **3.6.1 Usage of customer analysis**

Customer analysis provides different scenarios of usage:

- Identifying who is company's best customer. Customer analysis can help business to pinpoint its customers, thereby advance the segmentation targeting and positioning process. As a rule, 20% of company's customers bring 80% profits to it, so it is important to know who those customers are.
- Planning out retention plans for company's new customers. New customers are crucial, but so are returning customers. Thus, customer analysis can help to transform first time company's customers into returning ones
- Calling further purchase from existing clients. Cross-selling, impulse purchases are some of the methods that increase purchases from current customers.
- Developing customer service. When customers are identified, business can find out the most suitable services for them. Thus, customer analysis will improve the level of service provision.
- Effective campaign planning. Knowing buying habits and demography portrait of customers will assist to plan a very efficient marketing campaign, thus improving profits.

- Increasing overall profitability. Overall profitability can only be increased if all customers are satisfied. Customer satisfaction can only be increased through customer analysis. (Bhasin 2016.)

### **3.7 Competitive analysis**

Competitive analysis is a part of a business plan that is responsible for analysing company's competitors, both current and potential. Competition exists in every business. In order to survive companies, need to know strengths and weaknesses of competitors.

Competitive analysis for online business can be done in eight steps:

- Finding and categorizing competitors. Competitors can be found by searching on Google.com. Then competitors can be divided into three groups: primary competition, secondary competition, tertiary competition.
- Examining competitor's website and customer experience. Once competitors are identified, it is important to examine their websites.
- Identifying competitor's market positioning. By analysing competitor's positioning strategy, company can understand market's demands and expectations.
- Examining competitor's pricing. Knowledge about competitor's products pricing can help to answer the question: how much target market is ready to pay?
- Examining competitor's delivery terms. Since delivery is the main reason for rejecting the shopping cart, reasonable competitive shipping costs and terms are extremely important to the success of online store.
- Measuring customer's satisfaction by examining reviews. Examining reviews on competitors, including product reviews on their websites and business reviews on social medias will help to differentiate business.
- Reviewing social medias. Looking at competitor's social media profiles provides benefits. Having many actively engaged followers is good indicator that there is a good market. If competitors do not have a decent following, this may indicate that the market is weak, or target market does

not use social networks, or simply because there is an opportunity for business to take the lead in interacting with customers. (Ferenzi 2016.)

### **3.8 Logistics in Ecommerce**

Logistics is simply the management of ways to obtain, store and send resources to final destinations. Planning, implementation and monitoring of the movement and placement of these goods and services should occur within the framework of this system, designed to achieve specific objectives, which may vary by industry.

Logistics management can be characterised by three steps. Firstly, search and identification of potential suppliers and distributors. Secondly, examining of their availability and efficiency in terms of business competence. Thirdly, forming the most profitable terms for both sides.

Large enterprises usually partner with several third party logistic companies to keep up with demand. On the other hand, small business does not necessarily have to cooperate with various organizations to manage the logistics of the e-commerce website. If operations are small enough, it is possible to work with local companies and organizations to deliver and store production.

#### **3.8.1 Supply chain**

According to Michael Porter, operational efficiency is responsible for achieving perfectness in individual actions or functions, the supply chain strategy determines the connection and combination of actions and functions of the entire value chain in order to satisfy the offer of business value for customers in the market.

Supply chain strategy is formed by the relationship between the four main elements: sectoral structure (market); Unique offer of the organisation (its competitive positioning); Its internal processes (supply chain processes); And its management focus (the link between supply chains and business strategy).

Once a company understands the factors that affect its business, then it can choose which of the six general supply chain models defined in the Supply



Chain Roadmap best matches the business itself. In the frames of natural product online store, the "continuous-flow" supply chain model will be chosen and observed.

Many organisations try to bring various capabilities from different supply chain models into their one. But every capability requires different set of skills, and usually those capabilities do not get along in one supply chain model. Nevertheless, it is achievable to manage couple of parallel supply chains in the frames of a single business.

### **3.8.2 "Continuous-flow" supply chain model**

Major particular qualities of the continuous flow model of the supply chain are the stability of supply and demand, with the processes planned as follows to ensure constant speed and a regular flow of information and products. Such model usually refers to a very sophisticated supply chain with a profile of consumer demand, which has small fluctuation. Therefore, the assembly line can meet demand with the help of a continuous replenishment model based on the "do in stock", where it is planned to issue ready-made stock levels based on a given order point for inventory in the production cycle. Correspondingly, competitive positioning is stationed on providing customers with a continuous replenishment system to ensure a best service and a low level of inventory at customer sites, so optimizing the costs associated with inventory.

To successfully implement this supply chain model, the following factors must be established:

Companies must use the prescribed order cycle, for example, to receive orders from a group of customers on the particular day every week - instead of the ordering time cycle in which orders are sent based on a fixed lead time after the order is entered, regardless of when the order is received. A time order cycle can create demand peaks and thus break a continuous flow.

Companies should have some extra inventory in order to meet an unexpected demand

Joint efforts should be aimed at customers who generate higher sales volumes and those who have high demand.

This supply chain model usually works well for enterprises with products with short shelf life, such as dairy products and bakery (Perez 2013).

### **3.9 Risk management**

Risk management consists of making tactical and strategic decisions to control the risks that must be controlled and use those opportunities that can be used. Although risk management is associated with such quantitative tools and activities as are commonly dealt with in the risk management theory, in fact, risk management is the same skill of managing people, processes and institutions as the science of measuring and quantifying risk.

There are three main aims in risk management. First one is disclosure of known risks faced by a portfolio or firm. Known risks are those that can be identified and understood through research and analysis, since such or similar risks have been faced in the previous by a particular business or others. Such risks are often not transparent or immediately obvious, perhaps because of the scale or variety of the portfolio, but these risks can be disclosed with zeal. Second one is Making the known risks easier to detect, perceive and match - in other words, the sufficient, clear and simple presentation and coverage of the risk. Third one is An attempt to understand and identify unknown or unforeseen risks, for example those that organisation or industry has not faced before.

Risk management rests with managers at all levels of an organization. To achieve effective risk management throughout the whole firm, analysis and covering must be persistent throughout the firm, from the lowest level, up to the top management level. Risk evaluated at the lowest level should be brought together with firm wide risk. Despite the fact that this risk aggregation is never an easy task, a risk manager should be able to look at the big risk, but then consider more and more detailed and disaggregated risk. A single foundation for presenting risk reports through the firm brings tremendous profits that are not available, if at the desk-level and at the firm wide level risks are handled on a different basis. (Coleman 2011, p. 2.)

### **3.9.1 Ways of managing risk**

Reducing effects of the risk. In order to reduce the potential consequences of the risk, company can launch contingency plans, so if any unwanted situation does materialise, it will be able to implement plan B.

Avoid the risk. In serious circumstances, if the consequences of the risk are too high, the company can completely avoid them by cancelling or stopping the high-risk initiative.

Risk transferring. In this case, the company transfers the risk to a third party. This applies mainly to financial risks and situations where it is possible to write it down in contracts. The company's insurance capital against the risk of a fire is a good example - the insurer bears a financial risk if the fire destroys company's warehouse.

Accept the risk. Last option is simply to accept the risk. This should be the last option after examining all other options. This strategy is best suited for small risks, when the impact is not so great or for risks that are unlikely to occur - for example, the likelihood that company's head office will be strikes by a meteor.

## **4 Business plan for natural product online store**

### **4.1 Company Overview**

HomeGrown.ru is online natural food retail business. It is going to provide thousands of customers with natural home grown products. This online store will be available every day and night for customers. HomeGrown.ru is targeting growing market of natural products. The plan is to start its presence in Moscow and then move one to other cities of Russia.

#### **4.1.1 Goals and objectives**

Online store objectives for the first three years:

- Get 5% market share of online products sales in Moscow
- To develop a well-designed web site with high level conversation
- To involve and support dozens of households
- To promote healthy diet among people

#### **4.1.2 Mission**

Our mission is to provide customers with finest, natural, home-grown food, while supporting households' producers.

#### **4.1.3 Strategy**

Strategy is relying on capturing a growing percentage of the natural product market share through Web sales.

Goals and objectives will be achieved through developing and implementing marketing communication that can reach and convince a wide customer base. But not only marketing is a key to achieving goals and objectives.

From the operations side, store will have high quality and control standards.

#### **4.1.4 Values**

The aim is to build corporate social responsible business and to make people's lives involved in it a bit better. Our values are:

- Responsibility
- Quality
- Sustainability
- Innovations
- Constant learning

At the moment, really healthy products are not just those that contain a certain amount of minerals, vitamins and other substances necessary for the body. It is important to choose those that do not contain substances that are dangerous to human health. Unfortunately, there are a lot of such substances in modern vegetables, fruits, and meat. These substances are herbicides, fertilisers, pesti-

cides, genetically modified organisms, antibiotics, and preservatives. It is very difficult to find really healthy foods in our modern days.

After all, really healthy products can be named such, only if they are grown in an environmentally flawless environment. For example, a freeway does not pass nearby, the harmful chemical combine does not work, and the land on which the crops are grown is not the former collective-farm lands for decades poisoned with herbicides. The vast majority of products offered on the market, which we are accustomed to consider to be useful food products, are not really such.

In this case, the modern citizen has a question: is it still possible to acquire products without fear, a natural food that you can give to children without hesitation, and be sure that it only beneficial? Fortunately, there are such products, and they are known under the name "organic", bio- or eco products. People can buy such products from our online store.

#### **4.1.5 Products and services**

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## **4.2 Business model**

The model of business can be separated into two parts according to the type of customer.

Business to customers (B2C): this is oriented for private customers. This model is made up around delivering quality and best value for money to the customers. The customers can search for the products through the main website. We deliver products ordered by customers to their doorsteps. B2C model is our main focus.

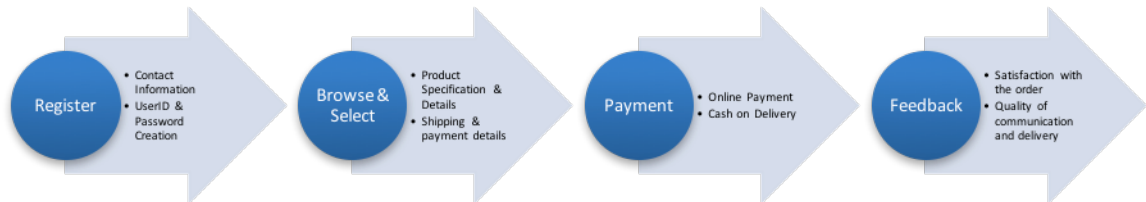
Business to business (B2B): this model is meant for cafes and restaurants. Restaurateurs will be able to order products in big quantities on a regular basis for low price. This division is not the primal goal, but we definitely plan to implement it.

### **4.2.1 Competitive advantages of our business model**

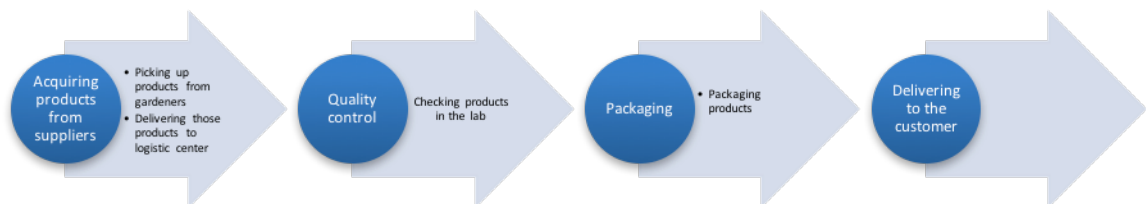
- Huge domestic market
- Scalable model
- Mixed SEO and offline marketing
- Direct marketing does not require a large budget
- All main business costs are scalable
- No unified market regulation
- No heavy capital investment
- No complex transactions
- Easy, understandable and trusted payment system

## 4.2.2 Business processes

Business processes for the online store can be divided into buying and selling process. Buying process allows users to search and acquire different products presented on the website.



Selling Process is a chain which starts from acquiring products from suppliers and ends at warehouse.



## 4.3 Marketing strategy

HomeGrown.ru will be one of the first in its kind in Russia. It targets a niche auditorium of customers with specific needs. Marketing strategy will be guide by the vision and mission in order to reach objectives.

Customer needs need to be meet and fulfilled in order to gain loyalty from auditorium. Three main needs will be targeted: convenience, quality and value for money.

Nowadays customers do not have ability to regularly go to supermarkets or markets, because of frustrating traffic situation, lack of time and high petrol prices. Thus convenience is prioritized.

Quality of food is a big issue in modern world, especially in Russia. Manufacturers tend to reduce costs by lowering the quality of products, using cheap ingredients and artificial preservatives.

Customers becoming more and more demanding. They are looking for the best value for money. HomeGrown.ru promises the best value for money on its products.

#### **4.3.1 Marketing channels**

Our marketing is based on SEO optimization with permanent organic search position improvement. We get the entire white hat SEO from search results for such key words as “Natural products”, “Home grown products”, “Food delivery”.

Customer acquisition strategy:

- Seeding – searching for discussions on social networks and niche-related websites, forums and blogs, and actively participating in them.
- PPC – driving users from Google Search, Bing and Yahoo & Partner networks to some particular types of service.
- Social media – we operate groups and accounts on the main social networks. We post engaging & interesting content that drives visitors to our social groups and website directly, including the Facebook affiliates programme.
- YouTube mailings – searching for videos related to healthy diet and cooking and attracting active users to our store by mass-reaching them through personal messages.
- Email marketing – reminders for clients.
- Loyalty system. Existing customers will bring new ones for a reward.



We maximize and diversify promotional channels to achieve the best possible marketing mix. The model is absolutely scalable. After the first months of running a multi-channel marketing campaign we focus on the most effective channels.

#### **4.3.2 Market segmentation**

Potential customers will be identified by these parameters:

- Customers are aged between 25 and above
- Customers whose monthly income is more than 1000EUR
- Customers with children
- Customers concerned about healthy diet
- Customers who needs convenience
- Customers who used to purchasing goods online
- Female shoppers

#### **4.4 Competitive environment analysis**

According to the research on the market of food delivery conducted by RBC in 2015, among different countries: the USA, Great Britain, Canada, Germany and Russia, Russia takes the last place - the turnover is only 20 million dollars a month, while in America reaches 800 million dollars a month. Russia is also the last in terms of average per capita expenditure on "out-of-home" food, which is only 14 dollars per month, while in America it is 195 dollars per month. But the Russian market of food delivery is growing on 40% year by year.

There are a lot of stores presented on the market which offer natural products with delivery. But it is difficultly to highlight any particular leaders in this segment, because market itself is quite young and it is only developing.

#### **4.5 Market analysis**

In Russia, the share of e-commerce, according to the group RB Partners, in the total trade volume is about 3%, while in developed countries, such as the UK, it

exceeds 15%. Food Internet retail in 2015 overtook traditional retail by revenue growth rates more than eight times and amounted to 33%. (Rusakov 2017.)

Amount of deliveries continues to grow, as users are gradually getting used to online consumption model and are ready to order products in new categories. So, eight to ten years ago there was a trend for online orders in the electronics segment, three years ago a similar trend was observed in the delivery of clothing and footwear. Now the segments of cosmetics, products for children and fast food are trending.

In Russia, there are four segments of the food delivery market. The first is the classic restaurants and restaurant chains, in which the delivery was allocated to an additional service. In Russia, only about 15% of market players are providing this service, and this segment has huge growth potential. The second is delivery as an independent direction of premium restaurants. The audience of this segment is narrow, but it is stable. The third and most significant segment is delivery as an independent direction. Such businesses are large structures, consisting of production workshops and call centres with an impressive staff of delivery personnel and drivers. The lack of infrastructure costs associated with the traditional service in the hall, suggests points of growth. Winning new customers and retaining old ones is helped by aggressive marketing and minimum lead time.

It is possible to allocate some trends in the food delivery market. The first one is digitalisation. The market is being digitised: those who are able to transfer all processes into digital gain big advantage. The second is one is the monopoly of aggregators. Such aggregator as Delivery Club became the main distribution channel: already 60% of all orders for delivery from many large restaurant chains are accumulated through website and mobile application of this aggregator. More and more restaurants that have not cooperated with aggregators before, conclude agreements with them in order to survive in very tough competition. Consumers like to participate in loyalty programs, collect bonuses, receive special offers and keep personal cost statistics, while having the opportunity to discover new restaurants. Another factor that helps to develop aggregators is mobility. For consumers who are accustomed to using gadgets and solve prob-

lems instantly it is much more convenient to order food with the help of one application.

Experts note that in Russia the segment of products delivery from stores is still not developed at all. The reason is in complex and ultimately expensive logistics that retailers do not want to invest in.

The current trend in the segment of delivery of products and goods is similar to the one that the taxi market took place several years ago with the appearance of aggregators. If earlier the order of a taxi could take up to half an hour and demanded considerable attention of the client, now the car comes in 5-10 minutes, and the order requires a couple of minutes of the customer's time. The delivery market is also becoming more massive: first, shops for the sale of household appliances were involved, and now even such seemingly non-technological areas as wholesale of vegetables are doing deliveries. In the future, this will lead to the fact that all routine processes will go online and will require minimal user participation. Another important long-term trend is the reduction in the number of links in the distribution chain. Earlier the buyer could only come to a small retail store, now wholesalers and retail centers work directly with end-users. In the future, this trend will continue to develop and users will begin to execute orders of products from wholesale-retail networks online. (Rusakov 2017.)

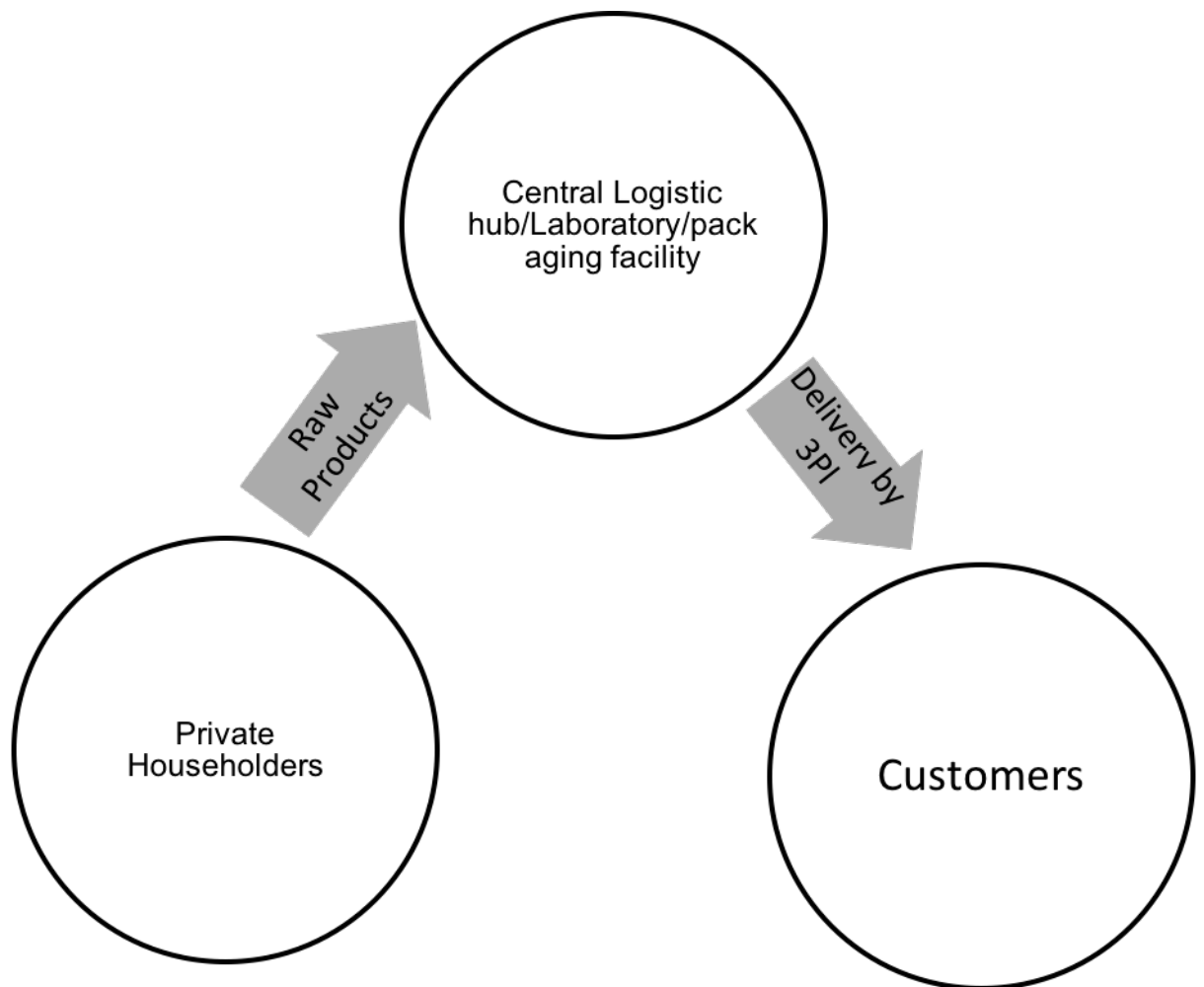
#### **4.5.1 Competitive advantages**

It is possible to highlight four main advantages:

- Unique supply chain model
- Social responsibility aspect
- Quality control in the laboratory
- Acceptance of different methods of payment

#### 4.6 Supply chain model

In order to always fulfil customers' expectations and to keep logistics costs low, continuous flow supply chain model will be implemented in Natural products online store. Supply chain model in the case of natural product online store is not very complicated. Products from farmers will be picked up shadily every week by in-house employees. Then products will be brought to companies' central facility. Where they will be tested in the laboratory, packaged and then delivered from there to customers by 3pl services.



## 4.7 Financial planning

Opening a natural product online store will be financed by own capital of the author and by financial grant from Moscow's small business support fund. Legal form of ownership will be private entrepreneur.

Investment plan:

- Equipment: small laboratory, fridges, etc. 5000EUR
- Web Store: developing and launching 300EUR
- Government Fees: company and electronic cash machine registration 100 EUR
- Rent for first month: 200EUR
- Marketing for first month: 1000EUR
- Staff salary and outsourcing for first month: 2000EUR
- Other expenses: 2000EUR

Total cash needed is 10600EUR

## 4.8 SWOT analysis

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Owner's faith in the project</li> <li>• Quality control</li> <li>• Growing market</li> <li>• Trendy niche</li> </ul>	<ul style="list-style-type: none"> <li>• Human factor of suppliers</li> <li>• Competitive market</li> <li>• Tough economic situation on the market</li> <li>• Russian business environment</li> </ul>

Opportunities:	Threats:
<ul style="list-style-type: none"> <li>• Adding more product categories</li> <li>• Expansion to other regions</li> </ul>	<ul style="list-style-type: none"> <li>• Hard to ensure sustainable flow of products from householders</li> </ul>

<ul style="list-style-type: none"> <li>• Opportunity for creating a franchise model</li> <li>• Building a strong community</li> </ul>	<ul style="list-style-type: none"> <li>• Seasonal aspects</li> <li>• Changes in laws and legislations, which may affect business operations</li> <li>• May not satisfy the demand</li> </ul>
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## 5 Concussion

The main purpose of this thesis was to find out how to create a proper business plan for a small enterprise, and then how to implement the knowledge gained through the example of an online store of a natural product.

author chooses the topic for thesis as a business plan for an online store of a natural product.

First, to study what a business plan is and what a proper business plan consists of, a lot of literature and various Internet sources related to business were used. After careful research, the most important records were used and a study was made on how to write a business plan.

Business plan is a decisive decision-making tool, and also it is the best way for entrepreneur to evolve his idea. In addition, business planning allows an entrepreneur to summarize all ideas and thoughts about his project to create a whole business overview in one written and well-structured paper. That is why a developed business plan will lead to a profitable business model that will find its niche in the particular segment and will have the potential for future growth and expansion.

To summarize, it is really a challenging task to make a realistic business plan. Deep knowledge in various disciplines is required in order to complete it. But it does not end or rely only on its education, knowledge or experience. To make all the mechanisms work, the entrepreneur must make a lot of effort for the project, as well as the quality and enthusiasm of how this can be the determining

factor. As was told in the introduction, this thesis might be helpful for those who are interested in business in Russia, e-retail and natural products.

All in all, this thesis ended up being not only about business plan itself. Such interesting topics as food systems and corporate social responsibility also found way to get into this thesis. All these chapters add up together in order to make up a wide and deep look on business related to natural food.

## **List of tables**

Table 1. Outcomes by type of food system. (United Nations System Standing Committee on Nutrition 2016, p. 11.)



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## **Apendix**

1. Interview with Boris Akimov, founder of 'LavkaLavka', first Russian marketplace for farmer's products:

What do you think about the natural products from the farms niche? Is the market growing?

- It seems to us from the inside that very much has happened, that the niche is expanding. Simply, maybe it does not grow as fast as it seemed to you or would like to us. When we started in 2009, we registered an account in Facebook, and there was nothing around us at all, we were acting on an empty field. There was not even a single online store that sold farm products. And now, if you type "farm products" in the search engine, hundreds of sites will come out that sell farm products in Moscow and in the regions, natural and not very much. Even in ordinary stores, 'farmers' corners appeared. This is a sign that the niche is growing. Why does not it grow faster? It seems to me, simply because physically there are not enough farmers. We from farm chaos created a farmer's space with a certain logic appeared on this market. Now farmers and consumers are in different planes, because the consumer in the bulk comes to the retail network

for food, and a small and medium farmer cannot become a supplier for a trading network.

Is it possible for small farmers to sell their products without entering trading networks?

- Of course, they can sell through the Internet, sell to neighbours, open a store. For example, one farmer has a small dairy herd. He only has 2 hectares of land. But his land is located in Odintsovo district, he has a store right on the farm where he sells his milk for 100 rubles a liter, kefir, cottage cheese and sour cream. People who live close by, come to him and buy everything in huge quantities. It would seem, what nonsense - to breed cows on such an expensive land, but it works. So, everything is possible.

As far as I understand, LavkaLavka was just conceived as a powerful communication channel between a few farmers and residents of big cities. Did you manage to create it?

-Everything is compared in comparison. In 2009 We had a turnover of 900 thousand rubles and in 2014 our revenue was already 250 million. We have 5 stores in Moscow and a restaurant. We are walking very well, but again - all our revenues are comparable to the turnover of a single supermarket chain.

But is your profitability higher than in supermarket chains?

- The margin is higher, but we are moving all the profits into development, dividends do not exist at all. We have no investors, no loans, we do what we want. This position was originally due to our lack of professionalism and profanity. I took loans as an individual, I was terribly dissatisfied with it. And now is the crisis, all complain that the stakes are high, but we do not care. From the point of view of business, we behave incorrectly. If there is an opportunity to develop, take money, otherwise the competitor will come. But we do not want to get involved with banks, we found another way.

Do you work only in Moscow? Several years ago, you tried to actively develop in the regions, and, as far as I understand, nothing good came of it?

- This is our greatest failure. We at one point opened in St. Petersburg, Chelyabinsk, Kaliningrad and Kiev. Our partners were engaged in local Internet shops, in fact, franchisees. But everything was almost closed. In St. Petersburg, our former partners, unfortunately, now behave badly - use the name «Lavka», although they do not cooperate with us.

## 2. Interview with Andrew Krivenko, founder of 'VkusVil' and 'Isbenka'

The buying power is reduced - are people ready to pay extra for the naturalness of the products?

- We do not feel crisis at all. Traffic is growing in our stores and the number of stores is growing. Therefore, we do not really understand what a crisis is. We collected all the trends that only exist: people really thought about the fact that the products should be produced in Russia, and it was during the crisis when people began to think about healthy diet. Maybe a generation of customers has grown up, the one which thinks about healthy life style and do not have much free time on shopping. Another trend, which I recently felt and which helps us a lot, is that there are fewer imported products, and our manufacturers immediately automatically increased their sales volumes, it became easier for them. A big role here was played by the change in the exchange rate, not the embargo itself. In my opinion, if the embargo is lifted, nothing will change now. Nobody will buy Valio yoghurts for a sky-high price. Maybe they will do, but in small independent shops, but we definitely will not feel it.

Can you say that you are winning from everything that happens on the market? When the embargo was imposed, did you see an influx of buyers?

- We always had Russian manufacturers presented in our stores and our customers were always preferring Russian products more.

Who is your main competitors?

- Competition is very conditional. In any case, we have to compete with large federal networks: they open many stores, people go there.

Do you often break up relationships with suppliers?

- For example, recently broke with three. Main reason is poor quality of the products: these are the complaints of customers, analyses in the laboratory, and the audit of production on the quality management system. If any of this appears - we break the relationship quickly.