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Jakub Mazal

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Master's Thesis:

# **Business plan: instant natural super-food**

Author:

Jakub Mazal

Supervisor:

doc. Ing. Mgr. Martin Lukeš, Ph.D.

## DECLARATION OF OWNERSHIP

I hereby declare that the Master's Thesis presented herein is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree program.

Prague, 29th August 2016

Signature

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**Dedication:**

I dedicate this thesis to my family who expressed unfading support and encouragement throughout my entire academic career. My gratitude to you will always be part of every success in my life. Thank you.

## **Title of the Master's Thesis:**

Business plan: instant natural super-food

## **Abstract:**

The goal of the thesis is to develop a business plan for an instant natural food replacement operating on the Czech market, analyse the potential and feasibility of this business idea and calculate the financial estimates of the business.

In the first part of the thesis, theoretical background on business planning is mapped with special focus on recent developments such as canvas business model, lean canvas and lean startup approach. This is followed by business plan structure which serves as a base for the practical part. Last topic of the theoretical part summarizes current trends in the food industry and especially market with functional food, dietary supplements, powdered food replacement, and anticipated future developments.

The practical part of the thesis is constituted by the business plan for the startup selling natural powdered meal-replacement on the Czech market. The goal of this part is to verify the business model by conducting a customer survey, assess the market potential, develop the company strategy and analyse its feasibility based on the financial model for potential use by external stakeholders.

## **Key words:**

business plan, entrepreneurship, instant meal replacement, super-food, healthy diet

# List of abbreviations

<b>B-MET</b>	Business Model Environment Template
<b>BMI</b>	Body Mass Index
<b>CAGR</b>	Compound annual growth rate
<b>CASF</b>	Czech Association of Special Foods
<b>COGS</b>	Cost of goods sold
<b>DIY</b>	Do-it-yourself
<b>EFSA</b>	European Food Safety Authority
<b>EHIS</b>	European Health Interview Survey
<b>EU</b>	European Union
<b>EUFIC</b>	European Food Information Council
<b>FDA</b>	Food and Drug Administration
<b>FIFO</b>	First in first out inventory management
<b>FUFOSE</b>	Functional Food Science in Europe
<b>ILSI</b>	International Life Science Institute
<b>IP</b>	Intellectual property
<b>IT</b>	Information technologies
<b>JIT</b>	Just in time
<b>MVP</b>	Minimum viable product
<b>OPEX</b>	Operating expenses
<b>PESTEL</b>	Political, Economic, Social, Technological, Environmental, Legal
<b>PPC</b>	Pay-per-click
<b>PR</b>	Public relations
<b>R&amp;D</b>	Research and development
<b>SEO</b>	Search engine optimization
<b>SG&amp;A</b>	Selling, general and administrative expenses
<b>UVP</b>	Unique value proposition
<b>WHO</b>	World Health Organization
<b>WOM</b>	Word-of-mouth

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# Introduction

The 21<sup>st</sup> century is often characterised by a dynamic development and new technologies, which influence every aspect of our lives. These changes fuelled by globalization typically involve active research and development (R&D) in the field of information technologies (IT), artificial intelligence, virtual reality, as well as biomedical sciences and nutrition to make human lives better, more comfortable, of higher quality and longer.

The combination of ever faster, stressful and increasingly demanding lifestyles, sedentary professions, culture of fast- and processed foods “enjoyed” by the Western civilization has resulted in increased incidence of so called lifestyle or civilization diseases such as diabetes, hypertension, coronary heart disease, arthritis, cancer, stroke, depression and obesity. In combination with rapid growth of e-commerce, rising aging population, growing healthcare costs, increased consumer awareness for preventative healthcare and channel proliferation, the market for dietary supplements is booming. Together with globalization and the removal of trade barriers, this gives a rise to opportunities for entrepreneurship activities.

According to the numerous market reports by marketing agencies such as IMS Health, Euromonitor or Persistence Market Research, the global market with dietary supplements is valued at some 90 billion USD and is expected to grow at a compound annual growth rate (CAGR) of 6-7% till 2020 (Euromonitor, 2015). Situation in Europe is no exception. Let alone in the Czech Republic, the market has been steadily growing despite the economic recession reaching 4.5 billion CZK in 2009 and 5.5 billion CZK in 2013 while growing at 6% according to the director of the Czech Association of Special Foods (CASF) (Hlavaty, 2013) constituting 20% of the overall Czech market with pharmaceuticals and medical aid.

All of the above mentioned gives rationale to this business plan for an instant natural super-food which can replace any meal of the day and offers healthy alternative to the traditional junk food. The original idea is rather simple. Intake of quality nutrition has always been essential for the well-being of every human. Sufficient amount of nutritious substances in the suitable proportion ensures the right functioning of the body, supports activity, reproduction and the overall health condition while preventing illnesses. On the other hand, lack of the proper macro- and micronutrients in the diet negatively affect the level of tiredness, nervousness, stress and fuels the speed of aging. Therefore, rise in health consciousness of the consumers leads them to look for dietary supplements to provide the body with the vitamins, minerals, fats, carbohydrates and proteins it needs. The instant drinkable super-meal does just that but on top

consists only of purely natural resources. Moreover, it can replace any meal of the day while charging the body with new energy in quick, easy and convenient way and provides the body with 100% of all nutrients.

In order to bring the product successfully to the market, the business plan in a form of this Master's thesis is created. It is structured into two parts.

In the first part of the thesis, theoretical background on business planning is mapped with special focus on recent developments such as canvas business model, lean canvas and lean startup approach. This is followed by business plan structure which serves as a base for the practical part. Last topic of the theoretical part summarizes current trends in the food industry and especially market with functional food, dietary supplements, powdered food replacement, and anticipated future developments. This is due to the fact that such sort of products resembling space food for astronauts represent brand new category aiming at eradication of unhealthy junk food, baguettes and other health-harming products.

The practical part of the thesis is constituted by the business plan for the startup selling natural powdered meal-replacement on the Czech market. This part is complemented by market data collected by both secondary marketing agencies and own research for better assessment of the feasibility. Hence, the main goal is to thoroughly explore and assess the identified market opportunity, justify its rationale, develop the company's strategy, describe the business model and its functioning with planned extensions for the future, and analyse its feasibility based on the financial model for potential use by external stakeholders.

Although the business plan describes a real startup, certain parts of this Master's thesis are intentionally distorted which is marked at the beginning of the relevant chapters. This is because of a newly introduced university regulation which prevents the author from hiding selected parts of the work from the public. Due to the topicality of the product, it is highly sensitive and disclosed information could be abused by existing competitors.

# 1 Theoretical part

*“A business plan is a written document that carefully explains every aspect of a new venture,”* (Barringer, 2009). If a business idea is screened, identified and assessed, based on the research, the process of business planning is the next logical step that every entrepreneur is advised to make when having intentions of starting a successful business (Miller, et al., 1994).

Although this might be depending on the conditions such as uncertainty tolerance or business stage of the company, the overall research findings show positive effects of business planning on the business performance (Brinckman, et al., 2010). Moreover, for a starting business it is an inherent document required by variety of stakeholders such as banks, investors or state authorities in case of subsidies. It is usually a detailed description of the business idea including the company’s mission statement and width of entrepreneurial activities, assessing its economic feasibility, market outlook and other internal and external factors that may impact the business’ operations (Lukes, et al., 2010 p. 103). Barringer identified two primary reasons for writing a business plan. The internal one sets the details of a business venture between the founding members and leads them to think about the venture systematically. The external one communicates the benefits of a new business to anyone potentially interested in investing or cooperating from positions of suppliers or job candidates and others (Barringer, 2009 pp. 12-14). The latter one was also empirically investigated by Ashamalla et al. who discovered on a sample of 150 investor capitalists that up to 98% of them survey a business plan and deem it an important tool in their decision making. However, from qualitative perspective they admit the plan itself is not viewed as a roadmap but as a conceptual exercise showing the mindset of the management team (Ashamalla, et al., 2008 pp. 381-391). Positive correlation between business planning and the new venture’s success was also identified by Wheelen and Hunger who stated that *“starting a business without a business plan is the quickest way to kill a new venture”* (Wheelen, et al., 2012).

However, some experts contradict such opinion due to the rapid changes of the marketplace making any plan quickly obsolete (Bhide, 2000). According to Ries, the traditional concept of business plan is not designed to support the startups in the uncertain environment. Rather than focusing on the most crucial parts, startupists get stuck in designing elaborate plans like for “rocket ship launch”. He therefore recommends the faster-to-write Lean Startup model focusing on concrete, more accurate points as described in the chapter 1.3 **Chyba! Nenalezen droj odkazů.** (Ries, 2011 p. 38). Berry goes even further when claiming that *“the plan is*

*useless, but planning is essential*” with his plan-as-you-go business plan which reflects the changing environment in a quick and flexible manner (Berry, 2008 p. 7).

The three most common forms of frameworks used for business planning are canvas business model, lean canvas model and lean startup approach described in the following paragraphs.

## 1.1 Canvas business model

The founding stone of the canvas business model was laid down by Alexander Osterwalder in his dissertation that started in 2000 which he further elaborated with Professor Yves Pigneur into a full-fledged framework which has been applied around the world by variety of companies including Procter & Gamble, Nestlé or Mastercard (Osterwalder, et al., 2010 p. 274).

According to a recent joint survey on a sample of 1,300 Canvas users by Strategyzer and Business Models Inc. the main reason identified is that it serves as a shared language for strategy and innovation leading to better strategic conversations. Most frequent application of the Canvas (in 36% of all cases) is development of an entirely new business followed closely by new product/service development within existing business model (Amarsy, 2015).

### 1.1.1 The concept

The starting point is definition of the model which according to Osterwalder “*describes the rationale of how an organization creates, delivers, and captures value*” (Osterwalder, et al., 2010 p. 14).

Originally in his dissertation, Osterwalder identified four pillars that he considered as the core for a description of the business model of a firm. These are:

- **Product** – what business the company is in, the products and the value propositions offered to the market.
- **Customer interface** – who the company’s target customers are, how it delivers them products and services, and how it builds a strong relationships with them.
- **Infrastructure management** – how the company efficiently performs infrastructural or logistical issues, with whom, and as what kind of network enterprise.

- **Financial aspects** – what is the revenue model, the cost structure and the business model's sustainability (Osterwalder, 2004 p. 42).

These four areas were further elaborated into higher level of detail resulting in nine interrelated business model building blocks as demonstrated in the table 1. Together they cover all elements showing the logic of how company plans to generate money.

**Table 1:** The nine business model building blocks

Pillar	Building Block of Business Model	Description
<b>Product</b>	Value Proposition	A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer.
<b>Customer Interface</b>	Target Customer	The Target Customer is a segment of customers a company wants to offer value to.
	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer
<b>Infrastructure Management</b>	Value Configuration	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	Capability	A capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
<b>Financial Aspects</b>	Cost Structure	The Cost Structure is the representation in money of all the means employed in the business.
	Revenue Model	The Revenue Model describes the way a company makes money through a variety of revenue flows.

Source: (Osterwalder, 2004 p. 43).

The heart of any business model is the Customer Segments building block which specifies the groups of people or institutions the company plans to address and serve. For any company it is essential to answer for whom it is creating value and who the most important customers are (Osterwalder, et al., 2010 pp. 20-21).

The second building block is represented by Value Propositions which describes the services or products creating value for a given customer segment. It explains how it solves a customer problem or satisfies a customer need. The differentiator why a customer selects one company over another can reside in either quantitative (e.g. price, speed of service) or

qualitative (e.g. design, customer experience) values. Among other elements are also newness, performance, customized products or services, brand and related social status, opportunity for risk reduction or convenience (Osterwalder, et al., 2010 pp. 22-25).

Channels describe how a company delivers a value proposition to its customers and involves distribution and sales channels. There are four elementary types of channels (direct and indirect ones, owned and partner ones) which are usually combined to achieve the right mix for customer satisfaction (Osterwalder, et al., 2010 pp. 26-27).

Customer Relationships represent the fourth building block of the Canvas. It focuses on the type of relationship for each customer segment the company targets with four elementary motivations (customer acquisition, customer retention and boosting sales). The choice should reflect expectations of each customer segment, costs to maintain them and a level of integration with other parts of the business (Osterwalder, et al., 2010 pp. 28-29).

Under the building block Revenue Streams is money generated from each customer segment. It covers a sum of all values that the customers are willing to pay for, as well as methods of payments and contribution of each stream to overall revenues. The main types of revenue streams include asset sale which is the most widely used, usage fee, subscription fees, lending, renting or leasing and licensing. The last two types are brokerage fees and advertising models. The pricing mechanisms, among which the main two types are dynamic and fixed pricing, can differ for each revenue stream based on the profitability of a given customer segment. (Osterwalder, et al., 2010 pp. 30-33).

To make the business model work, Key Resources are needed. This building block represents resources needed for proper functioning of the five above-mentioned elements. They can be divided into physical, intellectual, human or financial and should match the requirements of value proposition, distribution channels, customer relationships and revenue streams (Osterwalder, et al., 2010 pp. 34-35).

For successful operation, every company must conduct Key Activities which create and offer a value proposition and earn revenues. These differ by the business model and vary between production, problem solving and platform or also network activity (Osterwalder, et al., 2010 pp. 36-37).

All external stakeholders needed for the business model to work such as suppliers and partners represent the Key Partnerships. The four elementary types of partnerships are strategic alliances between non-competing firms, between competitors, joint ventures and buyer-supplier

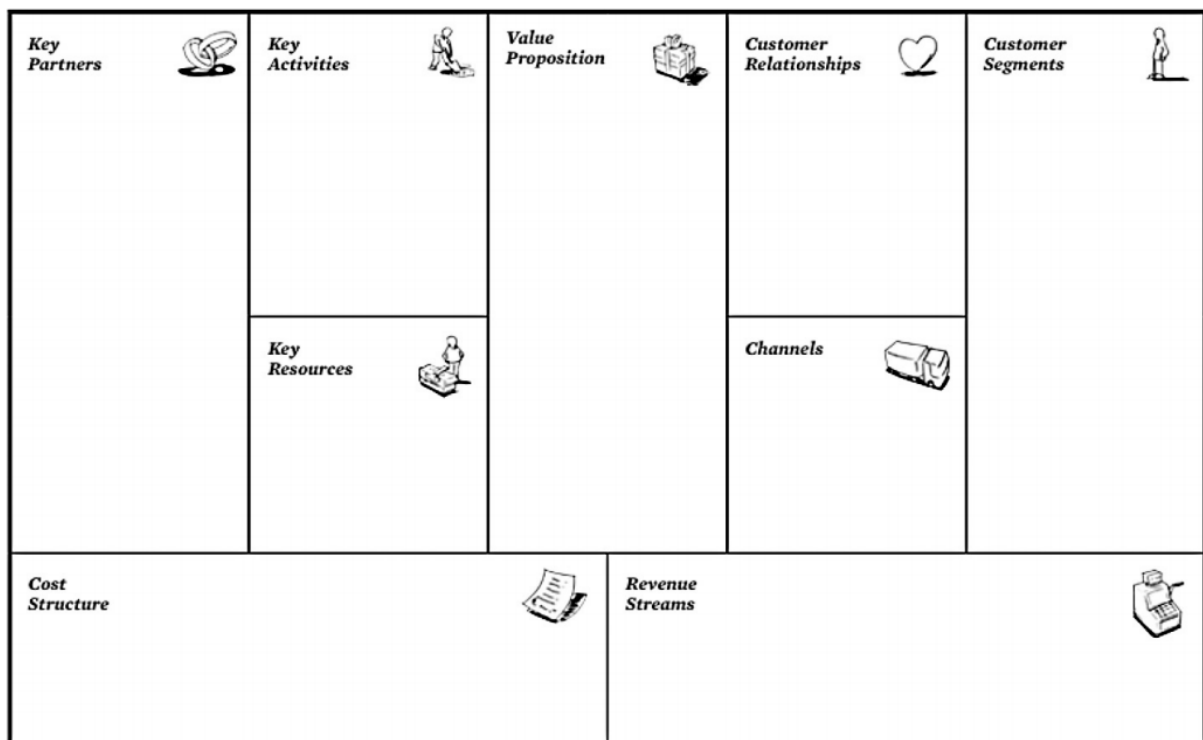


relationships. Firms can be motivated for partnerships to lever economies of scale, reduce risk and uncertainty or acquire particular capability or activity (Osterwalder, et al., 2010).

Cost Structure captures all expenses company has to make when operating under a given business model. The cost structure is dependable upon resources used, activities employed and partnerships signed. The two main classes of business models are cost-driven and value-driven. Costs structures could be characterised by the four major costs types, i.e. fixed and variable costs and economies of scale and scope.

Altogether, these nine building blocks form the basis for the business model canvas displayed in picture 1.

**Picture 1:** The Business Model Canvas



Source: (Osterwalder, et al., 2010 p. 44).

### 1.1.2 Patterns of canvas business model

Business model patterns are business models with similar behaviour or arrangements of the building blocks. Osterwalder identified five basic standardized patterns which include unbundling, the long tail, multi-sided platforms, free, and open business models.

Unbundling business models summarizes three fundamentally different business types which might co-exist in a single corporation but should ideally be distinctly separated to mitigate potential conflicts. These include customer relationship businesses (focusing on

finding and acquiring customers and relationships with them), product innovation businesses (aiming for new and attractive products and services), and infrastructure businesses (concentrating on platforms for high volume, repetitive tasks). Such example can be seen in the telco industry where traditional mobile communication providers unbundled the peripheral business activities such as network maintenance or service and product innovation to allow sharper focus on the customer relationship which is at the core of company's existence (Osterwalder, et al., 2010 pp. 56-63).

The long tail business models are based on sales of low volumes of many products focusing on niche and lucrative markets. This can lead to aggregate sales of niche products comparable to the traditional model under the condition of low inventory costs and strong platforms (Osterwalder, et al., 2010 p. 67). An example on the Czech market could be furniture and accessories online platform Bonami which offers wide portfolio of rare design products from unknown authors and small boutiques for only limited period of time making it even more unique. Similarly, the Danish toy company LEGO was forced to enable user-generated content where customers are allowed to assemble their own kits as an alternative to the traditional mass-market model (Osterwalder, et al., 2010 p. 72).

Multi-sided platforms connect two or more interdependent customer groups. The value is created by connecting these groups via these platform operators who generate value. In this regard it is often referred to the network effect as the platform grows and attracts more and more users. Among examples are companies such as Google or Facebook which connect advertisers with customer target groups (Osterwalder, et al., 2010 pp. 77-79).

Free as a business model allows at least one customer segment continuous usage of the offered product or service for free, while the operation is covered by other business division or customer segment. These patterns include free advertising-based offer, so called freemium model, where the basic service comes for free with paid add-ons as is the case of Skype, and the "bait & hook" model, where initially customers are attracted by free or low-cost offer that will turn into repeated purchases as is the case of copy machines with expensive cartridges or razor & blades (Osterwalder, et al., 2010 pp. 89-105).

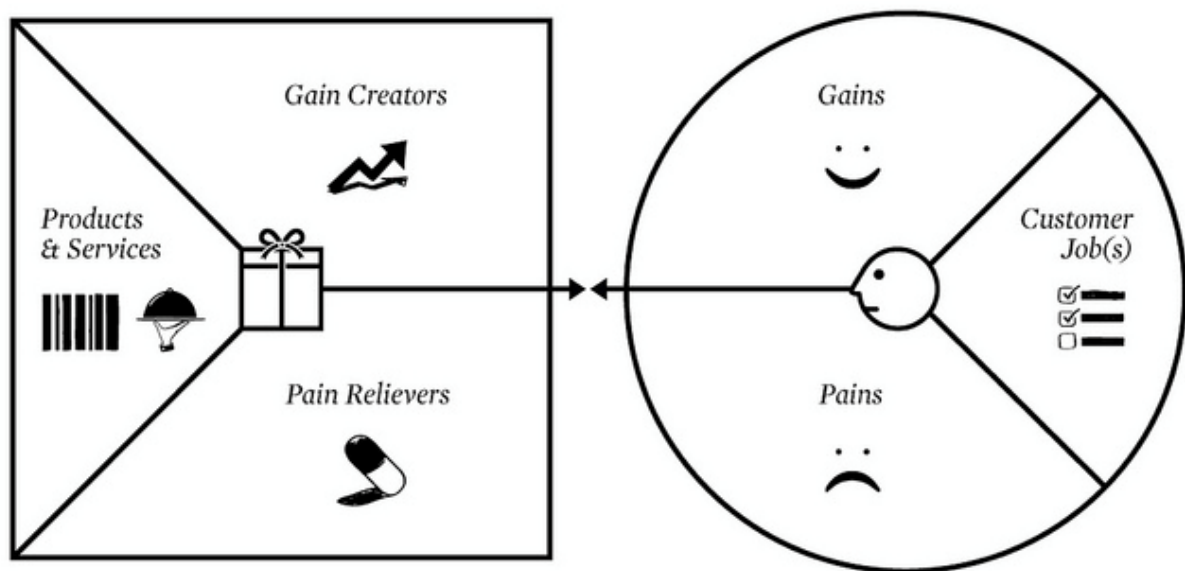
The last one is the open business model which leverages the collaboration with external partners. The collaboration can proceed either from the "outside-in" by implementing external ideas internally or from the "inside-out" by granting access to external partners. Significant value can be achieved in R&D or in intellectual property (IP). Such model is applied by

GlaxoSmithKline's patent pools which give access to the IP rights relevant for developing drugs for the world's poorest countries (Osterwalder, et al., 2010 pp. 108-113).

### 1.1.3 Value proposition canvas

Value proposition canvas is a tool that helps design, test, build and manage customer proposition. It works as a plug-in to the business model canvas and is based on its two elements, the customer segments and the value proposition. Thanks to the value proposition canvas demonstrated below in picture 2, it is possible to see in higher granularity the fit between what the company offers and what the customers want.

**Picture 2:** The Value Proposition Canvas



Source: (Strategyzer, et al., 2014).

The customer segment profile describes in detail the customer characteristics. It composes of three parts. The Customer Jobs that the customers are trying to get done in their works and lives and the related important issues that they are facing, needs they want to satisfy or problems they are trying to solve. The second part represents the related Pains outlining the negative aspects they would like to avoid before, during or after getting the job done, such as undesired costs or risks. The third aspect of the profile are the Gains describing the positive outcomes and benefits that the customers would like to have. This includes functional utility, social gains, positive emotions and cost savings. All these characteristics can be observed in the market.

The other part of the value proposition canvas demonstrates the ways how company is going to address the customers' most important jobs, pains and gains. It consists of three parts creating the value proposition map. First part, Product & Services, outlines the bundle of

products and services which help the customers get the jobs done. The Pain Relievers make explicit how the products and services are going to alleviate specific customer pains before, during and after they are getting the jobs done. The last part are Gain Creators which make explicit how the products and services create customer gains.

The overall goal is to find a problem solution fit between the features of the value proposition map and the characteristics of the customer segment profile. If validated by the market, the company achieves the product market fit (Osterwalder, 2012).

## 1.2 Lean canvas

The concept of lean canvas authored by Ash Maurya in 2010 is an adaptation of Osterwalder's business model canvas. The aim of Maurya was to develop more practical approach with direct application towards business based on his first-hand experiential learning and experimentation on his own products. When compared with Osterwalder's business model canvas, lean canvas was made "*as actionable as possible while staying entrepreneur-focused*," (Maurya, 2012). Furthermore, Maurya's canvas was amended to accent the uncertainty and risks associated with the business operations. As a result, the following building blocks were incorporated and to the business model canvas:

- **Problem** – Unique Value Proposition (UVP) does not fully reflect the customers' problem they need to solve, In fact, Maurya claims that UVP is a marketing promise company makes to the customers which is a result of the intersection between the problem and the solution.
- **Solution** – Maurya believes that Key Activities are derived from the Solution box once the Minimum Viable Product<sup>1</sup> (MVP) has been tested. The Solution should be aligned with the problem but not too much clung on to allow for further development.
- **Key Metrics** – rather than being stuck under a pile of different Key Performance Indicators (KPIs), a startup should focus on only one Key Metric. However, the risk of failing in identification of the correct KPI can lead to a waste of resources.

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<sup>1</sup> According to Ries, "*A Minimum Viable Product is that version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort*" (Ries, 2009). Maurya states that "*A Minimum Viable Product is the smallest thing you can build that delivers customer value (and as a bonus captures some of that value back)*," (Maurya, 2012).

- **Unfair Advantage** – also called competitive advantage or barriers to entry, it is frequently lacked aspect of a startup. However, every company should strive for creation of such Unfair Advantage to fend off copycats and competitors entering the market as they can become a real threat towards the existence of the company (Maurya, 2012).

The outcome is nine-building-block fast and concise canvas shown in picture 3.

**Picture 3:** Lean Canvas

<b>PROBLEM</b> Top 3 problems	<b>SOLUTION</b> Top 3 features	<b>UNIQUE VALUE PROPOSITION</b> Single, clear, compelling message that states why you are different and worth buying	<b>UNFAIR ADVANTAGE</b> Can't be easily copied or bought	<b>CUSTOMER SEGMENTS</b> Target customers
	<b>KEY METRICS</b> Key activities you measure		<b>CHANNELS</b> Path to customers	
<b>COST STRUCTURE</b> Customer Acquisition Costs  Distributing Costs  Hosting  People, etc.			<b>REVENUE STREAMS</b> Revenue Model  Lifetime Value  Revenue  Gross Margin	
PRODUCT			MARKET	

Source: (Maurya, 2012 p. 5).

Maurya recommends to start with lean canvas before writing a business plan which is too lengthy and might ignore the real market needs, therefore falling short of practical utilization (Maurya, 2012 p. 4). It is advised to start with the Problem section describing top one to three problems customers want solved. All existing alternatives including substitutes should be listed as well for a better understanding. Problem section goes hand in hand with the Customer Segments which should list possible early adopters including their characteristics.

The next step is UVP which is the trickiest to get right but also one of the most important ones. UVP states “*why you are different and worth getting attention*” (Maurya, 2012 p. 29).

The fourth step is the Solution generation. As all the listed problems are untested, suggested Solution should not be too specific but rather general to avoid harnessing creativity (Maurya, 2012 p. 32).

Channels represent the fifth building block. Building wrong or insufficient path to customers is oftentimes reason for startup failure. Although having extensive distribution channel should not be at the forefront, it is inherent to develop and test scalable channels from the very beginning. The basic classification is into inbound and outbound channels. Inbound channels, so called “pull messaging”, let customers get to know you organically, whereas outbound channels, so called “push messaging”, proactively reach out to customers (Maurya, 2012 pp. 33-34).

Revenue Streams specify all sources of income for the company in the short term rather than three- to five-year forecasts. Maurya puts emphasis on the pricing which he considers to be an integral part of every product and should thus be sensitively tested from the early market introduction of MVP. Furthermore, pricing is a useful tool as it helps define the customer segment as well as validates relevance of the offered product or service (Maurya, 2012 pp. 36-37).

Cost Structure summarizes the market-entry costs and initial expenditures related to the market validation including expected burn rate in terms of fixed and variable costs of MVP. These are necessary for the correct estimation of a break-even point and the required money to reach it (Maurya, 2012 p. 38).

Thanks to Key Metrics businesses can understand its performance in real time. Inspired by Dave McClure’s Pirate Metrics, Maurya recommends to focus on acquisition rate, activation, retention of the customers, revenue and referral by satisfied customers.

Last but not least Unfair Advantage “*is something that cannot be easily copied or bought,*” (Cohen, 2010). Having one is frequently impossible at the company’s beginning but should be prioritized along with the company development. Examples of Unfair Advantages include insider information, expert endorsement, a dream team, personal authority, large network effects, community, existing customers or Search Engine Optimization (SEO) ranking (Maurya, 2012 p. 43).

## 1.3 Lean Startup approach

A complement to the startup<sup>2</sup> concepts is Lean Startup by Eric Ries. Ries was inspired by the lean manufacturing revolution at Toyota. It led him to translate the core principles of supply chains and production systems such as just-in-time (JIT) concept into the Lean Startup for any starting entrepreneur while emphasizing “*fast iteration and customer insight, a huge vision, and great ambition, all at the same time,*” (Ries, 2011 p. 30). According to Blank’s comparison, it is in contradiction with the traditional approach of strategic long-term planning and so called stealth mode of operation when companies used to work on a product development under secrecy creating full-fledged products without any customer feedback while avoiding competitors from finding out about the market opportunity. Under the Lean Startup, company should continuously collect customer feedback to avoid costly and wasteful usage of resource by implementing agile development<sup>3</sup>. This means development of the MVP for immediate testing (Blank, 2013).

### 1.3.1 Product building

Rather than being managed the traditional way with forecasts, product milestones, and detailed business plans, any startup needs to identify whether it builds something customers have desire for. Using empirical testing gives teams more specific, accurate, and faster validating than market forecasting or business planning. It means being in touch with early-adopters and potential customers and conducting qualitative analysis searching for patterns in preferences that bring benefits to the customer. Everything else is a wasted effort. If qualitative analysis identifies the right issues, the quantitative validation is only a question of time.

The next step is startup experimentation. On an example of shoe e-commerce platform, Ries argues that it should be an impediment “*to observe, interact with, and learn from real customers and partners*”, even if in a small scale to verify the company’s vision. By breaking down the vision into value hypothesis and the growth hypothesis, startup can test whether and how the offer provides value to customers and if they would be willing to adopt and recommend it further. Moreover, real-life testing enables quick learning which can be incorporated in the

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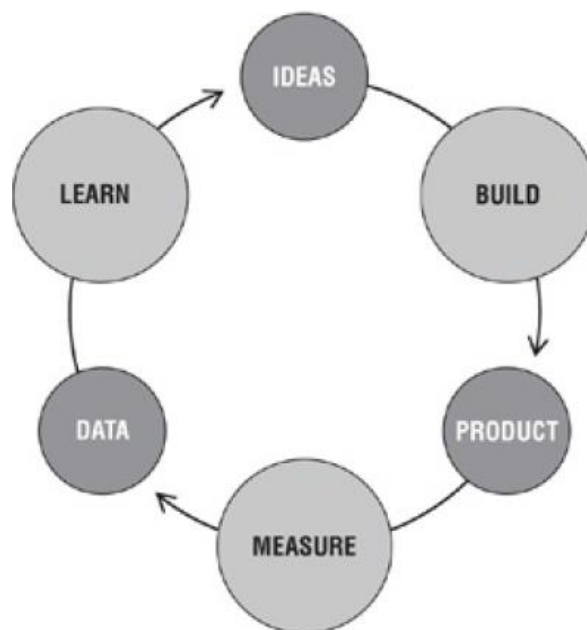
<sup>2</sup> Ries defines startup as “*a human institution designed to create a new product or service under conditions of extreme uncertainty,*” implying that even a well-established corporation might be considered a startup (Ries, 2011 p. 37).

<sup>3</sup> The product is developed iteratively and incrementally rather than in a yearlong cycles.

next prototype. Same approach is shared by Blank who redefined the traditional Product Development process into the Customer Development consisting of four stages taking place "out of the building" talking to the potential customers, i.e. customer discovery, validation, creation and consecutive company building (Blank, 2005 p. 16).

The above-mentioned process called the Build-Measure-Learn feedback loop as shown in picture 4 enables making quick and constant adjustments so called pivots as and when needed. In practice, it means that the startup should quickly clarify the hypotheses, develop a MVP with the minimum time and resources available to present it to potential customers and collect their feedback for incorporation. The MVP does not need to provide many features but the opposite to let the customers discover the aspects of the product they would value the most. Unfortunately, frequently the features are overstated resulting in high level of complexity whereas Ries advises on simplification or even simple smoke tests before launching a prototype. This should further reinforce the problem-solution focus and waste avoidance where any redundant features are removed as long as they do not bring any value to the customer. As a result, the goal is to reach lean product able to win over customers. This obviously does not happen overnight and without risks but might be accepted negatively by the market. The remedy might be provided by innovation accounting described in the next paragraph that relies on entrepreneur's perseverance and flexibility to make often pivots (Ries, 2011 pp. 98-113).

**Picture 4:** Diagram of the Build-Measure-Learn feedback loop



Source: (Ries, 2011 p. 81).



### 1.3.2 Performance measuring

Measure phase is about identification of the real progress. Ries named it Innovation Accounting, “*a quantitative approach that allows us to see whether our engine-tuning efforts are bearing fruit*”, (Ries, 2011 p. 82). It reside in thorough measurement of the current status and its assessment and identification of the next steps to achieve targets set in the business plan. The innovation accounting framework is divided into three steps. The progress-tracking must start with the MVP to collect real market data. This is followed by optimization and tuning of the product to approximate the ideal. Thirdly, when reaching third milestone, decision must be made whether to persevere or pivot the original strategy. The decision should be based on the results of tested hypotheses. If pivot is made, the Build-Measure-Learn process starts again. (Ries, 2011 p. 83).

It is critical for success to choose the right metrics. Ries warns against vanity metrics which present the company’s data in a positive way. As an alternative, startups should use actionable metrics to uncover the real drivers of the startup’s performance which are defined by three A’s. Report must be actionable in the sense of demonstrating cause and effect. Accessibility must ensure simple understanding and availability for everyone within the firm. The last of A’s stands for auditable to ensure credibility of the report. This means the data collection process must be clearly explained to avoid any potential distortions, ambiguities or mistakes. Consistency with clear responsibilities for consecutive success or failure then cannot be contested (Ries, 2011 pp. 141-145).

### 1.3.3 Learning

Third element of the feedback loop is the process of learning from the outcomes of testing once the elements that work for the overall vision while satisfying the customers’ wants have been identified. Ries calls it a “*validated learning*” which “*is a rigorous method for demonstrating progress when one is embedded in the soil of extreme uncertainty in which startups grow*”, (Ries, 2011 p. 46). It should answer the question whether the firm’s hypotheses were set correctly and lead to a progress or need a pivot, “*a structured course correction designed to test a new fundamental hypothesis about the product, strategy, and engine of growth*”, (Ries, 2011 p. 147). The types of pivots are listed in the following table 2.

**Table 2:** Types of pivots

Pivot	Description
<b>Zoom-in pivot</b>	A single feature becomes the whole product
<b>Zoom-out pivot</b>	A single feature is insufficient – the whole product becomes part of a larger product
<b>Customer Segment pivot</b>	The problem is verified but serves a different customer group than originally planned
<b>Customer need pivot</b>	Thanks to deep insights, company discovers other related problems relevant to the customers and solvable by the team
<b>Platform pivot</b>	Change from an application to a platform or vice versa
<b>Business Architecture pivot</b>	It was observed that companies follow either high margin, low volume (often B2b) or low margin, high volume (often B2C) – in case of business architecture pivot, a startup switches architectures
<b>Value Capture pivot</b>	Resides in shift of the way a company captures value which can have far-reaching consequences for the rest of the business, product, and marketing strategies
<b>Engine of Growth pivot</b>	Startup shifts between one of the three primary engines of growth: <ul style="list-style-type: none"><li>• sticky: focus on high customer retention rate</li><li>• viral: awareness of the product spreads rapidly from person to person virally</li><li>• paid: company pays for customer acquisition, usually by advertising</li></ul>
<b>Channel pivot</b>	Change in the mechanism by which a company delivers its product to customers
<b>Technology pivot</b>	When startup identifies that same solution can be reached by different technology providing better performance or cost/benefit ratio

Source: (Ries, 2011 pp. 168-172).

### 1.3.4 Summary of Lean Startup

In a nutshell, the Ries's Lean Startup is based on three principles. The first one prioritizes formulation of testable hypotheses for which a framework of business model canvas can be used. Second is built around the customer development meaning that feedback collection on all elements of the model from the real customers is required. Concept of MVP is useful for its speed and minimum of resources needed. The third concept evolves around the agile development which reflects on and incorporates immediate changes in customer characteristics or other changes resulting in elimination of the waste. The cycle of testing, customer feedback collection, and assumption revision is continuous with constant iterations or more significant pivots.

Maurya adds one more element to the Build-Measure-Learn validated learning loop. For success, startups need not only speed and learning but also focus. According to him focus is inherent otherwise the speed and learning might *“lead to pre-mature optimization which is*

*a form of waste*”, (Maurya, 2012 p. 25). This means making change of potentially acceptable product feature without having any form of validation.

## 1.4 Business Model Environment Template

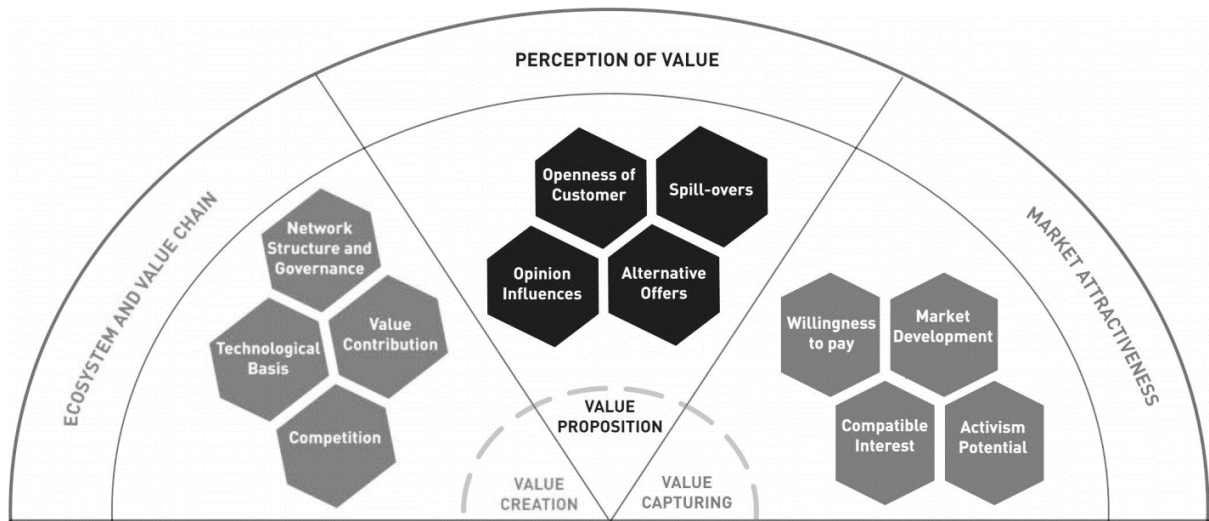
All of the business models focused on the core activities of the business but did not cover the external environment which affects any business operations. The traditional frameworks for environmental analysis involve PESTEL framework or Porter’s five forces but Martin Kamprath et al. have developed a contemporary tool based on Osterwalder’s Business Model Canvas.

According to Kamprath et al. the majority of business model concepts, although describing a firm and a given market environment, lack focus on external factors that affect or are affected by the design of the business model. This is due to the fact that existing business model frameworks are limited to the company level and ignore changes in the industry environment or their connection to the business environment and these factors are usually hidden in a single business model component. Another deficiency evolves around the value proposition which is usually in the centre of the models but considered as a fix and constant component. However, the value is based on a subjective feeling that undergoes constant changes resulting in new opportunities and threats for the business models. Therefore, a new concept of Business Model Environment Template (B-MET) has been developed to capture the dynamics of a business model context allowing for translation of the new information into new business models (Kamprath, et al., 2014).

B-MET integrates a range of concepts and theories such as ecosystems, industry convergences and individual perception of value, social construction of markets, sustainability and multi-sided markets. It supports the analysis and judgement of consistency between business model and its environment. The model is divided into three broad dimensions (value proposition, value creation and value capturing). For each environmental area Kamprath develops sub-dimensions with a framework for the scanning of business model environment and its key influencing factors as demonstrated in the picture 5

**Chyba! Nenalezen zdroj odkazů.** (Kamprath, et al., 2014).

**Picture 5:** The Business Model Environment Template



Source: (Kamprath, et al., 2015).

## 1.5 Business plan structure

If the business models serve as a dynamic and flexible tool for strategy analysis, the business plan is based on them and serves as a long-term strategy document summarizing the company's vision. According to Osterwalder business model is actually the perfect basis for writing a business plan (Osterwalder, et al., 2010 p. 268).

There is no single universally accepted structure of a business plan and certain modifications can be noticed by different authors. However, the following compiled elements can be traced in majority of the publications devoted to this topic. Indeed, the order of the chapters might vary case by case. For the purpose of this Master's thesis the selected order of the chapters reflects structure suggested by authors Barringer, Kuratko, Friend, and Zehle and serves as a framework for detailed application in the practical part.

### 1.5.1 General guiding principles

A good business plan should be coherent, consistent and customer focused with clearly defined market, its prospects, as well as all direct stakeholders such as the customers, suppliers and competitors. All assumptions and forecasts should be based on credible business planning including the ways how the business is going to achieve them while keeping a competitive advantage. Inherent is also risk analysis identifying the most sensitive assumptions. Last but not least, the business plan should be supported by those who need to implement it including their description and background (Zehle, et al., 2010 p. 8). The document should cover all

important aspects without being too lengthy, not going beyond 25 pages (Barringer, et al., 2012 p. 117). The writing style needs to be clear and concise. Based on a research focusing on the language used by entrepreneurs and their success in raising funds, certain correlation supports not excessively positive vocabulary demonstrating confidence and affirmative view of the business' future (Neil, et al., 2012).

### **1.5.2 Executive summary**

The executive summary, not to be confused with introduction or preface, is considered by many experts as the most important element of the business plan as it is the first part read by investors and need to attract their attention (Zehle, et al., 2010 p. 18; Barringer, et al., 2012 p. 122). Its primary function is to capture the reader's attention. Only if found convincing, the full business plan might be requested. It serves as a short overview of the whole business plan covering the most important aspects of the new venture and its major mission, products, services, and the customers, the market opportunity, marketing points, and the goal (Kuratko, et al., 2009 p. 77). Some authors also recommend to include a decision or funding being sought (Zehle, et al., 2010 p. 18; Barringer, 2009 p. 88).

Barringer recommends not to exceed two single-spaced pages with a structure following the order as presented in the plan. It should be prepared as a stand-alone document due to an increasingly frequent practice among investors who request short PowerPoint overview rather than written document to further save on time. In such case the summary should not exceed ten to fifteen slides (Barringer, 2009 pp. 83-86). Although being the first chapter, it should be written last to avoid a risk of writing "*a plan that fits the executive summary rather than thinking through each piece of the plan independently*", (Barringer, 2009 p. 87).

### **1.5.3 Business and idea description**

In this section the business is described in higher level of detail including a brief history of the company and business goals, its mission, product or service in terms of the UVP for customers, its current status and legal status with ownership structure. Barringer considers this chapter as an essential one to demonstrate to the reader the entrepreneur's ability to turn an idea into a business.

Section on company's history explains origin of the business idea and the driving force behind it. In case of a startup, the initial stage and story behind can be covered with explanation how a compelling need is met by the proposed product or service. The history can explain major

milestones and successes from both business development and financial perspectives to date (Barringer, 2009 p. 91). Schaper and Volery also suggest naming company's short-term and long-term goals covering the period of two to three years in a form of measurable indicators (Schaper, et al., 2007 p. 165).

*"A mission statement defines why a company exists and what it aspires to become"*, (Barringer, 2009 p. 92) and helps the reader understand the philosophy and vision for the business. To clearly articulate the focus and purpose, company's mission statement should be short to be easily remembered. Among several rules are points suggesting description of what makes the company different, passionate, challenging but achievable vision, and a tone reflecting company's culture. To give an example, Google's mission statement is to *"Organize the world's information and make it universally accessible and useful"*, (Barringer, 2009). However, as the company evolves and changes the mission statement might be adapted as well. In case of Apple, the original form *"To make a contribution to the world by making tools for the mind that advance humankind"* turned into its current and more comprehensive and detailed *"Apple designs Macs, the best personal computers in the world, along with OS X, iLife, iWork and professional software. Apple leads the digital music revolution with its iPods and iTunes online store. Apple has reinvented the mobile phone with its revolutionary iPhone and App store, and is defining the future of mobile media and computing devices with iPad"*, (Rowland, 2015). For more efficient communication and brand building, taglines or mottos are often used which then complement the brand and are used in branding campaigns (Barringer, 2009 p. 93).

The section on product or service explains further the offer in terms of UVP with a description of uniqueness, positioning on the market relative to the rivals, and the current or potential customers and including their rationale for the offer acceptance. Any IP protection, patents or barriers to entry preventing quick copying should be mentioned here as well. If such advantage does not exist, Barringer advises to gain credibility by disclosing such situation and admitting a major risk to be addressed (Barringer, 2009 pp. 93-94).

The current status section should outline the achievements accomplished so far. These might include registering company name, establishing legal entity or conducting a feasibility analysis. Barringer highlights particularly customer reaction, composition of the management team and financial status. Any customer feedback or results from market testing should be incorporated here. If the management team is not complete, the planned staffing should be mentioned. Finally, methods of financing used so far including potential loans or equity sold must be tackled (Barringer, 2009 pp. 94-95).

Section with ownership structure indicates all owners, their shares, form of relations and if and how they are governed by the founder's agreement. In case these relations have not been resolved yet, it should be indicated to alert the reader about unresolved but planned changes. Any legal status established or intended for the company needs to be specified for the reader to better understand consecutive implications such as liability of the business for its operations, taxation or possible changes in the ownership structure in case of investors (Barringer, 2009 p. 95).

### **1.5.4 Environment analysis**

The environment analysis describes the external environment surrounding the company. It can be divided into two parts. The industry analysis explores situation of all the companies in the given sector and the trends in a sense of size, growth and concentration. The market analysis deals with target segment of the industry that the company aims for.

#### **1.5.4.1 Industry analysis**

Industry evaluation provides hints for the future outlook and possible expectations of the company's revenues. The two ways indicators can be divided are in to quantitative and qualitative ones.

Quantitative section of the industry analysis explores the industry size, growth rate and future sales projections to develop credibility behind the business plan. The industry size should cover three to five year period based on the firms currently present. Industry breakdown into segments helps identify and analyse profitable markets. Industry growth rate expressed in percentage should be compared with similar industries to identify the overall potential. Sales projection is the third element supporting credibility about industry selection and can be developed by extrapolation of the past trends into the future of one to three years. Other indicators such as seasonality, social changes, technological advances, and political and regulatory changes should not be omitted (Barringer, 2009 pp. 103-109).

Qualitative research elaborates upon the industry characteristics such as the competitive landscape. Barringer names four key issues that need to be addressed, industry structure, nature of participants, financial ratios, and key success factors. Industry structure refers to the fragmentation or concentration of the competitors. Typically emerging markets are highly fragmented with a number of smaller competitors whereas mature markets experience consolidation which concentrates power among several major players which creates barriers for

a new entrant. Nature of participants analyses players on the market, their percentage share, segmentation, and business models. Financial ratios provide further insight and set the expectations for the company, e.g. regarding the average profit margin in the given industry. Key success factors specify the key activities company has to focus on to succeed. Higher level of detail might address trends in input costs and innovation trends (Barringer, 2009 pp. 109-114).

#### **1.5.4.2 Market analysis**

The market analysis is a next step which divides the industry into homogenous segments that the firm will enter. The process is important for better understanding of the needs of the target market, its size and development. By the market analysis company should identify its target customers.

The process of market segmentation can run in a variety of methods such as geography, demographic variables, psychographic variables, behavioural variables or product type. The correct segmentation is reached when the segment has homogenous needs, is distinctive towards other segments to easily identify its members, its size can be assessed and it should be large enough to bring profitability (Barringer, 2009 p. 128).

Consecutively, a market segment that is reachable, demonstrates positive growth trends and matches the founders' background should be selected. In the initial stage, selecting multiple segments should be avoided to keep focus and resources. In the next stage, customer behaviour within the target market needs to be analysed and assessed to match their expectations (Barringer, 2009 pp. 127-133).

Competitor analysis is the last step whose purpose is to identify direct, indirect and future competitors. By using the competitive analysis grid, a company can get overview of its position, competitive advantage, strengths, weaknesses, threats and opportunities for further development (Barringer, 2009 pp. 134-138).

Once all the details are compiled, estimation of annual sales and market share needs to be evaluated. This serves as a basis for further chapters, estimation of the marketing budget, number of employees etc. However, this part is usually covered in the financial section (Barringer, 2009 p. 138).



### 1.5.5 Marketing plan

Once the company identifies and describes the target market, a strategy on how to find, attract and motivate customers to close the sales follows. The components include price, promotions, distribution, and sales (Barringer, et al., 2012 p. 127).

The starting point is a marketing strategy, which summarizes the marketing of all products and services, positioning on the market and points of differentiation from its competitors. *“Positioning is about finding the right product (brand) for the right consumer (segmentation) with rather specific consumer needs (targeting through benefit) that can be satisfied in a unique way (differentiation from the competitor)”*, (Machkova, et al., 2010 p. 94). Barringer suggests to develop a product attribute map by communicating two of a product’s most important attributes, one on each axis, and plotting its position compared with the major competitors (Barringer, 2009 p. 150).

As the next step, supporting elements price, promotional mix, sales process, and distribution strategy should be specified. These need to be aligned with the positioning and points of differentiation. Most indicative tool in this regard is the price. *“Price is the sum of all values that consumers exchange for the benefits of having or using the product or service”*, (Machkova, et al., 2010 p. 134). As a strategic and operational tool, it needs to be carefully set. Kuratko recommends to consider three key aspects which directly influence the pricing policy. Internally, it must cover the costs associated with the market introduction. Externally, positioning towards the current competitors must be taken into account. Finally, any planned price increases due to the newness, quality, warranty, or service need to be carefully planned (Kuratko, 2014 p. 385). Barringer suggests either cost-based pricing, which is determined by adding a mark-up percentage to a product’s cost, or value-based pricing, which reflects the value perceived by customers that they are willing to accept (Barringer, 2009 pp. 151-152). Maurya confirms the importance of this element and recommends an early testing while avoiding freemium. If a startup plans to charge for its product, it should start from day one (Maurya, 2012 p. 63).

The sales cycle and promotions mix belong to the last element. Sales cycle indicates the steps from initial customer contact to the sales closing. Promotions mix includes advertising, public relations (PR), direct marketing, sales promotion, and sometimes also personal selling which is more common on the B2B market.

### **1.5.5.1 Customer education in marketing**

Any newly introduced product or product category needs to gain trust from the potential customers. Due to the nature of the innovative product field of the food industry for consumers considered in this Master's thesis, special focus is dedicated to the topic of so called education marketing or also customer education as a marketing tool. It can be defined as *“Any purposeful, sustained and organized learning activity that is designed to impart attitudes, knowledge or skills to customers or potential customers by a business or industry. It can range from self-instructional material for a particular product to a formal course related to a product or service”*, (Meer, 1984).

Its main goal is to explain the core benefits of the product while raising overall awareness about a given sector to develop a pull demand for the product. The effectiveness has been confirmed by a recent study (Fowers, 2014) where up to 97% of respondents indicated higher probability to inform others about their experience and 94% of them were more satisfied when provided with educational tools. This critical point is a necessity in today's information-driven era where consumer education serves as a brand differentiator, fosters brand loyalty, and improves sales and satisfaction (Hennig Thureau, et al., 2005 p. 136).

### **1.5.5.2 Word-of-mouth marketing**

Word-of-mouth (WOM) is a form of personal communication involving exchange of information about product among the target customers and their environment (Kotler, 2007 p. 829). It is considered as one of the most efficient communication tools due to its trustworthiness and credibility. It is mainly associated with customer satisfaction or dissatisfaction with the product or related customer care. This type of informal communication is powerful due to the personal recommendation it is based on, as people do put their own reputation and image among peers at risk.

However, an upset customer speaks about bad experience up to three times more often than a satisfied one. Moreover, they inform up to 11 other people spreading around as an avalanche without the company knowing about the issue (Smith, 2000 p. 451). It has been proven that while this process of mutual informing has existed for ages, thanks to modern technologies and widespread use of the internet and social media, the users have more opportunities than ever to spread and collect relevant information about finished or planned purchase (Prikrylova, et al., 2010).

There are two elementary forms of the WOM. Spontaneous or so called organic WOM is informal and disinterested, launched without any external initiation or motivation. Artificial WOM is a result of marketing activities conducted by the company's departments to support the information-flow among people. Sernovitz (2012) identified five steps that are crucial for successful WOM communication outlined in the table 3.

**Table 3:** The Five Steps in WOM Marketing

Step	Easy	Advanced
<b>1.Talkers</b>	Volunteers, customers, bloggers	Influencers, agents, evangelism programs
<b>2.Topic</b>	Special offer, great service, new product	Viral campaign, buzz stunt, new feature
<b>3.Tools</b>	Tell-A-Friend form, forwardable email, coupon or text message	Message board, online communities, blogs
<b>4.Take Part</b>	Join blog & message board conversations	Outreach teams, campaigns by PR and customer service
<b>5.Track</b>	Tools for blog searches to measure and understand what people are saying	Advanced metrics program and trend analysis

Source: (Sernovitz, 2012).

### 1.5.5.3 Evangelism marketing

Being often related to the WOM, evangelism marketing is based on volunteers, opinion leaders such as respected reviewers or famous bloggers who initiate communication, and spread the news about a product or brand (Prikrylova, et al., 2010). Moreover, they are highly involved and passionate “extroverted loyalists” who:

- *“recommend a company to friends, neighbours and colleagues;*
- *purchase the company's products and services as gifts;*
- *provide unsolicited praise or suggestions for improvement;*
- *forgive occasional sub-par seasons or dips in customer service;*
- *do not want to be bought, they extol the brand's virtues freely;*
- *feel part of something bigger than themselves”* (Huba, 2012).

Due to their nature, they play an irreplaceable role of influencers on the market who could be trusted by others (Seeberger, et al., 2010). The goal of evangelist marketing strategy should be identification of customers' life, needs and attitudes and aligning the brand with these factors. If a brand satisfies customers' needs easily and in the required manner, their satisfaction level is going to be high and will likely motivate them to refer their experience to their family and friends. It is needless to mention that not every company is able to develop evangelism

marketing. This is dependent upon the ability to differentiate from mediocre products or predictable customer services by creating product attributes, materials, and events that draw the attention, interest and excitement (Silverman, 2011 p. 33).

### **1.5.6 Management team and company structure**

Main focus of this chapter is description of the management team and company organization. From perspective of investors, it is the people behind any venture that they invest in. Therefore, demonstration of ability to execute the idea and the skills can win trust over other interesting idea propositions. According to Barringer, the most persuasive combination resides in tested team and untested idea which offers the greatest upside potential. The subsections of this section include the management team, board of directors, board of advisors, other professionals, and company structure (Barringer, 2009 pp. 165-166).

The section on the management team should cover the general background of all the members, duties and responsibility of the position, previous industry or related experience, achieved successes and education. If the management team covers only founder or several co-founders, specification of skill gaps and planned experts or positions needed should be specified (Barringer, 2009 pp. 167-171).

The second part describes board of directors and any external advisors or mentors the company leverages. This proves openness of the management team towards learning while getting legitimacy and guidance from more senior executives.

Last chapter should explain the company structure and its planned modifications for the short- as well as intermediate-term future. For better illustration, an organizational chart could be applied. For clear delineation of responsibilities between several co-founders, a complement part explaining leadership, motivational and corporate culture point of view is useful (Barringer, 2009 pp. 176-179).

### **1.5.7 Operations plan and product development**

First section with the operation plan captures the process of how the business is run, i.e. operating model, procedures, business location, facilities and equipment, and plans. An operations flow diagram is a useful way to illustrate the production process including the key steps and other participants in the value chain. Further details might include inventory turnover, cash conversion cycle, quality control, possible risks and planned developments or extensions

(Barringer, 2009 pp. 189-190). Division between in-house and outsourced activities should also be noted.

The product development chapter lists current status, challenges and risk, costs, and IP. Aim is to list achieved milestones, successes, potential bottlenecks, and the next steps.

Development status explains stage of the market entry process. Stage of testing, production levels and a timeline with the planned steps should follow. Challenges and risks sum up any challenges that might hinder the go-to-market process. The next part with costs lists anticipated expenses needed for the development that needs to be done. As a last chapter comes the IP with description of any trademarks copyrights or trade secrets that might create barriers of entry and can be or are already secured (Barringer, 2009 pp. 197-201).

### **1.5.8 Risk analysis**

All of the issues, challenges and risks identified above need to be listed here with a clear resolution plans or mitigation actions in place. Business risk is inherent but taking a calculated risk which is under control rapidly improves startup's prospects for success. For better structuring and simpler identification of other potentially left out risks, Zehle and Friend suggest the following areas for risk analysis: operational, industry, financial and political risks (Zehle, et al., 2010 p. 236). Although similar in content, Abrams divides risks into market, competitive, technology, product, execution and capitalization (Abrams, 2010 p. 18). Both methods of categorizing are clustered accordingly.

Operational risks include any factor affecting the chosen strategy, be it from the area of human resources, production process, inventory, IT issues, or even an unexpected demand. Product risk in this regard means that the finished goods will not be ready in time.

Industry risks are external factors which include a new market entrant, a key supplier closing, an aggressive competitive response by other companies, a new technology that makes the product obsolete, as well as any changes in the competitive landscape such as consolidation of several market players into a major one. Here, the market risk represents lack of response to the offered products. Competitive risk arises due to new entrants or repositioning of the established ones

Financial risks reside in an unexpected development of the financial markets, rapid change in interest rates resulting in loss of competitiveness due to higher cost of debts, as well as in lack of working capital necessary for the business operations. Capitalization risk

specifically stands for risk of running out of money due to underestimated costs or overestimated income.

Political risk include not only governmental influence but also the actions of external institutions such as trade unions, lobbyists or activists. This can take a form of sanctions, unfavourable taxation rates, alteration in access to grants, loans and subsidies (Zehle, et al., 2010 pp. 236-237).

Technology risk depends on the nature of the firm is run by companies requiring high level of machinery or innovative production methods due to e.g. product design.

Legal risks represent potential copycats, brand or trademark abuse or any other breach of company's IP rights which can be effectively avoided or mitigated by registration of the trademark, product patents or other legal tools available.

Execution risk means inability to effectively manage the market-entry and growth of the startup, incorrectly assessing and planning individual steps and processes (Abrams, 2010 p. 19).

### **1.5.9 Financial projections**

The last chapter of a business plan explains the financial situation and outlook of the company reflecting upon the plans and forecasts in previous chapters. Its main goal is to demonstrate viability to generate profit in certain time horizon. A thorough projection consists of six parts: sources and uses of funds statement, assumptions sheet, income statement, balance sheets, cash flows, and ration analysis (Barringer, 2009 p. 210).

The sources and uses of funds statement explains the amount of money needed, its sources and what it will be used for. Oftentimes, the money is provided by the founding team which still provides relevant information for potential investor about their level of involvement.

The assumption sheet lists all assumptions that the projections are based on. It is the cornerstone for all following calculations included in the forward-looking pro forma financial statements. These are usually projected for a period of three to five years with the first one to two years elaborated on a monthly basis (Barringer, 2009 p. 212).

The pro forma income statement, typically projected on a monthly, quarterly, or annual basis, records all operational sales and expenses in a given period. Its core elements are net sales, cost of goods sold (COGS) and operating expenses which involve all costs not directly

connected to the production such as marketing, utilities, and selling, general and administrative expenses (SG&A) (Barringer, 2009 p. 214).

The pro forma balance sheet informs about the company's assets, liabilities and owners' equity at a specific point in time. The main purpose is to provide the reader with details of the company's financial structure and how it employs foreign capital and leverages debt versus equity.

The cash flow statement indicates all expected inflows and outflows of cash in a certain period of time. It is crucial for the identification of potential additional financing needs, as well as peak requirements for the working capital to identify available external sources and their conditions.

As majority of the startups begin in black numbers, the break-even analysis calculating the minimum volume the company must sell to cover its initial debt is useful. Break-even point *"is where the total revenue received equals the total costs associated with the company or product"*, (Barringer, 2009 p. 230). The formula is:

- $$\text{break-even point} = \frac{\text{total fixed costs}}{\text{price} - \text{average variable costs}}.$$

Ratio analysis is the last step which interprets the financial statements in a broader context by comparing two or more figures. This enables comparison with other companies in the industry. The three most frequently followed categories of ratios are profitability, liquidity and overall financial stability ratios (Zehle, et al., 2010 p. 187).

Profitability ratios include:

- $$\text{gross profit margin} = \frac{\text{gross profit}}{\text{sales}} \times 100\%;$$
- $$\text{operating profit margin} = \frac{\text{operating profit}}{\text{sales}} \times 100\%;$$
- $$\text{return on equity} = \frac{\text{net income}}{\text{share capital and retained profit}} \times 100\%.$$

Liquidity ratios include:

- $$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}};$$
- $$\text{quick ratio} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}.$$

Overall financial stability ratios include:

- $$\text{debt-equity ratio} = \frac{\text{total debt}}{\text{total equity}} : \text{debt financing relative to equity financing};$$

- total debt ratio =  $\frac{\text{total debt}}{\text{total assets}}$  : proportion of assets financed with debt;
- financial leverage =  $\frac{\text{total assets}}{\text{total equity}}$  : reliance on debt financing.

## 1.6 Food industry in the 21<sup>st</sup> century

Keeping in mind focus of the business plan, this chapter serves as a bridge between the theoretical and practical parts and is a base for the product and its rationale, which stems from the hectic, stressful and sedentary lifestyle typical for the 21<sup>st</sup> century. Together with high consumption of processed foods and lower intake of quality nutrition, this results in increasingly more common civilization diseases but also higher awareness among people for healthy diet as described in the following paragraphs.

### 1.6.1 Nutrition and public health

The starting point for understanding of the food industry lies in public health which has been rapidly changing recently and is closely linked to the nutrition. Civilization diseases such as obesity, cardiovascular illnesses and type two diabetes or higher blood pressure and increased mortality are just a few factors affecting people's behaviour on the food market. Eurostat, the statistical office of the EU, therefore conducts European Health Interview Survey (EHIS) every five years to better understand current health conditions of the EU population, the lifestyle changes and their determinants to more precisely predict healthcare expenses and better define the public health policies (UZIS, 2015).

Eurostat identified that one third of total deaths, about half a million people, in the EU is premature and could have been avoided thanks to the current level of medical knowledge and technology. Half of these deaths were caused by heart attacks and strokes (Eurostat, 2016). The biggest risk factors are blood pressure, cholesterol, Body Mass Index<sup>4</sup> (BMI), inadequate fruit and vegetable intake, physical inactivity and alcohol abuse. Everyone can affect these factors by the way of eating, drinking and moving. However, the current situation is ever more

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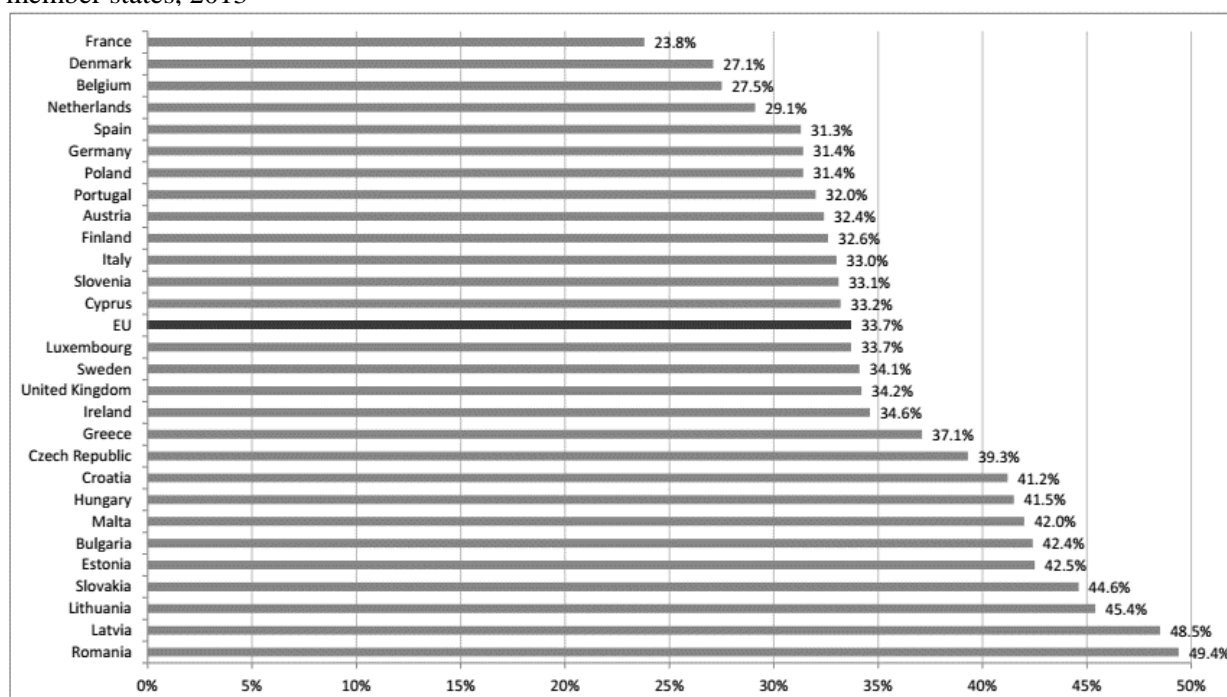
<sup>4</sup> BMI is a measure of a person's weight relative to their height that links fairly well with body fat. It is accepted as the most useful measure of obesity for adults (those aged 18 years and over) when only weight and height data are available. It is calculated as a person's weight (in kg) divided by the square of the height (in m).

- BMI = weight (kg) / height (m<sup>2</sup>)
- < 18.50: underweight;
- 18.50 – < 25.00: normal range;
- 25.00 – < 30.00: overweight (excluding obesity);
- >= 30.00: obese (Eurostat, 2008).



worrying as the EU has recorded worsening situation over the past decades, deteriorating to over 30% obesity among children. This resulted in issuance of the Strategy on nutrition, overweight and obesity-related health issues and implementation of the Action Plan on Childhood Obesity 2014-2020. Main focus has been on promotion of the healthy lifestyle, unification of the food labelling with differentiation of the healthy foods and supporting public-awareness and disease-prevention campaigns that actively target high-risk groups and individuals (Commission, 2007; Commission, 2014). The trend has been also confirmed by the World Health Organization (WHO) according to which Europe ranked second after the USA in proportion of overweight or obese people in 2008. On a global scale, the share of overweight people was approximately 35%. However, it surpassed the 50% in Europe and the USA. This is due to a variety of factors ranging from low breastfeeding to a lack of cooking skills, the abundance and spread of high-carb diet to the lifestyle trends characterized by sedentary professions and lack of physical activity (WHO, 2008 p. 23; Eurostat, 2008).

**Picture 6:** Share of avoidable deaths in the light of current medical knowledge and technology in the EU member states, 2013



Source: (Eurostat, 2016).

Situation on the member-state level is of no difference and the Czech Republic ranked 20<sup>th</sup>, almost six per cent below the EU average, in the avoidable deaths as seen in picture 6 measured as a percentage of total deaths of population aged less than 75. Specifically, EHIS discovered that with 56.3% of obese people, the Czech Republic was the third most affected

country of the EU in 2010. According to a further report on the health conditions of the Czechs elaborated by the Czech health ministry, the eating habits lead to majority of the current civilization diseases. The main issues identified are excess fats and simple sugars, lack of fruit and vegetable, high salt intake and irregular eating (Antosova, et al., 2014 p. 140).

### **1.6.2 Current trends**

Despite the negative developments in the public health caused to a great extent by inappropriate diet, certain trends have been noted by market research agencies which congruently report rising expenditures on healthy foods, such as bio, organic or dietary products intended for consumer's improved health conditions.

The market trends can be characterized by higher growth of the segment with dietary supplements which is considered to be an implication of the shift in the previously described lifestyles. Other identified trends are rapid growth of the e-commerce sector and focus on weight management (Research&Markets, 2015).

Another trend within the EU is in consumer demand for informative labelling of quality foods. Raised concerns about artificial additives and excessive sugar and salt contents are behind increasing demand for quality foods with clear background. Moreover, consumers seek for salubrious and nutritious food that will not affect their health negatively. It is mainly the high-end part of the consumer market that monitors in detail the origin, content and any certification to satisfy their demand for authentic, traditional and healthy products (Dimara, et al., 2005).

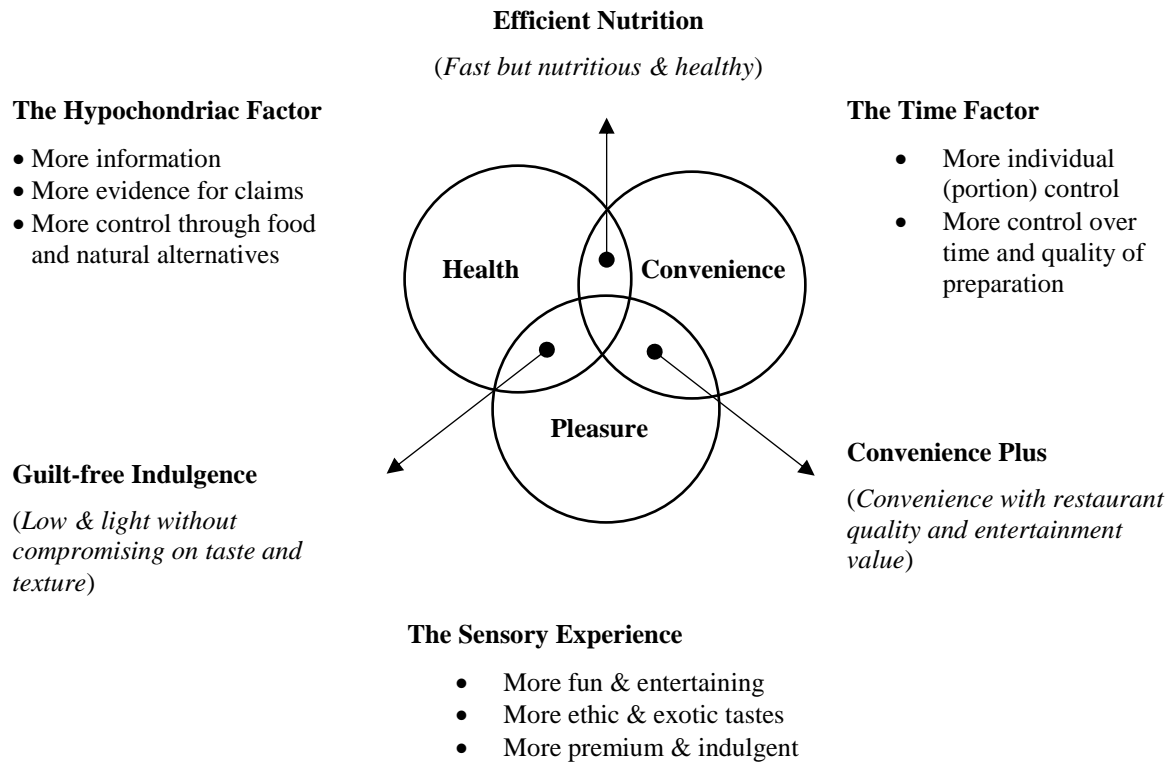
Grey et al. identified three other “mega-trends” that have impacted the consumer demand which include convenience, health and pleasure. This goes hand in hand with deepened understanding of the relationship between diet and health which has resulted in increased demand for value added dietary products. The trends are graphically summarized in picture 7.

A response to these changes has been an emergence of functional foods, sometimes referred to as a superfoods<sup>5</sup>, with ability to satisfy basic consumer requirements while offering potential to improve health (Gray, et al., 2003). Its details are described in the following chapter.

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<sup>5</sup> According to Lunn “*there is no official definition of a superfood, and the term is currently being used to encompass a number of different foods with different properties. Originally, the term was used for functional foods. This is an umbrella term used to describe foods that have health-promoting benefits and/or disease-preventing properties over and above their usual nutritional value*”, (Lunn, 2006). Another opinion states that this is

**Picture 7:** Main food choice trends shaping the food industry of the 21st century



Source: (Reuters, 2000).

Additionally, increasing healthcare costs driven by the lengthy and costly R&D, increased consciousness of the general public about the health, as well as variety of products available lead consumers towards increased consumption of the dietary supplements. Purpose of the consumption usually resides in the health benefits they provide in the long term due to the preventive effects. Further characteristics of the market with dietary supplements are described in the chapter 1.6.4.

The last emerging trend that represents the product focus of this Master's thesis is a powdered food replacement which, based on the diagram in picture 5 stands for convenient, efficient nutrition focusing on the health benefits. Its recent developments are described in the chapter 1.6.5.

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a marketing term used by food producers to highlight health attributes of their products (Green, 2008). For further reference, the Merriam-Webster dictionary defines superfood as “a food (such as salmon, broccoli, or blueberries) that is rich in compounds (such as antioxidants, fiber, or fatty acids) considered beneficial to a person's health” that increases energy, regulates cholesterol and blood pressure and may contribute to prevention of various diseases such as cancer (Merriam-Webster).

### 1.6.3 Functional food

The segment of functional foods is a market phenomenon which emerged as a result of shifts in supply and demand of the consumers. According to the European Food Information Council (EUFIC) the history of functional foods traces back to the end of the 20<sup>th</sup> century in Japan, where the concept of specifically developed foods for health promotion and disease reduction was introduced. Its goal was to decrease the healthcare costs and improve quality of life (EUFIC, 2006). An intense discussion occurred in Europe during the 1990s when an International Life Science Institute (ILSI) introduced project of Functional Food Science in Europe (FUFOSE) (Heasman, et al., 2001). The project assessed the status of the functional foods and analysed the scientific ground for the health claims usage. As a result, Scientific Concepts of Functional Foods in Europe was finalized in 1999. It introduced working definition for functional foods with the main points saying that:

- *“a food can be regarded as functional if it is satisfactorily demonstrated to affect beneficially one or more target functions in the body, beyond adequate nutritional effects, in a way that is relevant to either an improved state of health and well-being and/or reduction of risk of disease;*
- *Functional foods must remain foods and they must demonstrate their effects in amounts that can normally be expected to be consumed in the diet, i.e. they are not pills or capsules, but part of a normal food pattern;*
- *A functional food can be a natural food, a food to which component has been added, or a food from which a component has been removed;*
- *A functional food might be functional for all members of a population or for particular groups of the population” (ILSI, 1999 p. 6).*

There are several other definitions, none of them legally binding, which provide space for ambiguity. With regard to the features and composition, functional food *“must contain a substance with a positive effect on one or several bodily functions”*, (Burda, 2014). According to another definition, functional foods should have beneficial impact on consumer’s physical or mental health. It is food (not capsule, pill or powder<sup>6</sup>) manufactured from naturally existent

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<sup>6</sup> As described later in the practical part, this definition would imply that our product does not qualify for the category of functional foods due to its powdered consistency. However, this definition is one of many which cannot be taken as binding. Moreover, our product must be blended with water or other liquid before consumption, which turns it into a beverage.

ingredients. It should be consumed as a part of daily nutrition. Its consumption affects some of the processes in the organism, especially:

- it supports natural defence mechanisms against harmful influences of the environment;
- acts preventively against illnesses;
- positively affects physical and mental health;
- slows the aging process (Kalac, 2003).

Yet, the EU has not established a legislative framework that would regulate their market introduction or identification. Functional foods differ from the conventional ones due to their nature based on the ingredients or production processes that give them nutritional function. Although it is believed that it provides beneficial effect on consumer's health, it cannot be considered a medicine. Therefore, it is a transitional group between conventional food and medicaments (Kalac, 2003).

A partial guidance was introduced in 2006 by the European Parliament and Council which issued regulation of the health claims *“in order to ensure a high level of protection for consumers and to facilitate their choice, products put on the market, including imported products, should be safe and adequately labelled”* (Parliament, 2006). This document specifies conditions which have to be fulfilled to ensure legally permitted usage protecting the consumer. Before market introduction, these products and their ingredients have to be researched and approved. However, this assessment reflects only safety of the consumer, not the perspective of quality or health effects on the human. In the meantime, the European Food Safety Authority<sup>7</sup> (EFSA) authorizes further health and function claims that can be used on the food labelling and conducts scientific studies to develop opinion on the substantiation of them (EFSA, 2011). With huge market potential and booming growth of demand for functional foods, a further research and legislation of this segment might therefore be expected if consensus among the member states is achieved (EUFIC, 2006).

The Czech food legislation does not know the term functional foods. Therefore, it can be referred to a category of “foodstuffs intended for particular nutritional uses”<sup>8</sup> and must follow

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<sup>7</sup> EFSA is a European agency funded by the EU that provides independent scientific advice to member national authorities on existing and emerging risks in food safety.

<sup>8</sup> The European Parliament and Council regulate this category by a directive 2009/39/EC which states that *“foodstuffs intended for particular nutritional uses (for infants and young children, persons whose digestive*

all legally binding documents and regulations on food. If the manufacturer wants to highlight some specific health or nutritional benefit of the functional food, apart from having to comply with all regulations introduced by the Czech Agriculture and Food Inspection Authority, it must be approved by the Health Ministry (Perlin, 2012).

The active ingredients of the functional foods are called nutraceuticals. The most important and common ones are:

- probiotics, prebiotics and synbiotics;
- antioxidants;
- fibre;
- some components of fats;
- peptides and proteins;
- some other herbal substances;
- mineral components (Kalac, 2003).

Their major benefit is the prevention of the civilizational diseases including cardiovascular illnesses, diabetes, cancers and obesity (Kalac, 2003). All these factors make this dynamically growing food segment an attractive market. A number of authors attempted to identify more detailed drivers behind the success of functional foods. According to Urala and Lahteenmaki, the main factors are sex, age, education and demographic changes (Urala, et al., 2007). Others suggest the containment of healthcare costs (Milner, 2000), media, access to information, nutritional labelling (Kotilainen, et al.), higher emphasis on healthy diet and prevention of chronic diseases, innovations in food technology and bigger focus on value for money (Vicentini, et al., 2016). Last but not least, convenience is another important factor causing consumers to purchase functional food (Urala, et al., 2003). This was confirmed by Kraus's research where respondents highlighted that product should be in a practical packaging and easy-to-use. Moreover, information on the label covering verified health benefits and nutrition facts plays a leading role in purchasing behaviour of the functional food (Kraus, 2015).

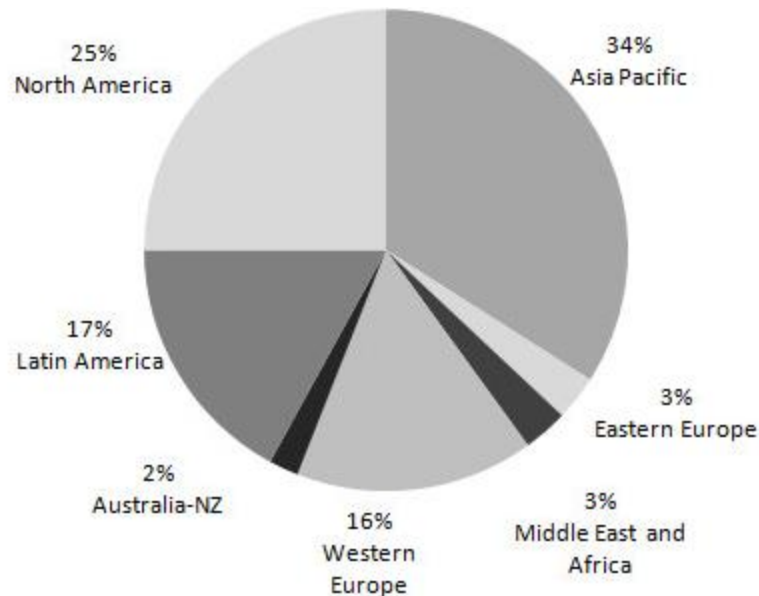
This huge potential is proven by the constant market growth. The global market was estimated to be 168 billion USD in 2010 (Euromonitor, 2010) with CAGR of 8.6% in the ten

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*processes or metabolism are disturbed or for persons with a specific physiological condition or for weight reduction) have been harmonised at European level. The labelling of these products should include information concerning the particular characteristics of the product, the energy value or carbohydrate, protein and fat content, etc.” (Parliament, 2009).*

years to 2012 (Szakaly, et al., 2012). The global distribution of functional foods market shares is showed in picture 8. The Czech Republic accounts for 9% of revenues in the Eastern Europe (Euromonitor, 2013). However, the demand for functional foods varies substantially across Europe depending on the culture and culinary tradition (Castellini, et al., 2002).

**Picture 8:** Percentage breakdown of total revenue from functional foods worldwide



Source: (Euromonitor, 2013)

### 1.6.4 Dietary supplements

Dietary or food supplements are considered a subcategory of foodstuffs which are defined by the European Parliament and the Council by directive 2002/46/ES as “*foodstuffs the purpose of which is to supplement the normal diet and which are concentrated sources of nutrients<sup>9</sup> or other substances with a nutritional or physiological effect, alone or in combination, marketed in dose form, namely forms such as capsules, pastilles, tablets, pills and other similar forms, sachets of powder, ampoules of liquids, drop dispensing bottles, and other similar forms of liquids and powders designed to be taken in measured small unit quantities*” (Parliament, 2002).

The Czech legislation regulates dietary supplements in act no. 110/1997 on foodstuffs and tobacco products which reflects the above-mentioned EU regulation. Thus the definition is not radically different and states that “*food supplement is intended to supplement the normal diet and which is a concentrated source of vitamins and minerals or other substances with a*

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<sup>9</sup> Nutrients are defined as either vitamins or minerals (Parliament, 2002).

*nutritional or physiological effect, contained in the food alone or in combination, intended for direct consumption in measured small unit quantities”* (MZE, 1997). All other legal aspects regulating the safety and informing of the consumers including usage of the health and nutritional claims must be complied with as in the case of the functional foods.

The main difference between dietary supplements and pharmaceuticals is their nutritional or physiological impact, as the food supplements are not supposed to prevent illnesses or treat them. A schematic display of various food categories and their differences as described by the CASP is presented in the table 4.

**Table 4:** Elementary information on dietary supplements

	<b>Foodstuff</b>	<b>Functional foods</b>	<b>Food supplements</b>	<b>Food additives</b>	<b>Pharmaceuticals</b>
<b>Importance</b>	Energy and nutrition intake	Prevention via food	Supportive, preventive, energetic, complementing conventional food	bio-active substances added to functional foods or food supplements	Disease treatment
<b>Effect</b>	long-term	long-term	mid- to long-term	mid- to long-term	immediate
<b>Impact</b>	broad	specific	targeted	-	targeted
<b>Safety</b>	full	full	full, no risk	full, no risk	side effects allowed
<b>Benefits for organism</b>	Balanced and varied diet consisting of fruit and vegetable is essential	Provide the body with higher intake of specific substances and belong to a balanced diet	Provide the body with high amounts of beneficial substances needed for the proper functioning of organism	Positive impact of the substances	Treatment of specific diseases, their over-consumption might negatively affect the body

Source: (CASP, 2013).

A number of studies surveyed the drivers and determinants of dietary supplement use to explain constantly growing demand for these products. According to a research team from University of Copenhagen, dietary supplements are mainly consumed by health-conscious people with higher education and regular physical activity (Kofoed, et al., 2015). Higher intake of dietary supplements was identified among women than men and increases with age, and determination to eat health (Tetens, et al., 2011). Apart from physical health improvement, other motivators for the use of dietary supplements are of psychological nature such as “peace of mind”, saving money on medical care, achieving cosmetic benefits, supplementing poor diet, and preventing possible future health problems (Peters, et al., 2003).



With compelling evidence which relates nutritional deficiency to higher risk of chronic diseases, scientists and health experts started to recognize the benefits of dietary supplements in illnesses prevention and health promotion (McGinnis, et al., 2001). Furthermore, increased life expectancy stimulates adoption of health related supplements with the motivation to enhance the consumers' health levels. In spite of the growing obesity, cardiovascular illnesses and other diet-related chronic diseases among the population worldwide resulting from poor dietary practices, consumer are presumably getting more health conscious which is reflected by the increasing expenditures on health and medical products. This, however, can also be related to higher disposable income, higher levels of education and better standard of living.

According to the Persistence Market Research, the global market with dietary supplements was valued at 109.8 billion USD in 2013 and is projected to increase at a 7.4% CAGR between 2014 and 2020. Similar market size has been identified by the Euromonitor which identified size of the market with vitamins and dietary supplements at 108 billion USD in 2012 (Euromonitor, 2013). Within the market, botanical supplements<sup>10</sup> are expected to constitute the largest segment by 2020 (PMR, 2015). Similar data has been recorded by research agency Future Market Insights which forecasted value of the dietary market till 2025 when it is expected to reach 252.1 billion USD. Based on the application, the market is segmented into weight loss, sports nutrition, general well-being, immune and digestive health, bone and joint health, heart health and others (beauty supplements, anti-allergies and eye health). The major identified segment is general well-being which constituted over 25% of the revenue share followed by the immune and digestive health segment accounting for 20% at the end of 2015 (FMI, 2015).

In the Czech Republic, the trend has been similar with 5.5 billion CZK spent on dietary supplements in 2013, i.e. 521 CZK per capita (Hlavaty, 2013). According to more detailed analysis by Euromonitor, the Czechs are becoming more demanding for sophisticated and high-quality products with supplement nutrition drinks being the best performing category which grew at a CAGR 9% (Eur151).

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<sup>10</sup> FDA defines botanical supplement as a product “*intended for use in the diagnosis, cure, mitigation, treatment or prevention of disease in humans*” which may include vegetable materials, herbs or algae in a form of solution, powder, table, capsule, elixir, topical, or injection. It may include vitamins, minerals, and substances such as enzymes (FDA, 2015).

### 1.6.5 Powdered food replacement

Although the idea of substituting an entire diet with one product is nothing new<sup>11</sup>, the concept of powdered food replacement, also referred to as the diet replacement product or Soylent, due to the first mass market product marketed under this brand, occurred only in 2013. Immediately after an article about a 30-day experiment was issued by Rob Rhinehart, a new food category was born. The immense interest inspired Rhinehart to commercialize the product and to launch a crowdfunding campaign in 2014 which succeeded with over 3 million USD raised. As a result, his startup Rosa Labs raised over 20 million USD in venture capital the next year (Dolejsova, 2015).

Obviously, there have been some predecessors such as diet shakes Herbalife, SlimFast or various protein shakes. However, it was the Soylent product which claimed for the first time that all essential nutrients a human body needs are included. Moreover, Rhinehart disclosed nutritional information and his original formula which spurred the interest of do-it-yourself (DIY) self-educated enthusiasts and led to establishment of a new knowledge-sharing community and forums with over 6,000 recipes globally (Dolejsova, 2015).

Albeit shortly on the market, a recent research attempted to identify drivers behind the rapid success and adoption among consumers. The main persuasion stems from the distrust in the mass food market. Based on in-depth interviews with these so called “diet hackers”, Dolejsova identified a food oversupply of globalized era and an excessive, ambiguous food information available on the market. Making a decision between low-carb, gluten-free, high-protein, GMOs, body-mind and other types of diet puts one in the information deluge. As a result, for many consumers food has turned into a complex expert problem. Moreover, when combined with the growing number of eating disorders and diet-related diseases, by many consumers conventional nutrition is considered a black box. Supported by the digi-tech culture and persuaded that nutrition can be transparent, simplified and quantified, diet hackers became finally able to jointly dismantle it to its elements by using verified independent studies and the general knowledge proven by years of experience (Dolejsova, 2016).

Despite the lack of clinical trials or food safety proof from long-term health studies, the problem of constantly having to make choices and decisions about food, need for productivity and efficiency, and option to gain dietary control while fully understanding what we fill the

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<sup>11</sup> Examples could be spotted in a 1973 American science-fiction thriller *Soylent Green* or in a 1983 Czech science-fiction TV series *Visitors* under the term “amarouns”.

body with showed to present an untapped market potential (Pilgrim, et al., 2016). There are nowadays globally tens of brands that have brought the Soylent diet with smaller or larger modifications from the closed community to the masses in a commercialized product. By adapting to the existing food legislative framework described in the previous chapters, this food is usually classified as a sub-category of the functional foods<sup>12</sup> or belongs to aforementioned category of “foods for particular nutritional uses as defined by Directive 2009/39/EC”. Within this section, the EU further specifies category of “*dietary foods for weight control diets*”<sup>13</sup> *intended to replace total daily food intake or an individual meal (the whole or part of the total daily diet)*”, which have to comply with all regulations on health claims and information labelling (Parliament, 2009). Thanks to the innovativeness of this category, the regulation gives space for constant developments.

### 1.6.6 Future of food industry

It should be no surprise that the mass production of dietary supplements and nutritional products cannot match needs of every human. In fact, certain degree of tailoring is necessary, mostly due to dosing which can have huge impact on the human organism if used inappropriately. However, it seemed as a science fiction until recently. Nowadays, the concepts focusing on production of tailored foods are on the rise. Specifically to the food industry, experts mention mass customization and personalized nutrition which are topics for the following paragraphs.

Personalized nutrition “*is a response to differences between individuals, and attempts to balance an individual’s diet to their specific individual and situational needs*” (Boland, 2008). Its origin was given by rising demand for health, wellness and fitness as a result of increased consciousness about the interconnectedness between diet and health. Moreover, with access to knowledge on genetic data and human genome mapping with detailed understanding of the

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<sup>12</sup> This is the case of the USA where the Food & Drug Administration (FDA) does not define the term meal replacement but refers to a calorie-controlled, pre-packaged product in the form of a bar or beverage, that replaces a regular meal (Krasny, 2004).

<sup>13</sup> It is crucial to mention that due to their caloric nature which matches the recommended daily intake for adults by FDA and EFSA, the Soylent products are not intended for weight-loss. Obviously, for majority of the population, certain weight-loss is a positive side-effect caused by appropriate intake of recommended calories, abundance of junk food and proper functioning of the metabolism without the need to overeat. Therefore, it fights the obesity and contributes to the overall health of the users.

nutrition, the field of nutrigenomics<sup>14</sup> was founded and is becoming gradually established on the market. The other drivers identified are ageing of the population and increasing awareness of consumers on their individuality. Boland directly connects this awareness to Maslow's hierarchy of needs. We live in an affluent era where all of the survival needs are met which means that the self-actualisation layer is crucial for the consumers and personalized nutrition offers just that (Boland, 2008).

The mass customization *“is a concept that offers, at relatively low prices, products tailored to the requirements of the particular customer”* (Matthews, et al., 2011 p. 353). Boland identified two distinct aspects of the design in mass customisation which reside in 1) customisation of sensory performance such as taste or smell and 2) customisation of functional performance such as size or nutritional profile. With the concept of mass customization, the producers are able to meet various nutritional requirements of a wide range of consumers thanks to pre-formed ingredients with known nutritional values and an understanding of interactions between the components (Boland, 2006). Among the new technologies that are going to impact the personalized nutrition are functional foods, nanotechnology and DNA testing which is already becoming commercialized (Boland, 2008). Nevertheless, there are still barriers to a widespread adoption such as:

- infancy of nutrigenomic science;
- cost of genetic testing;
- other related support services for interpretation of the results provided by nutrigenomics;
- slow adoption of new practices by healthcare;
- ethical concerns about DNA testing;
- regulatory concerns, particularly data protection (Oliver, 2005).

Despite these challenges, the rapid developments brought by the constant discoveries in the field of science are expected to overcome them sooner or later. One such solution might be constituted by the 3D technology and the possibility of the personalized food printing at scale.<sup>15</sup>

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<sup>14</sup> Nutrigenomics explores the relationship between individual's nutritional needs and genetic composition (Boland, 2008).

<sup>15</sup> For further reference, see article on 3D food printing – An innovative way of mass customization in food fabrication (Sun, et al., 2015).

### **1.6.7 Chapter summary**

Recent developments in the food industry are a reflection of the changes in eating habits of the population. Due to the close link between the worsening public health characterized by a wide variety of civilizational diseases and the lack of proper nutrition, consumers' perception has started shifting towards healthy diets. Together with growing demand for efficient, convenient, guilt-free and time-saving nutrition, three major trends have been identified and discussed in this chapter to explain rationale for the product described in the practical part.

The first one is so called functional food which was developed specifically for health promotion and disease reduction with positive health benefits. This is usually achieved by the substances used in composition or special production process which enriches the content with additional active ingredient such as probiotics, antioxidants, fibre, minerals or vitamins.

The second are dietary supplements which provide the body with concentrated nutrients or other substances with nutritional or physiological effects such as vitamins or minerals in their pure form. Due to compelling evidence related to prevention of chronic diseases and their scientific recognition, their popularity has been constantly growing with the motivation to enhance the consumers' health levels.

However, the most important trend for this Master's thesis is the emergence of the powdered food replacement from the DIY community. This is a response to the distrust in the mass food market, an excessive, ambiguous food information, growing number of scandals and diet-related diseases turning the conventional nutrition into a black box. This phenomenon builds on the higher need for human productivity and efficiency, digi-tech culture and desire for transparent, simplified and quantified nutrition which enables to gain dietary control. Although still considered a niche market, its size is booming and attracts more and more consumers to the idea of simple, affordable, healthy, time-saving and convenient food with positive health benefits as an alternative to fast foods and other obesity-causing diets.

The constant growth of all three segments has been mainly driven by the desire for disease prevention and increased health consciousness, as well as better physical and mental conditions with minimum effort and avoidance of potential high costs in case of illness. For the future, it is anticipated that thanks to new technologies such as 3D printing, the concept of personalized nutrition is going to become focal point of innovations in the food industry.

## 2 Practical part

In the practical part, the theoretical frameworks and concepts are applied on the instant natural food replacement, specific example of the powdered food replacement discussed earlier, for the Czech market. Initial point is the Canvas business model and Lean canvas model. In the next chapters, detailed business plan is described.

### 2.1 Canvas business model

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer segments
Ingredient suppliers Laboratory Logistic company Distribution partners IT provider	Quality control Product development CRM Marketing	Fast but nutritious and healthy Control over time and quality Convenience, transparency and safety	Personal assistance and education on health, nutrition Community – not only customer but a member of life philosophy	Mass market: <i>Mainly well-educated professionals aged 25-44 with higher income living in large cities, conscious about their health and nutrition but living a hectic life demanding for productivity and efficiency</i> <i>Working university students aged 18-24</i>
	Key Resources  Human capital – nutritionists, food technologists, marketers, supply chain Finance IT infrastructure Inventory management	Value-for-money Everything body needs and nothing it does not	Channels  Direct/own: <i>E-shop Social media Blog WOM</i>  Indirect/partners: <i>Partner stores Wholesaler Bloggers</i>	
<b>Cost Structure</b>  COGS – target 35% of revenues OPEX – target 40% of revenues <ul style="list-style-type: none"> <li>• Marketing – 20% of revenues</li> <li>• Salaries – 5% of revenues</li> <li>• Shipping costs – 3% of revenues</li> <li>• R&amp;D – 2% of revenues</li> </ul>			<b>Revenue Streams</b>  Product sales – 250 CZK per package with 5 full-fledged nutritious meals <ul style="list-style-type: none"> <li>• 65% gross margin target</li> <li>• 25% EBIT margin target</li> <li>• 20% net margin target</li> </ul>	

## 2.2 Lean canvas model

Problem	Solution	Unique Value Proposition	Unfair advantage	Customer Segments
<p>Convenient fast food puts enormous burden on organism</p> <p>Healthy diet is time-demanding</p> <p>Regular food products are more and more often full of harmful substances</p> <p>Alternatives with balanced nutrition contain artificial chemicals</p>	<p>Balanced natural super-food covering all macro- and micronutrients</p> <p>Convenient and fast preparation</p> <p>Transparent information on all ingredients with certified origin in bio/organic quality</p>	<p>Fast but nutritious and healthy</p> <p>Convenience, transparency and safety</p> <p>Affordable but high-quality</p> <p>Everything body needs and nothing it does not</p>	<p>Community</p> <p>Partnerships</p> <p>Planned unique algorithm to tailor food to individual needs</p>	<p>Mass market:</p> <p><i>Mainly well-educated professionals aged 25-44 with higher income living in large cities, conscious about their health and nutrition but living a hectic life demanding for productivity and efficiency</i></p> <p><i>Working university students aged 18-24 open to innovativeness and experiments</i></p> <p>Early adopters:</p> <p><i>20-30 years of age, innovators, geeks and experimenters</i></p>
	<p><b>Key Metrics</b></p> <p>Acquisition – <i>moving from homepage to ordering process (i.e. basket, delivery details, payment selection, confirmation)</i></p> <p>Revenue – <i>average order value per customer</i></p> <p>Retention – <i>loyalty of the customers, the number and frequency of re-orders</i></p> <p>Referral – <i>orders with discount vouchers based on recommendation of satisfied customers</i></p>		<p><b>Channels</b></p> <p>Direct/own:</p> <p><i>E-shop</i> <i>Social media</i> <i>Blog</i> <i>WOM</i></p> <p>Indirect/partners:</p> <p><i>Partner stores</i> <i>Wholesaler</i> <i>Bloggers</i></p>	
<p><b>Cost Structure</b></p> <p>COGS – target 35% of revenues</p> <p>OPEX – target 40% of revenues</p> <ul style="list-style-type: none"> <li>Marketing – 20% of revenues</li> <li>Salaries – 5% of revenues</li> <li>Shipping costs – 3% of revenues</li> <li>R&amp;D – 2% of revenues</li> </ul>			<p><b>Revenue Streams</b></p> <p>Product sales – 250 CZK per package with 5 full-fledged nutritious meals</p> <ul style="list-style-type: none"> <li>65% gross margin target</li> <li>25% EBIT margin target</li> <li>20% net margin target</li> </ul>	

## **2.3 Business plan**

### **2.3.1 Executive summary**

#### **2.3.1.1 Introduction**

Modern lifestyle characterized by sedentary professions, rush, permanent stress and ever higher demand for efficiency have shifted consumer behaviour which has resulted in rapid changes of the food industry. Chase for efficient, healthy, time-saving and convenient food has led to a recent emergence of a new niche market of so called powdered food replacement offering alternative to harmful fast foods. It quickly gained popularity in the USA and spread all over the world with dynamic growth of sales. Only in the Czech Republic, it is estimated that the market nowadays stands for 280 million with a double-digit growth (Euromonitor, 2016). Moreover, the market is short of proper supply which is currently served by only one market player. Based on these facts, we have identified a substantial market opportunity for production of fully natural instant super-meal that can replace any meal of the day while providing the body with all necessary macro- and micronutrients.

#### **2.3.1.2 Company and idea description**

Goal of our company is to offer an alternative for healthy eating without remorse through development of an affordable nutritional product leveraging the latest findings of the dietary and medical industries, which would deliver to the customer maximum natural nutrition with minimum effort. This is achieved by using real, unprocessed and certified natural ingredients in a powdered form mixed in a unique formula which can provide the body with 100% of recommended daily intake of all minerals, vitamins, fats, carbohydrates and proteins.

By using our product, the consumer can enjoy fast but nutritious and healthy meal while gaining control over time and quality at value for money.

#### **2.3.1.3 Industry analysis**

Expenditures on foodstuffs represent one of the biggest portions from the household's overall expenses. Specifically to our product, the strongest growth is identified in segments of sports nutrition, vitamins and dietary supplements, functional food and health and wellness products. Being driven by positive macroeconomic outlook, growing demand for prevention and rising health consciousness together with hectic lifestyles and aging population, selected categories of these markets matching character of our product stand for 1,800 million combined



(Euromonitor, 2016). To make more precise estimations, by further targeting of the population, the market potential is expected to amount to 280 million in 2016.

Underdeveloped character of these markets, their high growth and relatively low competition in these segments make it possible to retain higher margins when compared with the conventional food market.

#### **2.3.1.4 Market analysis**

Our aim is to gain 10% share on the market with combination dietary supplements, supplement nutrition drinks, and traditional dietary supplements in year 3. This amounts to 29.9 million CZK in sales. However, further expansion to other EU markets is planned after year 3 when the company becomes well-established on the Czech market.

#### **2.3.1.5 Target customers**

Based on market research, we target mainly age group in a range 25-34. Among these people the focus is on professionals who have or pursue university degree or finished secondary school with a school leaving exam, live in larger cities with higher average income and hectic lifestyle. Moreover, they are conscious about their health and eat dietary supplements mainly due to their health benefits and illness prevention. In this identified group, women prevail over men. According to these criteria, MML-TGI database was used in order to identify size of the segment prone to purchase our product. This represents 15.5% of the Czech population, i.e. 1.4 million people.

#### **2.3.1.6 Marketing plan**

The marketing strategy is built on our brand philosophy and UVP. These represent the highest possible quality from nature in convenient form and at affordable price for masses with no synthetics or artificial chemicals. Due to the distribution channel in a form of e-shop, as well as the target group mainly present online, the focus is on digital marketing leveraging owned (website, social media, blog), earned (blogger partnerships, influence relations, unpaid media attention), paid (PR, online ads, PPC campaigns) and shared (WOM, referrals) communication tools. The content is based on customer education and lifestyle topics on healthy diet and conscious nutrition to familiarize the customers with the concept, explain the idea, added value and the product's benefits.

This is complemented by offline communication such as presentations at selected events for the target group, sampling and sponsorships of selected brand ambassadors or influencers.

### **2.3.1.7 Management team**

The company was founded by Stepan Andrlé (VSE alumni, professional with extensive expertise in marketing and PR) and Jakub Mazal (VSE and CEMS student, experience in project management). Inspired by popular starting business model of similar nutritional product in the USA, Stepan created his own recipe 2 years ago. In his free time he self-educates and is fully devoted to the topic of balanced nutrition. Thanks to his career experience as a marketing manager, he also knows the peculiarities of the product promotion and PR communication.

Jakub joined the project at the early stage with the idea to commercialize the product and bring it to the market more than 1,5 years ago. Having experience from various consulting projects, he works on business development, solves administrative tasks and organizational issues, and conducts go-to-market strategy as an area of his academic focus.

### **2.3.1.8 Operations plan**

Our strategy for the first 3 years is to function as a trading company which outsources all production phases to external providers on JIT principles. This strategy allows us to avoid big capital investments, large levels of indebtedness and associated risks. Distribution is currently via our e-shop which brings higher margins to the company.

### **2.3.1.9 Financial projections**

The company's revenues on the Czech market are expected to reach 5.1 million with net income amounting to 0.9 million after the first year of operation. The sales are further projected to increase to 28.1 million in year 3 with net income 5.8 million. Thanks to the careful operations strategy, there is no substantial need for external financing and the company breaks even immediately while remaining positive throughout the 3 years.

## **2.4 Business and idea description**

### **2.4.1 Introduction and brief history**

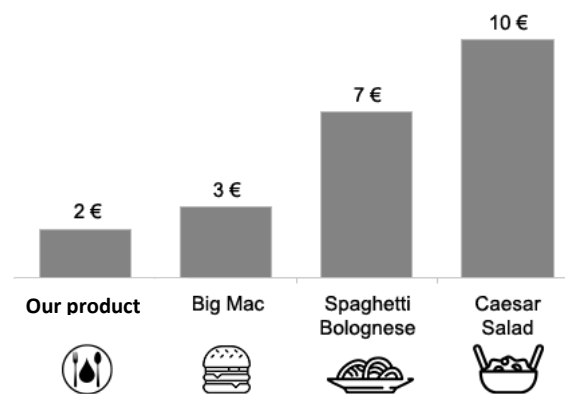
The idea of instant natural super-meal is embodiment of a concept seemingly from a distant future. It is a healthy alternative to fast foods and all sorts of junk foods which negatively impact the human health. While consisting of real, unprocessed and certified natural ingredients, it provides the body with 100% of recommended daily intake of all minerals, vitamins, fats, carbohydrates and proteins. It is a quick and easy-to-prepare nutrition with proven health-benefit substances such as antioxidants and phytosterols that fuels your energy levels and fully satiates the stomach without the need for surfeit and heaviness in stomach from overeating.

History of this idea dates back to 2013, when its founder, Stepan, discovered popular blog of an American who was challenged by the issue of affordable healthy eating without high costs and time devoted, which led him to a development of so called Soylent product. Soylent is a powdered shake which is supposed to contain all nutrients in a balanced manner. The life on this innovative type of food described on his blog was closely followed by growing community of people who started testing and sharing their own DIY recipes. As there was no such product available in Europe at that time, Stepan decided to start his own experiments. Despite having joy in cooking and delicious food, he liked the logics behind the idea of not only healthy but also economical alternative to the junk food.

As a self-educated amateur, he closely discussed the composition with dietary experts and nutritionists while constantly improving his own recipe leveraging local ingredients of best-available certified quality. Since the summer 2014, his story attracted attention of hundreds of readers and followers who started requesting product samples to enjoy its perks while solving the same issue Stepan had in the very beginning. Demanding lifestyle in a corporation with lack of time and knowledge of various diets, as well as laziness but consciousness inspired him and many others. Prevailing positive feedback, as well as growing market demand supported by a media attention validated the product. At that time co-founder Jakub joined the team to help Stepan handle the pull demand and to organize the product's market introduction.

As an affordable product for masses (see price comparison of regular lunch meals in picture 9), we nowadays consider this to represent solution for challenges faced by many consumers in the dynamic 21<sup>st</sup> century, future of the food market and a beginning of the food revolution. Thanks to its consistence and durability, it is easily transferable, great for travelling or just situations where you have urgent need for food but are limited by the available options. It also helps you keep better control of the quality of nutrition you get, your caloric intake while avoiding the overeating and unhealthy substances. Moreover, the simple and rather low-cost production process compared with the Western European countries combined with high economies of scale enable competitive price positioning for the whole EU market.

**Picture 9:** Price equivalent of a 400 kCal portion



Source: Author's survey.

## 2.4.2 Mission statement

Our goal is to become synonym for quick and healthy eating without remorse through development of an affordable nutritional product leveraging the most up-to-date knowledge of the dietary and medical industries, which provides maximum natural nutrition with minimum effort.

## 2.5 Products and services

Until recently, the food market has provided limited choice for people leading the hectic lifestyle of the 21<sup>st</sup> century with little to do when they could not afford daily lunch breaks, lengthy shopping and high expenses on ready-made high-quality meals. More often than not, such situations led to favourable consumption of fast foods, snacks or baguettes which, in the long-term, negatively affects health conditions, contributes to obesity and might result in premature and avoidable death (Antosova, et al., 2014 p. 140).

Our nutritional product offers the convenience with easy and quick preparation which fulfils the daily requirements of all macro- and micronutrients<sup>16</sup> the body needs for proper functioning, all from high-quality sources at an affordable price. Although not intended for weight-loss, numerous cases of the beta-testers have proven that regular consumption of our product contributes to better functioning of the metabolism which results in partial reduction of the weight to the normal levels and its long-term stabilization. To get the product ready, you only need to scoop approximately five tablespoons of it (100 g) into the shaker or mixer, add 0,5-0,7 l of water, milk or juice and shake or mix the cocktail.

### 2.5.1 Product offer

There is currently one product line which does not differentiate between meals of the day or gender of the consumer and is based on an average adult. It contains more than 20 ingredients, such as cereals, husks, dried fruit and herbs, each with its specific role. Furthermore, we included also a fair amount of fibre, antioxidants and phytosterols which have been proved to have a beneficial effect on our health regulating the risk of cancer, decreasing cholesterol and helping detoxification of body. The formula is suitable for both vegetarians and vegans.

The product is sold in 0.5 kg packages, each containing 5 meals by 400 kCal. The offer is in three sizes with unit price 250 CZK, i.e. 50 CZK per portion. For the rest of the EU market, price is 10 EUR which partially covers the higher delivery costs. The smallest order is a one-week set of 7 packages covering at least 35 nutritionally rich and tasty meals. Second option is a two-week order consisting of 14 packages covering at least 70 meals. The biggest size for one month contains 30 packages with over 150 meals. The product's lifespan is influenced mainly by the content of oils in nuts which can oxidize through time and lose some of its benefits.

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<sup>16</sup> According to EFSA recommendations.

Therefore, the minimum durability is set to six months while it is safe-to-eat the product until 1 year from the production date thanks to the used ingredients. Packages should be ideally stored in a cool, dry place.

However, we are constantly working on product development that would enhance the customer satisfaction according to the needs and wishes. Based on the feedback from more than 350 customers, we are going to increase convenience by serving the product in single-pack packages to simplify the portioning. Moreover, despite the acceptance of rather featureless and neutral flavour with slightly sweet taste of oats and nuts, frequent comments on need to add other ingredients inspired us to introduce several flavours for higher diversity in the short-term. Although difficult to make while keeping the nutritional profile balanced, it would further differentiate the product from the existing alternatives on the market. To achieve this, we have established exclusive cooperation with the Food Research Institute Prague which should further enhance our credibility and create barriers for competitors while meeting our high requirements.

In the medium-term, healthy snacks utilizing inventory of the healthy ingredients and more accustomed variants will be introduced. This might include categories such as non-allergen, breakfast version with higher content of carbohydrates and dinner version containing more proteins, as well as different caloric versions for male and female customers. As a next logical step, we want to create affiliated distribution for surplus of the raw materials used for the manufacturing of our product.

The long-term goal is to develop an online configurator which would enable to build tailor-made food matching individual needs of every customer. This might offer an opportunity to further move into the medical industry and introduce products for special dietary needs. However, at the current situation and financial requirements of the clinical testing, this requires strong partnership or investment cooperation.

### **2.5.2 Customer experience**

Our customer philosophy is based on three pillars which are transparency, trust and customer-oriented solution-driven approach. This reflects the concerns raised in the questionnaire survey (for further reference see appendix 1) which in several cases expressed high need for additional information and personal testing. All factors are detailed in the pre-sale, as well as post-sale customer care below.

### **2.5.2.1 Pre-sale customer care**

Due to both innovative nature of the product and impact on health of the end consumer, transparency and trust are crucial. This means that the potential customer needs to have every possible information available and concern clarified. Therefore, our focus is on pro-active communication in order to provide answers and quality advice on any potential topics. These can vary from dietary and health indispositions such as allergies the individual might be facing in relation to the consumption of our product to interaction with other dietary supplements. For these purposes, we provide email support with answers within 24 hours and constant availability over social media where customers can connect with us. With bigger customer base, life chat option and helpline will be introduced to enhance the multichannel customer engagement.

Last but not least, samples of the product are provided on request for testing as several customers claimed discomposure whether the product would meet their expectations. Additionally, an option to order single-package has been just launched. The unit price, however, goes up to reflect lower profitability, higher logistics cost and more complex manipulation and packaging.

### **2.5.2.2 Post-sale customer care**

The most frequent issues and causes for dissatisfaction identified are connected to the delivery services, such as speed and quality. The second issue is inability to consume our product or a general discontent with it.

To avoid or mitigate these situations, we negotiate with several delivery companies to provide range of selection for the customers with options matching their individual preferences. Moreover, in case of any failure such as damaged or lost package, we immediately redress the order. For cases of negative experience with the product, we offer outgoing return-policy on request and refund any return unopened packages. With the goal to create platform for information-, knowledge- and experience-sharing, we inspire every new customer to join our community to contribute with their suggestions for improvement, tips for preparation or topics for discussion. This enhances the customer experience while providing opportunity to stay in touch and to get unbiased opinions from other users.

### **2.5.3 Current status**

We launched our product in February 2016 and have a functioning business model. This has required a number of milestones so far. However, the operations are not fully stabilized yet and further developments need to be put in place.

#### **2.5.3.1 Reached milestones**

- 1) Feasibility analysis completed – market research, questionnaire of 118 respondents, over 90 beta-testers providing feedback which has been incorporated
- 2) Legal entity established – the company founded limited liability entity with basic capital of 20,000 CZK
- 3) Company name and brand registered – trademark approved
- 4) Product developed and approved – we successfully received all approvals from the Czech authorities regulating food production
- 5) Suppliers secured – Czech companies with proven track-record and certified raw materials
- 6) Website, blog and e-shop launched – we developed our own website tailored to the needs of our product
- 7) Logistic contracts signed – currently we use delivery services of the Czech Post
- 8) Manufacturing temporarily in place – production premises are rented as and when needed with our own personal labour which has to be replaced and scaled due to growing orders
- 9) Management team – management, supply chain, manufacturing, sales and customer support arranged by both co-founders, social media and marketing administrator and manual labourer hired as a part-time workers
- 10) Financial status – all financial resources were provided by the founders from their own savings which have sufficed for self-sustainability of the business, potential loans are being considered for further growth and expansion



### **2.5.3.2 Next steps ahead**

- 1) Suppliers – re-negotiate better prices, move up the supply chain to international suppliers providing organic/bio ingredients in larger quantities
- 2) Re-designing – accommodate customer feedback, develop corporate identity better reflecting on our philosophy and mission
- 3) Re-design e-shop – redesign homepage with new branding, simplify ordering process, optimize coding for SEO, enable extension of product portfolio
- 4) Prepare new product lines – design new packaging and optimize sizes
- 5) Manufacturing – find reliable and flexible outsourcing manufacturer and packager to avoid large capital investments into own premises and equipment
- 6) Distribution – extension from online to retail distribution networks such as bio/organic/farm food products or dietary supplements for sportsmen
- 7) Management team – internally hire marketing administrator for social media maintenance and customer support, specialist for accounting and controlling, and biochemist understanding food technology and quality control, externally find IT programmer and webmaster for online platform maintenance, and independent nutritional experts for further updates and unbiased opinions on the product formula
- 8) Large-scale campaign – after mapping trends in the online sphere, invest in targeted AdWords, launch extensive Facebook campaign and hire PR agency for presence among popular media plus initiate cooperation with popular bloggers, sportsmen who can represent opinion leaders, influencers and brand ambassadors
- 9) Financial resources – chart available startup funding and subsidies provided by the government and the EU to leverage foreign capital for reasonable interest rate

### **2.5.3.3 Legal status and ownership**

The company was established as a limited liability corporation in the Czech Republic in November 2015 with Stepan owning 100% share of the company. However, the mutual relations have not been resolved yet. This will be amended in accordance with internal agreement to reflect sweat equity contributed by the co-founder/author in new founder's agreement within one year from the date of establishing the legal entity.

## **2.6 Environment analysis**

### **2.6.1 Industry analysis**

Household expenditures on foodstuffs and non-alcoholic beverages constitute together with housing most important portion of the overall expenses. According to the Czech statistical office, it was 20% in 2015 representing 361 billion CZK (CSU, 2015). This, in general, makes it an attractive industry. However, further segmentation more specific to our product is required. Due to its nature and difficult categorization, four separate and mutually heterogeneous segments have been selected for description of qualitative trends, quantitative growth rates, and future sales projections specific to the Czech market to better estimate its market potential. The Czech Republic will be our core focus for the upcoming period, although certain overlap to the other EU countries is expected.

All explored segments have certain similar traits favourably influencing their anticipated development. These are based on positive macroeconomic outlook and rising demand in self-medication, prevention and rising health consciousness, hectic unhealthy lifestyles and ageing of the population, growing consumer base, booming popularity of online shopping, especially within vitamins and dietary supplements, sports nutrition and weight management, and increasing demand for more quality products (Euromonitor, 2015).

#### **2.6.1.1 Market with sports nutrition**

This market has recorded 29.8% growth in the last five years from 425.8 million CZK to 548.7 million CZK. When combined with weight management, this number reached 908 million CZK in 2015 according to Euromonitor. With prediction to increase by 16% till 2020, mainly the non-protein products represent attractive category. For consumers, this is due to a wide range of effects, their convenience and underdeveloped character of the market (Euromonitor, 2015).

#### **2.6.1.2 Market with vitamins and dietary supplements**

The past five-year increase in size by 13.1% from 3.216 million to 3.638 million proves the growing interest of consumers for health prevention.

The best performing subcategory is represented by supplement nutrition drinks, which is driven by underdeveloped market character and rising awareness of the importance of proper nutrition for consumers, who suffer from health problem, and recorded current value growth of 9%. The main driver of the sales is going to be ensured by dietary supplements, where

customers keep rising their demand for combination dietary supplements. These pose various effects and benefits intended for a specific purpose, such as support of immunity, or specific target group, such as elderly people or women. Popular are also products for general health and demand is growing for more sophisticated products (Euromonitor, 2015).

#### **2.6.1.3 Market with functional food**

This food segment includes everything from baby food, breakfast cereals, biscuits and snack bars to processed fruit and vegetables, rice, pasta, soups, and sweet and savoury snacks. The packaged functional food market is positively affected by the wellness trend indicated in growing interest in the composition of products and demand for quality, not containing glutamate, artificial flavourings, preservatives or other chemicals, but with natural origin and made of beneficial ingredients. In this segment boom has been recorded for products enriched with vitamins, minerals, fibre, or low or gluten-free content. Regarding prime positioning, anti-ageing products with antioxidants, probiotic products, heart and cardiovascular health (omega-3 and omega-6 essential fatty acids) and general wellbeing products enriched with vitamins and minerals give the largest development potential (Euromonitor, 2016).

#### **2.6.1.4 Market with health and wellness products**

Thanks to positive development of the economy, consumers are increasingly engaging with health and wellness products that were non-essential during the economic downturn. Together with health consciousness and endeavours to lead healthier lifestyles, the adoption of products considered helpful is stimulated. This is demonstrated on further penetration of superfoods such as green tea, chlorella, lucuma and many others which are used as ingredients in our product as well (Euromonitor, 2016).

The highest growth is predicted for naturally healthy, organic and better-for-you categories. These changes could be assigned to media coverage and government campaigns on rising obesity levels in the country. By 2020, naturally healthy is set to remain the largest category, followed by better-for-you and fortified/functional foods, as players will increasingly widen their ranges in response to rising consumer awareness and improved understanding of the perceived benefits of these products to health and wellbeing (Euromonitor, 2016).

### **2.6.1.5 Market sizing – Czech Republic**

The overall market size for the first three years is calculated as a summary of all relevant market segments described above which, due to the nature of the product, are markets with sports nutrition, vitamins and dietary supplements, functional food and health and wellness products. By using the numbers provided by market research agency Euromonitor International as summarized in the table 5, the overall size reaches 17,922 million in 2016.

However, for more precise estimation, further targeting of the market was conducted by the author. In the initial three years of estimated market size, only categories of combination dietary supplements, supplement nutrition drinks, and combination non-herbal dietary supplements, which are most closely associated to our product, were considered (see bordered area in table 5). These are expected to amount to 1,800.1 million in 2016.

Based on information described in chapter 2.6.3.1, there is approximately 15.5% of the Czech population prone to healthy eating, who are open to newness and with their consumer behaviour match characteristics of our product. This narrows the market to 279 million. Due to our current production and suppliers' capacities, we are limited to a monthly production of 1,500 kg, i.e. 3,000 daily packages priced at 250 CZK each. With February being the testing month with pre-orders, this amounts after 10 months of full operation to potential sales of 7,5 million in year 1 which represents 2.7% share of the 279-million market. This should be feasible based on sales of the main competitor on the market Mana which launched operations in 3rd quarter of 2014, against all odds achieved 6 million in 2015 and aims for 30 million in 2016.

The projected CAGR for the three-year period is calculated as the average of CAGRs for all matching categories which equals to 3.48% and is for our product very conservative because the adoption is expected to overgrow the trend of existing categories. With this growth rate, the market is going to reach 289 million in 2017 and 299 million in 2018.

By year 3 our goal is to reach 10% market share which should be feasible due to our current second position on the market, its early dynamic developments, thanks to bigger production capacity, larger quantities of input ingredients from foreign suppliers, extension of the product portfolio by new flavours and increased brand awareness as a result of marketing activities. Furthermore, sales should be fuelled by expansion of the distribution channels and new product lines expanding to other segments of the food market. As a result, this would account for 29.9 million in sales in year 3 on the Czech market only. Detailed calculations are summarized in table 6.

**Table 5:** Forecast sales by food category: value 2016-2020

<b>CZK million</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>CAGR</b>
<b>Sports nutrition – non-protein products</b>	282.9	286.9	293.5	302.9	315.1	3.6%
<b>Vitamins &amp; dietary supplements</b>						
- <b>Combination dietary supplements.</b>	899.2	924.9	954.7	989.3	1,028.7	3.30%
- <b>Supplement nutrition drinks</b>	1.7	1.9	2.0	2.2	2.4	8.00%
- <b>Combination herbal/traditional dietary supplements</b>	196.9	202.6	208.6	215.7	224.2	3.20%
- <b>Combination non-herbal/traditional dietary supplements</b>	702.3	722.4	746.1	773.6	804.4	3.40%
<b>Functional food</b>						
- <b>Biscuits &amp; snack bars</b>	182.9	187.4	193.9	201.4	209.8	3.00%
- <b>Breakfast bars</b>	56.2	57.0	58.1	58.9	59.5	1.10%
- <b>Snack bars</b>	58.7	59.6	60.9	61.8	62.6	1.30%
- <b>Energy &amp; nutrition bars</b>	2.5	2.7	2.8	3.0	3.1	5.10%
- <b>Breakfast cereals</b>	1,369.1	1,393.0	1,424.0	1,456.5	1,487.9	2.00%
<b>Health &amp; wellness products – selected items</b>						
- <b>Soft drinks</b>	9,909.1	10,177.8	10,493.6	10,859.4	11,252.5	3.00%
- <b>Biscuits &amp; snack bars</b>	1,713.1	1,783.8	1,855.0	1,912.7	1,964.2	3.60%
- <b>Breakfast cereals</b>	1,713.0	1,760.7	1,812.8	1,863.9	1,911.9	2.80%
- <b>Soups</b>	68.8	75.8	81.1	85.9	89.7	7.50%
- <b>Sweet &amp; savoury snacks</b>	766.0	774.5	783.9	793.7	803.8	1.30%
<b>TOTAL</b>	17,922.4	18,411.00	18,971	19,580.9	19,191.1	X

Sources: (Euromonitor, 2015; Euromonitor, 2016), compiled by the author.

**Table 6:** Data based market size estimate for the Czech Republic

Czech Republic	Share	Potential market CZK	Comments
<b>Overall market size</b>		17,922,000,000	Sports nutrition, vitamins, dietary supplements, functional food, health & wellness products
<b>Target markets</b>		1,800,100,000	Combination dietary supplements, supplement nutrition drinks, combination non-herbal dietary supplements
<b>Population prone to buying our product</b>	15.5%	279,000,000	Based on data from the largest Czech market research agency Median (see chapter 2.6.3.1)
<b>Target production capacity in year 1</b>	2.7%	7,500,000	The market potential for the first year is limited by the production capacity and availability of the inputs from local suppliers
<b>Market growth rate</b>	3.48%		average of CAGRs for all matching categories
<b>Target market in year 3</b>		299,000,000	
<b>Planned market share – by year 3</b>	10%	29,900,000	Feasible thanks to bigger capacity, extension of the product portfolio by new flavours, increased brand awareness, extension of the distribution channels and new product lines

Source: Created by the author.

## 2.6.2 Porter's five forces

### 2.6.2.1 Threat of new entrants

- High returns and profitability – growing nascent segment with low competition and high demand;
- consumer base – potential not fully explored by potential entrants, consumer base is currently low;
- formula patent – impossible to protect any product, trademark is essential;
- brand equity important – due to sensitivity and possible impact on health, trust, reliability and transparency are inherent and brand building is crucial;
- open-source DIY community – many experimenters create and share their own recipes, need for frequent and constant innovation;
- high capital requirements – difficulty to find manufacturing site for outsourcing, plant and equipment for commercial production is expensive;
- economies of scale – with higher quantity, costs rapidly decrease;
- access to distribution and suppliers – due to exotic ingredients, relatively complicated to move up the supply chain to larger suppliers closer to the origin, language and minimum quantity barriers.

All in all, threat of new entrants is relatively high but more probably from a well-established company already operating in the food industry and having powerful brand with large and loyal customer base. Main barrier resides in need for relatively high initial investment but speed in market entry and customer acquisition play a major role.

#### **2.6.2.2 Threat of substitutes**

- Currently high propensity of buyers to substitute – people are used to dietary supplements such as weight-loss or whey protein powders which, however, do not cover the full spectrum of nutrients;
- relative price performance – product is below-average price level and is accepted by consumers once the concept and idea behind is understood;
- substitutes are of lower quality for given price or do not offer positive health benefit;

Threat of substitutes is medium due to similar products offered under brands such as Herbalife. These, however, have bad reputation for higher price with no proven health benefit or non-transparent composition.

#### **2.6.2.3 Bargaining power of buyers**

- Buyer switching costs are medium – industry products are rather unique and buyers would have to turn abroad for other alternatives, ours offers good quality and value for money;
- low concentration of customers;
- buyers are highly price sensitive.

Bargaining power of buyers is rather low due to low number of direct alternatives and low concentration of customers. However, shift in economic development and negatively affected purchasing power might play great role in propensity to buy our product.

#### **2.6.2.4 Bargaining power of suppliers**

- Low switching costs – suppliers are not dependent upon our industry, amount of individual sales for each ingredient low;
- High impact of inputs on cost and differentiation – negotiation of prices crucial for success due to low-margin nature of the product;
- Low concentration of suppliers – high number of providers focusing on healthy nutrition and superfoods used as ingredients

- Low need for highly skilled employees – mainly manual labour.

Despite negligible switching costs and currently low sales, the bargaining power of suppliers remains low due to their weak concentration and wide variety of alternative suppliers. Main focus is on high-quality ingredients with certified origin and content which narrows them down but not significantly thanks to the free trade within the EU. The same applies to the suppliers of labour where majority of high-skilled positions can be outsourced externally.

#### **2.6.2.5 Industry rivalry**

- Low direct competition and in online space only (further details in chapter 2.6.4) – competitors have not entered retail and have no intentions to do so;
- Low firm concentration ratio;
- Powerful competitive strategy – sustainable advantage through constant innovation;
- For large scale production, fixed costs and exit barriers are high.

Natural powdered meal replacements are not strongly present on the market. Main distribution channel is through e-shops which gives space for high market penetration via retail. For quick expansion and higher margins, initial high capital investments are required which presents high exit barriers for current and potential competitors.

### **2.6.3 Customer analysis**

The customer analysis was conducted in three steps. In the first one, hypothetical customer group was identified based on selected indicators from verified research of market research agency Median while focusing on consumer behaviour of functional foods and dietary supplements users. In the second step, the target segment was verified by analysis through online questionnaire. Finally, data collected from the fan page on social network Facebook and Google Analytics was used for further validation of the results.

#### **2.6.3.1 Median – MML TGI**

The starting point for identification of the target customer segment is the most extensive study on the Czech market called Market & Media & Lifestyle Target Group Index (MML-TGI) prepared by the market research agency Median regularly since 1996. MML-TGI conducts primary research and maps consumption of more than 300 product types and services and over 3,000 individual brands with connection to the media (press, broadcast, TV, internet),



lifestyle and sociodemography. The research is realized continuously four times a year on a representative sample of 15,000 respondents and provides deep insights and knowledge on potential customers, their decision-making process, purchasing behaviour and life attitudes. This is crucial for the right selection of the brand positioning, communication strategy, and efficient reach of the target consumer group.

Out of the overall population, we focused on:

- “healthy eaters” who like trying new food products, put emphasis on regular eating, consider fast food as unhealthy, believe people should eat more fruit and vegetable, consider their diet as balanced and prefer buying “bio” products. They constitute 365,000 people (4.1% of population)
- “healthy eaters wannabe” who like trying new food products, put emphasis on regular eating, consider fast food as unhealthy, believe people should eat more fruit and vegetable and think they should change their dietary habits. This group constitutes 1,008,000 people (11.4%).

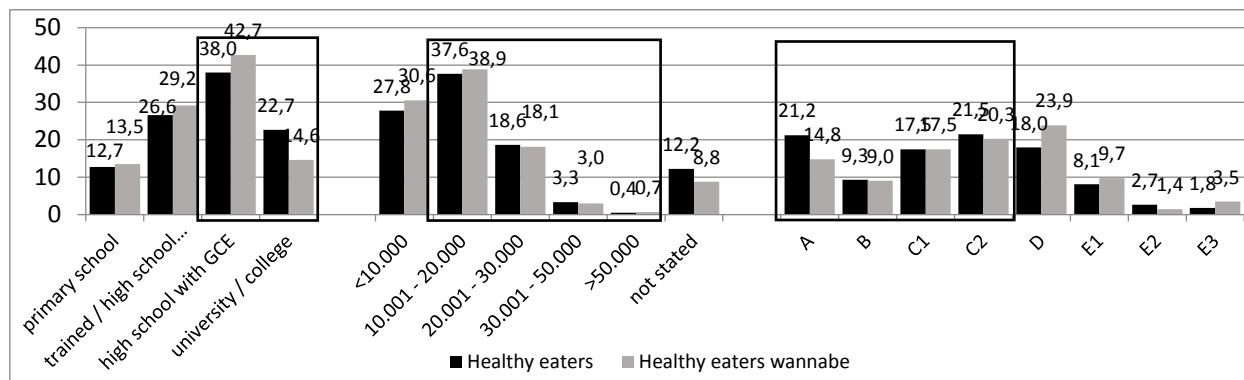
Within these groups, we further structured the people according to gender, age, education, income, size of their city and the socioeconomic situation<sup>17</sup>. We identified the “healthy eaters” and “healthy eaters wannabe” to be mainly represented with the correlation of four indicators: age groups from 25 to 44, with high school or university education, above-average income and living in large cities with more than 100,000 inhabitants. In both categories, larger proportion is constituted by women as described in picture 11.

Two major groups would be young managers/consultants/sales representatives and other professionals with steep career curve but lack of time. Generally speaking, people working in corporations. Second group would be geeks, early adopters and vegetarians who are looking for innovative ways of nutrition. The market potential after having applied this additional segmentation is approximately 500,000 people among “healthy eaters wannabe” and 200,000 people among “healthy eaters”.

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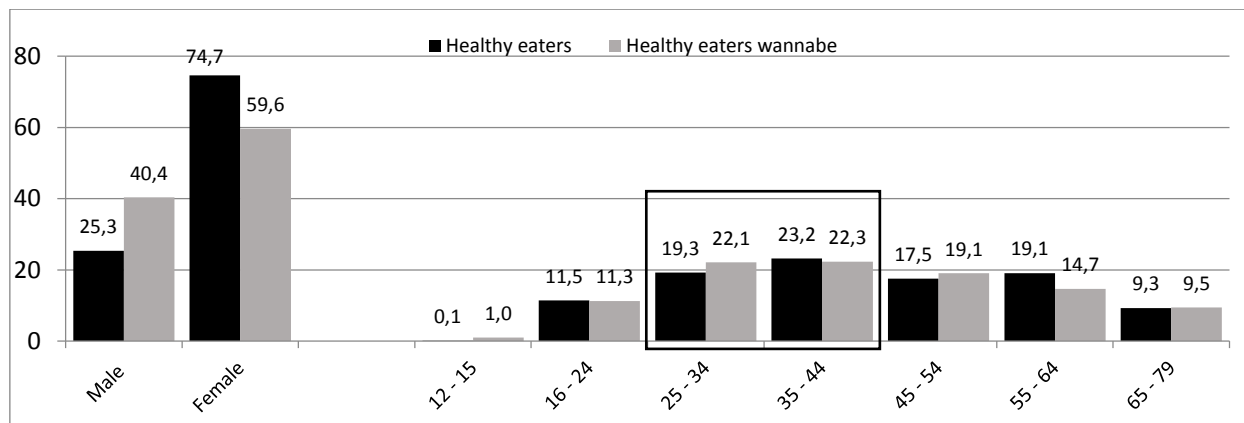
<sup>17</sup> The ABCDE classification divides the population into several groups according to a socio-economic status of the family, especially its “head” that earns the most. It reflects upon indicators such as level of education, profession, and employment status in the career hierarchy. The A category represents top managers, professionals with the highest education, B stands for the middle management, C1 are non-manual workers with high qualification, entrepreneurs, C2 are qualified labourers and non-manual workers, D are manual workers and low-educated workers without managerial position, and E are low-qualified, non-qualified manual workers and similar blue-collar workers. It was established in the 1980s by ESOMAR, world association for market, social and opinion research, in order to harmonize the data across countries (Mediaguru, 2011).

**Picture 10: Socio-economic demography of the target group in % – MML-TGI**



Source: (Median, 2014), compiled by the author.

**Picture 11: Demography of the target group in % – MML-TGI**



Source: (Median, 2014), compiled by the author.

### 2.6.3.2 Online questionnaires – data collection

At the beginning of this chapter it is imperative to mention that the author has actual objective market data available. However, these could not be used for the purpose of this Master's thesis due to the newly introduced university regulation which prevents hiding selected parts of the work from the public. Due to the topicality of the product, it is highly sensitive and could be abused by the existing competitors.

To get better understanding of the identified target group, author attempted to verify the findings from MML-TGI and tested the value proposition for the target customer segment with independent online questionnaire (see details of questionnaire in appendix 1). Purpose of the questions in the first section was to identify the eating habits and dietary and purchasing behaviour for food including frequency of food consumption and amount of money spent. The second part focused on attitude towards dietary supplements and their usage due to the similar characteristics and close association with our product. The third part tested the openness to

a new product category meeting newly identified needs. In the last part, the questions on demography and background were asked.

The collection was conducted through the product's blog and Facebook profile as described in chapter 2.6.3.5 to leverage the existing fan base which matches the defined segment's gender, age, income, region and other variables as described by the MML-TGI. Respondents were offered 10% discount on the first order as a motivation after completing the questionnaire if provided with their email address. A total of 118 respondents from the target group completed the questionnaire. The offered ranges in case of sociodemographic questions were based on MML-TGI for better reference.

57% of respondents were women. 55% of respondents were from the target age group 25-34 followed by the age group 35-44 with 23% and 18-24 with 19%. The age group 45-54 was represented by 3% of respondents. 67% stated the net monthly income above 10,000 CZK. 81% of respondents are currently pursuing or have finished university education, remaining 19% studied high school with school leaving exam and are economically active. 86% of respondents live in large cities with over 100,000 inhabitants, 12% live in cities above 20,000 inhabitants.

### **2.6.3.3 Analysis of questionnaire responses**

Outcome of the first part appears to indicate that only 44% of respondents stick with the regular diet, i.e. five meals on a repeated basis, with slight prevalence among women (62% vs 38% of men). Surprisingly, 62% of respondents seem to consider their diet as a balanced and varied one. Out of the 38% of respondents who do not, majority of 73% possibly blames time constraints followed by laziness because the healthy diet is not a priority for them and they have insufficient knowledge. This explanation would be in line with the reasoning expressed by the diet hackers who are behind the emergence of the powdered food replacements. In the sample, 83% of respondents claim to eat breakfast at home, with 17% mainly spending additional money on food bought on the way or prepared at work. 47% of respondents state to buy lunch in a restaurant or order a food delivery, 31% prepare lunch at home and 12% prepare lunch directly at work. The answers might suggest that only 10% either buy fast food or skip the lunch. This might imply that in general, the Czechs pay attention to the lunch breaks. Absolute majority, 87% of respondents, allege to eat dinner at home. Only 4% of respondents argue to buy food on the way home and 9% eat at a restaurant. Snacks appear to be rather popular, as 44% of respondents eat a home-made one. However, this is followed by 38% of respondents who claim to buy snacks on their way to work. Despite the seemingly regular diet habits of the

respondents, 67% allegedly admitted to have more or less frequently situations when they have to skip a meal or cannot enjoy a full-fledged food.

On average, the respondents spend 200 CZK on food per day which is slightly higher at high-income respondents with higher age and education, with prevalence among men. However, this cannot be generalized due to the low number of respondents. Despite the relatively low average expense on food, 35% of respondents consider them to be high or even higher than planned (27%).

In the second part, 59% of respondents confirmed their experience or regular intake of dietary supplements such as vitamins. Over half of them suggest to be motivated by the beneficial impact on their health such as improved immunity, blood pressure or cholesterol. The same applies for better stamina and performance at sports. One third asserts to be attracted by the benefits on hair, nails and skin, as well as the weight change. With regard to the topic of natural dietary product replacing food, the most frequent motivation for its purchase mentioned seems to be proof of positive impact on the health as indicated in 70% of all cases. Reasonable price mentioned in almost half of all cases appears to play great role which might be ascribed to the general price-sensitivity of the Czech customer. Flavour was identified as a decisive point in 46% of all cases which could make it an important factor. Time saving as a reason for purchase was mentioned by 34% of respondents. 20% of respondents would probably base their decision on a recommendation from their family and friends. It might be concluded that this part confirms the overall trend on popularity of the dietary supplements, as well as the motivations behind the purchasing decision and consumption which seems to be mainly related to the health benefits. Moreover, the time factor highlighted by respondents, who earlier confirmed to sometimes experience situations when they have to skip a meal and eat rather irregularly due to time constraints, might be important for purchasing decision, too.

The concept of Soylent food is not very widespread so seems to be aligned with the outcome of 64% of respondents not knowing about it. On contrary, it might be considered positive that 25% of respondents knew the concept and its philosophy. Yet, 33% of respondents expressed interest in a similar product with enhanced composition and purely natural ingredients with 7% already having some experience, while further 35% would consider it with additional information. After providing additional information, 6% of respondents expressed their openness to try full switching to the powdered meal replacement diet and 45% would be able to imagine replacing their regular diet at least sometimes. On average, respondents would

be willing to pay 52.3 CZK for a portion of 400 kCal of such food. This might reveal acceptability of our current pricing policy.

#### **2.6.3.4 Summary of questionnaire outcomes**

To encapsulate, due to the small sample of respondents the outcome of the questionnaire cannot be taken as a verified and representative guide, and provides only partial clue for further verification of the target group proposed by the MML-TGI database. Nevertheless, despite the lack of representativeness, the author has access to actual objective market data from existing customers.

Certain correlation between those who eat rather regularly, consider their diet as balanced and varied, eat dietary supplements mainly due to their health benefits, have or pursue university degree or finished secondary school with school leaving exam and work, live in large cities, has been inferred. This might be in compliance with previous researches mentioned in the theoretical part. Apart from the interest expressed by the age group in a range 25-34, attention might need to be devoted also to a potential target group of university students aged 18-25 with lower income but similar needs and consciousness about their health living in large cities.

#### **2.6.3.5 Online market data**

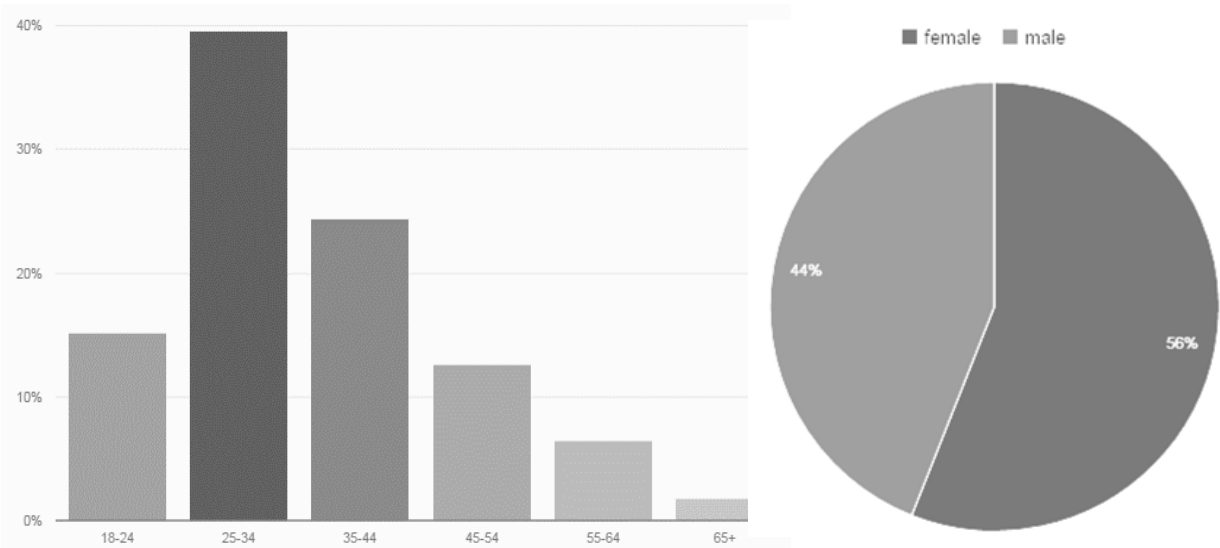
To further verify validity of the identified target group, the author leveraged available market data from the biggest social network Facebook and Google Analytics<sup>18</sup> which provides insight into the visitor audience of the website. Both media serve as powerful marketing tools thanks to the amount of available data. Apart from socio-demographic details, they collect information on employment, interests, hobbies and other lifestyle factors impacting purchasing behaviour. In both cases this describes an internet population narrowed to a sample already interested in the topic of our product.

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<sup>18</sup> Analytical tool for website owners which enables to track and report website traffic for detailed understanding of the visitors, their background and behaviour.

So far, Google Analytics collected data on a sample of 8,987 visitors. These people visited the website either because they were searching for additional information about our product or were lured by the online advertisement. Having interpreted the data as displayed in picture 12, the analysis confirmed our previous conclusions and are in line with the age groups already selected. Majority of the visitors were from age group 25-34 followed by 35-44 and 18-24 with prevalence among women.

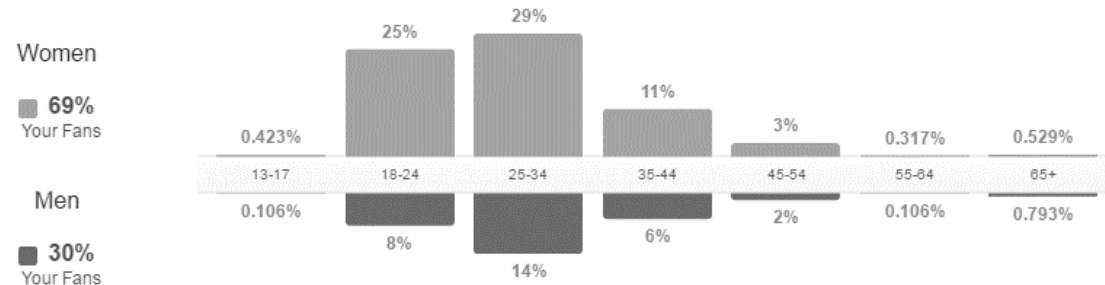
**Picture 12:** Google Analytics - demographic details of the website visitors



Source: Google Analytics account for website dedicated to the discussed product.

The Facebook analysis is based on a sample of 1,776 existing followers who already heard about our product and are looking for additional information which motivated them to “like” the fan page. These people are either educated about the product or were attracted by the online marketing campaign. The outcome confirmed the identified target segment with small deviation among the age group 35-44 which is not very well represented in the Facebook user base as is visible in picture 13.

**Picture 13:** Facebook insights - people who like our page



Source: Facebook profile of the discussed product.

Prevalence of women over men validated earlier assumptions on interests for healthy eating. With regard to their behaviour, both analyses showed that these people identically share interest in food and drinks, travelling, business, tourism, fitness and wellness, health, technology, nutrition, dieting, education, vegetarianism and veganism.

With regard to the location of the target group, both Facebook and Google Analytics localized over 70% of its presence in one of the ten biggest cities of the Czech Republic. Prague and the Central-Bohemian district are the clear leaders which can be attributed to a higher average income and hectic lifestyle of larger portion of the population which works in the corporations and is keen on healthy lifestyle. Over 20% of the remaining part are in mid-size urbanized cities, mainly regional capitals with high concentration of inhabitants which further points towards the same trend of hectic lifestyle. The rest is dispersed around the country.

## **2.6.4 Competition**

### **2.6.4.1 Characteristics of the Czech market**

When describing the market with powdered replacement food, the Czech Republic is rather belated when compared with the rest of the Western European countries. The first entrant was a company Heaven Labs s.r.o. with their product Mana which was launched in 3<sup>rd</sup> quarter of 2014 as an identical copy of Soylent. Thanks to immediate media attention, its sales rocketed and enabled quick expansion of the production plant and economies of scale. So far, the company has innovated the product formula three times but has not fully converted to natural unprocessed ingredients. The product line remains the same and there has been no expansion of the portfolio ever since. In the meantime, the scaling led to expansion to the German market where it tries to gain market share in a strong competition of two well-established brands. Price-wise, the positioning is comparable with our product. However, the product lacks convenience due to the packaging which uses separate bottles with oil. Despite the critics for a lack of user-friendliness, producers have not incorporated the feedback and enjoy constant growth of sales from newly acquired customers. With uneducated population, Mana became synonym for powdered replacement food on the Czech market, similarly as Soylent did worldwide.

Recently, two other products in this category have been introduced to the market. Nutberg is a copy of our product with cheaper, more affordable ingredients but higher per-unit price. So far, it has not been very proactive in its promotion and does not pose a relevant threat. Second, even more recent product is sold under brand Chia Shake introduced by RoseMed Holding s.r.o.

Although offering several different flavours, their formula contains high amount of quickly absorbed sugars and high portion of processed, synthetic ingredients such as vitamins and minerals. The price positioning is above our product and does not pose a threat although some less knowledgeable consumers might get attracted by the marketing. All products are compared in table 7 for easier guidance.

#### **2.6.4.2 Characteristics of international market**

The European market is developed but at the same time highly dispersed which is best illustrated on the example of the Netherlands where 12 companies fight for share on the market with the powdered replacement food. Similarly, four companies are present in Germany. Characteristic is focus on narrow segment within this category, e.g. vegan form, nutrition for athletes, breakfast solution, nutritional bars or liquid read-made drinks. Regarding the quality, several brands are able to compete with our product above which German Bertrand rises from the crowd due to similar philosophy and wider product portfolio. However, it is priced above our level and focuses on other markets. The closest product to ours comes from Finland under brand Ambronite. It quickly gained popularity on the US market where it shifted its production due to the market potential. However, its portion costs four times as much. Therefore, it can be concluded that there is low threat to the Czech market from these players.

Furthermore, even if the Czech price-sensitive consumers wanted to order product from one of many foreign brands, they would have to bear additional postage rapidly increasing the overall costs.



**Table 7:** Comparison - direct competitors on the Czech market

Company/product	Unit-price per portion	Strengths	Weaknesses	Comments
<b>Our product</b>	46.67-50 CZK	Purely natural, made of unprocessed ingredients with majority certified to bio/organic quality, strong story and history of doing things in a different “own” way connected to a community of dedicated followers. Exclusive cooperation with the Food Research Institute Prague to extend product portfolio and develop further differentiation from other competitors while complying with high standards without compromise	Large packaging, lack of flavours, not fully gluten-free, number of allergens	Next steps for portfolio enhancement being conducted to further differentiate from the existing competitors. Positioned as fully natural convenience food and “the best you can get out of the nature”
<b>Heaven Labs/Mana</b>	40-48.57 CZK	First-mover advantage, leading unchallenged market position with substantial economies of scale, loyalty program, gluten-free	Maltodextrin, processed ingredients, oil in separate bottle, copycat of the American product Soylent	Focus on market expansion rather than product extension. Positioned as replacement food with scientific approach not very well accepted by the consumers who seek “made-of-nature” products
<b>Nutberg</b>	61-80 CZK	Purely natural, portion-size single-packaging for higher user-friendliness, gluten-free	Above-average price level, non-innovative copied formula with cheaper ingredients	Allegedly focusing on foreign markets
<b>RoseMed Holding/ Chia Shake</b>	48-59 CZK	Different flavours, gluten-free, without allergens	Artificial ingredients, health-harming high-sugar composition	Product is not fully matching our category as it cannot fully replace regular diet

Source: Companies’ websites, compiled by the author.

## **2.7 Organization and management**

### **2.7.1 Founders**

We are two enthusiastic motivated young people – Jakub Mazal (VSE and CEMS student, experience in project management) and Stepan Andrlé (VSE alumni, professional with extensive expertise in marketing and PR). Stepan is the brain behind this idea who had faced three years ago several challenges in his work-life balance. Not having enough time to eat balanced diet and spending money on junk food forced him to look for alternative that would give him convenient, affordable and healthy way to fuel his body. Inspired by popular starting business model of similar nutritional product in the USA, he created his own recipe. In his free time he self-educates and is fully devoted to the topic of balanced nutrition. Thanks to his career experience as a marketing manager, he also knows the peculiarities of the product promotion and PR communication.

Jakub joined the project at the early stage with the idea to commercialize the product and bring it to the market more than 1.5 years ago. Having experience from various consulting projects, he works on business development, solves administrative tasks and organizational issues, and conducts go-to-market strategy as an area of his academic focus.

### **2.7.2 Roles and responsibilities**

#### **2.7.2.1 Internal**

Stepan Andrlé:

- PR and brand ambassador;
- financial controlling and accounting;
- customer relations;
- product development.

Jakub Mazal:

- overall management;
- business development;
- customer relations;
- sourcing and supply-chain management;
- logistics and distribution.

### **2.7.2.2 External**

Health institute ZU Usti nad Labem:

- quality control;
- laboratory tests.

Dominik Dvoracek:

- IT specialist, webmaster / programmer;
- e-shop maintenance.

Simona Fedorkova:

- marketing;
- social media maintenance;
- graphics, design and photography.

Manual labourers:

- production;
- packaging;
- shipping.

## **2.7.3 Staff development plan**

### **2.7.3.1 Internal**

- Marketing administrator for social media maintenance, brand development and customer support – till 10/2016;
- specialist for invoicing, accounting and controlling – till 11/2016;
- biochemist / expert in food technology and quality control – till 11/2016.

### **2.7.3.2 External**

- Independent nutritional experts for further updates and unbiased opinions on product formula – till 09/2016;
- IT programmer and webmaster for online platform maintenance – till 10/2016.

## **2.8 Marketing and sales strategy**

### **2.8.1 Marketing plan**

Our marketing strategy serves as a tool to communicate our brand philosophy which is based on highest possible quality in convenient form and at affordable price for masses. We make no compromises on quality, do not accept any synthetics or artificial chemicals and believe food can help people to make the best out of their lives and should be a support to them, not a burden which consumes their precious time. Goal is to raise awareness among people about a food production that scales very well, has minimal impact on the environment, is easy to transport, and takes longer to spoil while positively affecting the health.

Due to the main activities taking place online, this UVP is accordingly complemented by digital marketing strategy for four categories of communication tools suitable for our target customers:

- owned – own website, social media accounts, blog posts;
- earned – media relations, blogger relations, influence relations, shares, reviews, viral reach and unpaid media exposure;
- paid – online ads (Google AdWords), paid search (PPC campaigns), sponsorships and online campaigns on social networks;
- shared – WOM, buzz, referrals.

### **2.8.2 Pricing and positioning**

The pricing policy for our product reflects philosophy of affordable nutrition without compromise. Keeping in mind the competitive landscape, our product provides the best value and quality for reasonable price as summarized in table 7. Starting price for one portion in case of 7-day order is 50 CZK (there are five portions in a package) which is reduced to 46.67 CZK for 30-day orders. This reflects the current production costs, is acceptable in line with the competition and gives space for introduction of additional product lines building on this base which would be priced higher.

Keeping focus of our target group which are higher-income individuals, we do not intend to bargain on price but rather attract consumers with specific needs and desires who would feel special about our brand. This is the main differentiator from competitors and purports

highlighting of the natural origin, unchallenged quality, eco-friendliness and consumer-oriented customer service.

### **2.8.3 Distribution strategy**

Due to its simplicity, need for viral reach, as well as higher initial margin, online solution and distribution via e-shop was selected. This solution required little effort, is not dependent upon mediators and allows for higher profit. However, as the market validated our product, further expansion to retail channels is planned. This requires sensitive development of pricing policy acceptable by all stakeholders. Main effort is to make the product available across the country and get it among older consumers who are not very active internet users.

For the retail distribution channels, we target shops with bio and organic products /healthy nutrition, farm food or dietary supplements for sportsmen all based in larger cities. For this channel, packaging and instructions need to be adapted to match the retail shelf size with better redirection to our website for further follow-up purchases.

### **2.8.4 Promotions strategy**

The promotions mix is based on both online and offline communication. The online strategy is described in a separate chapter 2.8.5. The offline strategy is based on three pillars. The first one is in a form of PR articles and interviews explaining the product rationale in relevant lifestyle magazines focused primarily on health and nutrition. The second pillar is represented by sponsorships of various targeted events such as yoga championship, as well as selected brand ambassadors or influencers. Last but not least, sampling and personal meetings with the potential target audience is essential and take place in a form of presentations at selected events such as startup incubators (e.g. MashUp organized by the Impact Hub) or IT hackathons.

The main goal of these communication channels is to apprise the customers with the concept, explain the idea, added value and the product's benefits. Due to the fact that this is a newly emerging food category, educational marketing is crucial method of self-presentation. Raising enlightenment about impacts of the nutrition on the health and informing the audience about the new healthy alternative of fast food with health benefits is a method to attract attention and develop pull demand for our product.

To increase the brand credibility and trustworthiness of the product, support of the targeted events and selected influencers should drive the WOM. These can include famous sportsmen, popular celebrities or bloggers. To persuade them about quality of our product and the mutual reputational benefit, free packages will be provided without any initial commitments. This will also have overlap into the online marketing due to their social media profiles and a number of followers they can persuade to purchase. Furthermore, to support the information-flow among people, discount vouchers will be distributed among customers who provide positive references to family and friends with unique code for easy identification. This goes hand in hand with top-notch customer service to eliminate negative feedback by crisis communication scenarios in place.

Thirdly, personal presence “in the terrain” is inherent to identify enthusiasts and evangelists willing to promote our brand and product. This will require identification of the niche customer segment open to such activities with motivation through ambassador program.

In the long term, more elaborate retention strategy is required. This should be solved by a subscription model for heavy users, as well as loyalty program with bonus points and discounts for referrals. However, its introduction can follow only after a widespread market penetration and gaining certain level of awareness among the target customer base.

## **2.8.5 Online marketing strategy**

We divided the online marketing strategy into six areas of focus which involve email marketing, SEO, PPC, online advertising, social media, and blogging including partnerships with bloggers and other online influencers and popular magazines driving traffic to our website which was partially described in the offline section.

### **2.8.5.1 Email marketing**

Email marketing is leveraged in the direct communication with existing customers and subscribed visitors who have joined our email database. With the email marketing platform MailChimp, we will be sending out ecommerce, as well as “about company” newsletters which enable advanced analytics including average click and open rate to better understand main topics of interest. Thanks to available data functionalities, we are able to further segment the users’ emails into similar groups for better content targeting and timing.

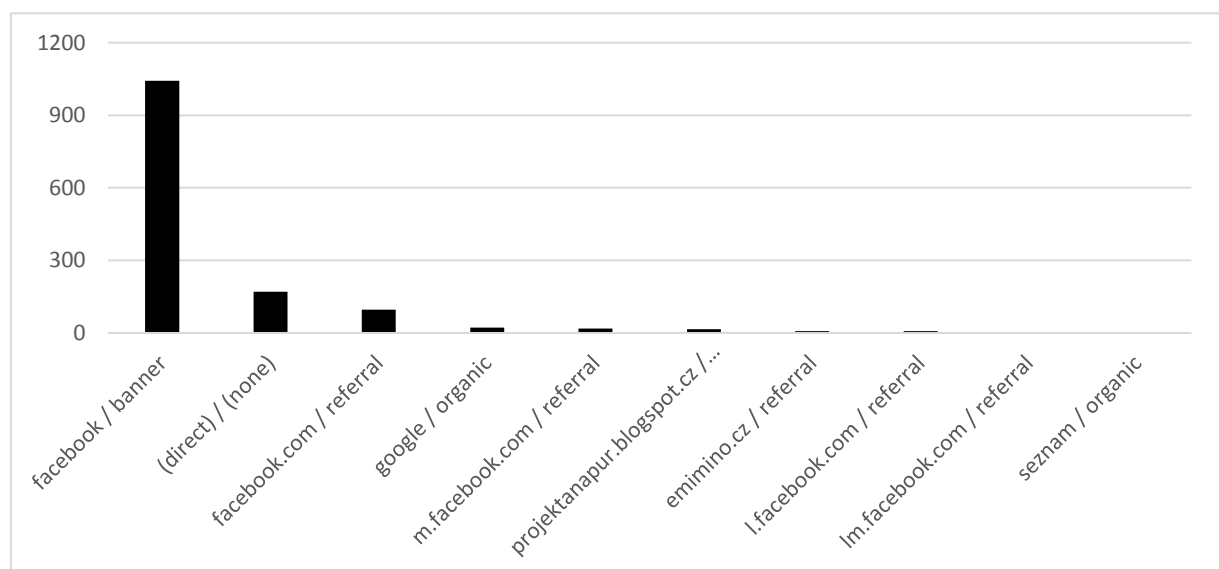
Apart from informing about time-limited offers, the email newsletter should provide regular monthly insights into our daily business, the startup developments, upcoming

innovations and summary of new blog posts on healthy lifestyle and nutritional trends. The email database has already attracted some of our followers in order not to miss out on unique offers that are planned in the future.

### 2.8.5.2 Social media

Out of various social media networks available, our major focus is on Facebook for its wide customer base and frequent usage among the target group. Moreover, based on our analysis conducted over a period of two weeks, which tested conversion rates among different platforms, we discovered that Facebook is a leading and most efficient channel for traffic to our website as displayed in picture 14. Apart from using it as a sharing tool for our blog content, other trending articles on related topics are used for wider viral reach which will be further extended once the website is re-designed and the coding is re-programmed for better SEO.

**Picture 14:** Visits and conversions according to marketing channel



Source: Analysis conducted by the author.

When talking specifically about the advertising campaign, the focus is on lookalike audiences<sup>19</sup> and custom audiences<sup>20</sup> which are most likely to convert to a final purchase while increasing our return on investment. Based on narrowly selected customer group of our existing

<sup>19</sup> Lookalike audiences share the same traits such as location, age, gender and interest of the existing customers so that the ads reach even more people. By using detailed data such as behaviour of the website visitors thanks to Facebook Pixel, a conversion measurement tool, or current page fans, Facebook can directly address the users most likely to convert into a purchase.

<sup>20</sup> By uploading a contact list of existing customers, Facebook can create so called custom audiences for direct communication with them, their family, friends and people similar to them. This is

customers, fans and people in their network, we tested several campaign sets to better identify topics that attract their attention.

Initially, a total of 15 claims described in table 8 associated with our product without any targeting were released. The main goal was identification of claims and thematic areas that attract attention. In the second step, these claims were further clustered and tested within the identified target audience with specific areas of interest mostly influencing them. The five clusters are travelling, business, sport, health and food (for detailed results of the analysis see appendix 2). Based on the outcome, the most impactful claims with the highest reach were highlighting the ability to “get back in shape” (travel, business and sport), “save time” (business, sport and food), especially when not having enough time to cook a proper meal, “eat healthy” (travel, food), “not having time to cook but willing to eat healthy?” (food), “100% natural” (business). As these topics are frequent and highly competitive, the cost-per-click is rather high which should be assumed when preparing the marketing budget.

**Table 8:** Facebook adds without targeting

Ad	Reach	Cost per click (CPC)	Click-through rate (CTR)	Clicks	Cost
Dostaňte se do formy	75195	6.18	0.17	265	1637.9
Superjídlo	40582	7.61	0.24	197	1498.71
Jíst zdravě	34213	5.9	0.24	167	985.16
Na výběr z několika příchutí	30116	6.41	0.28	165	1058.42
Nemáte čas na vaření	30030	5.77	0.26	165	952.64
Nemáte čas?	27425	5.28	0.19	103	543.53
Nemáte čas na vaření a chcete jíst zdravě?	26398	5.45	0.43	275	1498.18
Dostaňte se do formy se superjídlem	25740	5.59	0.18	87	485.99
100% přírodní!	22193	5.34	0.2	80	427.25
Všechny potřebné živiny	5557	6.22	0.14	13	80.9
Několika příchutí	4678	7.92	0.13	11	87.07
Jezte zdravě a zhubněte	4429	18.16	0.28	22	399.56
Několika příchutí.	4078	8.44	0.17	11	92.88
Zdravě a zhubněte	2009	14.03	0.27	10	140.26
Jezte zdravě a zhubněte.	684	14.08	0.35	4	56.3

Source: Analysis conducted by the author.



### **2.8.5.3 SEO, PPC and online advertising**

As the most general type of digital marketing used to increase the website's visibility across the search engines, website must be re-programmed through onsite technical analysis for the SEO to improve the currently low referral which is seen in the picture 14. However, additional activities for better optimization, specifically blogging, link-building and content creation according to successful key words, are included.

### **2.8.5.4 Blogging & partnerships**

The owned blog platform is used for promotion of the educational content via blog posts on topics of healthy eating, new trends in healthy food and benefits and disadvantages of various trendy diets or preventions and solutions for various food sensitivities. This would provide content for publishing across our multiple channels including the direct email communication through newsletters.

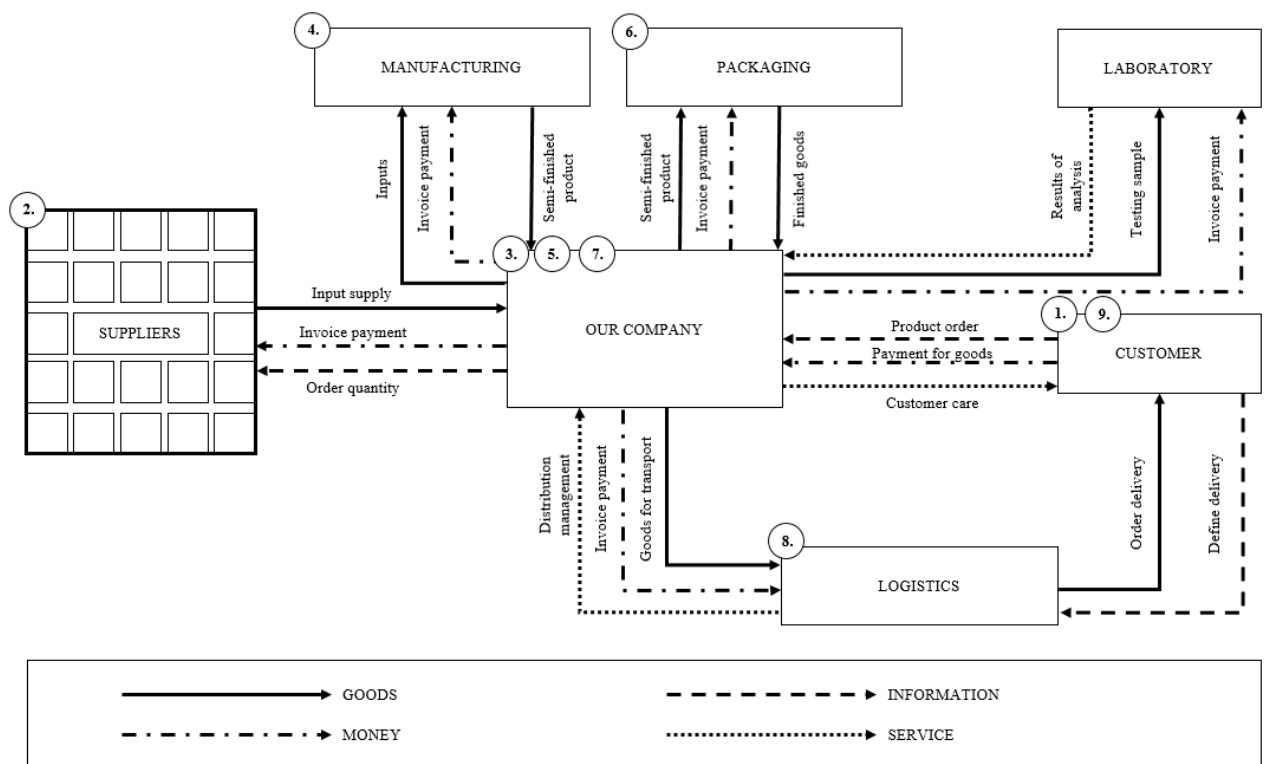
In case of partnerships, we rely on bloggers popular in the virtual space with followers from our target customer base who closely associate with them. Referrals already play an important role in raising awareness about our product. Close and paid cooperation is therefore expected to be one of the most efficient methods for customer acquisition with influencers demonstrating how our product solves their problems in real life. As the next step, sponsorship for selected sportsmen is planned.

## 2.9 Operations and development plan

The operations chapter provides general overview of interactions between all involved parties including the manufacturing and ordering processes. This is followed by description of the planned developments for the future, as well as business development plan. Sensitive parts of the operations diagrams are intentionally distorted in this Master's thesis due to inability to hide them from the public and the existing competition.

### 2.9.1 General operations

**Picture 15:** Overview of company's current operations



Source: Created by the author, for details see appendix 3.

The overall operations process can be currently divided into 9 steps. For simplification purposes, this is a two-week process based on JIT principles, where only after receiving order the production process is initiated and the goods are delivered within two weeks. This arrangement avoids redundant inventory.

- 1) Orders are collected from the customers three-times a week to assess the production quantity required.
- 2) Raw materials are purchased from over 20 suppliers.
- 3) Ingredients are compiled in the company's warehouse, checked for quality and amount.

- 4) Ingredients are transferred to the outsourced manufacturing company, which grinds and mixes them in a given ratio and sends this semi-finished product back to our company in food containers.
- 5) Food containers with the semi-finished goods are checked and samples from batch each month are collected for the laboratory analysis.
- 6) Food containers are sent to the packager where the product is packed into 0.5 kg packages. These are returned back to our warehouse.
- 7) Prepared packages are stacked at our warehouse into boxes based on size of incoming orders, i.e. either 7, 14 or 30 packages per box.
- 8) If customer's payment is confirmed, processed boxes are handed over to the Czech Post.
- 9) After specifying the delivery details, product is delivered to the end customer.

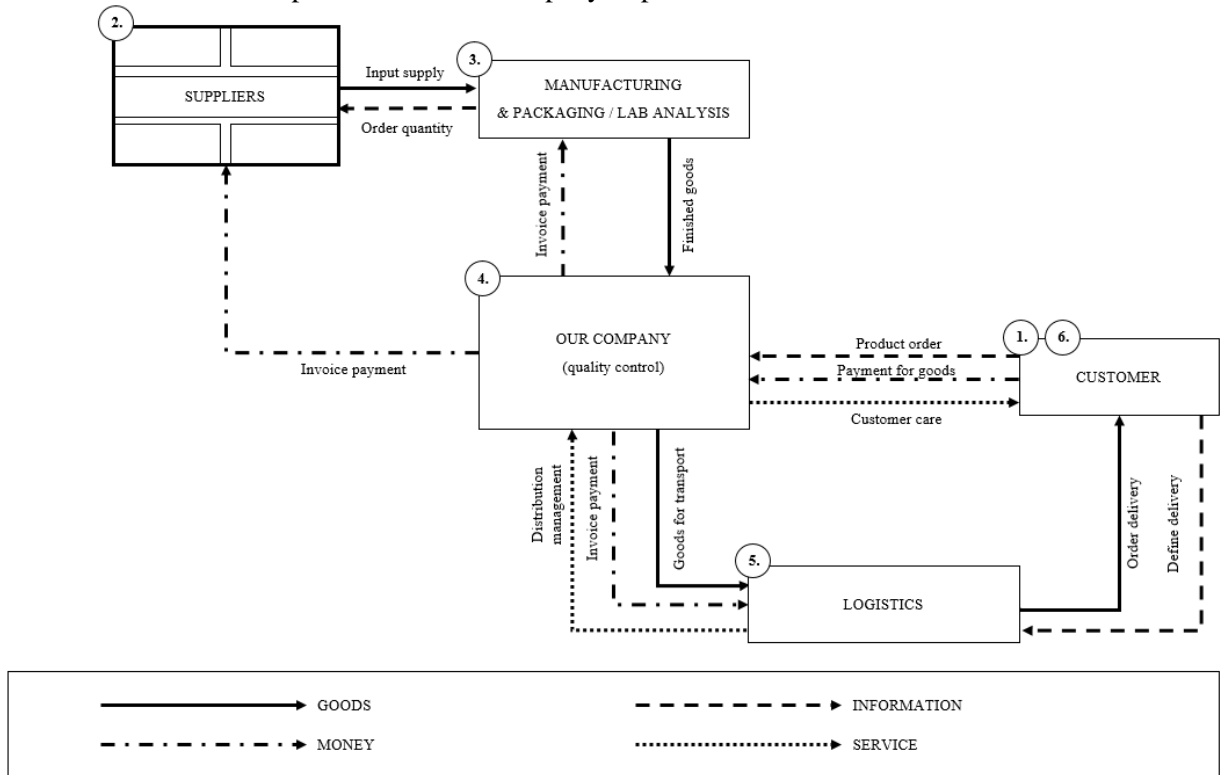
Based on the diagram in picture 15, it is obvious that the current operations process includes redundant intersteps which need to be streamlined in the short term. Furthermore, the supply side must be consolidated in order to decrease the number of suppliers, shorten delivery times, increase economies of scales and simplify the communication. Last but not least, to eliminate needless time wasted on transfers, manufacturing and packaging processes must be outsourced to an integrated provider who can offer laboratory analysis of the product, too. This development would also enable us easier expansion of the product portfolio. However, such production facilities require relatively high minimum production volume which cannot be steadily achieved sooner than in year 2. A diagram in picture 16 summarizes the planned simplified operations consisting of 6 steps shortening the process to around one week:

- 1) Orders are continuously collected from the customers throughout the week to assess the production quantity required.
- 2) Raw materials are purchased from several consolidated suppliers, which are directly delivered to the outsourced production site.
- 3) At the production site, manufacturing, packaging, as well as laboratory tests of the batch take place. Once finished and packed, the finished goods are delivered to our warehouse.
- 4) Prepared packages are stacked at our warehouse into boxes based on size of incoming orders, i.e. either 7, 14 or 30 packages per box.
- 5) If customer's payment is confirmed, processed boxes are handed over to the Czech Post.

6) After specifying the delivery details, product is delivered to the end customer.

This is not the most lean operations process possible but as a compromise, it reflects on the available capabilities which are highly limited in the Czech Republic. Further optimizations can be expected with potential time and cost savings in the ordering, purchasing, boxing and logistics parts.

**Picture 16:** Planned simplification of the company's operations



Source: Created by the author, for details see appendix 4.

## 2.9.2 Business development plan

- Consolidated suppliers – 10/2016;
- optimized production process through integrated provider of outsourced manufacturing and packaging – 11/2016;
- contracts with new logistics operators arranged and signed – 12/2016;
- introduction of updated formula and new flavours available – 01/2017;
- after testing all developments and processes, launch of fully organic, gluten-free and non-allergen premium versions of the product – 03/2017;
- further optimizations and integrations of the operations processes re-evaluated – 06/2017;
- consideration of own factory (unique algorithm to tailor food) – 2018 onwards.

## **2.10 Risk analysis**

The possible risks were clustered into four categories for easier identification and application of the mitigation strategies. These are operational, market, technology and legal.

### **2.10.1 Operational risks**

The first identified risk in this category is suppliers' insufficient capacity and dependency. For such situations, an EU-wide network of independent suppliers is being created in order to swiftly replace an incapable supplier and minimize potential shortage of inputs for the production process. The same applies to a potential malfunction of the production process. For such situations, alternative facility has been identified and contractual conditions are being arranged.

Thanks to these mitigation strategies, potential low inventory caused by unexpected rise in demand should be met with prompt increase in supply without a need for lengthy delivery periods.

To avoid risks associated with the product, all of our suppliers must provide regular certifications and laboratory analyses of the supplied ingredients. Moreover, we conduct a regular analysis of the finished goods via external independent health institute to ensure each batch fulfils microbiological criteria for foodstuffs as ordered by the requirements of Commission Regulations (ES) no. 2073/2005 and no. 1881/2006, as well as the Czech State Norm CSN 56 9609. Thanks to the used ingredients, the minimum durability is six months from the production date and the product is safe-to-eat until 1 year. This makes it a sufficient time period to ensure the finalized goods are sold and consumed before the quality deteriorates to the point where its edibility becomes reduced. This is further achieved by a synchronization of the orders and a FIFO inventory management to avoid redundant write-offs.

For cases of unreliable shipping which might result in damaged goods, delay of the delivery or even loss of the package, we conduct monthly assessment of the performance of the service provider. Where entitled, we enforce the contract penalty and treat the affected customers with special care as described in the chapter 2.5.2.2. Moreover, to enhance customer experience we are negotiating with other logistics companies on the market to offer more quality options to the customers.

### **2.10.2 Market risks**

Thanks to the functioning operations, constant feedback and existing market indicators, rather than facing the risk of the product not being accepted and demand projections overrated, it is the opposite. This makes the risk of lower sales than expected irrelevant. However, market developments are closely followed to accommodate all signals into constant improvement of the product and services to avoid lack of response. Moreover, expansion to the new untapped markets is planned in the long term to gain constant sales growth and eliminate threat to the market share represented by potential new entrants.

In order to carefully develop the market position while retaining financial stability, investments into fixed capital are avoided by outsourcing major parts of the production. Although this narrows the margin in the short term, it allows the company to gather sufficient capital for expansion without the need to run into debt. Additionally, all major costs such as marketing and salaries are tied to sales to preclude the expenses from exceeding the planned budget.

### **2.10.3 Technology risks**

The main technology risk associated with the e-shop and online distribution channel resides in potential network or server outage. Therefore, partnership with a proven server provider is in place and permanent maintenance of the platform by external IT specialist is organized to prepare for anticipated website traffic.

Nature of the product does not require sophisticated production technology and mitigation strategy for potential risks is described in the operations section. Nevertheless, it is our goal in the long term to create technological barriers to entry. To build them, cooperation with selected institutions and constant investment into R&D are being made.

### **2.10.4 Legal risks**

To eliminate legal risks associated with the breach of IP, company's trademark was registered. Furthermore, product portfolio, as well as production process are being innovated to develop further barriers to entry and avoid potential copycats. With regard to the delicate situation related to the outsourced production process which cannot be patented, all suppliers are obliged to sign non-compete clause and non-disclosure agreement with substantial contractual penalties for cases of potential non-compliance.

## **2.11 Financial plan**

Aim of the financial plan is to assess the financial performance of the company, identify the key value drivers behind and evaluate the potential investment attractiveness. This was achieved by a 3-year projection of profit and loss statement, cash flow statement and balance sheet. As was mentioned earlier, real market data are available but could not be used due to their sensitivity and inability to hide selected parts of the work from the public and the existing competition. Therefore, a number of assumptions described below were used for the financial modelling.

### **2.11.1 Assumptions**

The number of orders is derived from the overall number of the website visits, both organically achieved and gained from the paid campaign, multiplied by the conversion rate. Although the exact conversion rate for the past months is known, it has been estimated for the purpose of this Master's thesis and gradually decreases each year from 2.5% in year 1 to 0.75% in year 3. This is explained by the higher saturation of the market and increasingly more difficult acquisition of new customers who need longer time and more intense persuasion to turn into active customer. For simplification purposes, sales via retail distribution are already indirectly involved in the number of orders. As sales via our e-shop bring higher margins to the company, this distribution channel will be further promoted with favourable price and delivery conditions. Re-order rate for year 1 is estimated as 1% of all orders in the previous month and symbolizes those customers, who favour our product and are intentionally coming back for the cheapest option of 30-day order. This number is expected to go up with the growing customer base reaching 3% in year 3. The shift is expected to also gradually change the distribution of consumers in favour of 14-day orders which will result in higher average order price in years 2 and 3.

To further simplify the model, it was assumed that cash is received immediately after the customers make an order, suppliers are paid in the same month they deliver the inputs or provide their services and taxes and other obligations are all settled in the same year as they occur.

Based on the production process described in chapter 2.9.1, which is not far from the reality, the production happens JIT and unnecessary inventory and potential write-offs are avoided. For retail distribution channels, products have to be repurchased from us to transfer

the responsibility for the shelf-life on the retailer. Production quantity will be specified in the contract and regular monthly orders to allow for proper planning of the production.

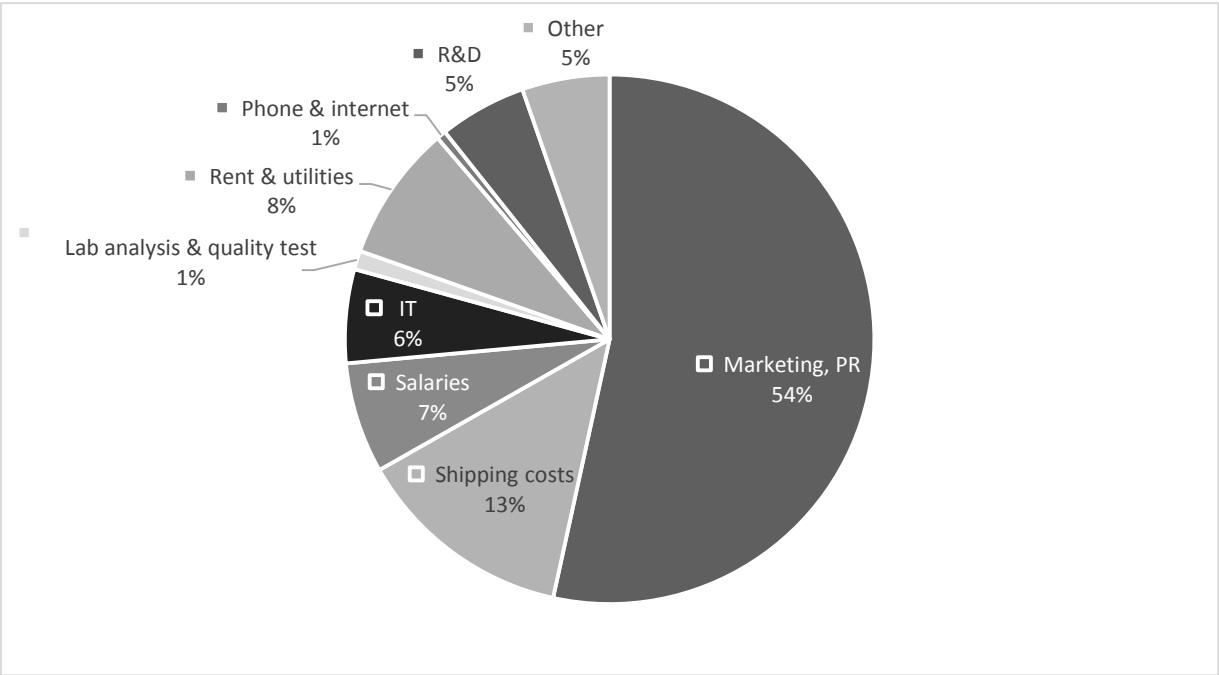
The operating expenses consist of several elementary parts as detailed in the appendix 5. To build the brand and gain awareness on the market, we are going to dedicate 20% of the revenues generated in the given month on marketing and PR. This would constitute 54% of the operating expenses. Based on current contract with the Czech Post which ensures the logistics services, the shipping costs were set at 5% of the revenues in the given month which amounts to 13% of the overall operating expenses in year 1. However, these are expected to decrease to 3% of the revenues thanks to established market and better negotiation position with the Czech Post plus new contracts with other competing service providers such as PPL, DPD or logistics integrator Ulozenka.

Salaries in the first year reflect our own involvement without remuneration in the initial months of operation. In the second half of the year and with hiring of several external workers, these are going up reaching 30,000 CZK (including mandatory insurance) which represents 7% of overall operating expenses in year 1. In the year 2, salaries constitute 5% of revenues in the given month plus 80,000 CZK per month as a salary for the full-time involvement of the founders. This number is increased to 150,000 CZK per month once the revenues reach 25 million in year 3. Maintenance of the IT platform is expected to grow with the increasing website traffic from 10,000 CZK per month in year 1 (constituting 6% of the operating expenses in year 1) to 30,000 CZK in year 3 which also covers continuous development and optimization of the website. The next item is laboratory analysis and quality tests which, while provided by the external provider, are set to be 2,000 CZK per month with the outlook to double in the next two years due to higher frequency of sample testing. The figure for rent and utilities is based on the current expenses, size, location and prediction to scale up with the higher number of customers and need for bigger stock and stands for 8% of the operating expenses in year 1. R&D expenses dedicated to cooperation with the Food Research Institute Prague and other organizations, analyses and testing are set at 2% of the revenues in the given month. A reserve



for unexpected expenses was also set at 2% of the revenues. For better reference, all operating costs and their structure in year 1 are summarized in table 9.

**Table 9:** Structure of operating expenses - end of year 1



Source: Created by the author in MS Excel.

Deducting all these items from the gross profit, EBITDA can be calculated. To get to the net income, interest expense from loans, depreciation and amortization is examined. Interest is set to 0 as the company does not plan to take any loans. As majority of the processes are outsourced and property is rented where possible to minimize the capital expenditures and the associated risks, the items depreciation and amortization are calculated for any equipment with value over 30,000 CZK on a 36-month plan. Anything below this threshold is covered directly in the expenses.

## 2.11.2 Income statement

**Table 10:** Income statement for years 1-3 in CZK

(in CZK)	Year 1	Year 2	Year 3
No. of orders	2 643	11 739	13 427
Avg. order price	1 942	2 010	2 094
<b>Revenues</b>	<b>5 132 531</b>	<b>23 594 904</b>	<b>28 110 176</b>
<b>COGS</b>	<b>2 077 327</b>	<b>8 620 944</b>	<b>9 735 507</b>
<b>Gross profit</b>	<b>3 055 204</b>	<b>14 973 960</b>	<b>18 374 669</b>
Unit gross margin	60%	63%	65%
Operating expenses	1 921 434	9 302 369	11 159 256
<b>Operating income EBITDA</b>	<b>1 133 770</b>	<b>5 671 591</b>	<b>7 215 413</b>
EBITDA margin	22%	24%	26%
Interest expense	0	0	0
Depreciation	15 278	33 333	33 333
<b>EBT</b>	<b>1 118 492</b>	<b>5 638 257</b>	<b>7 182 080</b>
Taxes	212 513	1 071 269	1 364 595
<b>Net income</b>	<b>905 979</b>	<b>4 566 989</b>	<b>5 817 485</b>
Net margin	18%	19%	21%
ROE %	93%	82%	51%

Source: Created by the author in MS Excel, for details see appendix 5.

The income statement, cash flow statement and balance sheet for year 1 start in February 2016 with remaining two periods starting in January. After settling all production issues and necessary stabilization in the first year, the production is scaled and thanks to better performing orders, more efficient marketing with established brand, as well as broadened product portfolio and new distribution channels, the sales are strongly growing in year 2 with expected slowdown in year 3 due to the market saturation. The goal is to reach the 10% market share by the end of year 3 and generate attractive profits before expanding our presence to other regions of the EU.

All the margins are based on production prices of our current suppliers providing the outsourced processes and input ingredients. The end prices were selected according to the production costs and positioning strategy with regard to the current market competition as described in the chapter 2.8.2.

As can be noticed in table 12, operational expenses are projected to outgrow the COGS in year 2, which is mainly driven by marketing and PR, and higher financial reward for the founders. Nevertheless, both COGS and OPEX will proportionally decrease to revenues as the

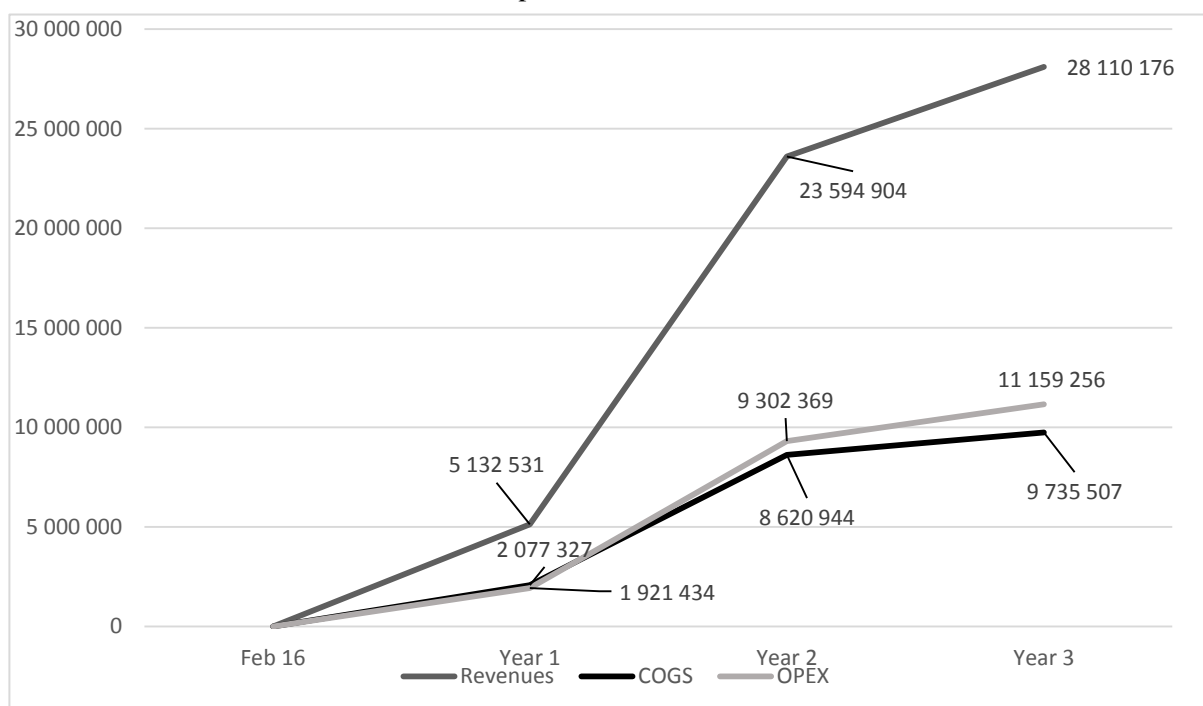
processes should be stabilized and economies of scale should be enjoyed. As a result, the COGS are projected to decrease first due to cheaper cost of input materials from 100 CZK per package to 90 CZK in year 2. In the year 3, further economies should be achieved leading to fall in cost of outsourced production and packaging to 85 CZK per package as displayed in table 11.

**Table 11:** COGS per package development in CZK

COGS per package	Year 1	Year 2	Year 3
Ingredients	60	50	50
Package incl. material	9	9	9
Outsourced production	16	16	13
Outsourced packaging	15	15	13
<b>Total</b>	<b>100</b>	<b>90</b>	<b>85</b>

Source: Created by the author in MS Excel.

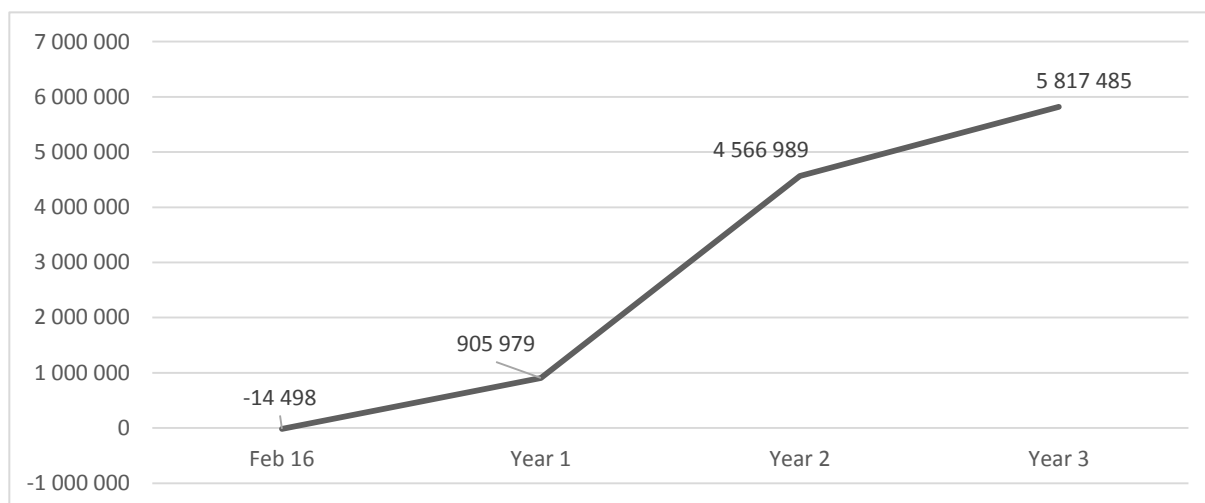
**Table 12:** Revenues, COGS, OPEX development in CZK



Source: Created by the author in MS Excel.

Apart from the initial months, the company is expected to be in black numbers and breaks even immediately without any need for external financing. This is possible mainly thanks to own capital injection and available retained profits for potential reinvesting. The net profit projected in table 13 is expected to constantly grow with the biggest absolute gains in the second year thanks to the rapid developments on the market described earlier.

**Table 13:** Net income development in CZK

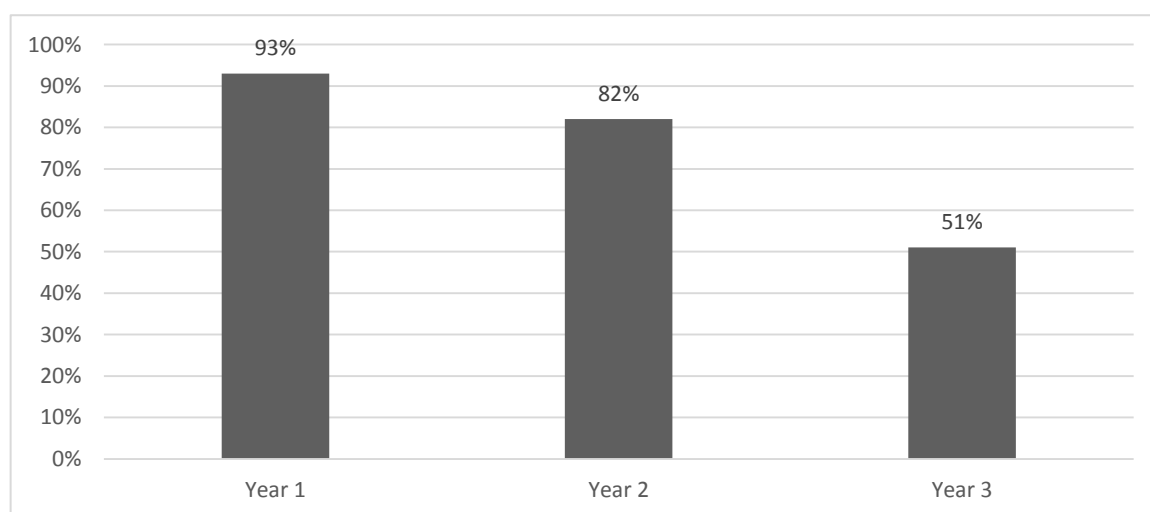


Source: Created by the author in MS Excel.

By using the data net income and total equity projected in the financial model, ROE was calculated. The table 14 indicates that the ROE is expected to gradually decrease from 93% after the initial year when there are no salaries at first with their gradual increase. Growth of the OPEX together with predicted market saturation lead to 51% ROE in year 3.

Nevertheless, thanks to planned expansion to other EU markets after year 3 when the company becomes well-established on the Czech market, we believe that further sales together with wise investments of the retained profits will bring further growth of the ROE. Based on the developments, expansion process might be accelerated already throughout the third year.

**Table 14:** Return on equity for years 1-3



Source: Created by the author in MS Excel.

## 2.11.3 Cash flow statement

**Table 15:** Cash flow statement for years 1-3 in CZK

(in CZK)	Year 1	Year 2	Year 3
Cash opening balance	20 000	941 256	5 491 578
<b>CF from operating activities</b>			
Cash receipts from customers	5 132 531	23 594 904	28 110 176
Cash paid to suppliers	-2 077 327	-8 620 944	-9 735 507
Cash paid to operating expenses & employees	-1 921 434	-9 302 369	-1 159 256
<b>Net cash from operating activities</b>	<b>1 133 770</b>	<b>5 671 591</b>	<b>7 215 413</b>
<b>CF from investing activities</b>			
Investments	0	0	0
Others (IT)	0	-50 000	0
<b>Net cash from investing activities</b>	<b>0</b>	<b>-50 000</b>	<b>0</b>
<b>CF from financing activities</b>			
Issuance of share capital	0	0	0
Long-term loans	0	0	0
Dividends	0	0	0
Interests	0	0	0
<b>Net cash from financing activities</b>	<b>0</b>	<b>0</b>	<b>0</b>
Taxes	-212 513	-1 071 269	-1 364 595
<b>Net increase/decrease in cash</b>	<b>921 256</b>	<b>4 550 322</b>	<b>5 850 818</b>
<b>Cash closing balance</b>	<b>941 256</b>	<b>5 491 578</b>	<b>11 342 396</b>

Source: Created by the author in MS Excel.

The company's cash flow statement was modelled on the same assumptions mentioned earlier. The cash flows are expected to remain positive in all three years due to careful strategy avoiding large capital investments and associated risks. Our strategy for the first 3 years is to function as a trading company which requires only elementary IT equipment purchased in the second year. To avoid high levels of indebtedness, only after becoming well-established and gathering sufficient capital will be investments in our own factory and equipment considered.

## 2.11.4 Balance sheet

**Table 16:** Balance sheet for years 1-3 in CZK

(in CZK)	01/02/2016	Year 1	Year 2	Year 3
<b>Assets</b>				
<b>Current assets</b>	20 000	941 256	5 491 578	11 342 396
Cash	20 000	941 256	5 491 578	11 342 396
Accounts receivable	0	0	0	0
Stock	0	0	0	0
Short-term investment	0	0	0	0
Prepaid expenses	0	0	0	0
Long-term investment	0	0	0	0
<b>Fixed assets</b>	50000	34722	51389	18056
Land	0	0	0	0
Buildings	0	0	0	0
Machinery	0	0	0	0
IT equipment	50 000	50 000	100 000	100 000
Depreciation	0	-15 278	-48 611	-81 944
Furniture	0	0	0	0
Vehicles	0	0	0	0
<b>Total assets</b>	70 000	975 979	5 542 967	11 360 452
<b>Liabilities</b>				
<b>Current liabilities</b>	0	0	0	0
Accounts payable	0	0	0	0
Interest payable	0	0	0	0
Taxes payable	0	0	0	0
Income tax	0	0	0	0
Sales tax	0	0	0	0
Payroll accrual	0	0	0	0
<b>Long-term liabilities</b>	0	0	0	0
Loans	0	0	0	0
<b>Total liabilities</b>	0	0	0	0
<b>Net assets</b>	70 000	975 979	5 542 967	11 360 452
<b>Owner's equity</b>				
Share capital	70 000	70 000	70 000	70 000
Retained earnings	0	0	905 979	5 472 967
Profit of the year	0	905 979	4 566 989	5 817 485
<b>Total equity</b>	70 000	975 979	5 542 967	11 360 452

Source: Created by the author in MS Excel.

The starting paid-in equity involves 20,000 CZK in cash and a website worth 50,000 CZK which was finalized before the company's operations were launched.

Based on the assumptions, all receivables and payables are collected and settled directly without any delay and the taxes are paid in the year they occur.

# Conclusion

Elaboration of this Master's thesis confirmed former identification of a profitable business case. Based on thorough assessment of the relevant market data and the feasibility, an interesting market potential for instant powdered food replacement related to the rapid developments on the food market was identified and the rationale of the business idea was confirmed.

Therefore, a business strategy with detailed description of the business model, planned steps for the prospective developments and successful existence of the firm was created. Special focus was devoted to product rationale and related services, marketing & sales, operations and financial model to enable our company capturing attractive profits at low risk.

Despite certain simplifications and distortions mentioned in the introduction, as well as imperfections of the primary market research which was further complemented by available objective data from other sources, the set goal of this Master's thesis was fulfilled. As a result, the presented business plan could be used in amended form for external stakeholders such as business partners, banks or potential investors.



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# Appendix 1 – Questionnaire

## Part I. – eating habits

1. What are your eating habits? (single choice)
  - a. I eat regularly (e.g. breakfast, snack, lunch, snack, dinner)
  - b. I eat rather regularly (I try to stick to breakfasts, lunches or dinners)
  - c. I eat rather irregularly (I try to stick to at least one main dish a day)
  - d. I eat irregularly (whenever possible)
2. Do you eat predominantly balanced and varied diet? (single choice)
  - a. Yes (more or less)
  - b. Not so much
3. If not, why? (multiple choice – select up to 3 options)
  - a. time constraints
  - b. not a priority (laziness)
  - c. I do not have sufficient knowledge about healthy lifestyle
  - d. Financial limitations (healthy food is expensive)
  - e. Other (please specify)
4. Where do you eat breakfast most often? (single choice)
  - a. at home (or home-made food)
  - b. in a restaurant (or ordered food delivery)
  - c. I buy something along the way (fast food/baguette/ready-made)
  - d. I prepare something at work/school
  - e. I do not eat
5. Where do you eat lunch most often? (single choice)
  - a. at home (or home-made food)
  - b. in a restaurant (or ordered food delivery)
  - c. I buy something along the way (fast food/baguette/ready-made)
  - d. I prepare something at work/school
  - e. I do not eat
6. Where do you eat dinner most often? (single choice)
  - a. at home (or home-made food)
  - b. in a restaurant (or ordered food delivery)
  - c. I buy something along the way (fast food/baguette/ready-made)
  - d. I prepare something at work/school
  - e. I do not eat
7. Where do you eat snack/other meals most often? (single choice)
  - a. at home (or home-made food)
  - b. in a restaurant (or ordered food delivery)
  - c. I buy something along the way (fast food/baguette/ready-made)
  - d. I prepare something at work/school
  - e. I do not eat
8. Do you happen to turn up in situations where you have to skip a meal due to time constraints or are craving for food but cannot afford to go for a full-fledged meal (i.e. you eat biscuits or some other treats from the vending machine)? (single choice)
  - a. Yes, this happens to me regularly
  - b. Yes, there are days once in a while where I experience this
  - c. Not really, this may happen infrequently but nothing to pay attention to
  - d. No, I never have to solve such situations

9. What is your average daily expense for food in CZK? Imagine average working day – you eat breakfast in the morning, have a snack afterwards, eat lunch, maybe some other snack and dinner at the end of the day. What is your average expense for entire day excluding of drinks? (write your answer please)
10. Do you find your average daily expenses for food adequate? (single choice)
  - a. No, they are quite low
  - b. It is acceptable, appropriate having considered what nutrients I get in the food I eat
  - c. They are higher than I would prefer
  - d. My expenses on food are too high

## **Part II. – Dietary supplements**

11. Have you ever tried vitamin or some other dietary supplement (e.g. whey protein, gainer etc.)? (single choice)
  - a. Yes
  - b. No
12. What were/are the reasons for food supplements intake? (multiple choice – select up to 3 options)
  - a. due to health reasons (immune system, digestion, blood pressure, cholesterol etc.)
  - b. weight change
  - c. cosmetic purposes (hair, nails, skin)
  - d. improvement of sports performances
  - e. other (please specify)
13. Imagine there would be an opportunity to replace the ordinary diet with a natural product containing balanced nutrients. What criterion for purchase would be the most important for you? (multiple choice – select up to 3 options)
  - a. reasonable price reflecting my average day expenditures on food
  - b. proof of positive impact on the health
  - c. recommendation from my family and friends
  - d. time saving
  - e. flavour characteristics
  - f. other (please specify)

## **Part III. –concept of superfood**

14. Have you ever heard about the phenomenon Soylent? It is a liquid food substitute which is partly made of natural and partly of synthetic ingredients. (single choice)
  - a. Yes
  - b. No
  - c. I have heard some information but nothing specific
15. Would you be attracted to an opportunity to consume such a shake which, however, would be made purely of natural ingredients and would contain optimally balanced combination of all necessary macronutrients (vitamins, minerals, proteins, lipids and saccharides)? (single choice)
  - a. Yes, I already have experience with such product (Soylent, Mana, Joylent, Ambronite etc.)
  - b. Yes, I would like to find out more
  - c. Hard to say, I would need more information

- d. No

Imagine a product designed for people who do not want to or cannot spend too much time with food-related activities but would like to eat healthy and balanced diet. As a powdery mix for instant drink with well-balanced content of all nutrients, minerals, vitamins, proteins, lipids, saccharides, as well as phytosterols, antioxidants and other health-proven substances from purely natural ingredients, this product is easy-to-make. All you need is to add water or milk. Moreover, this shake is suitable for vegetarians and vegans.

16. Could you imagine replacing (at least occasionally) your regular diet with such product?  
If NOT, could you please specify why in the field "other"? (single choice)
- a. Yes, completely
  - b. Yes, sometimes
  - c. No, not really
  - d. Other
17. How much would you be willing to pay for a portion of such a shake? Consider 5 portions a day, each providing a full-fledged nutrition of 400 kCal. (write your answer please)

#### **Part IV – demographic and socio-economic indicators**

18. Gender
- a. Female
  - b. Male
19. Age
- a. 18-24
  - b. 25-34
  - c. 35-44
  - d. 45-54
  - e. 55-64
  - f. 65+
20. Highest level of education you have completed/are expecting to complete
- a. elementary
  - b. trained/high school without school leaving exam
  - c. high school with school leaving exam/grammar school
  - d. university
21. Net monthly income
- a. <10000
  - b. 10001-20000
  - c. 20001-30000
  - d. >30001
22. Number of inhabitants in a city where I live
- a. <1000
  - b. 1000-4999
  - c. 5000-19999
  - d. 20000-100000
  - e. >100000

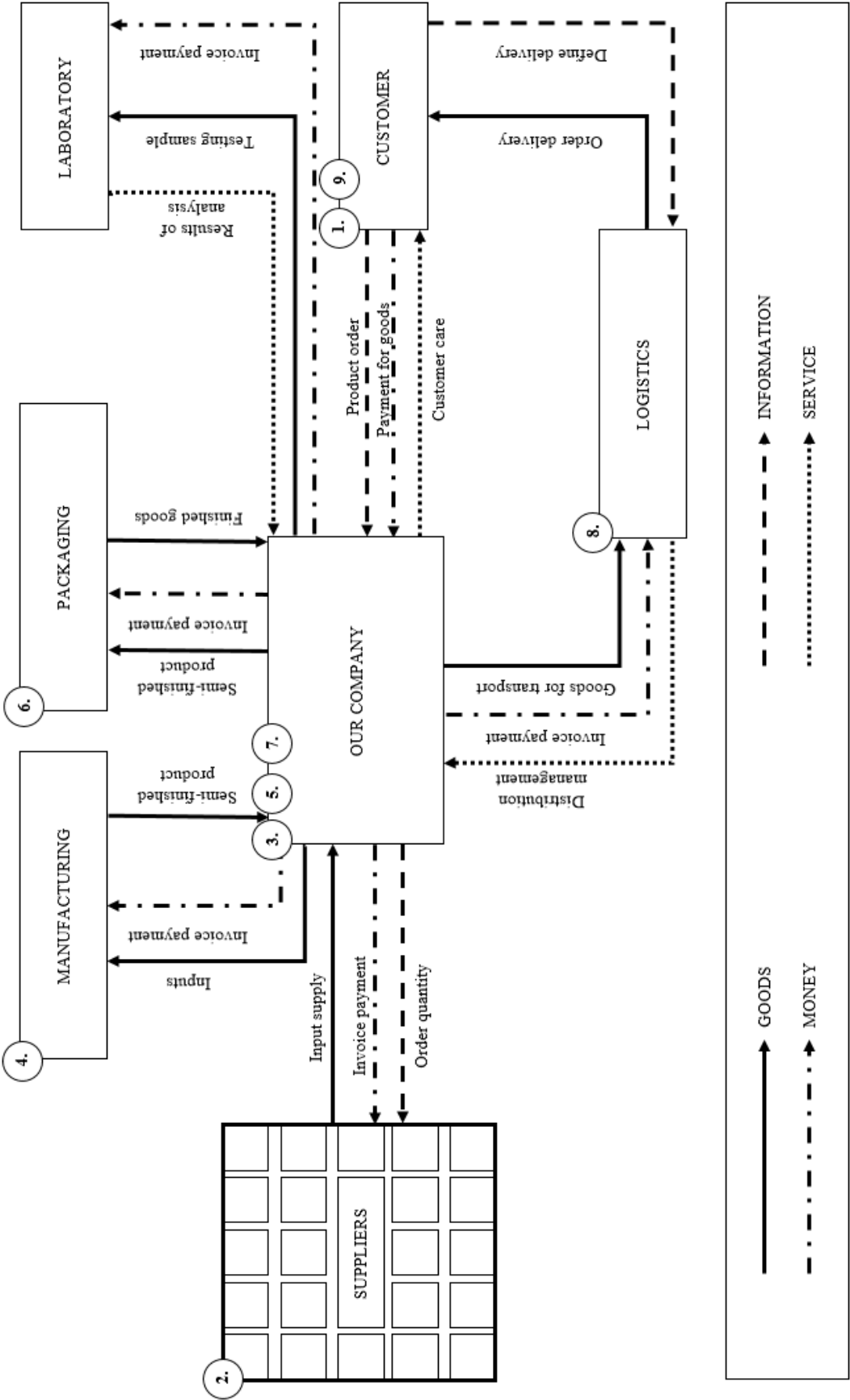
## Appendix 2 – Facebook campaign for the Czech market

Table 17: Facebook adds with targeting

[travel]					
Ad	Reach	Cost / click (CPC)	Click-through rate (CTR)	Clicks	Cost
Dostaňte se do formy	36973	6.12	0.15	122	746.37
Jíst zdravě	34213	5.9	0.24	167	985.16
Všechny potřebné živiny	5557	6.22	0.14	13	80.9
Několika příchutí	4678	7.92	0.13	11	87.07
Zdravě a zhubněte	1059	16.05	0.3	6	96.27
[business]					
Ad	Reach	Cost / click (CPC)	Click-through rate (CTR)	Clicks	Cost
Dostaňte se do formy	38222	6.23	0.19	143	891.53
Nemáte čas?	27425	5.28	0.19	103	543.53
100% přírodní!	22193	5.34	0.2	80	427.25
Několika příchutí.	4078	8.44	0.17	11	92.88
Zdravě a zhubněte	950	11	0.23	4	43.99
[sport]					
Ad	Reach	Cost / click (CPC)	Click-through rate (CTR)	Clicks	Cost
Nemáte čas na vaření	30030	5.77	0.26	165	952.64
Dostaňte se do formy se superjídlem	20020	5.22	0.2	73	381.37
Superjídlo	16109	6.08	0.14	42	255.18
Na výběr z několika příchutí	5372	6.3	0.77	55	346.74
Jezte zdravě a zhubněte.	684	14.08	0.35	4	56.3
[health]					
Ad	Reach	Cost / click (CPC)	Click-through rate (CTR)	Clicks	Cost
Superjídlo	21199	6.86	0.29	132	905.58
Na výběr z několika příchutí	19348	6.2	0.2	85	527.25
Nemáte čas na vaření a chcete jíst zdravě?	7061	8.39	0.1	14	117.43
Jezte zdravě a zhubněte	3861	17.8	0.29	20	356.04
Dostaňte se do formy se superjídlem	3811	8.63	0.13	8	69.05
[food]					
Ad	Reach	Cost / click (CPC)	Click-through rate (CTR)	Clicks	Cost
Nemáte čas na vaření a chcete jíst zdravě?	19337	5.29	0.54	261	1380.75
Na výběr z několika příchutí	5396	7.38	0.23	25	184.43
Superjídlo	3274	14.69	0.36	23	337.95
Dostaňte se do formy se superjídlem	1909	5.93	0.16	6	35.57
Jezte zdravě a zhubněte	568	21.76	0.19	2	43.52

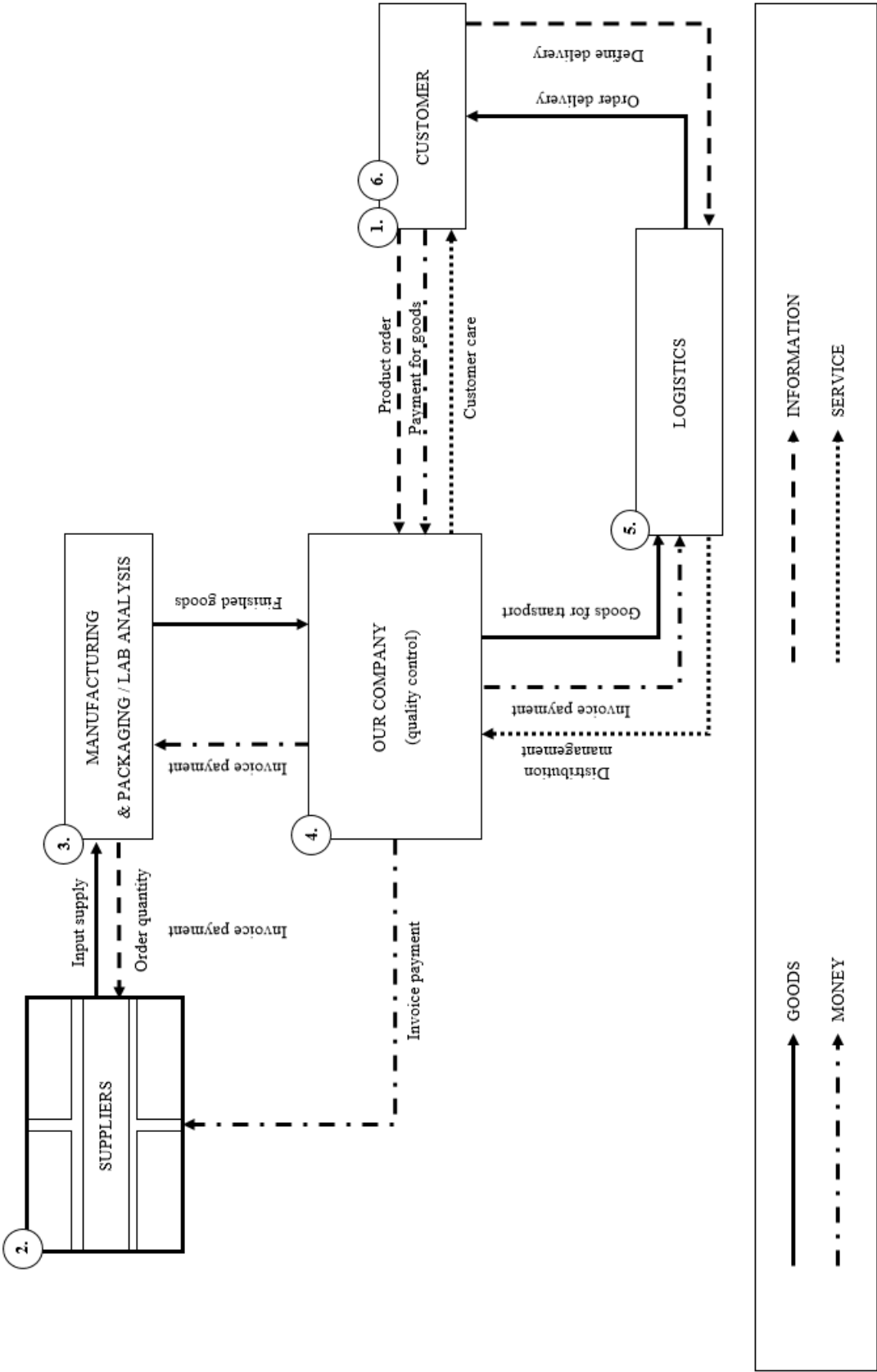
Source: Analysis conducted by the author.

Appendix 3 – Current operations plan



Source: Created by the author.

Appendix 4 – Planned simplification of the company’s operations



Source: Created by the author.



## Appendix 5 – detailed income statements for years 1-3

P/L - 2016	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	TOTAL 16
Visits	330	1 721	2 386	2 060	1 850	3 700	5 000	6 500	15 500	27 500	38 500	145 047
Organic+Direct	330	1 721	2 386	2 060	1 850	2 200	3 000	4 500	5 500	7 500	8 500	49 047
Paid	0	0	0	0	500	1 500	2 000	2 000	10 000	20 000	30 000	96 000
Conversion Rate	2,50%	2,50%	2,50%	2,50%	2,50%	2,50%	2,50%	2,50%	2,50%	2,50%	2,50%	-
Direct Orders Growth		423%	39%	-13%	-10%	99%	35%	30%	138%	78%	40%	-
Re-order- 1%	0	0	0	1	1	0	1	1	2	4	7	17
No. of orders	8	43	60	52	47	93	126	164	389	691	969	2 643
Avg. order price	1 942	1 942	1 942	1 942	1 942	1 942	1 942	1 942	1 942	1 942	1 942	-
Rev. 7-day orders (90%, 1750 CZK)	12 994	67 894	94 628	82 059	73 664	146 424	198 339	257 921	612 892	1 088 941	1 526 827	4 162 583
Rev. 14-day orders (9%, 3300 CZK)	2 450	12 803	17 844	15 474	13 891	27 611	37 401	48 637	115 574	205 343	287 916	784 944
Rev. 30-day orders (1%, 7000 CZK)	578	3 018	4 206	3 647	3 274	6 508	8 815	11 463	27 240	48 397	67 859	185 004
Revenues	16 022	83 715	116 677	101 180	90 829	180 543	244 555	318 021	755 705	1 342 682	1 882 602	5 132 531
COGS	6 485	33 882	47 224	40 951	36 762	73 073	98 981	128 715	305 862	543 434	761 959	2 077 327
COGS 7-day order (90%, 700 CZK)	5 198	27 158	37 851	32 824	29 466	58 570	79 336	103 168	245 157	435 577	610 731	1 665 033
COGS 14-day order (9%, 1400 CZK)	1 040	5 432	7 570	6 565	5 893	11 714	15 867	20 634	49 031	87 115	122 146	333 007
COGS 30-day order (1%, 3000 CZK)	248	1 293	1 802	1 563	1 403	2 789	3 778	4 913	11 674	20 742	29 082	79 287
Gross profit	9 537	49 832	69 454	60 229	54 067	107 471	145 575	189 306	449 843	799 248	1 120 642	3 055 204
Unit gross margin	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Operating expenses	22 646	42 277	51 836	52 342	64 340	95 358	113 921	145 226	272 155	452 378	608 955	1 921 434
Marketing, PR - 20% of Rev.	3 204	16 743	23 335	20 236	18 166	36 109	48 911	63 604	151 141	268 536	376 520	1 026 506
Shipping costs - 5% of Rev.	801	4 186	5 834	5 059	4 541	9 027	12 228	15 901	37 785	67 134	94 130	256 627
Salaries	0	0	0	5 000	5 000	10 000	10 000	20 000	20 000	30 000	30 000	130 000
IT	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	110 000
Lab analysis and quality test	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	22 000
Rent & utilities	5 000	5 000	5 000	5 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	160 000
Phone & internet	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	11 000
R&D - 2% of Rev.	320	1 674	2 334	2 024	1 817	3 611	4 891	6 360	15 114	26 854	37 652	102 651
Other	320	1 674	2 334	2 024	1 817	3 611	4 891	6 360	15 114	26 854	37 652	102 651
Operating income EBITDA	- 13 109	7 555	17 617	7 886	- 10 273	12 113	31 654	44 080	177 689	346 871	511 688	1 133 770
EBITDA margin	-82%	9%	15%	8%	-11%	7%	13%	14%	24%	26%	27%	22%
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	1 389	1 389	1 389	1 389	1 389	1 389	1 389	1 389	1 389	1 389	1 389	15 278
EBT	- 14 498	6 166	16 228	6 498	- 11 662	10 724	30 265	42 691	176 300	345 482	510 299	1 118 492
Taxes - 19% (CIT)	-	-	-	-	-	-	-	-	-	-	212 513	212 513
Net income	- 14 498	6 166	16 228	6 498	- 11 662	10 724	30 265	42 691	176 300	345 482	297 786	905 979
Net margin	-90%	7%	14%	6%	-13%	6%	12%	13%	23%	26%	16%	18%
ROE %												93%

P/L - 2017	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	TOTAL 17
Visits	44 000	49 500	55 000	60 500	66 000	71 500	82 000	87 500	93 000	98 500	104 000	109 500	921 000
Organic+Direct	9 000	9 500	10 000	10 500	11 000	11 500	12 000	12 500	13 000	13 500	14 000	14 500	141 000
Paid	35 000	40 000	45 000	50 000	55 000	60 000	70 000	75 000	80 000	85 000	90 000	95 000	780 000
Conversion Rate	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	-
Direct Orders Growth	0%	11%	11%	10%	9%	8%	15%	7%	6%	6%	6%	5%	-
Re-order - 2%	19	11	13	14	15	17	18	21	22	24	25	27	226
No. of orders	569	630	700	770	840	911	1 043	1 115	1 185	1 255	1 325	1 395	11 739
Avg. order price	2 010	2 010	2 010	2 010	2 010	2 010	2 010	2 010	2 010	2 010	2 010	2 010	-
Rev. 7-day orders (88%, 1750 CZK)	876 858	970 412	1 078 158	1 186 188	1 294 224	1 402 259	1 606 545	1 716 506	1 824 580	1 932 617	2 040 652	2 148 688	18 077 688
Rev. 14-day orders (10%, 3300 CZK)	187 898	207 945	231 034	254 183	277 334	300 484	344 260	367 823	390 981	414 132	437 283	460 433	3 873 790
Rev. 30-day orders (2%, 7000 CZK)	79 714	88 219	98 014	107 835	117 657	127 478	146 050	156 046	165 871	175 692	185 514	195 335	21 951 478
Revenues	1 144 470	1 266 577	1 407 207	1 548 207	1 689 214	1 830 222	2 096 854	2 240 375	2 381 432	2 522 441	2 663 449	2 804 456	23 594 904
COGS	418 159	462 773	514 155	565 673	617 193	668 714	766 134	818 573	870 111	921 632	973 153	1 024 673	8 620 944
COGS 7-day order (88%, 630 CZK)	315 669	349 348	388 137	427 028	465 921	504 813	578 356	617 942	656 849	695 742	734 635	773 528	6 507 968
COGS 14-day order (10%, 1260 CZK)	71 743	79 397	88 213	97 052	105 891	114 730	131 445	140 441	149 284	158 123	166 962	175 802	1 479 084
COGS 30-day order (2%, 2700 CZK)	30 747	34 027	37 806	41 594	45 382	49 170	56 333	60 189	63 979	67 767	71 555	75 344	7 987 051
Gross profit	726 312	803 804	893 051	982 534	1 072 021	1 161 508	1 330 720	1 421 802	1 511 321	1 600 809	1 690 296	1 779 783	14 973 960
Unit gross margin	63%	63%	63%	63%	63%	63%	63%	63%	63%	63%	63%	63%	63%
Operating expenses	512 231	551 305	596 306	641 426	686 549	731 671	816 993	862 920	908 058	953 181	998 304	1 043 426	9 302 569
Marketing, PR - 20% of Rev.	228 894	253 315	281 441	309 641	337 843	366 044	419 371	448 075	476 286	504 488	532 690	560 891	4 718 981
Shipping costs - 3% of Rev.	34 334	37 997	42 216	46 446	50 676	54 907	62 906	67 211	71 443	75 673	79 903	84 134	707 847
Salaries - 5% of Rev. + Mgmt.	137 224	143 329	150 360	157 410	164 461	171 511	184 843	192 019	199 072	206 122	213 172	220 223	2 139 745
IT	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	240 000
Lab analysis and quality test	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	48 000
Rent & utilities	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	480 000
Phone & internet	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	24 000
R&D - 2% of Rev.	22 889	25 332	28 144	30 964	33 784	36 604	41 937	44 807	47 629	50 449	53 269	56 089	471 898
Other	22 889	25 332	28 144	30 964	33 784	36 604	41 937	44 807	47 629	50 449	53 269	56 089	471 898
Operating income EBITDA	214 081	252 499	296 745	341 107	385 472	429 837	513 727	558 882	603 263	647 628	691 993	736 357	5 671 591
EBITDA margin	19%	20%	21%	22%	23%	23%	24%	25%	25%	26%	26%	26%	24%
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	33 333
EBT	211 303	249 721	293 967	338 330	382 694	427 059	510 949	556 104	600 485	644 850	689 215	733 580	5 638 257
Taxes - 19% (CIT)	-	-	-	-	-	-	-	-	-	-	-	1 071 269	1 071 269
Net income	211 303	249 721	293 967	338 330	382 694	427 059	510 949	556 104	600 485	644 850	689 215	337 689	4 566 989
Net margin	18%	20%	21%	22%	23%	23%	24%	25%	25%	26%	26%	-12%	19%
ROE %													82%

P/L - 2018	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	TOTAL 18
Visits	115 000	120 500	126 000	131 500	137 000	142 500	148 000	153 500	159 000	164 500	170 000	170 500	1 738 000
Organic+Direct	15 000	15 500	16 000	16 500	17 000	17 500	18 000	18 500	19 000	19 500	20 000	20 500	213 000
Paid	100 000	105 000	110 000	115 000	120 000	125 000	130 000	135 000	140 000	145 000	150 000	150 000	1 525 000
Conversion Rate	0,75%	0,75%	0,75%	0,75%	0,75%	0,75%	0,75%	0,75%	0,75%	0,75%	0,75%	0,75%	-
Direct Orders Growth	0%	4%	5%	4%	4%	4%	4%	4%	4%	3%	3%	0%	-
Re-order - 3%	29	27	28	29	30	32	33	34	36	37	38	39	392
No. of orders	892	930	973	1 015	1 058	1 100	1 143	1 186	1 228	1 271	1 313	1 318	13 427
Avg. order price	2 094	2 094	2 094	2 094	2 094	2 094	2 094	2 094	2 094	2 094	2 094	2 094	-
Rev. 7-day orders (85%, 1750 CZK)	1 326 229	1 384 115	1 447 211	1 510 463	1 573 720	1 636 977	1 700 234	1 763 491	1 826 748	1 890 006	1 953 263	1 960 739	19 973 196
Rev. 14-day orders (12%, 3300 CZK)	353 067	368 477	385 274	402 113	418 953	435 794	452 634	469 474	486 314	503 154	519 995	521 985	5 317 234
Rev. 30-day orders (3%, 7000 CZK)	187 232	195 404	204 312	213 242	222 172	231 103	240 033	248 963	257 894	266 824	275 755	276 810	25 290 430
Revenues	1 866 528	1 947 996	2 036 797	2 125 818	2 214 846	2 303 873	2 392 901	2 481 929	2 570 957	2 659 984	2 749 012	2 759 533	28 110 176
COGS	646 442	674 657	705 412	736 243	767 076	797 909	828 743	859 576	890 409	921 243	952 076	955 720	9 735 507
COGS 7-day order (85%, 595 CZK)	450 918	470 599	492 052	513 557	535 065	556 572	578 080	599 587	621 094	642 602	664 109	666 651	6 790 887
COGS 14-day order (12%, 1190 CZK)	127 318	132 875	138 932	145 004	151 077	157 150	163 222	169 295	175 368	181 441	187 513	188 231	1 917 427
COGS 30-day order (3%, 2550 CZK)	68 206	71 183	74 428	77 681	80 934	84 187	87 441	90 694	93 947	97 200	100 454	100 838	8 708 314
Gross profit	1 220 086	1 273 339	1 331 385	1 389 575	1 447 770	1 505 964	1 564 158	1 622 353	1 680 547	1 738 742	1 796 936	1 803 814	18 374 669
Unit gross margin	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Operating expenses	754 289	780 359	808 775	837 262	865 751	894 240	922 728	951 217	1 049 706	1 078 195	1 106 684	1 110 051	11 159 256
Marketing, PR - 20% of Rev.	373 306	389 599	407 359	425 164	442 969	460 775	478 580	496 386	514 191	531 997	549 802	551 907	5 622 035
Shipping costs - 3% of Rev.	55 996	58 440	61 104	63 775	66 445	69 116	71 787	74 458	77 129	79 800	82 470	82 786	843 305
Salaries - 5% of Rev. + Mgmt.	173 326	177 400	181 840	186 291	190 742	195 194	199 645	204 096	208 548	212 999	217 451	217 977	2 645 509
IT	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	360 000
Lab analysis and quality test	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	48 000
Rent & utilities	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	40 000	480 000
Phone & internet	3 000	3 000	3 000	3 000	3 000	3 000	3 000	3 000	3 000	3 000	3 000	3 000	36 000
R&D - 2% of Rev.	37 331	38 960	40 736	42 516	44 297	46 077	47 858	49 639	51 419	53 200	54 980	55 191	562 204
Other	37 331	38 960	40 736	42 516	44 297	46 077	47 858	49 639	51 419	53 200	54 980	55 191	562 204
Operating income EBITDA	465 797	492 980	522 610	552 314	582 019	611 725	641 430	671 136	700 841	730 547	760 252	790 663	7 215 413
EBITDA margin	25%	25%	26%	26%	26%	27%	27%	27%	28%	28%	28%	28%	26%
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	2 778	33 333
EBT	463 019	490 203	519 832	549 536	579 241	608 947	638 652	668 358	698 063	728 069	757 774	787 481	7 182 080
Taxes - 19% (CIT)	-	-	-	-	-	-	-	-	-	-	-	-	1 364 595
Net income	463 019	490 203	519 832	549 536	579 241	608 947	638 652	668 358	698 063	728 069	757 774	787 481	5 817 485
Net margin	25%	25%	26%	26%	26%	26%	27%	27%	28%	28%	28%	28%	21%
ROE %													51%