

University of Economics, Prague

# **Bachelor's Thesis**

University of Economics, Prague  
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Title of the Bachelor's Thesis:

## **Business Plan for Lonicera**

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## **D e c l a r a t i o n   o f   A u t h e n t i c i t y**

I hereby declare that the Bachelor'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 programme.

Prague, May 13, 2020

Signature

**Title of the Bachelor's Thesis:**

Business plan for Lonicera

**Abstract:**

The goal of this thesis is to examine the feasibility of a business idea to grow and distribute berries such as honeysuckles and strawberries in Russia. The nature of the topic dictates the use of a variety of analysis to prepare a business plan that enables evaluating the feasibility of starting this agricultural business in Russia. The theoretical part includes the definition of business plan, business model, SWOT, PEST and Porter's five analysis, the definition and the main aspects of the marketing plan and financial plan. The analytical part contains a developed business plan for the company Lonicera with a variety of analyses performed. This paper can aid entrepreneurs to look deeply into this industry, open or extend their business and anticipate high profits. In other words, this research can be helpful and informative for the future development of that industry in Russia.

**Keywords:**

Business plan, agricultural industry, entrepreneurship, Russia

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# Introduction

This thesis represents a business plan for a production company “Lonicera” opening. The field of production has always been one of the most challenging directions in business. However, at the same time, this business seems to be promising and extremely profitable if it has the right business plan before the start-up.

Firstly, to start a business in any country, there is a need to analyse a specific market. Market analysis of the agricultural production in the Russian Federation says that nowadays, the market of berry crops faces the supply deficits (Markova, 2013). The production of berries is one of the most important directions of the agricultural production since berries are a source of vitamins, organic acids and microelements needed for the body. Grown berries in Russia do not fully cover the needs of the population. According to statistics on the web, the import content occupies two-thirds of all small-fruit crops in Russia (Federal Customs Service of the Russian Federation, CC FEA code 081010).

In this regard, given the need for the domestic market, the main objective of that agricultural start-up is the establishment and development of the effective enterprise to produce berries, in particular, strawberries and honeysuckles, ensuring compliances with social obligations and, in the long run, stable producing a profit and thereby the expansion of sown areas and output.

The goal of this bachelor’s thesis is to examine the feasibility of a business idea to grown and distribute berries such as honeysuckles and strawberries in Russia.

This thesis is divided into two different parts: theoretical and practical. The theoretical part is based on literature, clarifies the whole concept of a business plan and describes the business model, SWOT analysis, PEST analysis, Porter’s five analysis, marketing and financial parts. The practical part provides an insight into the nature of the company, its objectives, structure, products, location, the main customers and consumers. It contains a variety of evidence-based analyses, such as industry, market, marketing and financial analysis.

# Theoretical Part

The theoretical part of the thesis includes the primary information about the Russian economy and the Russian market based on a variety of the articles, journals and the literature review. Also, it contains a part focusing on the definition, importance and the structure of a business plan. Also, there is the primary information about a business model, its structure, frameworks, SWOT and PEST analyses that will use in the practical part of this thesis.

## 1 Business plan

### 1.1 Definition and importance of a business plan

A business plan is a detailed plan of the business activity of a company over some time. It is difficult to overestimate the importance of such a document, and a prudent, pragmatic approach to the process of planning can be a key factor in both business success and its implementation as well as the company's overall result. The business plan can be developed for different purposes, for example, to leverage additional finance, to justify a merger between two or more companies, to participate in tenders, also, it can be an effective tool of managing a company (Egorova, 2019).

The business plan is a comprehensive description of the business, and the environment, in which it works, as well as of a management system which it needs to achieve the goals. The business plan is a permanent instrument which highlights all significant strategic aspects of business planning, organized in land management of an agricultural enterprise. The concept of business development, financial and economic aspect of the company, technological and technical capacities should be taken into account to formulate the business plan. The existence of the plan allows a businessman to justify the appropriateness of the conduct of business operations, to calculate sales volume, volumes of profits and incomes, to identify the source of funding for operations, to hire a quality team to implement the plan (Students Library, n.d.).

The business plan allows understanding an overall situation since:

- it offers a chance to assess the effectiveness and viability of the project;
- provides an insight into the project's implementation, the necessity of productive and financial resources and the efficient use of them;
- serves as evidence for financial support from outward investors, i.e. serves as a mean to attract capital;
- serves as a tool for the organizing control on the implementation of the project (Finch, 2010).

Thus, the business plan is necessary both for the enterprise, implementing the project and for the investors. The business plan is developed for three main purposes: communication, management and planning (Reis & Samson, n.d.). So, the primary users of a business plan are



investors, potential partners, customers, suppliers and managers (Entrepreneur Media, Inc., 2015).

The business plan contains (Cantero-Gomez, 2019):

- 1) Cover page

The Cover page should include the name of the business and contact information.

- 2) Table of Contents

It is important to give readers some information what they can expect in the business plan and, also, it should allow the readers to quickly skip to get to the interesting topic.

- 3) Executive summary

The executive summary should include a brief and formal summary of what the company is, and the main information of the company.

- 4) Business description

There should be mission and vision statements, objectives and the core concept of the business.

- 5) Market analysis

Market analysis includes the information about the customers, their likes, needs and demographics. The purpose of this analysis is to explain that there is an existing opportunity to create a business on the market.

- 6) Strategy and implementation analysis

Strategy and implementation analysis contains the information about manufacturing and distribution process.

- 7) Marketing analysis

It includes the detailed description how the company will sell the products and what the strategy will use to advertise and sell more products.

- 8) Financial plan

Financial plan is created to predict the future financial performance of the business. There should be the capital requirements that explain how much money the business needs, the income statement for the following 3-5 years, the balance sheet, and the cash flow statement that shows if the company is successfully turning its profits into cash.

The development of the business plan is the second stage in an entrepreneurial process which means, when the idea is generated and the opportunity is identified, an entrepreneur needs to create the comprehensive business plan (Owusu et al., 2016). In other words, the business plan is crucial to achieve a success in any new venture.

## **1.2 Business model**

Business model is a simplistic perception of a business, intended for a detailed description and an analysis of the activities of the whole system of the interrelated business processes. Peter Drucker, a management consultant, formulated a theory that is still used today. His theory of the business model was a set of assumptions about what a business will and won't do. In addition to what a company is paid for, "these assumptions are about markets. They are about identifying customers and competitors, their values and behaviour. They are about technology

and its dynamics, about a company's strengths and weaknesses." A good business model answers Peter Drucker's age-old questions, 'Who is the customer? And what does the customer value?' It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?" (Ovans, 2017).

Therefore, the business model is a description of how a company creates, provides and acquires value for yourself and also for a client. All business processes and politics, which a company accepts and adheres, are part of the business model. There are different types of business models such as manufacturer, distributor, retailer, franchise, Brick-and-mortar, e-commerce, Bricks-and-clicks, Nickel-and-dime, Freemium, subscription, aggregator, online marketplace, crowdsourcing, High/Low Touch, etc. (Das, 2019). Nowadays the most urgent categorization of business models was published by the professor at the North Carolina State University, Michael Rappa. He highlighted 9 basic headings: brokerage, advertising, infomediary, merchant, manufacturer, affiliate, community, subscription, utility (Chito takoe biznes-model: kakie biznes-modeli sushchestvuyut v internete, 2015).

Also, there are a variety of frameworks which represent the main aspect of any company. A business framework includes internal, for instance, market analysis, and external factors such as technological aspects and competitors. The most popular frameworks are Business Model Canvas, Lean Canvas, OGSM, Business reference model (Enalls, 2017).

The Business reference model is a model based on the organizational and functional aspects of the main activity of a company. The main difference from other models is that this model uses a functionally driven approach to represent the business (FEAF Business Reference Model Toolbox Page, n.d.)

The OGSM means objectives, goals, strategies and measures. The main purpose of this framework is to form the basis for strategic planning and management to keep the plan for the company's operations (Story & Hanlon, 2019).

The Business Model Canvas is used to create and develop new start-up ideas and growth opportunities. This model includes 9 business model building blocks: key activities, key partners, key resources, value propositions, customer segments, customer relationships, channels, cost structure and revenue streams.

*Key activities* of the business are the main actions that the company carries out to achieve the value propositions for the customers.

*Key partners* are the external companies that the business needs to achieve the key activities.

*Key resources* are the main resources that the business requires to do business.

*The value proposition* is the major concept of the exchange of value between the business and customers.

*Customer segments* are the segments in which the customers are divided in specific ways. These customer segments will value the value proposition of the company.

*Customer relationships* mean how the company will interact with its customers.

*Channels* represent the routes through which the customers come into contact with the company and become a part of the sales cycle.

*Cost structure* is the monetary cost that the company needs to operate.

*Revenue streams* represent the way through which the company transfers its value proposition into financial gain (Sheda, 2019).

**Figure 1: The Business Model Canvas**

The Business Model Canvas		Designed for:	Designed by:	Date:	Version:
<b>Key Partners</b> Who are our key partners? Who are our key suppliers? Which key resources are we acquiring from partners? Which key activities do partners perform?  <b>RESEARCH AND INNOVATIONS</b> Acquisition of key technology Reduction of risk and uncertainty Acquisition of valuable resources and activities	<b>Key Activities</b> What key activities do our value propositions require? Our Distribution Channels? Customer Relationships? Revenue Stream?  <b>Key Resources</b> What key resources do our value propositions require? Our Distribution Channels? Customer Relationships? Revenue Stream?  <b>INNOVATION AND RESEARCH</b> Acquisition of key technology Reduction of risk and uncertainty Acquisition of valuable resources and activities	<b>Value Propositions</b> What value do we deliver to the customer? Which one of our customer's problems and are helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?  <b>CHANNELS</b> How do we reach our customers? How do we reach them most efficiently? How do we reach them most effectively? How do we reach them most profitably? How do we reach them most sustainably?	<b>Customer Relationships</b> What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which types have we established? How are they integrated with the rest of our business model? How costly are they?  <b>CHANNELS</b> How do we reach our customers? How do we reach them most efficiently? How do we reach them most effectively? How do we reach them most profitably? How do we reach them most sustainably?	<b>Customer Segments</b> For whom are we creating value? Who are our most important customers? How do we reach them? How do we reach them most effectively? How do we reach them most profitably? How do we reach them most sustainably?	
<b>Cost Structure</b> What are the most important costs inherent in our business model? Which key resources are most expensive? Which key activities are most expensive?  <b>INNOVATION AND RESEARCH</b> Acquisition of key technology Reduction of risk and uncertainty Acquisition of valuable resources and activities		<b>Revenue Streams</b> For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?  <b>CHANNELS</b> How do we reach our customers? How do we reach them most efficiently? How do we reach them most effectively? How do we reach them most profitably? How do we reach them most sustainably?			

**Source: Pandey, 2018**

The model is focused on customers, investors, entrepreneurs, consultants and advisors. The Business Model Canvas is the most appropriate business framework for the following business plan.

The Lean Canvas is similar to the Business Model Canvas, but adapted more for start-ups which are at an early stage of development. It was developed in 2010 by Ash Maurya. The Lean Canvas, like the Business Model Canvas, also has the same sections such as customer segments, channels, revenue streams and cost structure. But instead of the key partners, key activities, key resources, value propositions, customer relationships, the Lean Canvas has the sections such as the problem, solution, key metrics, unique value proposition and unfair advantage. Ash Maurya believes that the entrepreneurs should focus on identifying problems and solutions. The Lean Canvas is designed to work for a startup mindset and help entrepreneurs build on their ideas. Also, Ash Maurya thinks that the unfair advantage section allows entrepreneurs to ensure they have something that will help them stand out. Not only will they have their unique value proposition, but they will identify the one thing that no other brand will be able to do in exactly the same way that they do it (Maurya, 2012).

Founders, potential investors and partners widely use this framework. It includes nine sections: customer segments, problem, solution, unique value proposition, channels, revenue streams, cost structure, key metrics and unfair advantage (Business Model Canvas versus Lean Canvas, n.d.). According to Ash Maurya, “Lean Canvas is part of a bigger Continuous Innovation Framework that helps the entrepreneurs systematically uncover what customers want and build products they cannot refuse”. (Maurya, 2012)

## **1.3 Business Tools**

### **1.3.1 SWOT analysis**

A SWOT analysis, or SWOT matrix, is a method that businesses and individuals use to discover the strengths, weaknesses, opportunities and threats that a company faces within a particular industry. It is one of the most effective tools in the field of strategic management (Sarsby, 2016).

The advantages of SWOT analysis are that it allows to quickly look at the situation of a company, product or service in the industry. Therefore, it is the most popular tool in risk management and managerial decision-making (Simon, n.d.). Its main elements are:

- **S-Strengths**

It means the strongest points of a product or service. In other words, it is the internal characteristics of a company that ensure a competitive advantage on the market, that is, areas in which the product of a company is better and more stable than its competitors. Through the strengths, a company can increase sales numbers, profit and market share. The strengths should be constantly enhanced, improved and used to communicate with consumers (Sarsby, 2016).

- **W-Weaknesses**

It means weakness points or shortcomings of a product or service. In other words, it is the internal characteristics of a company that make difficult the development of a business, hinder product from having the leading position on the market, and are uncompetitive. Through the weaknesses, a company can lose market share and competitiveness in the long term. It is necessary to monitor the fields, in which a company is not strong enough, improve it, develop programs to minimize the risks of influencing the weaknesses on the company's performance level (Simon, n.d.).

- **O-Opportunities**

It means facilities of a company – favourable factors of the external environment which can have an impact on business growth in the future. The opportunities represent sources of business growth, so it is necessary to analyze, assess and develop a plan of action to use it with the involvement of the strengths (Sarsby, 2016).

- **T-Threats**

It means negative factors of the external environment which can weaken the competitiveness of a company on the market in the future, lead to a reduction in sales and a loss of market share. The threats represent potential risks of a company, so each threat should be assessed in terms of the likelihood in the short run, and terms of possible losses

for a company. Against every threat, it must be offered solutions to minimize them (Metod SWOT analiza v strategicheskom upravlenii, n.d.).

### **1.3.2 PEST analysis**

PEST analysis means political, economic, social and technological factors that influence business. In other words, PEST analysis – an assessment model of the environment for calculating a factor that successfully influences on a company. Moreover, it is also a tool to determine the strategy of a company in the long term. PEST analysis focused on the results of the top-level. It gives a “helicopter overview” on the external environment of a company and a company’s place in the market (Blokdyk, 2018).

A methodology of PEST lies in:

- the development of matrix, whose cells are environmental factors that impact most on a company,
- the development of a strategy that most responsible for forecasts on the dynamics of environmental factors.

#### **Political factors**

Politics play an important role in the design of a business environment in the region, country and at the global level. An enacted law can constrain the prospects for doing one business or another or, quite the opposite, give new possibilities for a company. Therefore, it is always necessary to monitor the factors such as world’s political situation, the country’s foreign policy, the country’s membership of a variety of unions, domestic policy at the national level, tax policy, level of influence of the State on the industry, governmental subsidization of the specific regions, internal policy at the regional and municipal level, etc. (Chernova, 2019).

#### **Economic factors**

This element is used as the main to determine investment prospects and prospects of market development. The influence of these factors on a company is difficult to overestimate so the factors are needed to carefully consider. The main factors are GDP trend, inflation rate, refinancing rate, change in the exchange rate, unemployment rate, income development, level of competition, etc. (Kocheshkov, 2020).

#### **Social factors**

Society, in which a project is planned to realize, usually plays a key role in success. Firstly, the active opposition of the society as in the protests and vigils may be grounds for the prohibition of business operation in a country or region. Secondly, word of mouth and social media can shape public opinion and even demand on the company’s services or goods, resource availability and trained staff. These factors include demographics, the population’s standard of living, customs and values, the level of education, etc. (Chernova, 2019).

#### **Technological**

Technological factors are the key elements of the strategy since the business has become to rely on technologies on many issues from accounting to communication with clients. Technological decisions can give to a company strong competitive advantage over other companies on the

market, or the opposite, insufficient use of the technologies may cause the lack of competitiveness of a product on the new market. These factors include scientific discovery, new technologies, changes in the patent law and industry, the impact of the Internet and mobile technologies on the industry, rivals' expense on R&D, etc. (Kocheshkov, 2020).

## **1.4 Marketing Plan**

### **1.4.1 Marketing Mix 4P's**

The marketing mix is the set of the actions that a company uses to promote its brand or product in the market. (What is Marketing Mix? n.d.)

The Marketing 4Ps was created in the 1960s by a marketing expert E. Jerome McCarthy. This classification has been used throughout the world. It is also a foundation of marketing mix (Gonlor et al., n.d.).

The 4Ps of marketing mean:

- **Product**  
Product is an item or service that actually being sold. It is important to make sure that the product satisfies the needs of a certain group of people (Gonlor et al., n.d.).
- **Price**  
Price is the amount of money that customers pay to have the product. It depends on a variety of factors such as costs of production, supply-demand, ability of the market to pay, etc. It is also a component of a marketing plan since it determines company's profit. Price has a huge impact on the entire marketing strategy that affects the sales and demand of the product (Gonlor et al., n.d.).
- **Place**  
Place is the points of sale. The product should be positioned and distributed in a place where it is accessible to target consumers. It is also the main aim of a good distribution strategy (What is Marketing Mix? n.d.).
- **Promotion**  
Promotion is the activities that make the product known to its potential customers. These activities include press releases, exhibitions, word-of-mouth, advertisement, sponsorship deals, and events. Promotion is also a component of marketing that can increase brand recognition and sales of the product (What is Marketing Mix? n.d.).

All these elements of the marketing mix connect with each other. So, it is necessary to draw attention to each of these elements (What is Marketing Mix? n.d.).

### **1.4.2 Marketing Mix 4C's**

The Marketing 4Cs was developed in 1990 by Robert F. Lauterborn. It is an extension or modification of the 4Ps model (Marketing Mix: 4Ps with 4Cs, 2019). The main difference between the Marketing Mix 4Cs and 4Ps is that 4Cs Model represents a more client-oriented marketing philosophy instead of product-oriented. The 4Cs approach requires the business to

think from the consumer's point of view. Also, this 4Cs model obliges the business to consider the impact of the uncontrolled elements such as consumer behaviour (Olivinexpresss, 2013). This model involves:

- **Cost**  
According to Lauterborn, price is only a part of the total cost incurred when a consumer purchases a product. Cost is an element of marketing mix which affect the decision of consumer to buy the product (Marketing Mix: 4Ps with 4Cs, 2019).
- **Consumer**  
Firstly, consumers need and want a product, and then a company should produce and sell it to satisfy their needs. So, the company should research the needs and demands of the potential consumers and then develop the product (Marketing Mix: 4Ps with 4Cs, 2019).
- **Communication**  
According to Lauterborn, promotion is manipulative, so companies should create an open dialogue with its target consumers to satisfy their needs (Parado, n.d.).
- **Convenience**  
The purchase of a product should be convenient to the consumers. Companies should place the product in a way that the consumers will buy it (Parado, n.d.).

## 1.5 Porter's 5 forces analysis

Porter's 5 forces analysis is a powerful framework tool that helps to analyse the level of competition within a certain industry and identifies the strategy's potential profitability. According to this framework, competitiveness does not only come from competitors, in other side it can be the state of competition depends on 5 forces: threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products or services, and existing industry rivalry. This is useful, because, when the company understands the forces in the environment or industry that can affect its profitability, the company will be able to adjust the strategy accordingly. This tool was created in 1979 by Harvard Business School professor Michael Porter, to analyse an industry's attractiveness and the profit potential (Michele et al., n.d.).

### **Threat of new entry**

The position of a company on the market highly depends on how easily and fast rivals can enter the market. The threat is smaller for existing players if the barriers are higher to enter. The barriers can be large capital requirements, limited access to distribution channels, economy of scale on the supply side, the need for cumulative experience, government policies, etc. (Michele et al., n.d.).

### **Bargaining power of suppliers**

This power analyses how much power the suppliers of a company have to increase their prices or to diminish the quality of products that they provide. A number of suppliers and the availability of substitute suppliers have important impact on determining supplier power. Suppliers have more power if the market has a small number of them. Sources of supply power

also involve the presence of potential suppliers, the switching costs when a company change their suppliers, the strength of the distributional channels and the level of differentiation in the product that the supplier provides. (50MINUTES, 2015).

### **Bargaining power of buyers**

The power of a company increases if the company has many customers. The customers have more power if the company has a small number of their customers. Buyers have a huge impact on the company's profit because they can switch the product that they buy or do not purchase the product if they are sensitive to the price. Buying power can be lower when the product is different from others or companies implement loyalty program to retain their customers (50MINUTES, 2015).

### **Threat of substitute products**

If the market has a wide variety of substitutes which serve similar needs, customers can easily switch from one product to another. So, this affect an industry's profitability. Threat of substitutes is higher when the cost of switching between products is low (50MINUTES, 2015).

### **Competitive rivalry**

This force analyses how many competitors a company has and how strong the competitors are. Rivalry is high when there are many competitors on the market that are equal in size and power. When consumers can easily switch to the competitors of a company it also means that rivalry is high. When competition is high the market players start using advertising and price wars. Moreover, competition is more intense when barriers to exit are high. In this situation, the profitability of healthy market players suffers because the competitors that want to exit start cutting the price of their product (Michele et al., n.d.).

## **1.6 Financial plan**

The financial plan of the business plan considers issues relating to the financial security of the activities of the enterprise and to the most effective use of available funds, based on an assessment of the current financial information and a forecast of volumes realization on the market in subsequent periods (Wasserman, n.d.). The financial plan determines the overall functioning of the company, gives a view on the company's efficiency and forecasts all future costs and revenues. The financial plan should be detailed since it determines and measures the success of the project (Adonis et al., n.d.). To start a business, it is important to understand how much money it will take to initiate it and how much money a business needs to operate effectively. Successful planning implies the establishment of the financial plan which should include the determination of the initial investment, the analysis of costs and profitability as well as the creation of an income statement, balance sheet, cash-flow statement and break-even analysis. The financial plan is needed to provide for the protection of business by reducing the risk of the bankruptcy and risk of the liquidity shortage (Caramela, 2018).

The financial plan is developed in terms of the following financial records:



- **Initial investment**

The initial investment involves all money that a company should have to start a business. It may include the business founder's own money, borrowed money or money from investors. To start a business, the company has to buy new equipment, buy some materials or even a building (Initial Investment, n.d.).

- **Total costs**

The company should understand how much money the business is going to cost to actually make the sales. It is important to determine all costs that the company needs every year or month to run the business. (Revenue - Revenue, cost and profit - GCSE Business Revision - Other - BBC Bitesize, n.d.)

- **Income statement**

The income statement is used for reporting a company's financial performance. It helps to estimate how much the company's sales, how much actually the product costs, how much the company's gross profit and net profit after all expenses including taxes. The main purpose of the income statement is to show details of company's profitability and business activities (Chen, 2020).

- **Sales Forecast**

It gives understanding how many products the company is going to sell and how much money it will get from the sale of its products (Wasserman, n.d.). The sales forecast includes the number of the units that the company is going to sell and the selling price of these units. Also, the sales forecast may use the past results of the business, but if the business is new, it should aim for making clear assumptions and understanding what drives sales (Ward, 2020).

- **Opening balance sheet**

The opening balance sheet contains the beginning balances at the start of a period. The balance sheet is used by the companies to track their assets, owner's equity and liabilities. Assets mean what the company has (it can contain the initial investment). Liabilities mean what the company owns (long-term or short-term debts). Owner's equity is the amount of money that the owner put into the business. Assets should always be equal liabilities plus owner's equity. For start-ups, the balance sheet is important because it provides a clear view on the financial position of the business on the start-up date (Bragg, 2018).

- **Cash flow statement**

Cash flow statement reflects actual cash inflows and its outflows. In other words, net cash flow represents the flow of money. Cash inflows include sales revenue, capital and other investing money. Cash outflows include all expenses such as direct costs, operational expenses, taxes, etc. Net cash flow is equal to cash inflows minus cash outflows. The cash flow statement is important since it represents a portrait of all the transactions that go through the business (Kenton, 2020).

- **Net Present Value**

Net Present Value (NPV) is used to analyze the profitability of a project. The main rule is that money in the present worth more than the same money because the money today can be invested to start earning interest immediately. In other words, Net Present Value is the difference between a project's value and its cost. It helps companies to understand if the

project is worth to invest in them (a positive NPV) or not (a negative NPV) (Brealey et al., 2014, p. 105-109).

**Figure 2:** Net Present Value formula

$$NPV = C_0 + \frac{C_1}{1 + r} + \frac{C_2}{(1 + r)^2} + \dots$$

**Author:** Brealey et al., 2014, p. 105

- **Internal Rate of Return**

The Internal Rate of Return (IRR) is the rate that reflects the profitability of the potential investment. It is a discount rate that makes the net present value equal to zero. The calculation of IRR relies on the same formula as NPV does. IRR is important since it gives an opportunity to a company to estimate the profitability of the potential project. In other words, the internal rate of return is the rate of growth that a project can generate (Brealey et al., 2014, p. 111-113).

**Figure 3:** IRR formula

$$NPV = C_0 + \frac{C_1}{1 + IRR} + \frac{C_2}{(1 + IRR)^2} + \dots + \frac{C_T}{(1 + IRR)^T} = 0$$

**Source:** Brealey et al., 2014, p. 112

- **Break even analysis**

Break even analysis helps to estimate how bad sales can get before the project begins to lose money. Using break even analysis, a company can determine the minimum level of production that the company should have. To estimate it, the company needs to calculate the break-even point by dividing the total fixed costs of production by the price of a product per one unit less the variable costs of production (Brealey et al., 2014, p. 250-254).

**Figure 4:** Break even units formula

Break Even Units Formula

$$\text{Break Even Units} = \frac{\text{Fixed Costs}}{SP - VC}$$

*SP = Selling price per unit*

*VC = Variable cost per unit*

**Source:** Brown, 2020

# Practical Part

## 2 Business plan for Lonicera

**Title:** Logo



**Source:** Author

## **2.1 Executive summary**

Lonicera is a new business aimed at the creation and the development of the effective household for the production of berries such as honeysuckles and strawberries, ensuring compliance with social obligations, and, finally, stable producing a profit and thereby increase sown areas and volumes of production.

Market analysis says that nowadays the market of small-fruit crops faces the supply deficits. In other words, berries grown in Russia are not fully covered the needs of the population (Markova, 2013).

In the process of the realization, the peasant farm plans to reach the volumes of finished products, taking into account existing plantation, at a rate of 29.53 tons per year for honeysuckle in area of 5 ha and at a rate of 37.8 tons per year for strawberry in area of 3 ha. Subsequently, with the impact of achieved indicators sown areas are also expected to increase. The total initial investment for both projects (the production of strawberry and the production of honeysuckle) is expected to be 8 050 810 RUB. The net profit after taxation for both projects for the first year will be 1 347 000 RUB.

Economic risks encountered in the process of production, related to low purchasing power, demand volatility, reduction of competition, are projected to be reduced or completely avoided through finding new wholesale distribution channels, improving retail trade, pricing adjustments. At the time of the drafting of the project, the existence of such factors had not been established.

Location of the business – village “Morkino Gorodische”, Kalinin region, Tver oblast.

Main activity – horticultural and small-fruit crops production and distribution.

The business plan is developed to examine the feasibility of a business idea to grow and distribute berries such as honeysuckles and strawberries in Russia. To do that, this business plan contains the main information about the company such as the objectives of the business, its mission and vision, the structure of the company, its location, the main customers and consumers of the company and the information about the products which are produced and sold by Lonicera. Also, the business plan contains the industry analysis to understand how to start and successfully run the production business in Russia. The market analysis is created to evaluate the market size and to assess the external environment and the main competitors of Lonicera. The business plan also includes the business tools such as Business Model Canvas, PEST and SWOT analyses. The marketing plan consists of two marketing mixes: Marketing Mix 4P's and Marketing Mix 4C's. The financial plan contains the information about the initial investment, total costs, number of employees and their salaries. Also, it includes the sales forecast, income statement, cash flow statement, balance sheet, net present value and break-even analysis.

## **2.2 Objectives**

The main objective of the business is stable producing a profit. To do that, it is important to create a productive household and distribute the products effectively. For the medium term, the

objective is to reach the planned production capacity during the next 5 years: 29.52 and 37.8 tons/year for honeysuckle and strawberry respectively. It means that the company plans to achieve the profit target is excess of 22 017 600 RUB per year.

Another objective is achieving a proper place in the market as well as producing high-quality berries (strawberries and honeysuckles) during the next 10 years. To do that, it is necessary to increase market share.

## 2.3 Mission and vision

The mission of the company is:

*“We produce and sell only high-quality berries grown in a good environment to support your health”.*

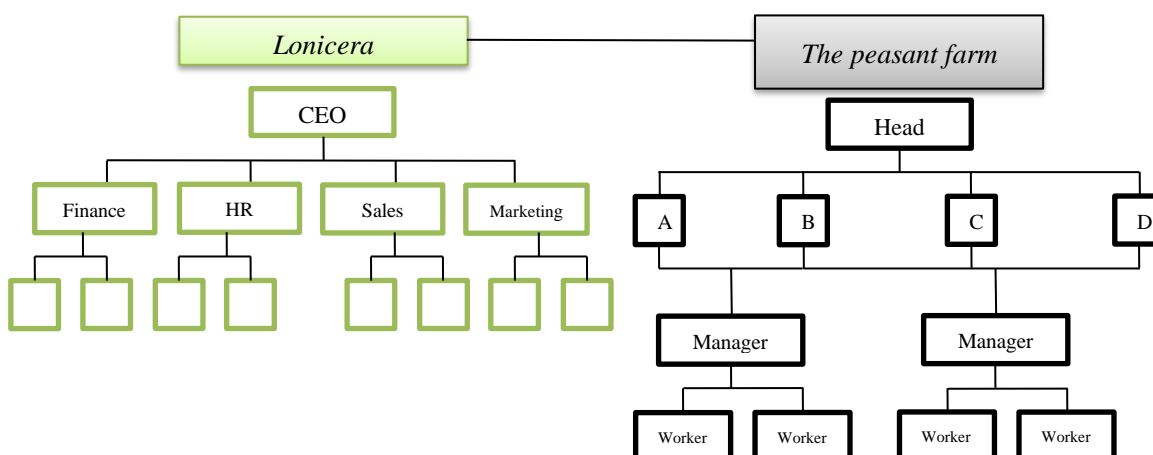
The vision of the company is:

*“We are going to become a leader on the market offering berries of the highest quality and at competitive prices”*

## 2.4 The structure of the company

The founder and CEO of Lonicera is Ludmila Fesenko. Ludmila Fesenko has graduated 2 higher education: economic and legal. The company is completely new but it has been already registered.

Then, Lonicera has 4 different departments: Finance, Human Resources, Sales and Marketing. Also, Lonicera has a production line: a peasant farm with the head of the household, 4 family members, 2 managers: one of them for production strawberry and another one for honeysuckle. This business plan will have the detailed information about the peasant farm and its production.



## 2.5 Square, location

The peasant farm works on the land plots with the cadastral numbers 69:10:0000038:2033 (for honeysuckle) and 69:10:0000038:2253 (for strawberry). First area is 182 671 sq.m., the second

area is 100 000 sq.m. The land category: land of living settlements. The permitted use: for agricultural production. The address of the land plots: village “Morkino Gorodische”, “Krasnogorskoe” rural settlement, Kalinin region, Tver oblast.

This location was chosen not accidentally. For the agricultural company, it is very important to have a fertile ground for growing the berries. And the ground of the peasant farm under the contract №73/19 from 29.07.2019 was studied on the performance of soil fertility. The indicators are higher than the average.

## **2.6 The main consumers and customers**

The main consumers of finished products are the inhabitants of Tver oblast, thereby the main customers of Lonicera are large and medium-sized retail and wholesale chains. The treaties between these points of sale have been already signed. (See 2.7 points 16, 17). The business operates as B2B which means that the company sells its products to other businesses such as retail and wholesale chains.

## **2.7 The existence of treaties and agreements**

At the time of the drafting of the project to ensure the functioning of the company and also to supervise all aspects of the processes, the company is concluded the following treaties:

- 1) The document of approval of CEO (L. Fesenko);
- 2) The contract of employment from 16.10.2019 with N. Kudryavceva for the post of the manager for production strawberry;
- 3) The contract of employment from 16.10.2019 with O. Bulyukina for the post of the manager for production honeysuckle;
- 4) Lease agreements for land from 10.12.2019 (short-term for 11 months);
- 5) Lease agreements for land from 24.07.2019 (long-term for 7 years);
- 6) The contract of sale of the vehicles – truck 3009D1 and wheel tractor «Belarus - 82.1» from 28.11.2019 with LLC «Tver'strojtekhnokomplekt»;
- 7) The contract of sale of the equipment №КП-0259 from 27.11.2019 with LLC «Novatek»;
- 8) The contract of sale №23/10/2019 from 23.10.2019 with the peasant farm «Nika»;
- 9) The agreement of gratuitous use of the agricultural equipment – rotavator DOBERKMET TMZ190 from 28.11.2019 with LLC «Investprogramm»;
- 10) The contract №ЮПА/76/2019/р from 23.10.2019 with LLC «YUGPOLIV KOROLEV AGRO»;
- 11) The supply contract №ЮПА/117/2019/М from 27.11.2019 with LLC «ЮГПОЛИВ КОРОЛЕВ АГРО»;
- 12) The contract for the supply of crop sprayers from 22.10.2019 №22/10-1 with LLC «Agropostavka plyus»;
- 13) The contract for the purchase of strawberry seedlings «Frigo» №06/2019 from 11.10.2019 with LLC «Yagody Chernozemya»;

- 14) The preliminary contract for the supply of strawberry (non-cash transaction) from 24.10.2019;
- 15) The contract for the supply of honeysuckle seedlings №15/2019 from 27.11.2019 with LLC «Yagody Chernozemya»;
- 16) The preliminary contract for the supply of honeysuckle from 25.11.2019 with LLC «Agat» (the chain of grocery stores). This treaty provides the selling price of honeysuckle to the commercial facilities is 400 RUB per 1 kg.
- 17) The preliminary contract for the supply of strawberry from 24.10.2019 with the local retail chain «Frukt», vegetable-handling enterprise «Borovlevo 1» and LLC «Ruchej». This treaty provides the selling price of strawberry to the commercial facilities is 270 RUB per 1 kg.

## 2.8 Products

Lonicera produces 2 main products: honeysuckles and strawberries. Strawberry include 2 species: remontant and classic. Remontant strawberry means that a plant can bloom and bear fruits 2 or 3 times per season. Classic strawberry can bear fruits only once. (Greenbich, 2019). It is planned to reach these volumes:

**Table 1:** The volume of output

№	Name of items produced	The volume of output when reaching planned production capacity, tons/year
1	Honeysuckle	29.529
2	Strawberry	37.8

Source: Author

## 3 Industry analysis

### 3.1 Agricultural sector in the Russian economy

Agricultural sector in the Russian economy has some distinctive elements that distinguish this sector in the economy from others. To understand how to start and successfully run the production business, it is necessary to delve into this sector and figure out why it is so important for Russia.

Agriculture of Russia – an array of interrelated industries specializing mainly in commodity production for the food, processing industry. Some of the agricultural industries produce value-added products for consumption and further processing should not be required in every circumstance. For instance, there are products of vegetable-growing, horticulture and dairy farming (AB-Centre, n.d.).

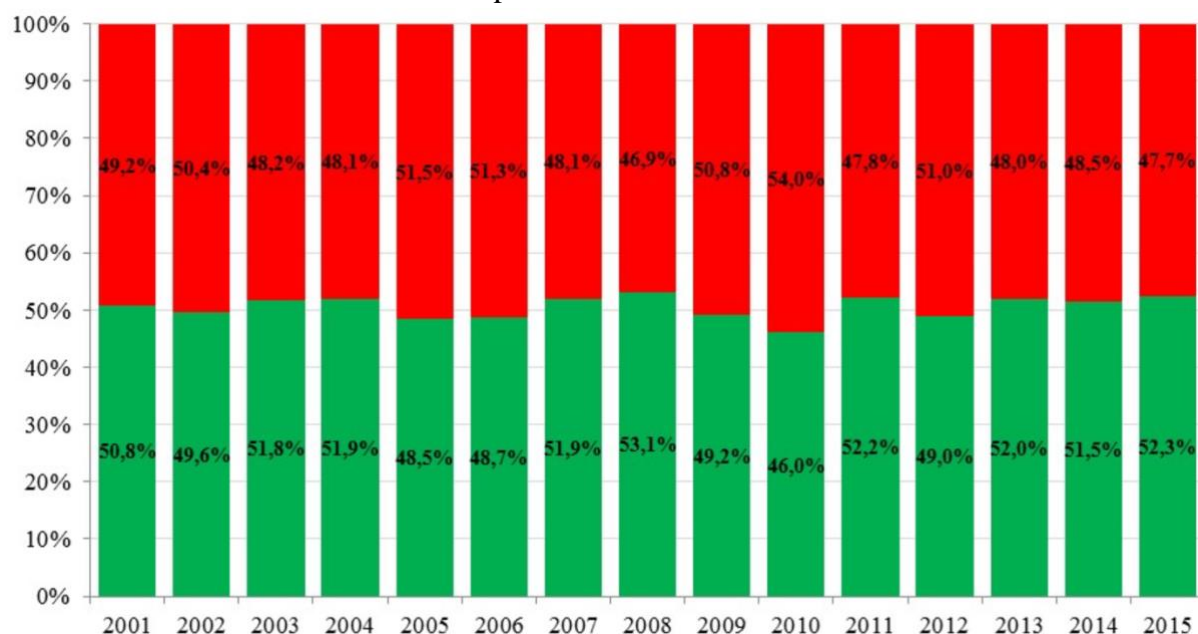
Russia's agriculture generates approximately 3.7 per cent of the country's GDP, employs 9.2 per cent of the national workforce and contributes around 6 per cent of the country's exports. Agricultural exports have increased very significantly since 2000 especially for wheat and meslin (wheat and rye mixture). Agricultural sector has great potential to play an important role in Russia's economy, but at the same time, it suffers from relatively low productivity and an outdated technological base. The main drive for efficiency has come mainly from the relatively large-scale agricultural firms, who generated more than half of the total value of agricultural output in 2016. Foreign policy instability, including economic sanctions, the devaluation of the national currency and declining economic growth have weakened the sector and caused an increase in the prices of imported goods and equipment. At the same time, Russian products have replaced high value-added imports and Russia's agricultural producers are expanding into new markets. (Kuzminov et al., 2018, p. 52)

Agricultural products are demanded by several other industries that are not directly related to the production of food. For example, agricultural products are heavily used in the pharmaceutical, textile and footwear industries. Certain types of agricultural commodities are used in the production of biofuels (AB-Centre, n.d.).

Agriculture of Russia is part of a larger inter-industry association – APK (Agribusiness) which combines several branches of the economy. Also, agriculture of Russia is subdivided into several sectors: crop production and livestock farming (AB-Centre, n.d.).

Ratios of crop production and livestock farming in the total value of agricultural products in Russia are approximately at the same level. In the year 2015, the share of crop production stood at 52.3% (2 637 billion roubles), the share of livestock farming was 47.7% (2 400 billion roubles).

**Graph 1:** Shares of crop production and livestock farming in the total value of agricultural products in Russia



Source: AB-Centre, n.d.



The agricultural sector is one of the few industries of the real economy that shows the stable growth even in a crisis. Notably, that it is the crisis accompanied by the devaluation of the rouble despite having some negative impact on the sector (a rise in the prices of imported machinery and equipment, seeds to be planted, breeding stock), in general, contributes to the increasing volumes of agricultural output (AB-Centre, n.d.).

Firstly, the weakness of the national currency leads to higher costs for imported products in the domestic market, resulting in the implementation of an import substitution program on the market of agricultural commodities and food production.

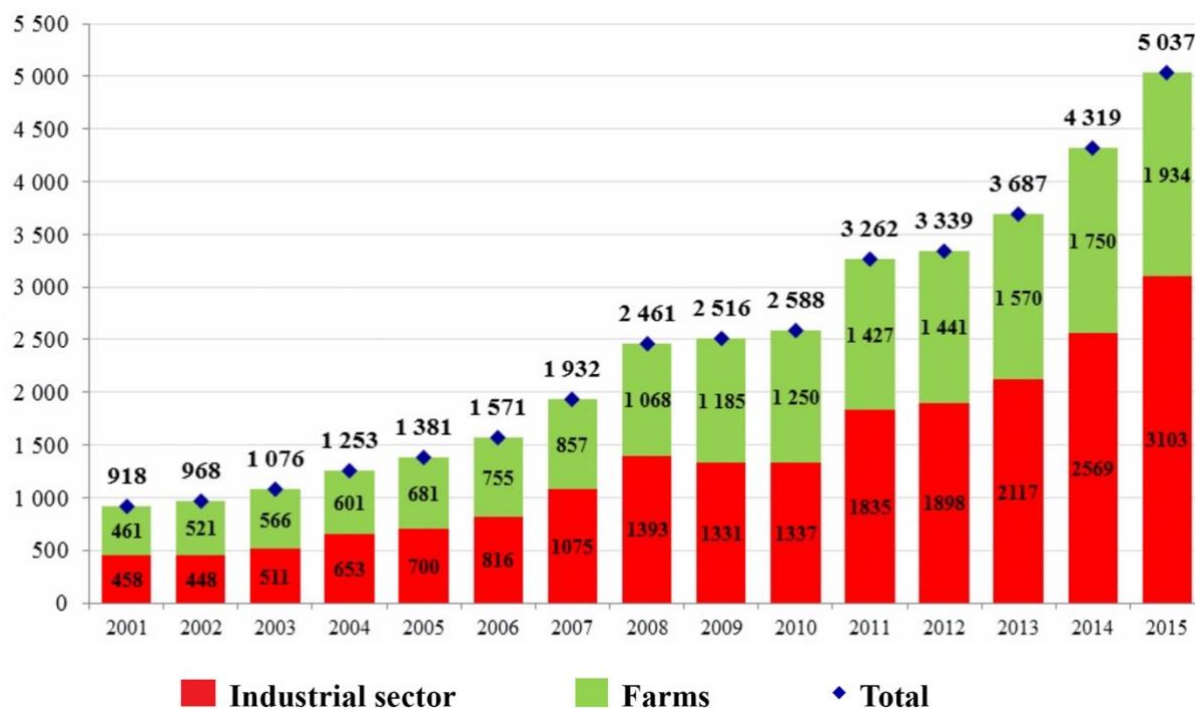
Secondly, devaluation contributes to an increase in the competitiveness of Russian products on world markets. The expansion in the volume of shipment makes the domestic production more attractive to investors (AB-Centre, n.d.).

*Example 1:* The economic crisis in 1998, which was accompanied by a default, led to a significant rise in the costs of imported products in the domestic market that increases the attraction of a number of the agricultural sectors for investors.

*Example 2:* The devaluation of rubles in 2015 has strengthened the export of Russian grain to foreign markets. Therefore, the export of maize grew by 5.7% up to 3 667,1 thousand tons, the export of barley grew by 31.2% up to 5 258,4 thousand tons.

Total output of agriculture in all household categories of Russia, according to data provided by Rosstat, in 2015 was 5 037 billion rubles in actual prices, which is 16.6% more than in the year 2014. In 5 years, indicators grew by 94.7% for 2010, in 10 years – more than 3.6 times.

**Graph 2:** Total value of agricultural production in Russia for household categories in 2001 to 2015 at then-current prices, billion rubles



Source: AB-Centre, n.d.

Data on the industrial sector – the total value of products manufactured in agricultural organizations and peasant farm holdings

Increase in production comes predominantly from the industrial segment – agricultural organizations and peasant farm holdings. The increasing production from farms is not so important.

According to the graph 2, based on data provided by Rosstat, production of agricultural products in the industrial segment in 2015 was 3 103 billion rubles. In a year, the indicators grew by 20.8%, in 5 years – by 132%, in 10 years – by 4.4 times.

The agricultural products in farms in 2015 were produced 1 934 billion rubles. In a year, the indicators grew by 10.5% (less than the level of inflation), in 5 years – by 54.7%, in 10 years – by 2.8 times.

Agriculture – the industry of strategic importance, the development of which aims not only at profitability but also at food, national security. On the whole, agriculture of Russia emerged from systemic crisis, moved from a complete collapse in the mid-1990s till rising the ranks by today across a range of indicators. Nowadays, agriculture – one of the most investment attracting industries of the real economy in Russia (AB-Centre, n.d.).

### **3.2 Government support to small and medium-sized business**

With the modernization of the Russian economy and the increasingly competitive context on the world and industry markets, the need for governmental support to small and medium enterprises (SME) is growing. The government support is extremely important especially for the production companies which should have a lot of money to start the business. These companies are very valuable to the national economy, since their production is the foundation, first of all, of rations and therefore of food sovereignty (Vernigor, 2015). The need for public support to the agricultural sector is objective, and this objective lies in the economic nature that distinguishes an agricultural producer from all other market participants, since for some reasons the agriculture on the open market is uncompetitive in comparison with other sectors of the economy (Levchenko & Epanchivcev, 2018). So, it is necessary to understand how the government can support the agricultural producers since Lonicera will also have a grant from the government.

The development of SME its breakthrough to qualitative new level are impossible without effective public policies in this field. Governmental support to small and medium enterprises is considered one of the directions of economic reform, which contributes to creating supplementary workplaces (the reduction of unemployment), increase in the tax deductions to budgets of all levels, development of innovative technologies, increased competition, filling the consumer market of a wide range of goods and services (Levchenko & Epanchivcev, 2018).

A term “Governmental support for businesses” is the establishment of conducive economic and legal conditions, manufacturing incentives and also investment in it of material and financial resources on favourable terms (Levchenko, Epanchivcev, 2018).

The federal executive power body which performs such functions as the formulation of public policies, normative-legal regulation of a sustainable development of small and medium enterprises in Russia, is The Ministry of Economic Development of the Russian Federation, under the provisions of the federal law from 24.07.2007 №209-F3 “On the development of small and medium-sized enterprises in the Russian Federation”.

The share of small businesses in GDP remains fairly low. In the advanced economies (France, Japan, USA and Germany) the share of small enterprises in GDP is 50–60%. In Russia, according to the estimates of the Ministry of Economic Development, this indicator is equal to 20–25%. In the long-term strategy of the socio-economic development of Russia till 2020 there is a planned increase in the share of small business in GDP up to 60–70% by the year 2020. This information is based on Governmental Order: About the concept of socio-economic development of the Russian Federation for the period up to 2020 from 17.11.2018 №1662-r. URL: <http://base.garant.ru>.

To implement the governmental policy regarding the establishment of businesses in the Russian Federation there are provided for the following forms:

- financial – measures to provide financial assistance to entrepreneurs;
- material – provision of property to small and medium enterprises, belonging to the State and giving them the right to use (a plot of land, industrial premises);
- informational and advisory – the establishment of information systems, as well as free of charge consultant governmental services of conducting business (seminars, training sessions, courses)
- infrastructural – measure to provide infrastructure support to create a comfortable environment for doing business, and also to create business incubators, centres for entrepreneurs, science parks, multi-purpose funds, innovation centres;
- organizational – support for the participation in exhibition activities and fairs (Levchenko & Epanchivcev, 2018).

Also, small and medium-sized enterprises embody the following features: simplification of accounting rules, statistical reporting; a simplified system of tax records, modalities of the participation of small entrepreneurs in government procurement. Financial support of the Russian Federation is aimed at providing cash resources to open and grow a small business (bonuses, subsidies, grants, soft loans) (Vernigor, 2015).

All in all, small and medium are essential to the national economy for many developed countries, so the stable system in place is crucial for SME development. Adoption of effective financial tools and mechanisms to promote SME will facilitate not only to enhance the role of SME in the Russian economy but also to move towards an innovative model of the development of society in Russia (Vernigor, 2015).

### **3.3 Role of horticulture in the agriculture and the pharmaceutical industry**

To realize why berries are important for the market and the company should produce it, it is necessary to understand what berries contain and for what purpose berries should be produced.

Many of people in Russia under word “horticulture” understand one of the main sector of crop production – fruit growing, namely horticultural crops production to obtain harvest. This culture growing is cultivated to get fruits, berries and nuts.

The benefit of berries for the organism is largely related to what is contained in a fruit. All kinds of edible berries have pectin (soluble plant fibre) that reduces cholesterol levels, generates synthesis of necessary substance for the body and protects from the negative impact of radiation exposure. Also, berries have vitamins, microelements, antioxidants and folic acid.

Also, each kind of berries can contain additional substances. For instance, strawberries include organic acids (salicylic acid, oxalic acid), B-complex, C vitamins, potassium and magnesium. Honeysuckles contain C-complex, B, P vitamins, catechin, anthocyanin, carotenoid (Smirnova, 2019).

Recommendations of the World Health Organization prescribe the daily intake of 400 grams of fresh and processed fruits and vegetables (except for potato and other starchy vegetables) to reduce the risk of chronic diseases. For Russians, the quantities recommended for consumption of fruits and vegetables, taking into account their use, including for the production of food, dishes and drinks, following the order of the Ministry of Health, for fruits and berries – are from 90 to 100 kg/year per 1 person, for vegetables and gourds – from 120 to 140 kg/year per person (Order of the Ministry of Health and Social Development of the Russian Federation dated 2 August 2010 N 593n “On acceptance of the recommendations of the standards for the consumption of food products, that meet modern requirements of healthy nutrition”).

European countries perceive the Russian market significant since in the Russian Federation a level of production and the consumption rate of fruits and berries are much lower. Provided daily intake of fruits and berries is minimum 400 grams per person per day, respectively, for example, with a population of Tver Oblast of 1 269 636 (2019), according to data from Rosstat, and the population of Tver is 420 850, the urban population of Tver should consume 168.34 tons of fruits and berries.

Berries are not only consumed fresh but also are used in the production of jams, other foodstuffs, in the production of cosmetics and medicines. In cosmetology, many of different hair products and face staff are made from fresh berries. In the pharmaceutical industry, berries are used in the production of medicines (Primenenie yagod, n.d.).

### **3.4 Features of horticulture in Russia**

In comparison with other countries horticulture in Russia has some features. It is important to ascertain what exactly it is, because to create a business plan for the company producing berries, all aspects should be taken into account, including such as the consumption of fruits and berries, changes in the horticultural sector due to the sanctions and what distinguishes horticulture from other spheres of business (Srivastava & Hu, 2020).

Over the past 3–5 years count of fruits and berries in a shopping basket of Russians has increased significantly. In Russia, the consumption of fruits has shown positive growth trends in comparison to the majority of the countries of Western Europe where there has been a

shortfall in the consumption of fruits (Markova, 2013). According to the study, Russians spend on vegetables and fruits not less than 11% of the total expenditure on the grocery goods. According to various estimates of the Federal State Statistics Service in 2013 per capita consumption of fruits and berries in the Russian regions was estimated at 61–74 kg/year. Over the past decade, in comparison to 2003, the consumption rate of fruits has more than doubled. One way or another, a consumption pattern of fruits for the urban and rural population differs significantly. Townspeople eat about a quarter more fruits than people living in the countryside (79 and 62 kg, respectively) (Features of consumption rate of fruits in Russia in 2014, 2014).

Sanctions changes in foreign trade of Russia addressed import flows of fruit products. It changed a set of suppliers of fruits in Russia from abroad and required to address the problem of import substitution in the domestic horticulture. The reduction of the volume of imports of fruits and berries, in the view of managers and agricultural producers, points to the urgency and commitment of developing horticulture in the country. However, the subsector “horticulture”, which production until the last moment is seen as an auxiliary in the human diet, faces with many serious challenges. Moreover, official statistical data is partly indicative only for some reasons. The products of horticulture in Russia are grown in various categories of the households: peasant holdings and farms of individual entrepreneurs, farms, agricultural organizations (Srivastava & Hu, 2020).

Features of horticulture in Russia particularly are composed of weather conditions and climatic zones. The most important feature is that land for agricultural production serves as the main and crucial mean of production, without which it is impossible to receive agricultural output. Land in agriculture is not only a subject of labour (as it is in manufacturing) but also is a tool since its nature is used for growing a variety of crops, fruits and berries. In agriculture, additional funds and labour input with a high level of agricultural machinery have the effect of improving the quality of land and of growing its efficiency (crop yield). No other subject or tool of labour possess that unique property. Also, the land acts not on its own, but in conjunction with other means of production (machinery, fertilizers, etc.). So opportunities of land are unfolding more fully that the means are more effective with which the land works (Radnaeva et al., 2019).

Another feature of agricultural production lies in the fact that agriculture is a seasonal activity that has a discrepancy between the production time and the work period. In horticulture, the economic process of reproduction is always intertwined with the natural biological process reproduction of land. Therefore, in contrast to the extractive industry, where a human just possesses the gifts of nature, in horticulture, the human takes an active role in the reproduction of land (Azarov et al., 2017).

## **4 Market analysis**

### **4.1 Valuation of market size**

Taking into account the fact that Lonicera is operating in Tver oblast, to evaluate the market size, the company should know how many people live in this region. According to Rosstat and Tverstat, the population of Tver oblast is 1 260 379 (Tverstat, 2020). The main consumers of berries are people who buy fruits and berries in the large and medium-sized retail. In other words, it is the urban population of Tver oblast. The urban population is 959646 (Tverstat, 2020) which means that, taking into account the fact that recommended daily intake of fruits and berries is minimum 400 grams per person per day, the urban population should consume 383858 tons of fruits and berries.

### **4.2 Porter's five forces**

#### **4.2.1 Threat of new entrants**

Lonicera is a new player on the market. So, to enter the market, it is necessary to be sure that the product produced by the enterprise satisfies the customers' needs. Also, to successfully enter this industry, it is important to adapt the pricing strategy, reduce risks and costs by economy of scale, find effective distribution channels. The threat of new entrants can be considered as low to medium since this type of the business takes quite some investments to start a company. It is also important to find and conclude agreements with distributors, and gain government support.

#### **4.2.2 Bargaining power of suppliers**

Lonicera has some suppliers of seeds and planting material. The number of suppliers on the market is quite large, and the products that suppliers produce are quite similar. Therefore, the power of suppliers can be considered as low.

#### **4.2.3 Bargaining power of buyers**

There are not so many companies on the market in Tver oblast that produce the berries. Also, these companies do not have any advertising to attract the customers. So, the customers have a lack of opportunities to compare prices or quality online and to get information about other berries that the companies produce. Moreover, Lonicera has a large number of potential consumers. Therefore, the power of buyers is relatively low.

#### **4.2.4 Threat of substitute products**

In terms of the horticulture industry, it can be said that the general need of its customers is eating food that contains vitamins. It is clear that there are many alternatives to find another tasty food that contains similar vitamins such as kiwi, oranges, etc. The price of substitutes, for

instance, for 1 kg of kiwi is 110-200RUB, for 1 kg of oranges is 100-200 RUB (Globus, 2020). But, on the other hand, people buy the berries when they want to eat exactly them due to its taste. So, the threat of substitutes can be considered as medium. But, on the other hand, people buy the berries when they want to eat exactly them due to its taste. So, the threat of substitutes can be considered as medium.

#### 4.2.5 Competitive rivalry

In Tver oblast rivalry is quite low because there is a small number of competitors on the market. Quality difference is also quite low but these companies produce a small amount of berries which does not fully meet demand.

### 4.3 Competitor Analysis

**Table 2:** Competitor Analysis Table

	LLC «Zelenaya Milya»	LLC «Ratibor»	Other competitors (Egypt, etc.)	LLC «Lonicera»
Offer	Fresh berries	Fruits & Berries preserves	Fresh berries	Fresh berries
Price	Strawberry 250 RUB/kg	Conserve 412-650 RUB/kg	Strawberry 520-1000 RUB/kg	Strawberry 270 RUB/kg
Positioning in market (i.e. bottom, middle, top)	Bottom	Top	Middle	Middle
Form of commercial transactions	B2C	B2B	B2B	B2B
Supply	Seasonal	All-the-year-round	All-the-year-round	Seasonal
Key benefits	Eco-friendly berries	A long shelf life of the products	All-the-year-round supply	Eco-friendly berries

**Source:** Author

#### 4.3.1 LLC «Zelenaya Milya »

This company is operated in Tver oblast in Konakovo region. Firstly, this company has been working in the field of improvement, verdure of gardens, but from 2015 the company has started to produce berries such as strawberry, raspberry, currant and honeysuckle. Now the company's crop yield is relatively low and all berries are sold fresh and retail. But if the company starts to produce more and sell the products B2B it will be a real competitor on the market. In 2018 the price for 1 kg of strawberry was 250 RUB (LLC "Zelenaya Milya", 2018). The information about the price of honeysuckle was not found.

The website of the company: <http://vipsadovnik.ru>

### **4.3.2 LLC «Ratibor»**

This company was established in 1996, evolved into the largest producer of fruits and berry preserves, and also fruit fillings for the food processing industry in Russia. Since 2005, the company's production has been based in Tver region, Selizharovo. This company produces berries and then turns them into a variety of products such as jams, confitures, syrups, fillings and other products. The main distinctive feature of the company is that the company does not sell fresh berries (LLC "Ratibor", n.d.). This company will be a real competitor if "Lonicera" starts to process berries into preserves such as jams, confitures, etc. "Ratibor" sells its products B2B all-the-year-round and its products have a long shelf life. The price range is between 412-650 RUB/kg depending on the product type (Globus, 2020).

The website of the company: <http://ratibor.net>

### **4.3.3 Other competitors**

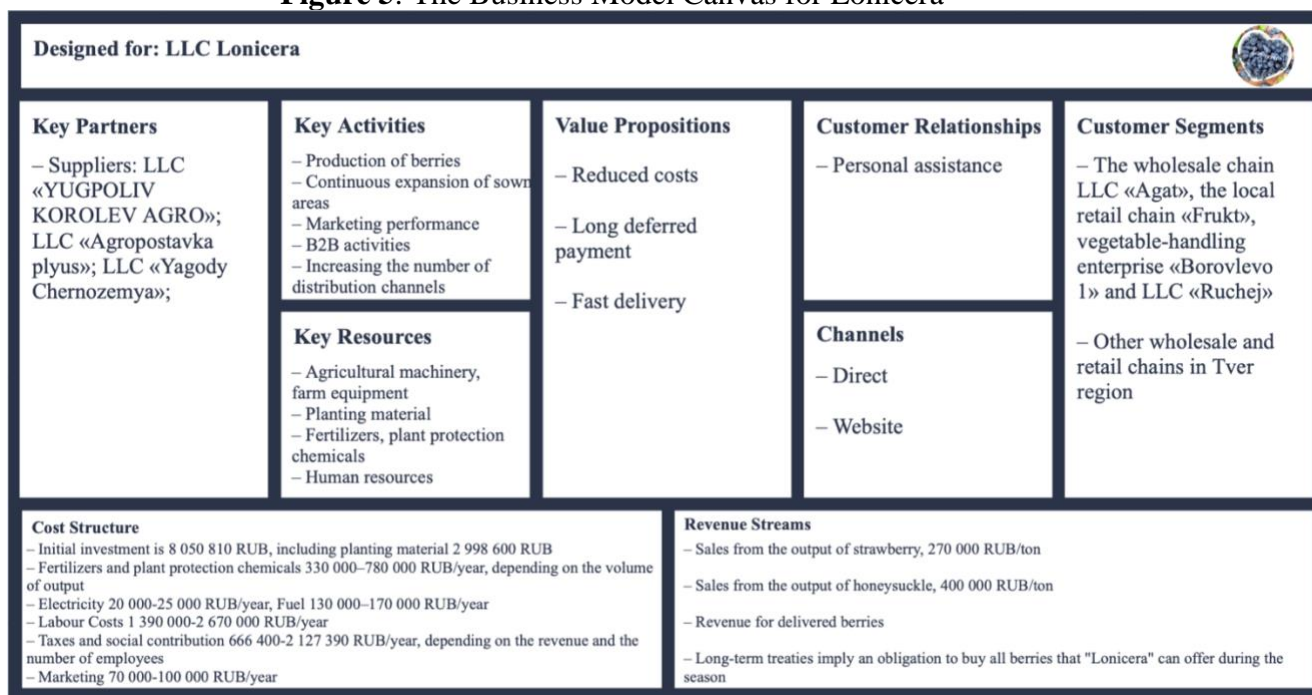
There is also an imported (foreign) production in the supermarkets in Tver oblast. Due to the fact that the domestic production of berries does not fully meet demand, it causes the emergence of the imported production. The price of the imported products is significantly higher. Therefore, when the domestic production of berries will reach the point where supply and demand are equal, the imported berries will be less or will withdraw from the market at all. The price for 1 kg of strawberry is around 600-1000 RUB (Globus, 2020). Honeysuckle is not produced. The main strength of the imported production is that the berries are supplied all-the-year-round because the berries are produced in warm countries such as Egypt, etc. But, on the other hand, to increase the shelf life, these berries may contain nitrate, additional water or even toxic agents. Therefore, these berries do not taste good, and also can be unsafe to eat (Abakumov, 2019).



## 5 Business tools

### 5.1 Business Model Canvas

**Figure 5:** The Business Model Canvas for Lonicera



Source: Author

#### 5.1.1 Customer Segments

The customers of Lonicera are expected to be a variety of retail and wholesale chains. The treaties between Lonicera and some of the companies such as the wholesale chain LLC «Agat», the local retail chain «Frukt», vegetable-handling enterprise «Borovlevo 1» and LLC «Ruchej» are already signed. Also, the company is going to conclude treaties with other wholesale and retail chains in Tver region in the future. Moreover, Lonicera will sell its products with long deferred payment which is a huge benefit for the customers.

#### 5.1.2 Value propositions

One of the goals of Lonicera is to create the value for its customers. To do that, the company will sell the berries at reduced prices (270 000 RUB/ton for strawberry and 400 000 RUB/ton for honeysuckle). These prices are quite low in comparison with the prices of competitors (See 4.3 Competitor Analysis). Also, the location of the company (Tver region near Tver) allows to carry out the delivery of the berries on a trading network of shops in due time.

### **5.1.3 Channels**

There are two main channels through which the customers can buy the berries: direct and website. Through the website the customers can get information about the company and the products. Also, the website will provide the customers an e-mail or phone number to contact with the company. The direct channel means that Lonicera will sell and distribute its products to the customers directly, without any assistance from any of the intermediaries.

### **5.1.4 Customer relationships**

Lonicera will provide a high level of personal assistance to its customers by phone and e-mail. The customers can contact the company on any matter and in most convenient way for them.

### **5.1.5 Revenue streams**

The company's revenue is expected to come from the sale of strawberry and the sale of honeysuckle. The price for 1 ton of strawberry is 270 000 RUB, the price for 1 ton of honeysuckle is 400 000 RUB. The company will obtain the revenue from the customers for delivered products. It means that the revenue does not depend on the actual sales in the stores. Also, the long-term treaties imply an obligation to buy all berries that "Lonicera" can offer during the season.

### **5.1.6 Key resources**

To effectively operate, the company needs to buy agricultural machinery and farm equipment, planting material, fertilizers, plant protection chemicals and also to hire people who will work in the company. The company has just three permanent jobs, but due to the fact that the berries are produced during the season, the company will hire temporary workers at different hourly rate depending on the type of work. The number of the temporary workers can vary depending on the needs of the production. Also, Lonicera will provide the students' internships on the farm unit during the season. Therefore, it is necessary to have money to pay the employees and etc. All initial costs are listed in the table 3 and table 4.

### **5.1.7 Key activities**

The main activity of the enterprise is the production of berries: strawberry and honeysuckle. Also, it is important to expand its sown areas to grow more berries continuously. The business operates as B2B. So, B2B activities are supposed to communicate with the company's suppliers and customers – distributors. Also, to sell more products, the company is going to constantly search for new customers as well as to advertise its products through different marketing activities.

### **5.1.8 Key partners**

The main key partners are suppliers of planting material (LLC «Yagody Chernozem'ya»), fertilizers (LLC «YUGPOLIV KOROLEV AGRO»), crop protection chemicals (LLC «Agropostavka plyus»).

### **5.1.9 Cost structure**

The initial investment is 8 050 810 RUB, including planting material is 2 998 600 RUB. Fertilizers and plant protection chemicals are 330 000–780 000 RUB/year, depending on the volume of output. Electricity is 20 000–25 000 RUB/year, Fuel is 130 000–170 000 RUB/year. Labour costs are estimated at 1 390 000–2 670 000 RUB/year. Taxes and social contribution are 666 400–2 127 390 RUB/year, depending on the revenue, because the taxes are 6% of the revenue, and the number of employees, because the total social contributions are 30,2% of an employee's salary (social contribution to Pension Fund – 22%, social security contribution – 2,9%, medical insurance fund charged – 5,3% on gross salary). Marketing is 70 000–100 000 RUB/year.

## **5.2 PEST analysis**

### **5.2.1 Political factors**

The sanctions imposed in 2014 on Russia have caused snapback sanctions on the importation of certain products, therefore the import substitution program has assumed particular importance. This reduction in imported food has generated increase in production of domestic products. In such a situation, the government should take action on escalating volumes of production. So, the agricultural producers receive the government support (the agricultural subsidies) to maintain a stable income (Semikolenova et al., 2018).

### **5.2.2 Economic factors**

One of the main indicators in the economic field is Gross Regional Product (GRP). According to the Russian Federal Statistics Service, GRP of Tver region has showed a positive trend. In 2018 GDP was 441 653,6 million rubles that was more than in 2010 by 50% (Rosstat, n.d.).

On 24 April 2020, the Central Bank of Russia agreed to lower the key rate, up to 5.5% p.a. To combat the pandemic, there are a lot of restrictive measures which adversely effect on the economic activities (The Central Bank of Russia. n.d.).

The overall economic deterioration, the slowdown in world trade, clearly, have a detrimental impact on the business activities of the agricultural sector.

### **5.2.3 Social factors**

One of the main factors is the population of Tver region. According to the Rosstat, in 2020 the rural population of Tver region is 300 733 and this number has continued to decrease. That is, the rural population decreases and, as a consequence, the agricultural enterprises are deteriorating. However, the noteworthy feature here is the increase in an average salary in Tver region. Therefore, the inhabitants of Tver region can afford to buy more products now (Rosstat, n.d.).

### **5.2.4 Technological factors**

The technological factors, related to the integration of high-technology equipment, agricultural innovations and improved machinery, largely determine the level of competitiveness of the agricultural production (Bakhtin et al., 2019). To examine the state of technological base of the agriculture of Tver region, it is necessary to analyse how much the capital is invested in the development of innovative technologies in order to the cost reduction and the automation of production. According to the study of HSE university, the analysis shows that expenses on the technological innovation in the agricultural sector are increasing every year. Moreover, the modern technologies are actively implemented in horticulture (intensive orchards) (Fridlyanova, n.d.).

## 5.3 SWOT analysis

**Figure 6:** SWOT analysis for Lonicera

<b>Strengths</b> <ul style="list-style-type: none"><li>- Strong links with the government which provides subsidies and grants</li><li>- Forming of vertically-integrated production: from raw material to processing and sales</li><li>- Available agricultural land</li><li>- Eco-friendly products</li></ul>	<b>Weaknesses</b> <ul style="list-style-type: none"><li>- Dependence on fertilizers and crop protection chemicals</li></ul>
<b>Opportunities</b> <ul style="list-style-type: none"><li>- The enlargement of the sown area and therefore the increase in production</li><li>- Increase in the number of distribution channels</li><li>- High potential of berries export (dried, sublimated, jams)</li><li>- Privileged tax regime for agricultural producers</li></ul>	<b>Threats</b> <ul style="list-style-type: none"><li>- Difficulties to get loan-based funding with government support</li><li>- Weather-related factors can define the output of the products</li></ul>

**Source:** Author

### 5.3.1 Strengths

The first strength of Lonicera is strong links with the government which provides subsidies and grants. These grants are provided to the agricultural companies which needs additional money to produce and operate in Russia. The second strength is the forming of vertically-integrated production. It means that the company can generate raw material (planting material) from its seedlings, grow berries and sell on its own without any supplementary help. The third strength is that the company has available agricultural land and there is no need to lease and pay rent. The fourth strength is eco-friendly berries. It means that the company grows the berries in ecological region without using any chemical fertilizers. This is not only good for the environment, but also for the demand since people prefer to buy eco-friendly products.

### 5.3.2 Weaknesses

The company's main weakness is the dependence on fertilizers and crop protection chemicals. Lonicera does not produce it, but the company has the suppliers. To have a healthy and big

harvest, the company has to spray plants from pests and disease. So, the company should always monitor the adequacy of the reserves.

### **5.3.3 Opportunities**

The continued opportunity is the enlargement of the sown area to grow more berries. The company is going to constantly increase the sown area from the second year of the production. Another opportunity is the increase in the number of distribution channels. The company has already four customers (wholesale and retail chains), but Lonicera is going to increase its number of them. As the company produces berries, Lonicera can start to process the berries to the jams, confitures. Also, the company can dry the berries or can them. It will increase the sales of the products. One of the opportunities is privileged tax regime for agricultural producers. It means that the Russian government implies a possibility to get a privileged tax regime which is 6% of revenue. This tax is called “unified”.

### **5.3.4 Threats**

The industry analysis (See 3 “Industry Analysis”) found that, although the government provides subsidies and grants to the agricultural producers, there are some difficulties to get loan-based funding with government support. So, if the company wants to get a loan with government support, Lonicera may find it difficult. On the other hand, the company can get subsidies from the government instead of the loan.

Another threat for the company is that the weather-related factors can define the output of the products. If the summer is too cold, the berries will not grow. But, to minimize this threat, Lonicera is going to put the greenhouses in a few years. The greenhouses will allow the company to reduce the risk of the inclement weather.

## **6 Marketing plan**

### **6.1 Marketing mix 4P’s**

#### **6.1.1 Product**

Lonicera offers industry fresh berries such as honeysuckle and strawberry to provide value to the customers. Strawberry include 2 species: remontant and classic. The remontant strawberry means that a plant can bloom and bear fruits 2 or 3 times per season. The classic strawberry can bear fruits only once. These berries are grown in clear and ecological region in Tver oblast without any supplementary chemical fertilizers. The plantation of strawberry is carried out in May, the plantation of honeysuckle is carried out in September. The package of the product needs to be eye-catching and attract attention. Lonicera wants to focus on the needs and requirements of the consumers, so Lonicera will seek and offer a solution to the consumers’ needs and customize its package of the product accordingly. The berries will be sold in the

packages of different sizes for the convenience of all customers. The high-quality berries and focus on a pleasant consumer experience help to increase and retain the customers and build the reputation.

### **6.1.2 Price**

The price strategy for setting the price level should be competitive. Based on the competitor analysis (See 4.3) and the operational expenses (See 7.2), Lonicera assumes that the good price for 1 kg of strawberry is 270 RUB and the price for 1 kg of honeysuckle is 400 RUB. Also, the company is not going to increase the prices, but the company supposes that the reputation and successful marketing generate more demand, so it allows the company to increase its output and sell more berries.

### **6.1.3 Place**

Lonicera will sell their products through a variety of popular retail and wholesale chains where the consumers can easily buy the products. Now the customers of Lonicera are the wholesale chain LLC «Agat», the local retail chain «Frukt», vegetable-handling enterprise «Borovlevo 1» and LLC «Ruchej». Since the company produces the berries in Tver region near Tver, Lonicera can fast distribute the berries all over the region.

### **6.1.4 Promotion**

Lonicera is going to create a website where the customers and consumers can get all the information that they want to know, for instance, the company's contacts, the additional information about the region where the berries are grown, etc. For the consumers, the company will provide the main information about the region, nutritional value and the information that the berries were grown without any chemicals fertilizers on the label of the packages.

Lonicera will sell its products directly to the wholesale and retail chains with long deferred payment. As a promotion, Lonicera can sell the berries to new customers with some discounts. Moreover, the company can produce the berries under the brand of the potential retail seller.

For the consumers, company will promote its products through the partners (retail and wholesale chains) and give some discounts to the consumers. The consumers can find out about the discounts through the partners' websites as well as the official website of the company. Moreover, the company's loyal customers will have a chance to get the information about the discounts first through the email messages if they register on the official website of the company.

## **6.2 Marketing Mix 4C's**

### **6.2.1 Consumer**

Lonicera expects that the potential consumers will be the urban population of Tver region due to the fact that the products will be sold through the retail and wholesale chains within the region. These shops are located in cities, mainly in Tver and in other large towns in the region. For the consumers, it is important to buy fresh and eco products. Also, the package of the product needs to be eye-catching and attract attention. Lonicera wants to focus on the needs and requirements of the consumers, so Lonicera will seek and offer a solution to the consumers' needs and customize its package of the product accordingly.

### **6.2.2 Cost**

The company is going to reduce the costs of product acquisition to the consumer by making its product easier to obtain in comparison with the competitors (See 4.3). Also, the berries will be sold in the packages of different sizes for the convenience of the consumers. Moreover, the consumers can buy the products in a variety of different shops as well as they can order a delivery through the partners' websites. Also, the berries are fully ready to eat, so it is easy to buy them, wash and then eat. Therefore, the real cost of the product is quite low.

### **6.2.3 Convenience**

Besides the traditional way of purchasing the products through the conventional grocery shops, the products will be ready to be ordered on the partners' websites. It is very convenient for the consumers who like to order a delivery of food since it is easy and fast.

### **6.2.4 Communication**

Lonicera highly appreciates the feedback on their products. On the official website of the company, the consumers have the possibility to share their impressions of the product with other consumers. Lonicera, in turn, can give some discounts to the users of the website. These discounts imply an agreement with the retail chains where the consumers can buy the berries at the discount. Also, they can always ask a question to the company if they want to know something more about the production or distribution of the products.



## 8 Financial plan

The financial plan is checked and approved by The Government of Russian Federation. The grant (6 000 000 RUB) has already received from the government.

### 8.1 Initial investment

Firstly, it is necessary to determine how much money is needed to start a business. LLC “Lonciera” has already been registered. The certificate of state registration of a legal entity is №2196952250548 dated 21.06.2019 (Primary State Registration Number 1196952009154).

To conduct the business, the peasant farm will require the material and technical foundation (agricultural machinery, farm equipment) and planting material. Also, the business will require fertilizers, plant protection chemicals and fuel. For first workers before receiving the proceeds, it is needed to have money to pay salaries. In addition, the website creation and marketing should be funded. And for security purposes, taking into account various contingencies, it should be a reserve fund.

*For the production of strawberry:*

**Table 3:** Initial investments budget, thousand rubles

№	Investment flows	Sources of funding		
		Own funds	Borrowed funds	The grant
1	The material and technical foundation of the peasant farm (agricultural machinery, farm equipment)	170,74		1530,66
2	Planting material	163,26		1469,34
3	The creation of website	50,00		
4	Marketing	50,00		
5	Fertilizers	200,00		
6	Plant protection chemicals	100,00		
7	Electricity	5,00		
8	Fuel	50,00		
9	Salary (before receiving the proceeds)	572,88		
Total		1361,88		3000,00
<b>Total</b>		<b>4361,88</b>		

**Source:** Author

For the production of honeysuckle:

**Table 4:** Initial investment, thousand rubles

№	Investment flows	Sources of funding		
		Own funds	Borrowed funds	The grant
1	The material and technical foundation of the peasant farm (agricultural machinery, farm equipment)	197,40		1770,60
2	Planting material	136,60		1229,40
3	Salary (before receiving the proceeds)	279,93		
4	Fertilizers	20,00		
5	Plant protection chemicals	15,00		
6	Fuel	25,00		
7	Reserve fund	15,00		
Total		688,93		3000,00
<b>Total</b>		<b>3688,93</b>		

Source: Author

## 8.2 Total costs

Costs of the enterprise can be divided into variable and fixed. The tables below will indicate all costs: fixed and variable.

For the production of strawberry:

**Table 5:** Total costs, thousand rubles

№	Item of expenditure	Reporting 2019 year	The plan period				
			2020	2021	2022	2023	2024
1	<b>Material costs</b>	<b>0</b>	<b>300,00</b>	<b>300,00</b>	<b>300,00</b>	<b>450,00</b>	<b>450,00</b>
1.1	Total fertilizers,	0	200,00	200,00	200,00	300,00	300,00
1.1.1	Mineral fertilizers	0	200,00	200,00	200,00	300,00	300,00
1.1.2	Organic fertilizers	-	-	-	-	-	-
1.2	Plant protection chemicals	0	100,00	100,00	100,00	150,00	150,00
2	<b>Electricity</b>	<b>0</b>	<b>10,00</b>	<b>10,00</b>	<b>10,00</b>	<b>10,00</b>	<b>10,00</b>
3	<b>Fuel</b>	<b>0</b>	<b>100,00</b>	<b>80,00</b>	<b>100,00</b>	<b>80,00</b>	<b>100,00</b>
4	<b>Website</b>	<b>0</b>	<b>50,00</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
5	<b>Marketing</b>	<b>0</b>	<b>50,00</b>	<b>50,00</b>	<b>50,00</b>	<b>50,00</b>	<b>50,00</b>
6	<b>Labour costs</b>	<b>30,00</b>	<b>1020,00</b>	<b>1020,00</b>	<b>1020,00</b>	<b>1320,00</b>	<b>1320,00</b>
7	<b>Social contributions</b>	<b>9,06</b>	<b>308,04</b>	<b>308,04</b>	<b>308,04</b>	<b>398,64</b>	<b>398,64</b>
8	<b>Tax</b>	<b>0</b>	<b>204,12</b>	<b>349,92</b>	<b>422,82</b>	<b>510,3</b>	<b>612,36</b>
9	<b>Other expenses (Reserve fund)</b>	<b>0</b>	<b>60,00</b>	<b>60,00</b>	<b>60,00</b>	<b>100,00</b>	<b>100,00</b>
<b>Total</b>		<b>39,06</b>	<b>2102,16</b>	<b>2177,96</b>	<b>2270,86</b>	<b>2918,94</b>	<b>3041,00</b>

Source: Author

For the production of honeysuckle:

**Table 6:** Total costs, thousand rubles

№	Item of expenditure	Reporting 2019 year	The plan period				
			2020	2021	2022	2023	2024
1	Material costs	0	80,00	180,00	30,00	330,00	30,00
1.1	Total fertilizers,	0	50,00	150,00	0	300,00	0
1.1.1	Mineral fertilizers	0	50,00	150,00	0	300,00	0
1.1.2	Organic fertilizers	-	-	-	-	-	-
1.2	Plant protection chemicals	0	30,00	30,00	30,00	30,00	30,00
2	Electricity	0	10,00	10,00	10,00	15,00	15,00
3	Fuel	0	50,00	50,00	50,00	70,00	70,00
4	Marketing	0	20,00	20,00	50,00	50,00	50,00
5	Website	0	0	50,00	0	0	0
6	Labour costs	30,00	370,00	548,30	679,68	1035,00	1350,00
7	Social contributions	9,06	111,74	165,59	205,26	312,57	407,70
8	Tax	0	42,50	139,57	195,84	411,06	708,69
9	Other expenses (Reserve fund)	0	30,00	30,00	30,00	30,00	30,00
<b>Total</b>		<b>39,06</b>	<b>714,24</b>	<b>1193,46</b>	<b>1250,78</b>	<b>2253,63</b>	<b>2661,39</b>

Source: Author

### 8.3 Number of employees and their salaries

For the production of strawberry:

**Table 7:** Number of employees and their salaries

№	Indicator	Reporting 2019 year	The plan period				
			2020	2021	2022	2023	2024
1	Number of permanent jobs	3	3	3	3	3	3
2	Average monthly salary, thousand roubles per 1 employee	12,5	12,5	12,5	12,5	12,5	12,5

Source: Author

For the production of honeysuckle:

**Table 8:** Number of employees and their salaries

№	Indicator	Reporting 2019 year	The plan period				
			2020	2021	2022	2023	2024
1	Number of permanent jobs	3	3	3	3	3	3
2	Average monthly salary, thousand roubles per 1 employee	12,5	12,5	12,5	12,5	12,5	12,5

Source: Author

The average monthly salary of employees occupying the permanent positions and recruited in the implementation of the project – 12,5 thousand roubles, 2 jobs (Managers) were created before the realization of the project in order to ensure the functioning of the peasant farm. Other 4 employees will work throughout the year as handymen and will run errands under the authorization of the Head of the peasant farm.

Now the peasant farm does not require more permanent employees since it produces and sells the berries only during the season (June – October). In the future, the company considers purchasing the greenhouses and producing the berries throughout the year. In this case, the company will increase the number of permanent jobs.

In the next 5 years, during the season, the peasant farm will hire workers for different purposes at different hourly rate and use the outsourcing of jobs.

One of the perspective directions in the work of the Head is the organization of the students' internships on the farm unit.

## 8.4 Sales Forecast

Lonicera expects to gradually increase the volume of output every year. The selling price is stable. The company already has the contracts with distributors (See 2.7 points 16, 17), and these contracts include the possibility to increase the number of selling units. In other words, if the company produces more berries, the distributors will buy it. Therefore, sales revenue is expected to grow. It is important to note that in 2019, the honeysuckle has already been planted (in September) before the realization of this project.

*For the production of strawberry:*

**Table 9: Revenue projections**

	Reporting 2019	The plan period				
		2020	2021	2022	2023	2024
The volume of output, tons/year	0	12,6	21,6	26,1	31,5	37,8
Selling price, RUB/ton		270 000 RUB	270 000 RUB	270 000 RUB	270 000 RUB	270 000 RUB
Sales Revenue	0	3 402 000 RUB	5 832 000 RUB	7 047 000 RUB	8 505 000 RUB	10 206 000 RUB

**Source:** Author

*For the production of honeysuckle:*

**Table 10: Revenue projections**

	Reporting 2019	The plan period				
		2020	2021	2022	2023	2024
The volume of output, tons/year	0	1,9035	6,03585	8,316	17,12745	29,529
Selling price, RUB/ton		400 000 RUB	400 000 RUB	400 000 RUB	400 000 RUB	400 000 RUB
Sales Revenue	0	761 400 RUB	2 414 340 RUB	3 326 400 RUB	6 850 980 RUB	11 811 600 RUB

**Source:** Author

## 8.5 Income statement

The income statement is created to analyze sales and expenses to determine loss or profit. It should be noted that the production will be carried out from the second year after transplanting of seedlings. In 2020 revenue will be formed through sales of the berries. Sales will increase every year through the expansion of crop area, thereby the increase in output. Taxes in the income statement involve unified tax (6% of revenue) and social contributions (30,2% of salary).

*For the production of strawberry:*

**Table 11: Income statement, thousand roubles**

Income statement	Reporting 2019 year	The plan period				
		2020	2021	2022	2023	2024
<b>Sales Revenue</b>	0	3402,00	5832,00	7047,00	8505,00	10206,00
Cost of Goods Sold	0	870,00	870,00	870,00	1320,00	1320,00
<b>Gross Profit</b>	0	2532,00	4962,00	6177,00	7185,00	8886,00
Salaries	30,00	450,00	450,00	450,00	450,00	450,00
Website	0	50,00	0	0	0	0
Water & Electricity	0	10,00	10,00	10,00	10,00	10,00
Fuel	0	100,00	80,00	100,00	80,00	100,00
Marketing	0	50,00	50,00	50,00	50,00	50,00
Other costs	0	60,00	60,00	60,00	100,00	100,00
Net profit before taxation	-30,00	1812,00	4312,00	5507,00	6495,00	8176,00
Taxes	9,06	512,16	657,96	730,86	908,94	1011,00
<b>Net profit after taxation</b>	-39,06	1299,84	3654,04	4776,14	5586,06	7165,00

**Source:** Author

*For the production of honeysuckle:*

**Table 12:** Income statement, thousand roubles

Income statement	Reporting 2019 year	The plan period				
		2020	2021	2022	2023	2024
<b>Sales Revenue</b>	0	761,40	2414,34	3326,4	6850,98	11811,60
Cost of Goods Sold	0	100,00	278,30	259,68	915,00	930,00
<b>Gross Profit</b>	0	661,40	2136,04	3066,72	5935,98	10881,60
Salaries	30,00	350,00	450,00	450,00	450,00	450,00
Website	0	0	50,00	0	0	0
Water & Electricity	0	10,00	10,00	10,00	15,00	15,00
Fuel	0	50,00	50,00	50,00	70,00	70,00
Marketing	0	20,00	20,00	50,00	50,00	50,00
Other costs	0	30,00	30,00	30,00	30,00	30,00
Net profit before taxation	-30,00	201,40	1526,04	2476,72	5320,98	10266,60
Taxes	9,06	154,24	305,16	401,10	723,63	1116,39
<b>Net profit after taxation</b>	-39,06	47,16	1220,88	2075,62	4597,35	9150,21

**Source:** Author

## 8.7 Cash Flow Statement

The cash flow statement provides the information about the inflows and outflows of funds from all operations of the company for the next 5 years including capital, capital expenditure, all operational expenses and taxes (unified tax and social contributions). The growth of profitability is explained by the expansion of crop area, thereby the increase in output and sales. For the production of strawberry, initial investment is 4 361 880 RUB, and the capital expenditure (purchase of planting material, agricultural machinery and farm equipment) was in the reporting 2019 year. Other capital expenditures (in 2022, 2023, 2024) refer to additional purchases of the complementary material and technical foundation of the peasant farm with the expansion of crop area. Other initial investment is expected to be spent on the operational expenses.

The monthly cash flow statements for the production of strawberry and for the production of honeysuckle are presented in the Appendices section. The monthly cash flow statement for the production of strawberry (Appendix A) presents the launch of the company's work from October 2019 when the company bought the agricultural machinery and farm equipment till September 2020 when the company will receive the first revenue (the sales period is June–September). The monthly cash flow statement for the production of honeysuckle (Appendix B) presents the first year (2020) in which the company will buy the agricultural machinery and farm equipment and in which the company will receive the first revenue (the sales period is June–August). The first revenue means the revenue from the sales of honeysuckle which was grown before the realization of this business. In September, the company will buy the planting material and plant the honeysuckle to receive the revenue in June–August 2021.

For the production of honeysuckle, initial investment is 3 688 930 RUB, and the capital expenditure (purchase of planting material, agricultural machinery and farm equipment) was in 2020. Other capital expenditures (in 2023) refer to additional purchases of planting material with the expansion of crop area. Other initial investment is expected to be spent on the operational expenses.

For the production of strawberry:

**Table 13:** Cash flow statement

	Year	Reporting 2019 year	2020 year	2021 year	2022 year	2023 year	2024 year
Cash inflows	Sales	0 RUB	3 402 000 RUB	5 832 000 RUB	7 047 000 RUB	8 505 000 RUB	10 206 000 RUB
	Capital/Initial investment	3 373 060 RUB	988 820 RUB				
	<b>Total cash inflows</b>	3 373 060 RUB	4 390 820 RUB	5 832 000 RUB	7 047 000 RUB	8 505 000 RUB	10 206 000 RUB
	Cash outflows						
Cash outflows	Capital expenditure	3 334 000 RUB			2 016 300 RUB	1 632 600 RUB	1 416 300 RUB
	Cost of Goods Sold						
	<b>Total cost of Goods Sold</b>		870 000 RUB	870 000 RUB	870 000 RUB	1 320 000 RUB	1 320 000 RUB
	Operational expenses						
	Salaries	30 000 RUB	450 000 RUB	450 000 RUB	450 000 RUB	450 000 RUB	450 000 RUB
	Website	0 RUB	50 000 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	Water&electricity	0 RUB	10 000 RUB	10 000 RUB	10 000 RUB	10 000 RUB	10 000 RUB
	Fuel	0 RUB	100 000 RUB	80 000 RUB	100 000 RUB	80 000 RUB	100 000 RUB
	Marketing	0 RUB	50 000 RUB	50 000 RUB	50 000 RUB	50 000 RUB	50 000 RUB
	Other costs	0 RUB	60 000 RUB	60 000 RUB	60 000 RUB	100 000 RUB	100 000 RUB
	<b>Total operational expenses</b>	30 000 RUB	720 000 RUB	650 000 RUB	670 000 RUB	690 000 RUB	710 000 RUB
	Taxes	9 060 RUB	512 160 RUB	657 960 RUB	730 860 RUB	908 940 RUB	1 011 000 RUB
	<b>Total cash outflows</b>	3 373 060 RUB	2 102 160 RUB	2 177 960 RUB	4 287 160 RUB	4 551 540 RUB	4 457 300 RUB
<b>Net cash flow</b>		0 RUB	2 288 660 RUB	3 654 040 RUB	2 759 840 RUB	3 953 460 RUB	5 748 700 RUB
Cumulative cash flow		0 RUB	2 288 660 RUB	5 942 700 RUB	8 702 540 RUB	12 656 000 RUB	18 404 700 RUB

Source: Author



For the production of honeysuckle:

**Table 14:** Cash flow statement

	Year	Reporting 2019 year	2020 year	2021 year	2022 year	2023 year	2024 year
Cash inflows	Sales	0 RUB	761 400 RUB	2 414 340 RUB	3 326 400 RUB	6 850 980 RUB	11 811 600 RUB
	Capital/Initial investment	3 373 060 RUB	315 870 RUB				
	<b>Total cash inflows</b>	3 373 060 RUB	1 077 270 RUB	2 414 340 RUB	3 326 400 RUB	6 850 980 RUB	11 811 600 RUB
	Cash outflows						
Cash outflows	Capital expenditure		3 334 000 RUB			546 400 RUB	
	Cost of Goods Sold						
	<b>Total cost of Goods Sold</b>		100 000 RUB	278 300 RUB	259 680 RUB	915 000 RUB	930 000 RUB
	Operational expenses						
	Salaries	30 000 RUB	350 000 RUB	450 000 RUB	450 000 RUB	450 000 RUB	450 000 RUB
	Website	0 RUB	0 RUB	50 000 RUB	0 RUB	0 RUB	0 RUB
	Water&electricity	0 RUB	10 000 RUB	10 000 RUB	10 000 RUB	15 000 RUB	15 000 RUB
	Fuel	0 RUB	50 000 RUB	50 000 RUB	50 000 RUB	70 000 RUB	70 000 RUB
	Marketing	0 RUB	20 000 RUB	20 000 RUB	50 000 RUB	50 000 RUB	50 000 RUB
	Other costs	0 RUB	30 000 RUB	30 000 RUB	30 000 RUB	30 000 RUB	30 000 RUB
	<b>Total operational expenses</b>	30 000 RUB	460 000 RUB	610 000 RUB	590 000 RUB	615 000 RUB	615 000 RUB
	Taxes	9 060 RUB	154 240 RUB	305 160 RUB	401 100 RUB	723 630 RUB	1 116 390 RUB
	<b>Total cash outflows</b>	39 060 RUB	4 048 240 RUB	1 193 460 RUB	1 250 780 RUB	2 800 030 RUB	2 661 390 RUB
<b>Net cash flow</b>		3 334 000 RUB	-2 970 970 RUB	1 220 880 RUB	2 075 620 RUB	4 050 950 RUB	9 150 210 RUB
Cumulative cash flow		3 334 000 RUB	363 030 RUB	1 583 910 RUB	3 659 530 RUB	7 710 480 RUB	16 860 690 RUB

Source: Author

## 8.8 Balance sheet

The company's capital equals to 19 050 810 RUB. There are no long-term debt and short-term liabilities. The total assets of the opening balance equal to 19 050 810 RUB with the land that costs 11 000 000 RUB.

**Table 14:** Opening balance sheet

Assets		Equity	
<b>Non-current assets:</b>		Common stock	19 050 810 RUB
Tangible assets:		Retained earnings	0 RUB
Land	11 000 000 RUB	<b>Liabilities</b>	
Agricultural machinery	2 669 400 RUB	<b>Non-current liabilities:</b>	
Farm equipment	1 000 000 RUB	Long-term debt	0 RUB
<b>Current assets:</b>		<b>Current liabilities:</b>	
Planting material	2 998 600 RUB	Short-term debt	0 RUB
Cash in hand	852 810 RUB		
Cash in bank	515 000 RUB		
Savings account	15 000 RUB		
<b>Total</b>	<b>19 050 810 RUB</b>	<b>Total</b>	<b>19 050 810 RUB</b>

**Source:** Author

## 8.9 Net Present Value

Through the calculation of NPV, Lonicera can evaluate the effectiveness of the investment projects for 5 years.

*NPV for the production of strawberry:*

$$\text{NPV} = -4361880 + \frac{0}{1,18} + \frac{2288660}{1,18} + \frac{3654040}{1,18} + \frac{2759840}{1,18} + \frac{3953460}{1,18} + \frac{5748700}{1,18} = 4\,056\,652,45 \text{ RUB}$$

*NPV for the production of honeysuckle:*

$$\text{NPV} = -3688930 + \frac{3334000}{1,18} + \frac{-2970970}{1,18} + \frac{1220880}{1,18} + \frac{2075620}{1,18} + \frac{4050950}{1,18} + \frac{9150210}{1,18} = 3\,370\,059,54 \text{ RUB}$$

The final results show that the value of the investments is worth 4 056 652,45 RUB for the production of strawberry and 3 370 059,54 RUB for the production of honeysuckle. The NPV for the both projects is positive, so the investments are worthwhile.

## 8.10 Internal Rate of Return

The company has no borrowed funds. IRR for the production of strawberry equals to 43% and IRR for the production of honeysuckle equals to 41,35%. Therefore, having IRR positive, these projects are expected to return the value to the organization.

## 8.11 Break-even Analysis

*For the production of strawberry:*

Required sales in tons per year =  $\frac{1271220}{270000-69048} = 6,326$  tons Lonicera should sell to obtain zero profit to cover the costs for the production of strawberry.

*For the production of honeysuckle:*

Required sales in tons per year =  $\frac{1568460}{400000-46108} = 4,432$  tons Lonicera should sell to obtain zero profit to cover the costs for the production of honeysuckle.

# Conclusion

The main goal of this thesis was to examine the feasibility of the business idea to grow and distribute berries such as honeysuckles and strawberries in Russia. The financial analysis of the thesis shows that the projects of the company are profitable, and therefore, the business plan can be used in practice.

The theoretical part was based on a variety of literature and articles and was focused on the researches that connected with the establishment of the business plan. Also, this part gives an overview of the structure of the business plan. All the chapters of the theoretical part provide information that the business plan should contain.

The practical part of the thesis, based on the findings of the theoretical part, describes in detail how the company plans to enter the market and operate. After careful analyses of the external and internal environment, this part showed that Lonicera has an opportunity to enter the market successfully. The financial part revealed how much money the company should have to start the business. The initial investment for both projects is 8 050 810 RUB, 6 000 000 RUB of which is the grant from the government which has already been received. Also, the financial part showed how much the company expects to spend and earn. The net profit after taxation for both projects for the first year is 1 347 000 RUB.

All in all, the result of the conducted research and analyses indicated that the business is profitable and is worth to start.

# Appendices

## Appendix A: The monthly cash flow statement for the production of strawberry

**Table 15:** Monthly cash flow statement

	Month	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Cash inflows	Sales	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	900 000 RUB	1 000 000 RUB	801 000 RUB	701 000 RUB
	Capital/Initial investment	3 373 060 RUB	0 RUB	0 RUB	988 820 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	<b>Total cash inflows</b>	3 373 060 RUB	0 RUB	0 RUB	988 820 RUB	0 RUB	0 RUB	0 RUB	0 RUB	900 000 RUB	1 000 000 RUB	801 000 RUB	701 000 RUB
Cash outflows													
Cash outflows	Agricultural machinery, farm equipment	1 701 400 RUB											
	Planting material			1 632 600 RUB									
	Cost of Goods Sold												
	<b>Total cost of Goods Sold</b>									230 000 RUB	256 000 RUB	205 000 RUB	179 000 RUB
	Operational expenses												
	Fertilizers	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	100 000 RUB	0 RUB	0 RUB	100 000 RUB	0 RUB	0 RUB
	Plant protection chemicals	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	50 000 RUB	0 RUB	0 RUB	50 000 RUB	0 RUB	0 RUB
	Salaries	0 RUB	0 RUB	30 000 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB
	Website	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	50 000 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	Water&electricity	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	2 000 RUB	2 000 RUB	2 000 RUB	2 000 RUB	2 000 RUB
	Fuel	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	20 000 RUB	20 000 RUB	20 000 RUB	20 000 RUB	20 000 RUB
	Marketing	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	25 000 RUB	25 000 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	Other costs	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	10 000 RUB	10 000 RUB	10 000 RUB	10 000 RUB	10 000 RUB	10 000 RUB
	<b>Total operational expenses</b>	0 RUB	0 RUB	30 000 RUB	37 500 RUB	37 500 RUB	37 500 RUB	272 500 RUB	94 500 RUB	69 500 RUB	219 500 RUB	69 500 RUB	69 500 RUB
	Taxes	0 RUB	0 RUB	9 060 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB
	<b>Total cash outflows</b>	1 701 400 RUB	0 RUB	1 671 660 RUB	48 825 RUB	48 825 RUB	48 825 RUB	283 825 RUB	105 825 RUB	310 825 RUB	486 825 RUB	285 825 RUB	259 825 RUB
<b>Net cash flow</b>		1 671 660 RUB	0 RUB	-1 671 660 RUB	939 995 RUB	-48 825 RUB	-48 825 RUB	-283 825 RUB	-105 825 RUB	589 175 RUB	513 175 RUB	515 175 RUB	441 175 RUB
Cumulative cash flow		1 671 660 RUB	1 671 660 RUB	0 RUB	939 995 RUB	891 170 RUB	842 345 RUB	558 520 RUB	452 695 RUB	1 041 870 RUB	1 555 045 RUB	2 070 220 RUB	2 511 395 RUB

Source: Author

## Appendix B: The monthly cash flow statement for the production of honeysuckle

**Table 16:** Monthly cash flow statement

	Month	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Cash inflows	Sales	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	281 000 RUB	300 000 RUB	180 400 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	Capital/Initial investment	3 649 000 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	<b>Total cash inflows</b>	3 649 000 RUB	0 RUB	0 RUB	0 RUB	0 RUB	281 000 RUB	300 000 RUB	180 400 RUB	0 RUB	0 RUB	0 RUB	0 RUB
Cash outflows													
Cash outflows	Agricultural machinery, farm equipment					1 968 000 RUB							
	Planting material									1 366 000 RUB			
	Cost of Goods Sold												
	<b>Total cost of Goods Sold</b>						36 906 RUB	39 401 RUB	23 693 RUB				
	Operational expenses												
	Fertilizers	0 RUB	0 RUB	0 RUB	0 RUB	25 000 RUB	0 RUB	25 000 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	Plant protection chemicals	0 RUB	0 RUB	0 RUB	0 RUB	15 000 RUB	0 RUB	15 000 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	Salaries	12 500 RUB	12 500 RUB	12 500 RUB	12 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB
	Website	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	Water&electricity	0 RUB	0 RUB	0 RUB	0 RUB	2 000 RUB	2 000 RUB	2 000 RUB	2 000 RUB	2 000 RUB	0 RUB	0 RUB	0 RUB
	Fuel	0 RUB	0 RUB	0 RUB	0 RUB	10 000 RUB	10 000 RUB	10 000 RUB	10 000 RUB	10 000 RUB	0 RUB	0 RUB	0 RUB
	Marketing	0 RUB	0 RUB	0 RUB	10 000 RUB	10 000 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	Other costs	0 RUB	0 RUB	0 RUB	0 RUB	0 RUB	10 000 RUB	10 000 RUB	10 000 RUB	0 RUB	0 RUB	0 RUB	0 RUB
	<b>Total operational expenses</b>	12 500 RUB	12 500 RUB	12 500 RUB	22 500 RUB	99 500 RUB	59 500 RUB	99 500 RUB	59 500 RUB	49 500 RUB	37 500 RUB	37 500 RUB	37 500 RUB
	Taxes	3 775 RUB	3 775 RUB	3 775 RUB	3 775 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB	11 325 RUB
	<b>Total cash outflows</b>	16 275 RUB	16 275 RUB	16 275 RUB	26 275 RUB	2 078 825 RUB	107 731 RUB	150 226 RUB	94 518 RUB	1 426 825 RUB	48 825 RUB	48 825 RUB	48 825 RUB
<b>Net cash flow</b>		3 632 725 RUB	-16 275 RUB	-16 275 RUB	-26 275 RUB	-2 078 825 RUB	173 269 RUB	149 774 RUB	85 882 RUB	-1 426 825 RUB	-48 825 RUB	-48 825 RUB	-48 825 RUB
Cumulative cash flow		3 632 725 RUB	3 616 450 RUB	3 600 175 RUB	3 573 900 RUB	1 495 075 RUB	1 668 344 RUB	1 818 118 RUB	1 904 000 RUB	477 175 RUB	428 350 RUB	379 525 RUB	330 700 RUB

Source: Author

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