



Developing a business model & building your business plan

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“Profit for a company is like oxygen for a person. If you don't have it, you're out of the game. But if you think your life is about breathing, you're really missing something.” – Peter Drucker

Chapter 3

Once you've decided to take the plunge, you need to figure out how to make money from it. In other words, you need to figure out what your business model is. There are lots of questions that fall under this: who is your target customer? What problem are you trying to solve? What's your cost structure? What's your profit margin? When your business model is figured out, it's time to write up a business plan! This next chapter focuses on guiding you through both of these stages.

From idea to business model

A useful tool for startups is the business model canvas developed by Alexander Osterwalder. It's a simple visual template divided into 9 sections that cover all elements of a business model. It's a great starting point when sketching the ins and out of your business. It helps you focus, have clarity on key parts of your business and is easily adaptable as your business model inevitably evolves.

The best way to get started on the business model canvas is to print a physical copy of the template below and next page, sit down with your co-founders (or an advisor/someone who can help if you're a solo founder) and brainstorming each section. The different sections can be broadly categorised under four parts of a business.



**Entrepreneur top tip on business models for mission driven businesses:
Link your mission to your business model!**



"Part of building a business is about simplicity and having something that is simple, but works is really valuable. And that's something I'm particularly proud of. One of the ways that we designed our business is that we wanted to be a mission led organisation and we didn't want that mission to just be a part of the company, but we wanted it to intergrow in our business model.

What I love about the way Winnow is built is that we only care about one number and that number is how much food waste we're preventing. And that number is how much money we're saving our clients, and that number is fairly well aligned with our revenue as a business."

– Marc Zornes, Co-Founder at Winnow Solutions

Business model canvas example:

Key partners: who are your key partners? In other words, who helps you? Think of suppliers, manufacturers, and other stakeholders. What do you get from these partners and what activities do they perform? Partners help optimise operations and reduce risk or uncertainty.

Example: a coffee company with a subscription service that has outsourced its production, may list its coffee bean suppliers, its packaging providers, its co-manufacturer, and its transport companies as key partners. If it applies certain standards like Fairtrade or the Rainforest Alliance principles, it may also list those NGOs under this section.

Key activities: what key activities does your value proposition require? In other words, what do you do as a business? What activities are important for your distribution, customer relationships, and revenue?

Example: the same coffee company's key activities would be the sourcing, selling and marketing of coffee.

Customer relationships: how do you interact with your customers? What kind of relationship do you have with them?

Example: for the same coffee company, the majority of its customer relationships would be digital in the form of direct contact via email and social media interaction. A coffee company selling its products through traditional retailers would also interact with its customers online but it would also have physical relationships such as sampling events in stores or presence at consumer-facing shows (e.g.: festival, coffee fairs etc).

Channels: what are your main distribution channels? How do your customers know about you and how do you deliver your product or service to them? Which channels work the best?

Example: in the case of the subscription service coffee company, the main distribution channel would be direct sales through the company's website. Its customers would know about it through various activities such as digital marketing, social media, PR, direct email marketing, SEO and potentially offline activities such as flyering and a presence at consumer shows & events.

Cost structures: what are your costs? Is your business cost or value driven (in other words, do you compete on price like a discount supermarket or do you place more importance on value like a high-end brand of teas?) Which of your activities and resources are the most expensive?

Example: a company's costs can be divided as fixed and variable costs. Fixed costs remain the same regardless of the amount of goods and services sold (for example: rent and salaries). Variable costs increase or decrease depending on the level of output. If you sell more of your product or service, the costs needed to produce and deliver those would increase.

Key resources: what key resources does your value proposition require? In other words, who are you? And what do you need to help drive the business? What resources are important for your distribution, customer relationships and revenue? These could be financial, physical, intellectual, human.

Example: the online subscription coffee company outsourcing its production and logistics would have human resources as its main resource as the key activities would focus on sourcing, selling & marketing. Much of the value created would thus rely on its brand (a key resource). Financial resources in the form of investment or debt may be required depending on how the company wanted to grow. If a coffee company were to run its own production and directly own coffee plantations, it would also list the latter and a factory under its key resources.

Value proposition: what value do you deliver to your customer(s)? What problem(s) do you address for them? What customer needs are you meeting? In other words, how do you help your customer?

Example: an online coffee subscription service would aim to meet different customer needs: the need and desire for great coffee and need for convenience (not having to purchase coffee outside of the home, not having to worry about forgetting to buy it and running out...).

Customer segments: who are your customers? In other words, who are you trying to help? Who are you creating value for? And who are your most important customers?

Example: as a direct to consumer subscription service, the coffee company would only have one direct customer segment, individuals buying coffee on their website and getting it delivered to their home. A coffee company selling via traditional retail would have several tiers of customer segments: distributors, retailers and consumers themselves.

Revenue streams: what do you get from your different customer segment? What value are customers willing to pay?

Example: a subscription service would get revenue from the sale of its coffee. One advantage of such a business model is a regular revenue stream as customers sign up to a weekly/monthly order. A retail focused coffee company would get its revenue from the sale of coffee to its different customer segments: distributors, retails, and potentially direct to consumer, each having a different pricing structure.

Key: ■ Infrastructure ■ Customers
■ Offering ■ Financials

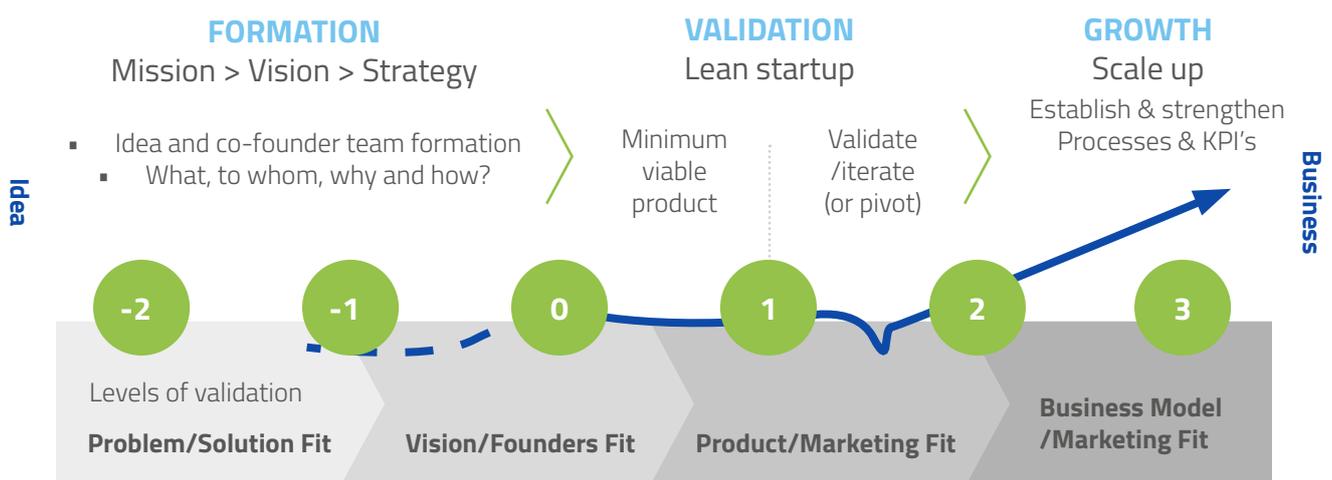
Phases of growth: understanding the startup journey

When starting a business, you'll go through different phases like with any journey you undertake. This next section introduces different startup journey theories to give you some idea of what to expect over the life-cycle of your growth. Understanding which phase you're at is useful as it helps you focus better on the task at hand and helps you prioritise.



Three stages from startup commons:

This framework lays out the path from the initial idea to having a product and then scaling it.



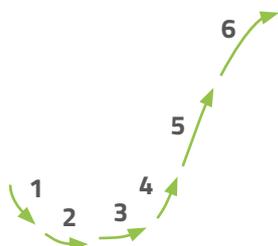
Talent	Ideating	Concepting	Committing	Validating	Scaling	Establishing	Organisation
	Entrepreneurial ambition and/or potential scalable product or service idea for a big enough target market. Initial idea on how it would create value. One person or a vague team; no confirmed commitment or no right balance of skills in the team structure yet.	Defining mission and vision with initial strategy and key milestones for next few years on how to get there. Two or three entrepreneurial core co-founders with complementary skills and ownership plan. Maybe additional team members for specific roles also with ownership.	Committed, skills balanced co-founding teams with shared vision, values and attitude. Able to develop the initial product or service version, with committed resources, or already have initial product or service in place. Co-founders shareholder agreement (SHA) signed, including milestones, with shareholder time & money commitments, for next three years with proper vesting terms.	Iterating and testing assumptions for validated solution to demonstrate initial user growth and/or revenue. Initial Key Performance Indicators (KPI's) identified. Can start to attract additional resources (money or work equity) via investments or loans for equity, interest or revenue share from future revenues.	Focus on KPI based measurable growth in users, customers and revenues and/or market traction & market share in a big or fast growing target market. Can and want to grow fast. Consider or have attracted significant funding or would be able to do so if wanted. Hiring, improving quality and implementing processes.	Achieved great growth, that can be expected to continue. Easily attract financial and people resources. Depending on vision, mission and commitments, will continue to grow and often tries to culturally continue "like a startup"; Founders and/or investors make exit(s) or continue with the company.	

Above: Startup Development Phases. From idea to business and talent to organisation. Version 3.6 startupcommons.org

The startup J curve (by Howard Love author of “The Startup J-Curve: The Six Steps to Entrepreneurial Success.”)

The premise of the startup J curve is that by knowing which stage you’re at, you can take better decisions leading you in the right direction.

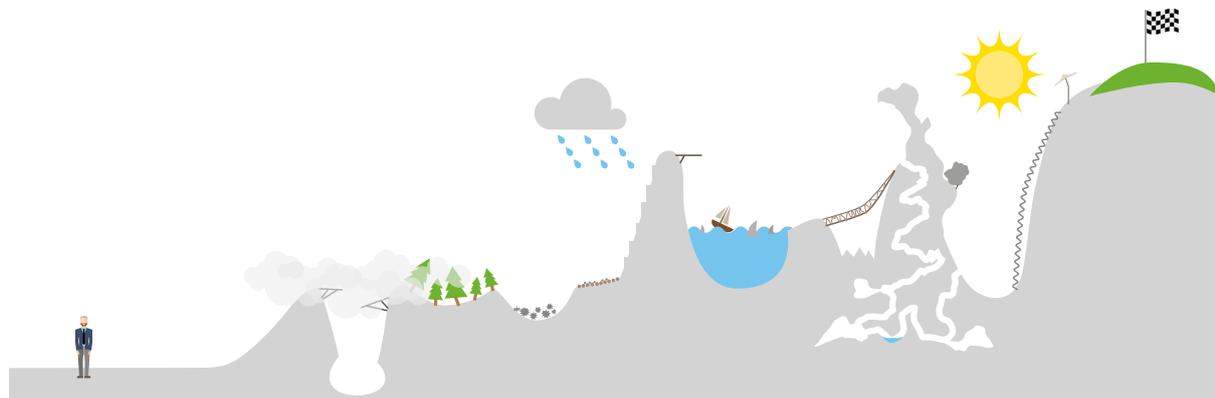
The Six Phases of The J Curve



- 1. Create:** this is the beginning of the journey, when you put together the right ingredients to develop your startup, namely your idea, time and money. Love argues that it’s easier to raise money at this stage as you’re still selling a dream.
- 2. Release:** when reality kicks in. You get your product out there and realise lots of things are wrong with it. This is not the final product/service and should simply be your MVP/prototype. Feedback collected at this stage from customers will inform the third stage.
- 3. Morph:** you make changes to your initial product idea based on informed decisions gathered through customer feedback. You go through several phases of iterations to achieve product-market fit.
- 4. Model:** this phase focuses on developing a strong business model and figuring out how you make money. Make sure you work out the economics of your product or service so that you have a solid base when you grow. Don’t be tempted to skip to the next phase until you’ve figured out stage 4 (more on modelling costs & figuring out product economics in [Chapter 6](#)).
- 5. Scale:** having nailed your product/service and your business model, it’s time to figure out how to scale and raise necessary funding.
- 6. Harvest:** this stage is less relevant for this guide, it’s when startups grow to no longer be startups and become established businesses.

And in real life?

Your startup journey will not follow any of the frameworks exactly. In reality, it’s likely to look a bit more like this:



Entrepreneur testimonial on evolving business models and plans

"It is truly a living, breathing document that has been actively revised since day two. The most significant transformation the business model has undergone has been in successfully building a product line that scales with our business: to develop a portfolio of products that have different price points and different markets, rather than being a "one trick pony."

– Arturo, Co-Founder at Clara Foods



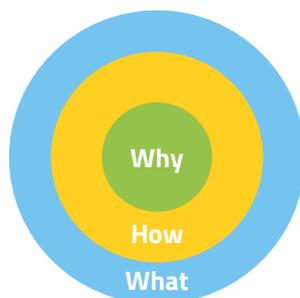
Writing a business plan

Writing your first business plan can feel like a daunting task but it's an important part of structuring your thoughts and plans. When you're finished with it, you'll be proud and excited for the future that lies ahead. Why write a business plan? It'll help you gain interest from potential investors or partners. Whilst you may not share your entire business plan with each of them, you'll be able to use it as a basis for potential presentations, investment pitches and other communications regarding your business. You might also want to adapt your business plan depending on who you present it to, emphasizing certain aspects to some. Rather than seeing it as a chore, see it as an opportunity to organise your thoughts, lay out your objectives, long-term vision, and how you plan on achieving these.

There is no exact blueprint on how to write a business plan but there are broad components it should include. Beyond using templates available (check out the resources section at the end of this chapter), it's also a useful exercise to look at other companies' business plans whether or not they're in your sector. Ask people in your network if they will share theirs, search online and use crowdfunding platforms to gain access to some (equity crowdfunding platforms provide a great resource for this). Remember a business plan is as much about laying out a vision for the future as it is showing any existing traction or experience which may support your business's chances of success.

Company overview: Who we are & What we do

This section is sometimes called an executive summary. Think of it as an overview of what you're about and what you're proposing. As it's the first thing people read about your business, it's important to make it as impactful and concise as possible, and remember to sell the bigger picture. If your aim is to have a positive impact in the food system, make sure this comes across in this part of the business plan. Simon Sinek's Golden Circle is a useful tool to articulate this. You may also want to clearly lay out your vision and values (more on this in chapter 7). Whilst not directly mentioning the competition yet, why you're different should come across in this section too.



The
Golden
Circle

The "Why" part is your reason for existing, it explains your purpose. If you're reading this guide, this is linked to contributing to a more sustainable food system but it's worth making this slightly more specific by linking your 'Why' to the specific challenges or issues you're trying to tackle. "How" relates to your approach whilst "What" describes exactly what it is you're delivering.

The Golden Circle example: SNACT

SNACT is a UK snack brand that makes healthy snacks from surplus produce to tackle food waste. They work with farmers and pack-houses to use fruit that would otherwise go to waste for being too big, too small, too ugly or simply too abundant.

- **Why:** food waste is a huge waste of resources and should not exist.
- **How:** we create value out of food that should not be wasted.
- **What:** we transform undervalued food into products we can all benefit from.

Your offering

In the document, you should clearly explain what the product or service is introducing to the market. Spend time elaborating how it stands out and what its unique sell points (USPs) are. This is a key part of what investors and stakeholders buy into.

Target market, target customers & your competition

This section should build on the market research you conducted. The better you understand your market, the more you increase your chances of success. You'll want to show a strong understanding of the following three aspects of your business:

- **Market:** share key insights on the size of the market you're going after, how it's predicted to grow and any trends that are relevant to your business. You also need to show you understand how you position yourself within this market.
- **Customers:** a crucial component of your business success is understanding who your customer is, their motivation for being willing to pay for your product or service, what need you're meeting or pain point you're addressing for them. This section of your business plan should demonstrate this.
- **Competition:** to build a proposition that is unique and to understand how to build competitive advantage, you'll need in-depth knowledge of your competition. In this section, you'll identify your competitors and how you differ from them in terms of pricing, quality, branding, sales, marketing and so on.



Your sales & marketing strategy

This section of your business plan outlines how you plan to reach and attract customers. It should include the following information:

- **Overview of your brand:** you'll have introduced this in the overview. It will also come across in the overall tone of your business plan and how you present it, but you may want to provide a bit more detail here on your mission, your values, your tone of voice and how you want customers to perceive your brand.
- **Sales strategy:** this should outline how you will reach customers (your sales process and channels), your pricing strategy, your sales pipeline and any traction you've gotten already.
- **Marketing strategy:** closely linked to your sales strategy, your marketing strategy should outline how you'll get the word out to customers and what marketing elements you will employ to do so (PR, social media, digital marketing, door to door, events, etc).

Your operations

This section will vary depending on the type of business you're building but should include an overview of your operational plan. In other words, what functions are needed to bring your product or service to market. This may include information on product development such as where it will be performed and who will provide technical expertise, information on your suppliers, your manufacturing process, and your packaging if applicable. This is also a good section to outline any legal considerations for bringing your product to market (more on this in [Chapter 4](#)).

Your team

A crucial component of a startup's success is the team delivering it. This section should give an overview of your core team's skills and backgrounds and any advisors who will help.

Your financial plan

This section should outline how much your business activities will cost and how much revenue you expect to make. It should be broken down into different components (more on this as a separate section below):

- **Profit & Loss (P&L):** is a financial statement that summarizes the revenues, costs and expenses incurred during a specified period. Your business plan should usually include a forecast P&L for the next 5 years.
- **Balance sheet:** a statement of the assets, liabilities, and capital of a business or other organization at a particular point in time, detailing the balance of income and expenditure over the preceding period.
- **Cashflow statement:** a statement showing cash coming in and out of the business over a given time period broken down into operating, financing and investment activities.



If you're raising investment, you'll also need to outline the sum of investment needed and how it will be allocated over a certain period of time.

Will you follow your business plan? The short answer is no. But that doesn't matter. What potential investors and other partners want to see in your business plan is that you've thought about your business properly, have a strong understanding of your market, your core business proposition and that you're able to adapt as your business grows.

Creating a financial plan

This is a critical component of your business plan and shows that there is an economically viable business model behind your idea. Your plan needs three parts to it: a profit and loss statement, a balance sheet and a cashflow statement. It should cover both a short and long-term perspective. For the short term (i.e. year 1-2), the plan should be presented on a monthly basis. The longer-term plan, (3-5 years) can look at things in a slightly less granular way.

Information you need before you make a financial plan:

- Your direct costs: cost of goods/services ([see Chapter 6](#))
- Your operating/fixed costs: employees, marketing, office, etc. See more these costs [here](#).
- Your capital costs: investments in machinery, development, etc. See more on capital [here](#).
- Your product/service pricing, promotions and payment terms ([see Chapter 6](#)).

- Company objectives: sales targets, margin expectations, etc ([see Chapter 6](#))
- Sales forecast – read more about forecasting approaches [here](#).

How to model revenue and expenditure (P&L): This statement shows revenue and expenditure in your business. Key to modelling revenues is building up a sales forecast. This will also help you to determine what expenditure you will have. Your direct costs will be directly linked to your sales and your fixed costs should be proportional to sales/expected sales. You can find more details and P&L templates [here](#).

How to create a balance sheet: The balance sheet shows your assets (things of value owned by the business), your liabilities (what you owe) and shareholder value at a given point in time. The balance sheet must be “balanced” between assets and liabilities, and shareholder equity. It gives you a snapshot of your company’s financial position at a point in time. You can find more information [here](#).

How to create a cashflow statement: The statement shows the money you expect to be coming in and out of your business over a given period. This differs from the P&L due to payment terms (money comes in at a different time than you’ve invoiced it). [Chapter 6](#) has a section on managing cashflow. More can be read about cashflow [here](#).

All three of these elements of the financial plan can be modelled on excel and several templates exist to support this. A more powerful solution is to use accounting software.



What to do when things don't go according to plan

Things don't always go your way. In fact, in the startup world, things hardly ever go according to plan. You should spend time planning for things that may go wrong, putting together contingency strategies whilst also accepting that unexpected events may send you completely off-course. That's ok, you just have to accept it as part of the journey and learn how to grow from it.

Entrepreneur testimonials on things not going according to plan

“You have to put that first step forward and understand that whatever you’ve planned is likely going to immediately be torn up. Some businesses can over-plan, over-worry, over-justify. Mike Tyson said: “Everyone has a plan until they get punched in the mouth.” We get punched in the mouth every day and we just roll with it now.”

– **Hugh Thomas, CEO & Co-Founder at Ugly drinks**



Go to Plan B, C, D...

If you're well prepared, it's likely you'll have a Plan B for Plan A not going as expected. Did one of your manufacturer's factories burn down? Has one of your suppliers gone bust? In setting up your operations you probably looked at more than one factory and considered several suppliers, go back to them and build on the existing relationship.

Post-mortems

There's always a lesson in there somewhere. When you encounter a bump in the road, make sure you take the time to learn from it. It's easy to rush but learning from mistakes is instrumental to successful growth. Ask yourself: How can we do better? What could we have done differently? What can we learn from this for next time? What plans or processes should we put in place to ensure this doesn't happen again?

Handling relationships with investors and other key stakeholders when things go "wrong"

Be transparent and honest. Show what you're doing about it and what your next steps are. Investors and other partners will expect things not to go according to plan – this is perfectly normal and part of running a business. What people want to see is how you respond to it. If you're well prepared and understand how to run your business, you should show confidence in your next move.

Top tip from entrepreneur on managing investors

"At the beginning, we did a report for our investors every week, they told us we were the only company in their portfolio doing that. It helped build credibility really quickly and also meant that before they had any questions, we had already answered them. This is a great way of being transparent and responsive to potential issues in the business."

– Saasha Celestial-One, Co-Founder at Olio



Chapter 3 Wrap Up

Key take-aways

- Turn your idea into a business model. It's important to get your ideas down on paper and start articulating what makes your startup special and how you will go about achieving your vision. Tools like the startup canvas are very helpful.
- **Time to stop and think:** who is your target customer? What problem are you trying to solve? What's your cost structure? What's your profit margin?
- Phases of growth: as you progress in your journey you'll have different opportunities and challenges. Planning for these phases of growth and getting the right resources in place will help you succeed.
- It's good to go through the process of business modelling to detail all parts and aspects of your business.



- **Time to stop and think:** what is your “Why” behind it all, why does your business exist? Who are your key partners? How do they help you and what activities do they perform? What are your key activities, i.e. what do you do as a business? What activities are important for your distribution, customer relationships and revenue? What about your key resources - what resources are important for your distribution, customer relationships and revenue? What value do you deliver to your customer(s), how do you help them? How do you interact with your customers and what are your main distribution channels? What are your costs and what are customers willing to pay? What are your offering’s unique selling points?
- Things don’t always go according to plan. It’s important to have contingency plans in place for when you come up against roadblocks. It’s also key to learn from mistakes or events that made you deviate from your plan.
- **Time to stop and think:** how can we do better? What could we have done differently? What can we learn from this for next time? What plans or processes should we put in place to ensure this doesn’t happen again?
- Be transparent and honest with your investors and other partners when things go wrong. Communicate your next steps and show confidence in your next move.

Now, let’s get active!

1. **Fill in the Business Model Canvas.** Print a physical copy of the canvas template, and brainstorm each of the nine sections with your co-founders or an advisor if you’re a solo founder.
2. **Come up with a business plan** including company overview, offering, target market, target customers & competition, sales & marketing strategy, operations, team and, last but not least, financial plan. Your financial plan should include a profit and loss statement, a balance sheet and a cashflow statement.



Additional resources

Canvanizer: an online tool to create your business model canvas:

<https://canvanizer.com/new/business-model-canvas>

Some business plan FAQs from the British Library

(a great resource for startups by the way):

<https://www.bl.uk/business-and-ip-centre/articles/business-plan-faq>

Business plan mistakes to avoid:

<https://www.bl.uk/business-and-ip-centre/articles/how-to-avoid-business-planning-mistakes>

A business plan template from startuploans:

<https://www.startuploans.co.uk/business-plan-template/>

More business plan templates:

<https://www.businessnewsdaily.com/5067-free-business-templates-word-pdf.html>