

Funding Options for Various Lemonade Stand Business Model

Many entrepreneurs got their first taste of entrepreneurship as children setting up a lemonade stand on their driveway or street corner. For most people, it was a short-term activity that lasted a fraction of one summer. Perhaps it was a way to pass the time with a sibling or friend. Or perhaps it was a way to make enough money to buy a treasured toy or other item. Whatever the case, most children don't consider the funding requirements they faced, or options they had if they decided to continue with their venture. Yet, this simple and common business example can provide many lessons to more mature and ambitious entrepreneurs.

Organic Lemonade Stand Growth

The typical childhood lemonade stand starts small and slowly grows over time (probably only a few days or weeks). It may begin with a very small investment from the founder's savings (i.e. piggy bank) or by pitching the idea to their parents and asking for some money. They may use this seed capital to buy a bunch of cups and some cartons of lemonade or powder mix. The scrappy entrepreneur usually borrows a table and chairs from their parents and sets up shop outside the house. The parents in this case may act as investors, lenders, or strategic partners. While parents seldom see any money returned to them from their children, they get benefits important to them – their kids are occupied for several hours a day and their neighbors get to see their "little angels" being cute.

If the entrepreneur sells each cup for a profit, then they can spend their day's profits to buy even more supplies for the next day. After a few days, they should be able to increase total revenues and eventually grow the business to include new products (e.g. strawberry lemonade and/or cookies) or take a nice salary (i.e. save up enough to buy the new toy). The business is only limited by the number of customers in the neighborhood, unless the founder wants to hire employees to run multiple locations. In this case, each location could also grow slowly over time, thus eliminating the need to borrow money or seek investment from others.

It's conceivable that after a few months, the owner will have enough money to buy the coveted toy, but also may want to open a number of additional stands. If, month in, month out, the stand continues to generate excess cash, the company can may be able to get a loan to expand the business because lenders can feel comfortable that there will be enough money to pay off the loan.

Big Squeeze Lemonade Enterprise

Growing slowly over time may not be possible if the market becomes competitive. If other kids in the neighborhood see how successful these lemonade stands are, they may decide to open their own stands all over the neighborhood. This could both hurt the pioneer's chances of expansion and possibly encroach on their core business/flagship location. Two ways to prevent this are to spend money establishing a strong brand that customers prefer over the knock-off imitators (perhaps through heavy signage all over town, high quality cups, premium product, giveaways, etc.) or grow large quickly to block out competitors. If one kid already has two stands on a would-be competitor's street, it will be harder for them to open up and maintain their own stand. Of course, it will require a lot of money to support the marketing campaigns or expansion plans.

The eager entrepreneur may need to borrow money (perhaps using the cups, lemonade, jugs, coolers, table, and chairs as collateral) or bring in a partner with money (to pay for the marketing efforts).

Lemon Aid

Other start ups don't sell products, but rather provide a valuable service. Imagine your friend wants to sell fresh-squeezed lemonade, but doesn't want to squeeze the lemons himself. So, he offers to pay you \$5 an hour to squeeze lemons all day. Your start up costs are negligible and you can keep all the money you make. You are limited by the fact that there are only 24 hours a day for you to possibly work. However, if your friend needs more juice than you can squeeze, then you can pay other kids \$4.50 an hour and keep the \$.50 difference. Even if there are a lot of lemons to squeeze, for dozens of lemonade stands, it will be difficult to grow your company's profits dramatically since most of your revenue goes right out the door to your employees. Money-focused investors won't get too excited over the opportunity, but lenders might respond to the steady cash flow you generate. The best way to grow the business might be slow and steady like the organic opportunity described above. The benefit of the service model is that you can hire in response to business opportunities, thus reducing your risk.

Concentrate

If you are a truly visionary entrepreneur, you may feel that current crop of lemonade products are unsatisfactory and the market would appreciate a better product. First, you will need to develop the perfect juice. It may take months of research to identify the best lemons, optimal amount of sweetener, and possibly other ingredients. Further, you may need to develop a new process to grow lemons, extract the juice from them, mix with sweetener, convert to a concentrate or powder, and/or package the product to meet your expectations. All this research will require money, in addition to the opportunity cost of lost wages, before you can make your first dollar. But, once you succeed in finding the perfect recipe, your company could compete with Minute Maid® and Country Time®, not just children's lemonade stands. The opportunity could be mean tens of millions of dollars in revenue, not tens of dollars. Investors may provide hundreds of thousands of dollars, or even a few million, believing that their share of the promise will be worth three to ten times their investment in a few years. In addition, investors can see a potential exit because Coca-Cola, which owns Minute Maid, or Kraft, the parent company for Country Time®, may buy your company to improve their product line. Or, another company that competes with Coca-Cola and Kraft may want to buy your company to compete with them in this market. (Pepsi owns Tropicana.)

Lemon Health Aid

Maybe you want to open a lemonade stand or want to develop the large, innovative company above, but feel the market is saturated or there is not enough demand to support another stand or beverage choice. If demand were to increase, you could help meet that demand. Perhaps you believe lemons provide some health benefit not yet fully explored or documented. Or, some proprietary technology or process you have developed may increase or enable these positive effects on health. It may take many months of research that may be costly and you don't expect to make any revenue until the study is complete. This is a great opportunity to seek a grant. You could apply for a grant from the National Institutes of Health, for instance, which would pay for

the research. Then, once your team has completed the research, you could approach investors to begin

Tang-ible Lemonade

Or, maybe NASA has announced it wants a new beverage choice for astronauts or the military wants a drink option that requires less water for soldiers in arid environments. If you can develop a product that meets their specifications, you can expect that NASA or the Army will buy your product, and you can then market to the general public. Again, a grant would be appropriate and could lead directly to revenue

While these are all simplified examples, hopefully they illustrate options that may open or close depending on your plans for your business.