

ONE MINUTE GUIDE TO STARTING A VERY SMALL BUSINESS

THE LEMONADE STAND

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The purpose of this little guide is to introduce the reader to the principles of starting a very small business. It is intended as a starting point. If you decide to embark on the adventure of being a business owner, you will certainly need more information; but it is my hope that this guide will assist you in that quest.

We will look at an example of a small business started with limited capital. The example is based on the real experiences of an entrepreneur who started just such a business. We will call him Dave.

The primary question facing everyone who wishes to start a business is what product or service to offer. A product or service must be needed or wanted in order to find a market. The product you select is also based on what skills you have and what resources you have. The starting point then is to find a service or product that has a market and for which you have the skills and resources. This is not easy. Market is the first of seven aspects of starting a business that this guide will cover.

Dave wanted to find a way to supplement his family's income without quitting his regular job. Dave lived near a waterfront park that drew many visitors during the summer months. The park was owned by the city. Recently Dave read in the newspaper that the city was receiving complaints that the lines at the concessions in the park were too long. The city decided to allow a few more vendors to sell food and beverages. Dave remembered his experiences selling lemonade in front of his home during the summer when he was a child. The lemonade sold well. It was a special lemonade that his mother made. He still had the recipe. Dave wondered if he could sell the lemonade in the park on weekends. Would anyone buy it?

MARKET

Because market studies are very expensive, Dave felt he could not afford one. Instead, he talked to people he knew and to people who used the park. He soon discovered that what people said they wanted and what they would really spend money for were quite different. He needed a better way to find the market potential. One business person suggested that he talk to somebody already in the business. Every business has a certain amount of knowledge that is usually only learned by experience. Dave could not talk to a competitor, so he looked for someone who had retired from a similar business. If Dave were attempting something totally new, this approach would not have worked. Dave found a retired street vendor who had sold iced drinks from a cart along the lakefront and was happy to share his experiences with Dave. The retired vendor confirmed that a really good lemonade would sell. He also gave Dave tips about what kind of cart to use, how to cool the drink without electricity, and how to market his product. He suggested that Dave find one location and use a large cart with awnings. He told Dave a lot about how the business works. With this information, Dave started his planning. He chose a name for his business—"Mom's Lemonade." Next he had to decide the method for reaching his selected market. Normally advertising is the primary method, but Dave decided that he did not need to advertise except for signs on his cart. Customer satisfaction and word of mouth would be his most important advertising. Many new businesses fail when a market for their products or services does not materialize. I recommend that you do as much research in this area as possible.

MASTERY

Every business requires a specific set of skills. For instance, Dave needed to learn how to make lemonade commercially, the laws he must obey, and what bookkeeping system he needed. Dave made a list of all the skills and items of knowledge he must have. Going through the list, he felt that he could do them. He liked dealing with people, so he knew he would be comfortable selling to the public. He also knew that the quality of the lemonade would be critical to the success of the business. Since this was a very small business, he did not need complicated accounting. Simple bookkeeping on hand written ledgers would do just fine for this small business.

MEANS

The next issue facing Dave was coming up with the money to put this together. The city wanted a \$500 fee for a vendor's permit. The city was going to issue just five new ones. Dave found a used vendor's cart for \$600. Since the city required the cart to be removed at night, Dave needed a utility trailer to pull behind his car to move the cart. The price of the trailer was \$400. A beverage dispenser that used ice to cool the liquid cost \$350. A cooler to store ice in cost \$150. The cost to upgrade the cart and put awnings on it was \$600. Miscellaneous equipment and the starting inventory ran another \$300. The city required proof of liability insurance. The price on insurance was \$2000 a year. Business licenses and permits ran another \$100. Dave had to take an approved food handlers class from the health district and that cost him another \$50. Start up costs totaled \$5,050. He needed some cash reserve so he added \$200 for working capital. Dave only had \$250 of his own cash. His bank and his credit union were both unwilling to lend for a startup business. Dave did find that the local economic development agency offered micro loans. He was able to borrow the money with payments of \$100 each month. Accurate estimates of all start up costs are critical when starting a new business.

MARGIN

Margin is the difference between the cost of producing a product and the sales price. It can also refer to the overall profit of a business. Dave needed to be able to sell the lemonade at a price that would generate enough margin to cover his other costs of business plus provide a profit to him. He calculated that each glass of lemonade would cost him 35 cents. He would sell a glass for 95 cents plus 5 cents sales tax. That would make the total price to a customer an even \$1. The 35 cents cost was based on the cost of water, ice, lemon juice extract, sliced fresh lemons, sugar, and a paper cup. The serving size was 12 oz. A 10% waste allowance was figured into the cost. For each serving of lemonade that he sold, he would take in a margin of 60 cents. The sales tax he had to pay to the government. His sales target was to average 300 sales a day. This should be an easy goal as the park had thousands of visitors each weekend. He would be open on weekends. This gave him 8 days a month to operate. Based on sales of 300 servings a day, after paying for the cost of making the lemonade, he would have \$180 a day left. This would be \$1,440 a month. This would total \$17,280 a year. From this Dave would pay on a yearly basis \$1200 in loan payments, \$2000 for insurance, \$600 for permits and licenses, leaving \$13,480. From this last amount Dave had to pay income tax, maintenance costs on equipment, and gas for his car. These items totaled \$3480, leaving Dave with \$10,000 in his pocket. Not bad for a part time job. Calculating Margin is an important step in starting a new business.

MANDATES

All legal businesses are governed by rules from somebody. You must do research about what permits are needed, what laws govern your business, and what taxes must be paid. In most cases, you will also need liability insurance and insurance covering your business. This information is

available from governmental agencies concerned with regulating businesses and taxes. If you need insurance, information is available from a reputable insurance agent. Dave had to obtain a state and a city business license. He needed a food handler's permit from the health department. He also needed a vendor's permit from the city in order to sell in the park. It is important to gather all these rules before opening the business. Make sure you can comply.

Dave also needed to keep some records to track sales tax and other business taxes, including income tax. This is not complicated, but you need to be well informed. Take the time to do good research.

MANAGEMENT

Without good management, most businesses will fail. Management is the process of knowing what is going on and taking action to correct problems. Managing employees is a difficult skill. Dave wanted to avoid having employees at the beginning. If he grows, he may add employees. At that time he will need to develop those skills needed to hire and manage good employees. For the time being, Dave needs to be able to track his costs and income. He will keep a daily log of sales, a ledger of all costs concerning making the product, and a ledger of all other operating costs. He will calculate on a monthly basis, maybe weekly to start, what his sales level is, what his margin in the product is, and what his profit is. If he sees a drop in margin, a drop in sales, or a loss, he will need to take immediate action. This may include adding new products, a new location in the park, talking to customers to see if there is a problem with the product, and so forth. Dave will set benchmarks against which to judge his progress. Benchmarks may include sales levels, margin levels, and profit levels that are goals. These should be reviewed every month. Good management is simply paying attention, doing good planning, staying on top of good customer service, providing an excellent product, and understanding the financial aspects of your business. Good managers pay attention to details. In Dave's case, some details may be operational such as how to secure his cart and cash when he has to be away from the cart for a short while, or it may be watching and learning from his competitors.

A manager should be in a constant cycle of planning, implementing, evaluating, correcting and then back to planning and so forth. This is a constant cycle of managing the business.

MOTIVATION

If you were to ask Dave why he wanted to have a business, he may have answered: "To make money." That in itself is not enough motivation to start a business. You have to be willing to work very hard and to work long hours. You need to ask yourself if you are willing to make the sacrifices in time and effort that it may take to make your business successful. Can you take the pressure and stress? These are important questions to ask yourself. Not everyone is cut out to be a business owner. Many of us would do better to get an education and to work as employees. But if the call of independence and the excitement of the challenge appeals to you, then go for it. Do your research, analyze the risk, and make an intelligent start.

Good luck.

By the way, Dave was successful.

