

Case 07: Sunōmi Switchel: Time to Switch?

Teaching Note

Today's Agenda

1. Case Discussion: Hyde et al. (2023), *Sunōmi Switchel: Time to Switch?* — led by **Team E**.
2. Focus on two key entrepreneurial decisions:
 - Whether to **raise outside capital** or continue **bootstrapping**.
 - Whether the founder, **Nikki Blank**, should **stay with Sunōmi** or **switch careers**.
3. Connect case insights to this week's concepts on **sources of capital**, **entrepreneurial risk**, and **growth trade-offs**.

Teaching Note for In-Class Framing

Goal: Encourage students to see how financing choices reflect not just numbers, but also founder values, risk tolerance, and the realities of scaling a mission-driven venture.

Connection to course concepts:

- **Week theme:** Sources of Capital and Financing Growth
- **Core ideas:** bootstrapping, angel vs. venture capital, debt vs. equity, opportunity cost, and founder–market fit.

Discussion anchors:

- “What does success mean for Nikki?”
- “How should she finance that version of success?”

Key Terms: Functional Beverage Market

- **Functional Beverage** – Drinks with added health benefits beyond hydration (e.g., gut health, immunity).
- **Purchase Occasion** – When and why consumers drink the product (e.g., post-workout, hangover recovery).
- **Velocity** – Rate of repeat purchases; the metric retailers use to evaluate performance.

- **Co-packing** – Contracting with a third party to manufacture and package your product.
- **Working Capital** – Cash needed to fund daily operations (inventory, production, logistics).

Link to our discussion on **working capital and liquidity constraints**.

“How do working capital needs differ for service vs. product-based ventures?”

Founder’s Perspective

Role Play Scenario

- Imagine you are **Nikki Blank**, founder and CEO of Sunōmi Switchel.
- You started the business in 2017 after discovering switchel as a healthier alternative to sugary sports drinks.
- You bootstrapped the company, produced small runs with co-packers, and built distribution into **Whole Foods, Giant, and Stop & Shop**.
- After years of growth and burnout, you face a major decision:
 - **Raise capital** to expand or
 - **Switch** to a stable career in brand marketing.

Your goals:

- Create a successful beverage brand that aligns with your values.
- Avoid overextending yourself financially and personally.
- Decide what “growth” really means to you.

Sunōmi at a Glance

Year	Milestone	Key Takeaway
2017	Founded in D.C., joined GoKitchen accelerator	Gave up 10% equity + board seat for \$1 investment
2018	Launch at Glen’s Garden Market and Whole Foods	Proof of concept + brand traction
2019	Trademark conflict → Rebrand to Sunōmi	Legal & brand management challenge
2020	Expanded to Giant and Stop & Shop	Rapid growth, but limited working capital
2021	Stalled operations, burnout, job offers elsewhere	Strategic and personal crossroads

What does this timeline reveal about the tension between **growth and control**?

Founder Profile: Nikki Blank

- Background: Journalism + athletics (Tufts University).
- Motivation: Replace unhealthy sports drinks with natural alternatives.
- Strengths: Brand storytelling, persistence, authentic mission.
- Weaknesses: Limited business experience, undercapitalized, emotionally tied to the venture.
- External pressures: Family investors, co-founder exit, burnout.

How do Nikki's **values and personality** shape her approach to financing?
Compare to last week's discussion of **entrepreneurial risk tolerance**.

Decision #1: Raise Outside Capital?

Context:

- Orders from major retailers (Whole Foods, Giant, Stop & Shop).
- Not enough cash to fulfill them.
- Estimated need: ~\$1.3M for national rollout.

Options for Funding:

- **Equity Investment** → Give up ownership for long-term growth capital.
- **Debt Financing / Working Capital Loan** → Retain control, but assume repayment risk.
- **Continue Bootstrapping** → Maintain independence but risk stagnation.

Tie this to **Sources of Capital** from lecture: - Personal savings / friends & family (initial phase) - Angel investors and accelerators (GoKitchen example) - Asset-based lending (receivables/inventory-backed loan)

“How does each funding source shape strategic flexibility?”

Decision #2: Stay or Switch?

Option	Description	Trade-Off
Stay at Sunōmi	Raise capital, quit job, go full-time	High risk, aligns with purpose, uncertain payoff
Switch Careers	Take corporate brand marketing role	Financial stability, less autonomy, end of founder journey

Key Question:

How should an entrepreneur decide when to persist vs. pivot?

Have students apply the **Entrepreneurial Decision Matrix (EDM)**—compare risk, control, return, and alignment with personal goals.

Strategic Dilemmas

- **Financial:** Under-capitalized, strained cash flow, limited runway.
- **Operational:** Dependence on co-packers and distributors.
- **Market:** Competitive functional beverage space dominated by kombucha and big brands.
- **Personal:** Burnout and pressure from family investors.
- **Ethical:** Responsibility to repay family loans vs. pursue personal well-being.

“What non-financial costs do entrepreneurs face when capital is scarce?”

Draw parallels to our in-class exercise on **bootstrapping stress points**.

Compare Growth Options

Strategy	Pros	Cons	Source of Capital
Raise Equity	Scale fast, meet retail demand	Lose control, investor pressure	Angel or venture investors
Take Working Capital Loan	Maintain control, modest growth	Personal liability, ongoing strain	Asset-based lender
Bootstrap / Stay Small	Full autonomy, organic growth	Cash constraint, limited impact	Personal savings, family
Exit / Switch Careers	Financial stability, skill development	Ends entrepreneurial dream	N/A

Class Exercise: The Founder’s Dilemma

Imagine you are an investor evaluating Sunōmi.
What would you look for before funding Nikki Blank?

Discuss:

1. What signals show founder readiness?
2. What financials or traction would you need to see?
3. Would you invest — and if so, under what terms?

This connects to the **entrepreneur–investor relationship** we discussed: alignment of values, vision, and risk appetite.

Discussion Questions

1. What financing path best fits Nikki's goals and constraints?
2. How do her financing choices shape control, risk, and growth potential?
3. How might her **burnout** influence rational decision-making?
4. Should she prioritize **repaying her family** or **protecting her own wellbeing**?
5. What lessons about **capital structure** and **personal sustainability** can entrepreneurs learn from Sunōmi?

Scorecard Exercise

Option	Founder Fit (1–5)	Financial Viability (1–5)	Market Potential (1–5)	Mission Alignment (1–5)	Total
Raise Investor Capital	_____	_____	_____	_____	_____
Take Working Loan	_____	_____	_____	_____	_____
Continue Bootstrapping	_____	_____	_____	_____	_____
Exit / Switch Careers	_____	_____	_____	_____	_____

After scoring each option, **defend your recommendation** in a short summary.

Key Takeaways

- **Bootstrapping Builds Discipline:** But limits scale and speed.
- **Control vs. Capital Trade-Off:** Every funding source affects autonomy and mission.
- **Founder–Market Fit:** Passion matters, but stamina and systems matter too.
- **Financial Literacy:** Understanding debt, equity, and working capital is vital for growth.
- **Sustainability:** Success also means knowing when to pivot or pause.

What Happened?

- Sunōmi continued small-scale regional distribution but never scaled nationally.
- Nikki Blank transitioned into a brand marketing role while keeping Sunōmi active online.
- Her experience is now used in entrepreneurship programs as a model of **founder self-awareness** and **values-driven decision-making**.

Emphasize that *success in entrepreneurship is multidimensional* — sometimes stepping away is a strategic decision, not a failure.