

CURATED COACHING FOR ENTREPRENEURS

The Power of Capital



Case Study: The Party Planner

Case study

Understanding which capital options are available can influence a business's trajectory — business owners may consider expanding or investing more in resources with access to the right amount of funding. By taking a step back to understand her environment and building a case for expansion, The Party Planner was able to secure funding to expand her services. This case study shows how Jacqueline, the owner of the Party Planner, decided to seek additional funding.

Background

The Party Planner is a one-woman business run by Jacqueline, a professional event coordinator who spent 10+ years in the corporate world planning events on the side. Two years ago, she took the leap and became self-employed. Through social media, she's been able to grow her audience and is booked for the next year.



Problem

Jacqueline knows she can't handle the demand on her own, and feels she needs to hire someone else for support. She's been supporting herself so far, but can't afford to hire someone new with her current funding methods. Jacqueline documents how she has funded her business so far, including how she:

- Used her savings to start her business.
- Raised some [friends and family funding](#) one year into her business in exchange for 20% [equity](#).
- Uses a [business credit card](#) to buy supplies and travel for work.
- Pays off her credit card using profits she generates from her business, also known as [bootstrapping](#).

Approach

To determine if it's the right time to pursue capital, Jacqueline evaluated her business using a three-pronged approach focused on understanding: The Environment, Her Operations, and The Opportunity. This approach is instrumental in guiding her decision if now is the time for outside capital.

Analyze	Key question	Y/N	Answer
The Environment (External)	Has your market or industry changed in the last year?	Y	Due to the pandemic, events were on pause. As we adapted, I took my business online, utilizing Zoom to host games and parties. Now, I really see that my business is adaptable and makes people happy.
	Has the competitive landscape in your industry changed?	Y	I was one of the few to adapt – in my area, Party Tricks and Event Elements ended up going out of business.
	Do you currently have sufficient resources?	N	I have just enough materials to complete my events through the end of the year, but some help and other partners with more options would be helpful.
Your Operations (Internal)	Is your operating model sufficient? Do you have the right processes in place?	Y	My model works for me as the sole employee – I have technology that keeps me up to date with my partners and hosts.
	Do you have the right team to build for the future?	N	If I want to grow, I need to hire someone else soon. I'm getting pulled in all directions.
The Opportunity	Has your customer demographic changed since you last evaluated your business?	Y	My customers have started working from home or haven't been able to see their friends and family so they are now craving social interaction (that's safe)!!
	Have your customers' needs changed?	N	No, they still want parties! And events that are fun and inclusive.
	Do you need to adapt your business model to support any of the changes detailed above?	Y	It needs to grow – I am now supporting those around me that used to go to my competitors. Plus, specific seasons like the holidays, really pick up and I have events every other day.

Jacqueline answered Yes to most of the questions above, confirming that she wants to explore her financing options to find and hire a new employee.

Options for capital

Jacqueline is confident it's the right time to find funding, so she does a quick search on what's available to her business. She compares some of the options available to her with a pros and cons list

Type of capital	Pros	Cons
Business line of credit: Borrow up to a specific credit limit used to support short term (<1 year) working capital	<ul style="list-style-type: none">👍 Flexible credit option👍 Can take advantage of trade discounts, build inventory, or shore up operating capital	<ul style="list-style-type: none">👎 Expires – must be renewed to continue using👎 Must be paid back to continue using👎 Typically higher interest rates
Business term loan: Credit that must be repaid within a specific timeframe	<ul style="list-style-type: none">👍 Can be used for large purchases👍 There is a set end date to the loan	<ul style="list-style-type: none">👎 May take longer to pay off based on the structure of the loan👎 The process for term loans is more rigorous than for revolving credit
SBA loan: A typically quick-turnaround loan program that can be a term loan or a line of credit.	<ul style="list-style-type: none">👍 Typically requires a lower down payment and offers lower interest rates👍 Option for businesses that may not be able to obtain a loan through other lending channels	<ul style="list-style-type: none">👎 Qualify by being a for-profit business that generated less than \$5 million average net income over the past two years👎 Typically comes with a guarantee fee of 0% to 3.75%👎 Annual service fees may range from 0% to 0.55%

Next steps

The pros and cons list helped Jacqueline narrow down the financing options to a business line of credit. Since it's a short-term, flexible option the line of credit should allow for enough time to set the foundation for increased profits after hiring someone new, and the expectation to pay it back in a timely manner.

She plans to go to her local bank and ask about their business line of credit offerings, and will prepare by:

- Gathering her financial documents, including her tax refunds, balance sheet, and profit & loss statements.
- Analyzing her cash flow over the last year using [Chase's cash flow tool](#).
- Confirming how much she can afford to pay back using [financial projections](#).
- Documenting the needs for and how her business structure will change with a new employee.

Key terms

Friends and family funding

Getting a loan from family or friends is another traditional funding route. These investors are individuals willing to invest anywhere between \$10,000 and \$150,000 of their own personal finances because they feel loyalty and affection for the founders or are motivated by their startup idea. Dollars raised from friends and family are usually early stage for startup capital needs. As investors, they provide cash in exchange for an ownership stake that will potentially appreciate as your business grows. Laws around selling shares of a business are complicated, so if you go this route, you'll need legal advice.

Equity

The value of a company's ownership shares. More specifically, equity is the complete, liquid value of a company minus any applicable debts or liabilities.

Business credit card

A typical credit card dedicated to your business, often with higher limits. Business credit cards may offer rewards and should be paid on a monthly basis.

Bootstrapping

Starting your business on a shoestring budget and funding its growth with the money you make from sales.

Small Business Administration (SBA)

An independent government agency created to help individuals operate small businesses in the U.S. The SBA helps small businesses that meet certain qualifications to obtain financing when they may not be eligible through other lending channels. The SBA reduces the risk to a lender if a loan goes into default, which enables lenders to work with businesses that have potential but wouldn't otherwise qualify for a loan. The [SBA's Women's Business Centers](#) is also a resource.

Financial projections

A financial projection is what your business expects to happen based on hypothetical situations from the available facts and data from other documents, such as your balance sheet or profits and loss (P&L) statements. [SCORE.org](#) offers a downloadable template to use.

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