

# The power of capital

How to fuel the growth of your business

An informational series on business banking

WELCOME	HARLEM CHOCOLATE
BONBONS & TR	
6 CT	\$18
12 CT	35
24 CT	60
TURTLES	
BARKS	\$10
PR	
SAUCE	20



Jessica Spaulding, Chase for Business customer  
and founder of Harlem Chocolate Factory

Business owner was compensated for their participation.

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*for BUSINESS®*

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# Preparing for new opportunities

**The banking industry has underserved Black entrepreneurs. We need to work together to change that.**



**39%**

of minority-owned companies feel their primary bank contact treats their business owners with respect.

Source: "A Look at Diversity from Business Customers and Bank Perspectives," Barlow Research Associates, Inc., 2020.

It's critical that we provide good information to help you make smart decisions for the future of your business. Understanding your options will help you prepare to take full advantage of current opportunities and those that emerge in the coming years.

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# Think strategically about cash flow

**Cash flow is more than money in the bank. It's an essential tool for adapting and growing as opportunities or challenges emerge. That's why it's important to protect your cash flow as much as possible.**

Having cash on hand also enables you to make quick decisions about when and how to invest your time and resources. For example, imagine you own a retail apparel business and want to take advantage of a hot new trend. With good cash flow, you can add a new product line and its associated new costs, while ensuring you can still pay suppliers and employees.

## How can you manage your cash flow?

- Cut overhead and unnecessary spending.
- Take advantage of mobile apps and online banking to move money quickly.
- Negotiate payments with vendors.
- Prioritize revenue collection using digital payment tools.
- Sell off stale inventory or nonessential assets.
- Adopt a leaner staffing model.
- Forecast the coming months to plan for ups or downs.
- Utilize effective cash management tools to collect sooner.

For more cash flow tips visit: [cashflow.chase.com](http://cashflow.chase.com).

**A typical business uses cash flow to:**



Pay suppliers



Pay employees



Rent space



Reinvest



The ups and downs of business mean it's possible to be profitable and still not have money in the bank. Even if business is booming, remember to track your expenses closely and keep revenue ahead of payments.

# Cash flow troubles threaten BrightTech

Tiffany's new IT consulting business is booming. Through her connections in the local tech industry, she's developed a promising niche – helping new companies set up their technology systems.

In fact, she's been so busy, she's needed to hire help. Her team of three is putting in long hours. She's buying a lot of new computers and equipment for clients. She's treating her team to lunches and dinners to build morale and to make work a little more fun. She's exhausted, but she's never been happier.

One day, Tiffany gets a call from her bank. Her accounts are overdrawn. Yesterday was payday, and she put in a big order for a new client. She looks at her invoices and sees that she's behind on sending them out. And the invoices that are with clients are all net 30, meaning that clients have up to 30 days to pay. She crunches some numbers, and her stomach sinks. It's going to be weeks before she'll have the cash on hand that she needs.

**Even though on paper Tiffany's tech company is turning a profit, she's close to going out of business.**

## Key points

- Cash flow needs to be managed.
- An efficient process for payables and receivables can help you better manage the timing of revenue and expenses.
- Borrowing capital strategically can help ensure you have cash when you need it.

All case studies in this workbook are hypothetical examples. Any resemblance to actual persons or businesses is entirely coincidental.

## **Part 2**

# **Does your business need to borrow?**

**Remember that to borrow capital, you need a plan to pay it back.**

Here are a few questions that lenders often ask business owners to help determine whether the business is a good candidate for credit.

### **How long have you been in business?**

Most lenders like to see at least two years of operating history to better understand a business's potential. Newer businesses are considered startups and typically go through a more complicated lending process.

### **Is your business profitable?**

A business that's making money is actually the best candidate for credit. Why? Think about it from a lender's point of view. Most lenders focus on profit and cash flow because these are the strongest indicators of whether a business has long-term potential. Negative cash flow is also a signal that a business could have trouble repaying its loan.

### **Is your business seasonal?**

Some industries are hugely profitable, but for only a few months out of the year. Farmers, for example, may spend all year preparing for a two-week harvest, after which they sell their entire crop. Credit can help farmers buy seeds and tend the crops during the other 50 weeks of the year.



**TIP** Know your business and your industry. If you can explain what you do and how you bring in revenue, it'll go a long way toward helping a loan officer see why lending to you is a risk worth taking.

### **Do you need to build credit?**

A new business needs to show a history of responsible borrowing to qualify for larger loans. A business credit card is often a good way to start building credit.

### **Are you looking to expand?**

If adding employees or new locations can help your already profitable business grow, you may need credit to begin your expansion.

### **Will new equipment help your business?**

If essential equipment is limiting your growth, it might make sense to borrow to increase your revenue potential.

### **What is credit?**

There are a lot of ways to think about credit. Some people mean "credit worthiness" or "credit history" when they use the word "credit." In this workshop, we usually use "credit" to mean an agreement between a borrower and a lender. As we'll explore here, there are many different forms of credit, including credit cards, lines of credit and term loans.



## WORKSHEET

# Look at the bigger picture

Once you feel confident that you need to access credit for your business, take a step back. What factors might affect whether borrowing makes sense right now? Answer the questions below as best you can. Then ask yourself what stood out and where you have gaps to fill.

## The environment

How has the last year changed the way you think about your business?

Who are your competitors, and what have they done to adapt in the past year?

How does your business play a positive role in your community?

Does your business model need to change significantly? If so, how?



## WORKSHEET

### Your operations

What steps have you taken to prepare for a setback? Do you have a plan, or are you planning to wing it?

How confident are you in your suppliers' ability to deliver?

Do you have the right team to build for the future?



## WORKSHEET

### The opportunity

Who are your customers? How have their lives changed in the last year?

What needs can your business help them with now?

Do your customers need you now more than ever? If so, why?

# Why are you a good investment?

If you're interested in applying for credit for your business, you'll need to be prepared to answer a lot of questions. Here's an overview of what a lender will want to know.

## Leadership

A bank wants to know why you're the right person to lead and grow this business. At your first meeting, a lender might ask:

- How long have you been running your business? Have you run other businesses?
- Do you have a resume you can share with us?
- How did you decide to start this particular business?
- How is your credit history?
- Do you have a mission statement?
- Could you describe your organizational structure?
- Do your business partners or members of your management team have experience managing and growing capital?
- What kinds of professional experts do you rely on to support your business?

## Cash flow

Cash flow is critical to the health of your business and your ability to secure credit. Some of the first questions a lender will ask include:

- Do you have enough revenue coming in to make regular payments?
- How do your customers pay you, and what are the payment terms?
- How do you process your payments?

## Collateral

For some forms of credit, such as a loan, a lender will also want to know whether you have backup or collateral if your business doesn't succeed. Including assets with cash value as collateral can make it easier to get credit. Just remember that any item you put up for collateral may be collected by the lender if you're unable to pay back what you borrowed.



**TIP** Try to keep your business and personal credit separate if possible, and build up credit history as a business. That way, you can protect yourself and your family from downside risks.

# Personal credit vs. business credit

## Personal credit scores

Your personal credit history is tracked via your Social Security number and is typically summarized by the FICO scoring method. A FICO score ranges between 300 and 850 and is based on:

- Payment history
- Current level of indebtedness
- Types of credit used
- Length of credit history
- New credit accounts

## Business credit scores

Your business credit history is tracked by the Small Business Financial Exchange using identifiers such as your Employer Identification Number (EIN). The SBFE does not create business scores, and no single organization provides a centrally recognized score.

In general, a business credit score is based on:

- Payment history
- Age of credit history
- Debt and debt usage
- Industry risk
- Company size



# What financial data is important?

The numbers behind your business will be important if you choose to apply for credit. Here are a few documents and metrics to familiarize yourself with when considering whether now is the right time to pursue credit.

## Tax returns

Tax returns help lenders see whether you're paying taxes and also provide a starting point for some of the calculations they will make as they determine whether to invest in your business. Newer business owners will need to provide both personal and business tax returns.

## Balance sheet

Based on what you include in your balance sheet, your bank will calculate a few important data points.

### Leverage ratio

A comparison between how much you owe and how much equity and capital you have in your business. In general, the lower the number, the stronger your position.

#### *Why does a lender want to know this?*

If your business owes a lot of money compared with its overall value, then lending you more money is likely to be very risky.

### Current ratio

A measurement of your company's ability to pay short-term obligations within the next year. In general, the higher the number, the more confident a lender will be in your company's ability to pay back a loan.

#### *Why does a lender want to know this?*

The current ratio is a way to gauge whether a short-term crisis will put your business in jeopardy.

## Profit and loss statement

Often called a P&L statement and sometimes called an income statement, this document summarizes the revenues, costs and expenses related to your business during a specified period. Below are a few of the most important data points.

### Sales growth

The increase in the average sales volume of your company's products or services, typically year over year.

#### *Why does a lender want to know this?*

If your company is increasing its sales, it's a good candidate for growth.



### Gross profit margin

A measure of your profitability represented as a percentage of revenue exceeding the cost of goods sold.

*Why does a lender want to know this?*

If your company is profitable now, it's more likely to grow successfully.

### SG&A to sales

A comparison of sales revenue to selling, general and administrative expenses. This calculation takes out the cost of producing and shipping your product and focuses on what you're spending to sell it.

*Why does a lender want to know this?*

If it costs a lot to sell your product, a sales slump can quickly put your company in the red.

### EBITDA

This stands for earnings before interest, taxes, depreciation and amortization – a measure that shows earnings before the influence of accounting and final deductions.

*Why does a lender want to know this?*

Clever accounting can sometimes hide business fundamentals. EBITDA helps the bank better understand your cash flow and your business's intrinsic value.

# What are your credit options?

There are a lot of ways your business can access credit. Many start with a business credit card and work their way up into a line of credit or a term loan. Here's a quick snapshot of the credit options available to most small businesses.

## Business credit cards

It's helpful to think of a business credit card as a short-term loan that doesn't have a specific number of payments. It's easy to access and use but requires careful management. Business credit cards also typically come with rewards that can be useful as your business grows.

With a business credit card, your company can stay nimble, making small purchases quickly to meet immediate needs and build up a credit history. Many businesses use their credit cards for:

- **Cash flow management.** A credit card can help when you don't want to draw down your accounts but are confident you can pay the balance in the next 30-60 days.
- **Convenience and control.** Regular statements and online portals allow you to easily track small or frequent purchases.
- **Service and security.** Many card issuers offer features that allow you to manage spending limits, set alerts and more.
- **Rewards.** Many card issuers offer perks such as airline miles, travel insurance and purchase protection.

## Business line of credit

A business line of credit allows a business to borrow up to a specific credit limit whenever it needs cash used to support short term (< 1 year) working capital. Most lines of credit expire at some point and need to be renewed to continue. The intent is to use the line of credit and payback so a business can have the flexibility to use, pay back and use again when needed. This flexible credit option can allow you to quickly take advantage of trade discounts, build inventory or shore up operating capital.

Once you're approved for a business line of credit, you can draw on money for any business need over a specific period of time. Typical uses include emergency expenses, operating capital and supplier payments.



Look at the cost of interest over a decade or more. Does this additional expense make sense compared with the new revenue you expect to generate from a loan?

TIP



## Business term loan

A term loan is credit that must be repaid within a specific timeframe. Term loans are typically used for large purchases, such as equipment or real estate, may take longer to pay off based on the ask and the structure of the loan. The lending process for term loans is often more rigorous than for the revolving credit options.

A business can borrow via a standard business loan that's issued entirely by a bank or through a Small Business Administration loan, which is regulated and partly guaranteed by the U.S. government.

Each bank offers its own unique lending products for specific business needs, such as equipment or real estate. To learn more about bank loans for businesses, contact a Chase for Business representative or a loan officer at your preferred bank.

## Additional sources of capital

**CDFI loans:** The Community Development Financial Institutions Fund is a U.S. Department of the Treasury program that works with banks, community development organizations, venture capital and others to expand economic opportunity for underserved people.

**Venture capital:** In exchange for an ownership stake and an expectation of high returns, venture capital investors make large investments in promising companies.

**Small business grants:** Many governments and organizations offer grants to businesses that meet specific qualifications or are run by underrepresented groups such as veterans, women and people of color.

# SBA loan programs

**The SBA helps small businesses that meet certain qualifications to obtain financing when they may not be eligible through normal lending channels.**

Basically, the SBA reduces the risk to a lender if a loan goes into default. This enables lenders to work with businesses that have potential but wouldn't otherwise qualify for a business loan.

## Benefits of an SBA loan

There are many benefits to pursing an SBA loan:

- Businesses typically get more time to pay off the loan.
- Lenders typically require a lower down payment.
- Eligible fees can be included in financing.
- It's a potential option for businesses that may not be able to obtain a loan through other lending channels, including a:
  - Company that has a high level of debt
  - Company that's short on collateral
  - Startup (< 24 months in business) that is not yet operating

## Who is eligible for an SBA loan?

To qualify for an SBA loan, your business must meet certain eligibility requirements including but not limited to:

- Be a for-profit business
- Have less than \$15 million in tangible net worth and generated less than \$5 million average net income over the past two years



Making sure you have the cash flow you need to pay your bills now buys you time to plan for future growth.

**TIP**

## SBA Express

A typically quick-turnaround loan program that offers a maximum of \$350,000 and can be a term loan or a line of credit.

## Gibson Engineering

Marcus likes to show his clients exactly what he's talking about. He has scale models of bridges, high-rises and other structures in his building. And his team of six engineers often uses the models to explain ideas to clients.

Now Marcus has a new concept. It's a big idea that he thinks a lot of his customers will like. He wants to build a full-size model of what he calls his Intriум, a backyard shade structure with an awning and glass panels, both of which you can crank open or closed based on the weather and the amount of sun you want.

His plan is to build a showroom, but he estimates it will cost \$200,000.

He went to his bank, where he learned about the SBA Express loan. With this loan, Marcus can put down 10% of what he needs and wrap the eligible financing fees into the loan. He also qualifies for a 10-year term loan, which means that he can begin selling and building Intriums now and pay down his loan with the profits.

## SBA 7(a)

A program that offers loans up to \$5 million, with a guarantee by the SBA.

## Kick It

Carmen loves shoes with character: vintage Jordans, 2020 Yeezys and corny dad sneakers. Her shop is doing really well, which is why she wasn't surprised when a crosstown rival wanted to know whether she was interested in buying him out.

She played it cool on the phone, but the truth was she had been waiting for this break. The other shop was in a great location, but its selection and "too cool" vibe were holding it back. With fresh stock and a rebrand, she knew she could make it work.

Over the next few weeks, after talking with her bank and learning that she qualified for an SBA 7(a) loan, Carmen negotiated a \$400,000 price, which included the store's stock and a company car. With her SBA loan, she was able to put down just \$40,000 for a 10-year term loan.

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## SBA 504

Long-term, fixed-rate financing to help business owners buy, expand or renovate owner-occupied property or otherwise improve the property. There's no maximum project size, and for small loan amount for SBA on financing is \$5 million or \$5.5 million for small manufacturers and the lender each make direct loans for a portion of the total loan amount.

### MDA Design

Mona is a tinkerer. When she was little, she and her dad created a better ice cream scoop and designed adjustable compartments for her closet. Today, she owns a design shop for products that make life a little easier.

MDA Design has grown quickly. A few weeks ago, Mona heard that the only other tenant in her building was moving. She asked herself: What if MDA took over the empty space?

Mona's business had never borrowed before, but she went to her bank to talk over her idea. That's when she learned that, with an SBA 504 loan, she could borrow the money she needed with only a 10% down payment.

Over the next month, she negotiates with her landlord, and they agreed on a price of just under \$1 million. With the help of her banker, Mona secures a 25-year term loan, and by the end of the year the building is hers.

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# Begin building your own empire

**Are you ready to put new capital to work?**

With this knowledge, you're ready to have honest conversations about whether you're ready to borrow for your business and the kind of capital that makes the most sense for you. The more research into your borrowing options you do, the better prepared you'll be to take full advantage of the opportunities new capital can bring.

## **Work with a Chase banker**

Chase for Business offers resources and services to help you manage your business. We are committed to delivering the expert guidance and support your business needs.

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