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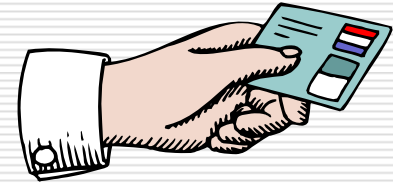
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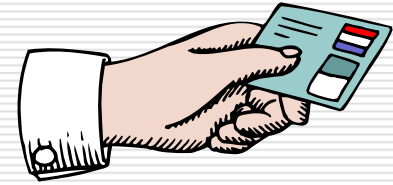
**Just Say “Charge
It”: The Use of
Credit Cards in
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Just Say "Charge It": The Use of Credit Cards in Entrepreneurial Startups



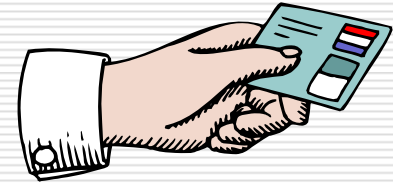
- ❑ Katz, Harshman and Dean (2000) observed that writing a business plan is “the sine qua non of modern entrepreneurship education.”
 - ❑ Contemporary entrepreneurship courses, relying on popular textbooks, tend to emphasize (or at least include) writing a business plan.
 - ❑ No argument about the value of business planning.
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Just Say "Charge It": The Use of Credit Cards in Entrepreneurial Startups



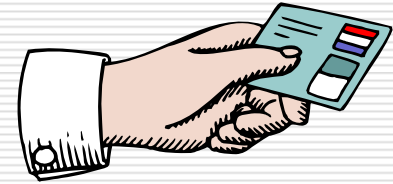
- This paper does suggest that neither courses, nor authors who are involved in the development and writing of business plans should proceed under an assumption that "bankers, investors, and lawyers" (Katz, Harshman & Dean, 2000, p. 235) are necessarily the target audience of that writing.
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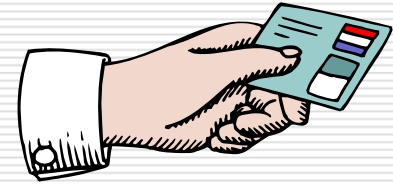
- Even experienced business professionals (much less recently minted undergraduate students) would probably be better served by focusing their personal and business development efforts on learning more about bootstrapping.
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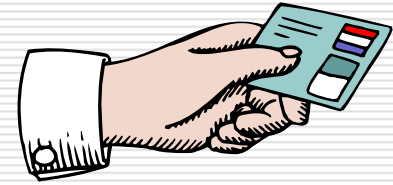
- ❑ The number of businesses that are founded through the use of bootstrapping is difficult to determine definitively.
 - ❑ Small businesses may use both traditional sources of capital (particularly bank financing) in a mix, along with non-traditional sources.
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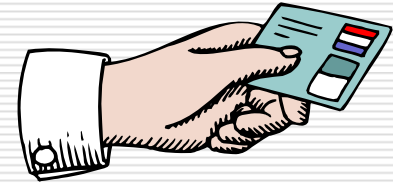
- Startups typically report a lack of access to venture capital and bank financing.
 - Overwhelmingly, startup entrepreneurs who do succeed in launching businesses do so by using non-traditional methods for creating and launching businesses.
 - One estimate suggested that approximately 75 to 85 percent of startup businesses use some form of bootstrapping (McCune, 1999, p. 1).
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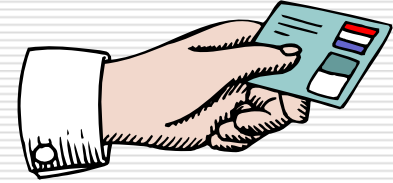
- Some traditionally capitalized businesses have owners who may practice an observed behavior such as credit card use on behalf of his or her business, but that could be a matter of shopping convenience.
 - The opposite end of the spectrum reflects credit card usage as a significant source of financing to the business.
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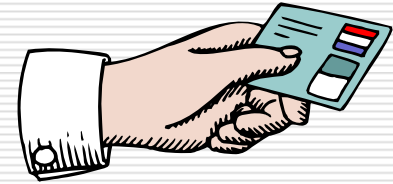
- ❑ Over 80 percent of the small businesses surveyed used some kind of credit and had outstanding debt on their books at the end of 1998.
 - ❑ Fifty-five percent of small firms had some kind of traditional loan, while 71 percent obtained credit from non-traditional sources, mainly owners' loans and credit cards.
 - ❑ The most frequently used kinds of credit were personal and business credit cards, lines of credit, and vehicle loans.
 - ❑ Forty-six percent of small firms used personal credit cards, 34 percent used business credit cards, and 28 percent used lines of credit.
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- ❑ A large percent of the smallest firms were forced to use personal credit cards because of limited availability of loans and of business credit cards.
 - ❑ Very small firms tend to use alternative sources because other sources of financing, which are usually cheaper, may be unavailable; these firms also appear to rely heavily on costly personal credit cards and owners' loans.
 - ❑ The use of home equity lines for business purposes is an important source (although not quantified by the SBA study).
 - ❑ The use of owners' loans and personal credit cards leveled off or diminished as firm size increased.
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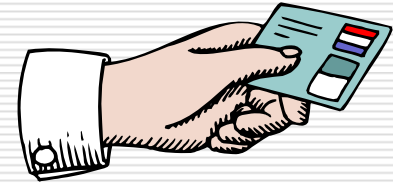
Small Women-Owned Firms

- Credit cards were the most often used kind of credit, with 48 percent and 29 percent of firms using personal and business credit cards, respectively.

Small Minority-Owned and Hispanic-Origin Firms

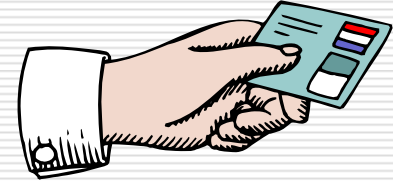
- Personal credit cards, business credit cards, and lines of credit were the most frequently used types of credit, with 46 percent, 29 percent, and 20 percent respectively.
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- It is important to note that most businesses are very small enterprises.
 - 2002 Census data showed:
 - 5.7 million firms with employees.
 - 17 million without employees.
 - Total of 23.7 million businesses.
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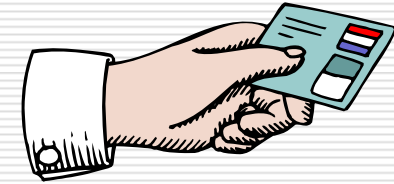
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- Among all very small firms, the number one type of credit used was personal credit cards (48.2 percent).
- We can estimate* that approximately 8,505,402 million businesses, with zero employees across all industry sectors are using personal credit cards as a source of business capital.

* Determined by multiplying the number of nonemploying businesses (i.e., very small firms) times the percentage that use credit cards.

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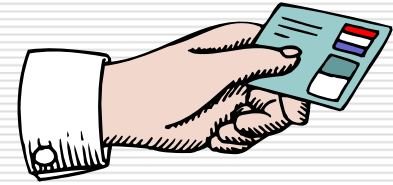
Very Small Firms with Zero Employees and Their Credit Sources

Credit Type or Supplier	All Small Firms	Minority-Owned Firms	Women-Owned Firms
Any Depository Institution	32.8	16.8	15.1
Commercial Bank	17.3	8.9	12.4
Finance Company	11.5	11.2	5.4
Leasing Company	2.5	1.7	1.9
Family and Friends	3.6	6.9	4.2
Owner Loans	0.2	1.1	0.5
Personal Credit Card	48.2	43.3	47.7
Business Credit Card	17.4	18.8	14.1
Line of Credit	12.8	5.5	8.0
Mortgage	6.5	9.7	7.2
Vehicle	12.3	13.9	11.0

Very small firms, defined as those with zero employees.

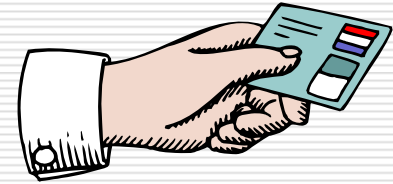
Data Source: SBA, *Financing Patterns of Small Firms: Findings from the 1998 Survey of Small Business Finance*, p. 19.

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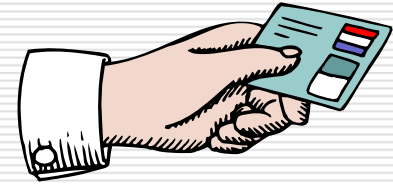
- While 1998 SBA data is already provocative, de Paula (2003), writing in *U.S. Banker*, cited more recent industry sponsored research commissioned by MasterCard.
 - 64 percent of small business owners "use plastic for business expenses."
 - 57 percent use personal cards, with 33 percent using those personal cards exclusively.
 - 24 percent use personal cards in addition to small-business cards.
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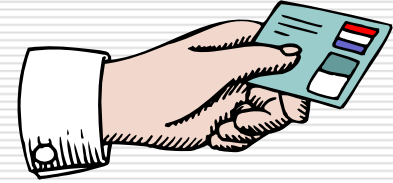
- ❑ Commercial loans enjoy a "hallowed reputation for respectability."
 - ❑ However, "more and more small business owners are turning to credit cards for funding...because they are easy to come by and the credit limits are high."
 - ❑ Banking industry executives see the market for small business credit cards "as a growth area...promising higher fees and interest revenue."
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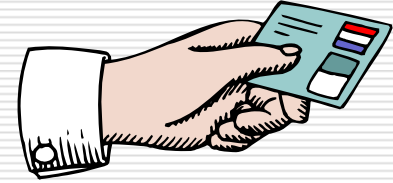
- ❑ Business founders have used multiple cards for startup funding.
 - ❑ The *Wall Street Journal* reported that it was not unusual for individuals who were starting businesses to amass "myriad of credit cards for this purpose—possibly 14 or 15!"
 - ❑ Some entrepreneurs have created a de facto "venture capital card" (Nixon, 1997, p. 33).
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Conclusion



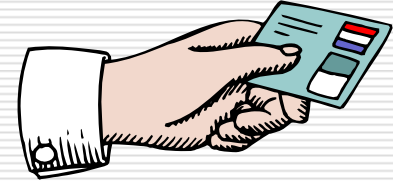
- ❑ Credit cards, especially those classified as personal accounts, have become a surrogate for traditional sources of capital by bootstrappers.
 - ❑ Banking industry executives recognize, and are actively pursuing credit card marketing efforts to small businesses.
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Conclusion



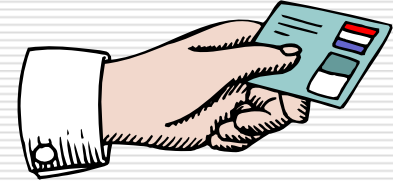
- ❑ The process for acquiring traditional capital does perform a screening function by identifying business startups that do not have sufficient assets to guarantee debt repayment.
 - ❑ However, many startups, having no tangible assets to report, cannot meet this test.
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Conclusion



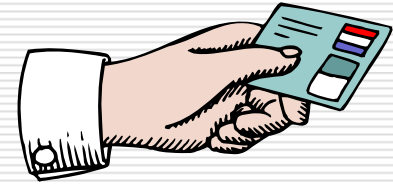
- Entrepreneurship educators and scholarly researchers should acknowledge both bootstrapping and credit cards as the means by which most businesses are actually started and grown.
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Conclusion



- To insist that students write business plans under the assumption that investors, bankers, and angels will necessarily comprise the audience for their writing (and converge to offer salvation) is totally out of step with the realities of launching a business that the vast majority of students will ultimately face.
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- Students must be trained to critically and creatively analyze every possible method by which they can possibly start, finance and operate a business.
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