

## **WAIT? WHAT? I OWN A BUSINESS?**

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*Jessica Styles signed up to be a designer with a direct selling company called Chalk Couture. In the beginning, she mainly considered this a hobby, but at the end of her first year, she realized that she was indeed running a small business. She was concerned about how to complete her taxes since she had not kept the best records and was not sure what information she needed to prepare them.*

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### **INTRODUCTION**

In January, Jessica Styles signed up to be a designer with a direct selling company called Chalk Couture ([www.chalkcouture.com](http://www.chalkcouture.com)). Chalk Couture sold surfaces (predominately chalk boards), transfers (a form of stencil), and pastes/inks. Their products can be used to create a variety of home décor items such as signs, pillows and banners.

When she first signed up, Jessica was not sure how much of the product she would sell, but she enjoyed making the products and found it to be a great stress reliever. Shortly after signing up, she learned about an opportunity to display the products she made at a local store called Pine Log Antiques and More. In August, she started displaying her products at a second store called Yesterday's. In addition to these two retail locations, Jessica also occasionally sold a piece online. She participated in a handful of craft shows throughout the year and also hosted do-it-yourself (DIY) workshops, where participants paid a fee and she walked them step-by-step through the process of creating a piece for themselves. As the end of the year approached, the owner of Yesterday's told Jessica that she would be giving her a 1099 for all of the items she had sold there that year. This caused Jessica great concern and anxiety. Up until this point, she had mainly considered her Chalk Couture business a hobby and had not kept the best records. Jessica had never owned a business

before and was concerned about figuring out the taxes she would owe the IRS for her Chalk Couture business. After a few days of worrying and not sleeping well, Jessica reached out to her niece, Samantha, for advice. Samantha was a senior accounting student at the local university. Samantha was unfamiliar with Chalk Couture and asked Jessica to tell her more about the company.

### **MORE ABOUT CHALK COUTURE**

Chalk Couture is a DIY and home décor direct selling company founded in 2017. To become a Chalk Couture designer, Jessica bought a \$99 kit that contained enough supplies to get started. As of January 2020, the kit contained a catalog, a 12-pack of thank you cards, a chalk couture apron, various tools, seven transfers, five Chalkology pastes, and three surfaces. Example Chalk Couture items and a finished product are shown in Exhibit 1. After the first month, Jessica paid a \$19.99 (plus tax) monthly fee that included a personalized web page and that month's Club Couture transfer.

### **EXHIBIT 1**

### **EXAMPLE CHALK COUTURE PRODUCTS**



Picture source: <https://www.chalkcouture.com/CorpOrphan/products/1008>

Chalk Couture mainly sells three products: surfaces, transfers, and pastes/inks. The surfaces include items such as framed chalkboards, wood signs, and pillowcases. They range in price from \$7.99 to \$124.99. The transfers are special stencils that have trendy sayings and images on them. They come in several different sizes and range in price from \$9.99 to \$39.99. While the transfers are reusable, they do not last forever. The company says that the transfers can be used approximately ten times. The pastes and inks come in a variety of different colors. The pastes are made

of chalk and can be removed if they are not sealed. The inks are meant to be used on cloth and other items and are more permanent than the pastes. The pastes/inks range in price from \$12.99 to \$24.99. One three fluid ounce container of paste will last quite a long time, but designers do have to take proper care of the paste or it can dry out.

Once Jessica signed up with Chalk Couture, she paid 60% of the retail price for anything that she purchased. Jessica resold most items at retail, resulting in 40% of the retail price in earnings, but occasionally sold an item for less than retail. Some customers ordered directly from Jessica's personalized Chalk Couture web page. When customers ordered directly, Jessica earned a 25% commission and the product was shipped directly to the customer from Chalk Couture. Similar to many other direct selling companies, Jessica earned commission when she sponsored other people to become designers with Chalk Couture. In 2019, Jessica earned between 4% and 8% on the sales of her recruits.

### **JESSICA'S JOURNEY**

Once Samantha had a better understanding of Chalk Couture, she asked Jessica to describe how she had made money selling Chalk Couture in 2019.

As mentioned above, Jessica made money from Chalk Couture in several different ways. First, she created finished products for resell and sold them in the two retail locations as well as online and at craft shows. Jessica paid \$50 per month in booth rent from February through November for her small booth at Pine Log Antiques and More. From September through December, she paid \$105 for a larger booth at Yesterday's. Both Pine Log Antiques and Yesterday's also charged a 10% commission on everything that she sells (this is an industry standard). Jessica also paid \$150 to participate in a well-known Christmas Craft show the first week in December.

Jessica told Samantha that the pieces she makes to resell are sometimes made from non-Chalk Couture "surfaces" purchased at Target or Walmart and even occasionally a vintage piece purchased at Goodwill or a yard sale. Jessica has an eye for decorating and often added embellishments such as bows to her creations to make them stand out. At least a few times a month, she went to Hobby Lobby to purchase ribbon and embellishments for her creations.

Jessica told Samantha that another main way that she made money through Chalk Couture is through hosting DIY workshops. Participants paid a flat fee in advance and Jessica provided the surfaces, the transfers, and the pastes/inks. She then taught

the participants how to make their own creations and each participant went home with a new piece of décor for their home. She hosted several of these workshops in the last year. The latest workshop was in conjunction with a local brewery. Twelve women attended and paid \$25 to make their own home décor piece.

Of course, Jessica also made money when a customer purchased any surface, transfer, or paste/ink from her. A small number of customers have done this and created their own décor on their own time.

Finally, Jessica had received commission checks from Chalk Couture since she had recruited others to the company. Jessica had reached the level of mentor, but is now a master designer since only two of her direct recruits are qualified. Jessica has recruited nine people, but only five are currently active. Of the five, one of her recruits has recruited two other people and one recruit has recruited one other person. Of all of the ways Jessica made money, this was the easiest to track. Jessica can log in at any time and find a commission report for any given time period.