

The Crown Jewels

◆ Camisha Crown was manager of a jewelry store in upscale Newport for 15 years. She was very capable. The owner hoped Camisha would make his store her career. But Camisha had other plans. She had always dreamed of owning and managing her own jewelry store, of being an entrepreneur—a person who assumes risk by starting and running a business. She did a lot of research, talked to lawyers and accountants, shopped for locations, and learned as much as she could about running a business.

◆ The new year was almost upon her. The time was right. Over the years, she had invested a portion of her income, so she had money to put into the business, but she needed more. Confidently, Camisha went to a local bank and asked for a long-term loan of \$100,000 to begin her business. She told them that she had a location, a source for inventory, the product she would sell, and \$100,000 of her own money to invest. The loan officer listened patiently and was quite impressed with her efforts, but said “sorry, no.”

◆ He explained that banks rarely lend money for long-term loans—especially on small business start-ups. The figures show quite clearly that most new businesses fail, so this is too risky a loan for them. The bank would be willing to give her a short-term loan of 90 days, but both agreed that the business probably wouldn’t be successful in that short a time, so repayment would be difficult. She needs time for consumers to become aware of her product. ◆ She needs a long-term loan. He suggests she might want to contact a venture capitalist—someone who invests start-up money for businesses in exchange for some ownership. She decides against this because she knows venture capitalists turn down most of the requests they receive; and they usually invest in amounts considerably in excess of \$100,000. Moreover, she wants to remain in complete control of her business.

◆ Determined to find financial capital—money to start or expand a business—Camisha turns to her friends and relatives and pleads her case. Her friends have not been as frugal and don’t have the money to invest. Her relatives were hoping Camisha could lend them a couple of bucks until payday. Then she called her favorite aunt, Aunt Minnie. Aunt Minnie had fond memories of Camisha from when she was a little girl.

◆ Unlike her other nieces and nephews, Camisha always sent a prompt thank-you note for the birthday gifts Minnie had sent. As she grew up, Camisha remembered Minnie on special days. Aunt Minnie concluded that such consideration and attention to detail probably made Camisha not only a fine niece, but a good business manager as well. Aunt Minnie knew there was a risk involved, but she thought of it as a good investment and expected a return. “Yes,” she said. “I will stake you in your new business.” ◆ Camisha was thrilled and very grateful that her mother had insisted she write her thank-you notes right away.

Since both Camisha and Aunt Minnie were financially responsible, they had loan papers drawn up for each to sign. Aunt Minnie wrote a check for \$100,000, and Camisha promised to pay both the principal and interest back over a period of time, which she did. ◆ Aunt Minnie was not interested in control over the business. She was delighted that Camisha was going into her own business. She did suggest the name for Camisha’s store—The Crown Jewels.

In January, The Crown Jewels opened, and Camisha discovered that being a good owner/manager often means long hours and lots of work. Getting a business started and growing requires a big commitment. By October, The Crown Jewels had begun to do well. Camisha saw an opportunity, prepared a plan, and went back to the bank. ◆ This time, she requested a short-term loan of 90 days. She explained that since 40 percent of her sales occur during the Christmas season, she knows she will be able to payoff the loan. Her jewels can be used as collateral to secure the loan. The loan officer judged this to be a low-risk loan. It was not a request for start-up capital but for working capital, so he agreed, on behalf of the bank, to give her the loan.

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◆ Camisha continues to be successful. Five years later, she wants to open three more stores. Although Aunt Minnie is delighted and proud of her success, Aunt Minnie doesn't have the \$1 million Camisha needs to expand her business. Camisha debates. What should I do? She has been an individual proprietor, but perhaps she should become a corporation and sell stock. The money received from the sale would not have to be repaid because those stockholders would now be owners. ◆ But it would mean that there were more owners, so she would not have total control. Not a bad tradeoff, she decides. She contacts an investment banker who helps her sell stock in The Crown Jewels. This initial public offering is sold in the primary market, then traded in the secondary markets. The capital markets, where financial capital is traded, had allowed her to find buyers and expand. Camisha did keep 60 percent of the stock.

◆ Ten years later, there are ten The Crown Jewels stores in three states and more opportunities for expansion. Camisha does not want to sell any more stock because she doesn't want to give up control. She knows, from her continual research, that most corporations prefer to use their net profit, the money that is left after the bills are paid, to buy new equipment, buildings, inventory, or other resources they might need to expand or modernize. ◆ Her business has expanded so fast she has not been able to use net profit (called retained earnings) to fund her continued expansion. The board of directors and Camisha, who still owns 60 percent of the stock, decide to sell corporate bonds; they take a loan from the public. They agree to repay the amount loaned, with interest, in regular payments. Although debt is always risky, Camisha knows that the interest is tax deductible, which will help when tax time comes; and bondholders can't vote, so there is not a loss of control.

◆ Today, Camisha looks back on her career as an entrepreneur and as an owner/manager of a well-established company. She realizes that in order to become as successful as she is, she had to obtain financing. The financing that she chose depended on her needs and objectives at a particular time in her company's growth and on the financing sources available to her. In her expansions, she has provided jobs for many workers, and she has fulfilled herself as a person. ◆ For the last several years, the company has not had to obtain financing through stock equity or debt. The earnings have been substantial, so The Crown Jewels, Inc., put the net profit back into the company. This was certainly easier and less costly. But, as she ponders her retirement and eventually divestment (selling her interest in the firm), she wonders what decisions others will make for The Crown Jewels, Inc.

Questions for Discussion

Please **TYPE** your responses to the following questions in **WORD** and EMAIL the file to me. Make sure your responses are complete (each answer should be about 25 words – full sentences!!!).

1. Define financial capital and capital markets. Why are they important to Camisha and to the economy?
2. Why did Camisha need money for her business? List the reasons.
3. Why was there a difference in judgment by the bank? First the bank said no, then yes.
4. List the sources of financial capital Camisha used as a sole proprietor and as a corporation.
5. List the reasons each source was selected.
6. What decisions will The Crown Jewels make in the future? Write another "chapter" in the story.