

Capital Accumulation (Second in a Series of Three)

In this article, I will illustrate how to accumulate capital, using real-life examples. Hopefully, this will give you some ideas for increasing your own capital base and those of your customers.

In 1979, a friend of mine, who is the mother of six children, went through a divorce. She and her ex-husband owned a furniture business. In settling the divorce, he kept the business and gave her one asset of the marriage, a dilapidated, one hundred year-old flower mill. She was 39 years old, penniless, unemployed and deeply in debt. There was hardly any equity in the mill property, because of the existing seller-carry-back note they created to purchase it from the old miller's widow.

My friend, Nancy, thought of various uses for the mill, including a home, but realized she must have an income before she could even hope to maintain the mortgage payments, much less undertake the much needed remodeling. In utter desperation, with her back to the wall, she made a mental list of her capital resources. She realized she had time (the standard 24/7), her health, an old building, 6 able-bodied children, some furniture retail experience, business contacts, a few old antiques, a car, a good mind, a flare for creativity, big ideas, and absolute determination to turn her old mill into something beautiful and productive. After looking at her options, she decided to open a business called Country Furniture and Gifts. She had no cash, no credit to speak of and no one who was willing to back her in what seemed to be a hair-brained idea.

Nancy, in my opinion, first deployed the most powerful of her capital assets, her determination. From day one, she would not be denied accomplishing the tasks she undertook. She pushed forward during the bleakest of times, when there was truly no hope in site. She worked long, hard hours and solicited support and resources from the most unexpected places. For example, since she didn't have money to buy inventory, she went to the city dump and collected discarded, mismatched pieces of furniture that still had some life left in them. She hauled these back to the basement of her mill (two night stands and a table). With a dollars worth of sand paper, a can of teal blue paint and a whole bunch of elbow grease, Nancy turned the ugly ducklings into a respectable bedroom accessory set which she sold for over two hundred dollars. She didn't feel she could afford to provide shopping bags for her customers so she asked everyone in the neighborhood to recycle their used grocery sacks. As it turned out, this idea enhanced the image of an old country store. Nancy continually used her creativity to turn lemons into lemonade.

Without cash or credit, she couldn't stock her store with inventory. Drawing upon her retail experience, she coined a motto, which states, "You can't sell from an empty wagon." She had 7,000 square feet of empty space in her mill. To fill it with saleable goods, she networked with craft clubs, church groups, local seamstresses and craftsmen allowing them to place their mostly hand-made items in her mill on consignment. Each time she sold an item she would split the income with the artisan. By so doing, she began

to accumulate enough cash to pay the utility bills and to make her mortgage payment, month by month. She also talked her former-husband into selling her some of his furniture inventory at a reasonable markup, in exchange for 30 days credit on billing. Many thought she was crazy for buying goods at close to retail, but she understood she needed inventory to make a profit, however modest her profit might be at first.

The mill was in dire need of repair. The city government where her mill is located attempted to enforce the full requirements of modern commercial codes on her 100 year-old structure. It was clear it would be completely impossible and cost prohibitive to make all of the repairs demanded of current commercial construction. Out of desperation at first, Nancy sought relief by inquiring into placing her mill on the State and National Registers of Historic Buildings. It was easier to meet most of the requirements the Historical Society than it was to bring the building up to code. Historic status also allowed her to preserve many of the original features of the structure which would otherwise have been eliminated by expensive modern modifications. Almost accidentally, Nancy found out she would enjoy tremendous tax benefits as a result of placement on the National Historic Register. These credits would eventually provide precious capital for reinvestment, which would have otherwise gone to Uncle Sam.

Nancy did what most successful entrepreneurs do at first. She was the owner, the janitor, the maintenance person, the accountant, the sales clerk, the advertising manager, etc. She filled virtually every role because she couldn't afford to hire anyone else. She worked morning to night, with the help of her children, often taking her daily receipts home in a hand bag to do her accounting after she had tucked the kids in bed. Eventually, she was able to hire a person or two to help in the store. Needless to say, she also provided her share of the work necessary to remodel the mill.

At a time when business borrowing was as tight as it had been in the previous 50 years (1980), Nancy approached several local lending institutions for a second mortgage on her mill. She desperately needed the funds for fix up and operating capital. After being turned down countless times, she went to a local thrift and loan with her makeshift loan request, consisting mostly of a budget for the use of the funds. She came out of Murray First Thrift with a \$50,000 check for a loan payable at 21% interest. She still calls this financing her enthusiasm loan, because when the banker came out to make a routine inspection of the mill, he was horrified. He told her if he would have inspected the property before making the loan, he would have never approved it. He said he was nervous for having been carried away by her enthusiasm. Not to worry, you probably already guessed that she paid the loan back ahead of schedule. Nancy's integrity is another asset she vigilantly values.

There is one element of Nancy's success that she swears to this day separates the haves from the have-nots in business. She firmly believes that the reason most businesses don't work is because the owners spend too much, too soon, on lifestyle. As soon as a business gets a little cash in the till, most people cannot resist the temptation to spend the money on the luxuries they have gone without. The big house, the new car, vacations, toys of all kinds and various goodies for the kids are just a few of the alluring items that cause

business owners to make premature draws on business capital. It is those who continue to resist these temptations for a few more years, reinvesting capital in the company, that end up enjoying the lifestyle of their dreams. In Nancy's case, only enough money for bare essentials was withdrawn from the business.

Almost 20 years later, one store in the mill has grown into a village of over 20 stores, a restaurant and a deli, with over 100 employees serving countless customers each year who bring their friends from all over the world to see this thriving enterprise on the West bank of the Jordan River in Salt Lake City, Utah. Nancy and her husband Chris (yes, she is happily remarried), whom she lovingly calls her "Hunk", finally moved out of the tiny bungalow they bought a dozen years ago into a big, beautiful home with a mountain stream flowing through the back yard. Four out of six of Nancy's children work in the businesses. She is now semi-retired, travels often and works on whatever project tickles her fancy at the moment. They have a sailboat in the San Juan Islands of the Pacific Northwest. Nancy isn't really a sailor, but she enjoys seeing Chris' dreams come true, too. She enjoys her grandkids and spends most of her time planning for their futures. Far from the days of wondering how the next phone bill would be paid, she now worries about how to pass an ever growing estate to the next generation without excessive taxation or harm to her heirs.

Please follow along with me and envision what Nancy has created by breathing new life into what was once a ramshackle pigeon palace. Today the Mill is the anchor structure for a cluster of quaint country cottages that house furniture stores, gift shops, art galleries, quilts, old fashioned candy, toys, stationery, clothing and various other treasures. The



buildings are tied together by brick paths, wandering along the banks of tranquil ponds. Visitors can rest on a bench in a shady nook, or pause on one of the bridges overlooking the water. Old farm implements and antique tools highlight country gardens. The fragrant odors of flowers, fresh-cut grass, wood and brick, wet with a refreshing summer rain or sprinklers, mix

with the smells of food cooking in the restaurant or the deli. Children run and play at the grassy edge of the pond, spotting fish, throwing stones or floating stick boats. Artists can often be seen nestled under a broad brim straw hat while sketching one of the tranquil scenes recreated from a bygone era. Ponies graze in a pasture strewn with Russian Olive trees behind the soft white rails of a country fence. A water fountain in the form of a wishing well, a museum to preserve the story of Utah Pioneer Archibald Gardner and the history of each structure to be read and celebrated first hand. Festivals draw huge

crowds: Pony Days in July and The Scarecrow Festival in October, each complete with talent shows, dancing, antique car shows, fun and food for everyone. Christmas is especially festive, with sleigh rides, pine bough wreaths, twinkling lights and a walk through a Currier and Ives print.

Thousands of people come to the village each year, bringing family, friends, and visitors to share with them the experience of wandering back in time. At Gardner Historic Village, guests are able to lose themselves for a few precious hours in a world that is no more. Peace, solitude, nostalgia and the excitement of buying an item they may never see anywhere else keep customers coming back again and again.

Why do I know so much about Nancy Long Christenson and her businesses? She asked me to compile a bank package for her back in 1989, for the financing of her idea of a village and a restaurant. I have consulted for the family ever since and now sit on the board of their company. I have seen first hand and from the inside out how powerfully the astute allocation of capital can influence the growth and prosperity of a small business. Many of the ideas I share with you in these articles were tried and proven in Nancy's businesses. I believe this is relevant to you, because there are thousands of small businesses across America, perhaps even yours, that are desperate for capital. Perhaps by using the skills you are acquiring in finance, you can develop relationships with small business owners who will thrive in part because of the capital you provide for them. Never forget, one of the most powerful forms of capital you provide may be timely and accurate information about how they get to the next rung on the business ladder.

I sometimes walk the paths of Nancy's village after all the stores have closed at night. I like to breathe the air laced with the legacy left by the founding fathers. I like to see the structures we developed there as they rest in the light of old-fashioned street lamps, and to feel the joy of knowing what a difference my service has made in the lives of Nancy, her family and the patrons of Gardner Mill. You, too, can know this joy.

Now, on to Part Three: Pilgrims of Capitalism

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I would love to hear your comments on this article, which originally appeared in the Continuing Education column of The American Cash Flow Journal. You can find my most current contact information on my website, www.waynepalmer.com. Please take a minute to let me know what you think!

Sincerely,

Wayne

