Facing Strategic Growth and Financing Options:  
Moore Unique Skin Care, Houston, Texas

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Introduction

Dr. Milton Moore, a registered pharmacist and medical doctor, originally started Moore Unique Skin Care in 1993. The business grew out of his product development efforts to treat his, and his patients’ shave burn, a condition that is unique primarily to African-American males. Over the succeeding years, Dr. Moore designed and formulated supplemental products to address a range of conditions stemming from shaving. As Dr. Moore’s products received commendations for the successful relief of an array of painful skin conditions during this 15 year span, his skin care products business flourished. Whilst, Dr. Moore nurtured his business and sold his products through both local and national retail outlets and distribution channels. In 2007, as a result of Dr. Moore championing his products through various modes of product promotion, the company experienced a growth spurt. Indeed, his diligent personal efforts toward both product promotion and development paid off, such that by 2009, along with gaining wide acceptance, Dr. Moore was granted two patents on his specialized shaving and skin care products.

As he visualized the growth of his company, Dr. Moore intermittently sought advice to educate himself about business development. Dr. Moore struggled with maintaining a continuous balance between product demand and his financial needs. He learned that funding was vital to adding new products, expanding marketing efforts, and hiring additional employees. However, Dr. Moore expressed apprehension about losing ownership in his business to experienced investors. He indicated that as a new entrepreneur with relatively little business knowledge, he needed to protect his “baby” while seeking professional business advice. How could Dr. Moore strategically manage his growth while ensuring exclusive ownership and protection of the company that he had nurtured over the past 15 years? At this juncture, Dr. Moore realized that he would need to adopt a business formation that would allow him to maintain control of the company while protecting his personal assets, including his highly valued patents.

Industry Background

The following information related to the razor/shaving products industry at the time that Moore Unique Skin Care was considering expansion into the retail markets is based on a study conducted by Davis, Nilolov, and George of PAConsulting (2004).
The razor blade and shaving products industry, a subset of the consumer products market, was a fairly mature market by 2004. The dominant brands in the industry were Gillette and Shick (a subsidiary of Energizer.) Gillette, who was the first major entrant into this market, was the most recognizable brand, holding 28 percent of the market. Shick, also with a long history in this market, held 21 percent market share.

The market continued to be highly competitive as new low cost razors were introduced. Despite the increase in market competition, Gillette had been able to increase market share by 3 percent in the previous 3 years. Consequently, extensive amounts of capital were invested in product research and development by many companies seeking to attract customers to new products in this market.

Due to the fairly mature nature of the razor industry, over time, the main changes or improvements to the razor related to increases in the quality of the blade, and the upgrade to an electric razor. Also associated with changes in the quality of the product were new shaving creams and after shave products which were usually marketed with a particular razor brand. Consumers were very loyal to the brands in this market, especially professionals who needed to have a groomed appearance on a daily basis. Comfort appeared to override price, as long as the price remained within an affordable range.

Large retailers were also found to be loyal to profitable brands. When certain brands were selling more than others, the retailer would purchase more of that brand, thus eliminating the competitor’s brand from the retail market.

Dr. Moore’s Background

In an effort to treat his patients and his own dermatological condition stemming from shaving, Dr. Moore started his shaving and skin care products business in 1993. Through his training and practice, Dr. Moore, an African-American male, discovered that African-American males were generally burdened with the painful, unattractive, and unrelenting problem of ingrown facial hairs which were exacerbated by shaving. The products created by Dr. Moore were unique in that the primary focus was treating sensitive skin. He formulated a combination of ingredients and a special pre-shaving tool (a unique patented tool for lifting ingrown hairs) to enhance the performance of a razor that would not only stop the aggravation of the existing problems, but with his product’s healing properties, reverse the past damage done to the skin by shaving. After several attempts for an effective formula, by early 2000, Dr. Moore had tested, invented and applied for patents for a series of products, including solutions, creams and a specialized hair lifting shaving tool. In fact, as Dr. Moore began his product development and market exploration quest with major shaving product manufacturers, he learned that the timing of his product development coincided with the timing of specific solicitations for development of “African-American male products” by some of the major chain drug stores (Chain Drug Review, 1995; Moore, S., 1998). Dr. Moore’s friends and family became the first test cases for his products.
Competition in the shaving products market targeting African-American males peaked by the beginning of 2001. Competition was inspired by various magazine articles focusing attention on men’s fine grooming. Rather than advertising in traditional mainstream media, promotion efforts among product rivals were largely limited to ethnic marketing channels. Meanwhile, in just seven years, during the “patent-pending” process, Dr. Moore’s products exploded from the local market in Houston to two national retail distribution channels. In 2009, Dr. Moore finally received patent protection for his products.

Dr. Moore saw himself as a tenacious person. This was especially apparent when he related stories as to how he persevered through debilitating childhood asthmatic attacks that on many occasions kept him out of school. He was so determined to excel he would often do his schoolwork from home to make sure that he kept up with the class. He watched his divorced socialite mother struggle to maintain the family’s pre-divorce quality of life, and was determined from an early age to make a difference for his family.

When he graduated with a pharmacy degree from Xavier University in New Orleans, known among African-Americans as a strong feeder to medical schools, he headed directly to Meharry Medical School. At Xavier he had cultivated fraternity ties that would prove to be financially and socially beneficial. For instance, when he later started his medical practice, many of Dr. Moore’s patients and referrals came from fraternity brothers all over the nation. During his last year of medical school, Dr. Moore and his high school sweetheart married and became parents. Due to what he perceived as lapses in his own childhood, he vowed and remained committed to live up to his convictions to be a supportive family member and what he perceived as a good father, a good husband, and a good son.

Upon graduation from medical school, as he promised, Dr. Moore provided financial support for his mother, his own family, and other family members. By 1987, when his second son was born, the family settled in Houston, Texas. Within three years after settling in Houston, however, Dr. Moore’s marriage was irreparably broken. Although divorced from his wife, Dr. Moore shared custody of his sons, and maintained close relationships to the extent that he even included their mother and his sons in most of his travel plans.

**Shaving and Skin Care Product Development**

Dr. Moore was among the countless African-American males who endured the misery of ingrown facial hairs intensified by shaving. Early in his medical practice, Dr. Moore explored solutions to his own unpleasant shaving experience. Over time, he experimented with formulae variations for his own personal shaving needs. Positive results led Dr. Moore to try his newly developed products on the patients in his dermatology practice. After he attained significantly good results on several hundred patients in his dermatology practice, he made his first attempt to patent his invention in 1996.

While he felt that his product offered a unique breakthrough in solving the “razor bump” dilemma, his first attempt to patent his product was unsuccessful. Dr. Moore persisted, testing more than 500 patients. By early 2000, he finally created an effective and distinct line of shaving products worthy of the issuance of a patent. He devised a shaving program for using his patented
products which consisted of shaving gels, a pre-shaving tool (for hair lifting and hair removal) to enhance the performance of a razor and skin healing creams. In 2009, Dr. Moore finally received patent protection for his shaving products. The creation of the shaving tool for lifting ingrown hairs stemmed from the idea that traditional supplementary shaving instruments produced by other manufacturers were too harsh for the sensitive skin of African-American male shavers.

During the period between his patent application and the receipt of patent protection for his shaving products, the demand for other products Dr. Moore used in his medical practice increased considerably amongst male and female patients alike. In seeing hair loss patients, for instance, Dr. Moore explored remedies for this condition. As in the initial stages of his shaving product development, Dr. Moore distributed samples or packages of these new products and sold his hair loss and skin care products to patients for home use. Along with the shaving products, this demand evolved into the creation of a line of hair care, hair growth and skin care products sold through the same major distribution channels as his patented shaving products.

**Rapid Growth of Moore Unique Skin Care**

In May 2000, one of Dr. Moore’s friends, Emilian White, started serving in an advisory capacity. While waiting in the reception area, Emilian overheard patients complaining about not being able to get the skin care products without scheduling an appointment, waiting a long time to see the doctor, and finally, paying for a doctor visit. He heard them say that they wanted to buy the products and then leave.

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Emilian: Milton, what you doing brother? You’re gonna run people off. You need to catch up. I told you those ads would work.
Dr. Moore: Now I’m working ridiculous hours to keep up, I need to hire some more people. Also, I’m so far behind in paying my manufacturer that they won’t increase production without getting paid in advance, but I need to find a way to get more of my own product in stock.
Emilian: You might need some investors. What kind of percentage would you pay them?
Dr. Moore: I really hadn’t thought about it. I just know my bankers won’t even talk to me about extending me another line of credit.
Emilian: Well you need to think fast and let me know what percent you’ll pay them.
Dr. Moore: Let me think about that. Are they going to want to be co-owners?
Emilian: Of course man. People know this is a money maker, so they want a piece of this.
Dr. Moore: Okay, set up a meeting, but we’ll see if they are willing to put up the cash.
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Initially, Dr. Moore was satisfied with using the products in his practice and selling them to patients for home treatments. But by the end of September 2000, at his friend Emilian’s suggestion, he was running both drive time radio ads and a small ad for three months in the back of Ebony magazine. He was not prepared for the business growth spurt he suddenly enjoyed. In the local Houston market, Dr. Moore’s ethnic line of shaving products was in high demand by the Houston police department (PRLOG 2008) and a number of U.S. military personnel. Members of the police department and military were required to have a clean shaven appearance on a daily basis. These groups were not only comprised of African-American males, but all other ethnic groups who preferred the close comfort that Dr. Moore’s shaving and skin care products offered.
As the ads began running, and products became available without a medical visit, the demand for Dr. Moore’s shaving products increased rapidly. This was the start of Dr. Moore’s intermittent order-backlog problem. Dr. Moore questioned whether orders were not being filled fast enough due to the limited financial arrangements he had with the manufacturing company. Although Dr. Moore occasionally managed to match his inventory supply with customer demand, managing to do so on a consistent basis eluded him. After considerable pondering, he became resolute that, long-term, this issue could only be resolved through maintaining a continuous balance between product demand and his financial needs.

**Dr. Moore’s Self-Financing Fix**

In early January 2001, after the holiday rush, Judy Baker, Dr. Moore’s long time secretary-receptionist related to him that she noticed during the 2000 holiday season, young women came in to buy several kits as gifts. Later in January 2001, Dr. Moore and Emilian met with four potential investors at a meeting arranged by Emilian. The meeting was cordial, but Dr. Moore walked away from the meeting with concerns about maintaining the majority interest in the business. The investors discussed the fact that several small businesses had successful partnerships with some of the “heavy-hitters” such as Enron, a major corporation operating in Houston, Texas. Enron had a well publicized incubator system for assisting Houston minority-owned businesses. Enron sponsored a monthly “first Thursday” community networking event specifically for African-American entrepreneurs in Houston. The purpose of the event was to introduce the entrepreneurs to the Enron system of venture capital financing. Success stories were often shared with the audience in the form of testimonials by an entrepreneur-participant in the Enron program, as well as by an Enron employee coordinating the networking event. After a question and answer session, the audience was then invited to seek financing through Enron. Some of those minority businesses had issued successful initial public offerings through Enron’s system. However, in December 2001, Enron filed for bankruptcy.

Even though a lot of big names were tossed around at the meeting, Dr. Moore was still unsure of how this would actually work. He did some homework on the internet and called a couple of friends who were attorneys and financial professionals. Since their advice was so broad and theoretical, none of their advice seemed to give him any business insights. Meanwhile, Dr. Moore and Emilian continued to discuss methods for meeting the capital needs of the business. In their discussions, Dr. Moore’s hesitancy to share an equity stake in his business dominated the conversations. He was even more concerned after hearing about the need to share financial reports, and the risks of relinquishing an unreasonable amount of equity in his view for relatively modest investments.

While the investment group awaited Dr. Moore’s reply, he decided that this method of financing presented too many uncertainties, and he declined to go further in the discussions due to what he perceived as foreseeable risks. At this point, he needed to make an immediate decision, so he decided to self-finance. He owned three parcels of real property, one of which was an unoccupied condominium in the prestigious Houston medical center area. Although it was his favorite property, it had the most equity at the time, so he decided to sell it to raise the needed capital. In July 2001, through the sale of the condo, he had some of the needed capital to go
forward. The $138,000 profit from the sale of the condo took care of the immediate needs to pay the manufacturer, as well as other production costs, and provided enough funding to hire a full-time employee. While supply caught up with the demand, a full-time employee was hired to help the part-time person run the rented warehouse, located adjacent to Dr. Moore’s medical practice.

At this time, one of Moore Unique Skin Care’s major competitors, a major shaving company, had begun a strong national marketing campaign. Dr. Moore felt that his patented product was uniquely differentiated from that of any competitors. He knew that his products were exclusive to the shaving needs of the African-American male, and other groups with specialized shaving needs.

The Retail Distribution Expansion

From 2001 through 2005, Dr. Moore took no marketing action other than having a website through which he sold his shaving system. With growth in sales developing through the website, he hired three more people to work in the business.

During this same time period, Dr. Moore devoted a great deal of personal time and resources to the illnesses of his mother and his sister, moving them into his home in Houston from New Orleans. He decided to postpone his individual efforts related to his business, and did not resume those efforts until after the deaths of his mother and sister.

Although meetings with potential investors never resulted in acquiring additional capital, Dr. Moore realized that he had learned a lot about his business financing possibilities. One unexpected benefit of the meetings came from learning how convenient it was to purchase the competitors’ shaving products 24 hours a day in Walgreens and CVS. This insight gave Dr. Moore the incentive to pursue such retail arrangements.

In early May 2006, after personally initiating the contact and follow up with Walgreens executives, Dr. Moore was allowed to test market his product in 500 of their stores. He began placing his products on their shelves on October 1, 2006. Shortly after his products hit the shelves of 500 Walgreens stores, to his surprise, in mid December 2006, he was asked to supply an additional 4,500 Walgreens stores with his products. Meanwhile, in December 2006, he also received a phone call from an African-American Walmart executive complaining because he had to buy his shaving products from Walgreens. Walmart wanted to stock the shaving system as well. In late 2006 it was announced that Dr. Moore’s products would now be sold in Walmart stores.

Earlier in the development of the product, Dr. Moore had approached a major shaving products manufacturer’s distributor about carrying his products in an ethnic line of its brand-name products. He spent time and energy attempting to meet with the appropriate company representatives, but received no immediate response. In early 2007, Dr. Moore received a responsive notice of interest in his products from this manufacturer. Although he was finally given an opportunity to pitch his products in a face-to-face appointment they scheduled in April 2007, the major manufacturer cancelled the appointment. Ultimately, in September 2007, Dr.
Moore’s rescheduling attempts were met with a response from the manufacturer of “…no, for the moment.”

In addition to the retail distribution channels, the company had a website through which it sold the products as a kit or as individual units. Internet customers could access the company’s website directly, or they were directed to the company’s website from several external links. The website had a pop-up that had a short, voluntary survey for the purpose of gaining information about its visitors. Customers paid for orders with credit cards.

Dr. Moore’s Business Formation and Financing Options

In February 2007, Dr. Moore recruited a couple of friends to come by after work to help sort through the boxes of products that had not made it to the warehouse shelves. They worked on filling a backlog of orders received from internet customers. Those friends, among others, tried several times to get Dr. Moore to change the way he ran his operation. This fast paced growth potential had been exciting, but he had previously been unsuccessful in getting compatible investors. In the course of discussing his business model with potential investors, Dr. Moore perceived that the responses he received tended to benefit the individual investor rather than the company as a whole. Dr. Moore was heard to say on more than one occasion, “My biggest concern is that certain investors want me to share the ownership in my business or my patents.” For instance, in addition to an equity interest in the corporation, one investor requested that Dr. Moore sign a personal guarantee or a secured promissory note. Another potential investor demanded that the books of the business be open to him upon request at any time. One investor wanted to restructure the business so that he could become a partner in the business. And, yet another investor wanted to work in the business in exchange for an investment interest, rather than provide capital in the form of a cash outlay. Dr. Moore saw the potential investor requirements as more burdensome than beneficial, and therefore not worth the influx of capital that investors would provide. Dr. Moore was considering other financing options in order to take full advantage of the sales opportunities presented to his company. He sought to make use of his relationships with vendors and manufacturers for financing to grow the business.

In the past, Dr. Moore had tapped into the Houston (African-American) business community by forming an all volunteer advisory board that included possible investors. An interview with one such board member and potential investor believed the prospect of investor financing was impracticable and infeasible given Dr. Moore’s attitude toward sharing ownership and any financial information. The board member described the setting at the meetings, and even subsequent conversations, as being filled with an air of distrust from both sides. He described how, in his opinion, Dr. Moore was unwilling to share the company’s financial records. On several occasions the financial records were “unavailable”. When one of the advisory board member’s employees requested, on two occasions, that Dr. Moore’s office fax financial documents to the board member, they received no response. When this same employee was sent by to pickup the requested financial documents, after phoning the office, Dr. Moore was too busy, and his assistant declined to release the documents. Finally, when the board member reached Dr. Moore by cell phone, he was told that much of the information they needed to make a decision could be retrieved from the verbal information he had summarized in meetings, press releases and the company’s website.
In due course, Dr. Moore obtained the approval of his patents on February 25, 2009 and May 5, 2009. Based on the award dates of 2009, Dr. Moore had competitive protection of his patents until 2029. With these patent grants, Dr. Moore was able to reappraise new directions for his company and/or his products. As a result of these patent grants, Dr. Moore had expressed the willingness to use his “exclusive right” status to license his patents. Emilian spoke with Dr. Moore about finding the best course of action to grow his business. They discussed the possibility of expanding manufacturing processes and facilities, and pursuing new channels of distribution. Emilian reasoned that to seriously explore expansion, Dr. Moore should exhaustively investigate his financing options. Moreover, Emilian surmised that the tension between Dr. Moore and potential investors was likely due to his failure to understand the protections available through various business formation strategies. Emilian strongly encouraged Dr. Moore to seek out a professional who could evaluate financing options and business formation strategies that allowed maximum control of his business and legal protection of his most important assets, his patents. With that, Dr. Moore’s enthusiasm made him all ears: he was ready to listen.

Dr. Moore’s Growth and Financing Decision

Dr. Moore was faced with an important decision. His potential financing options included personal sources, bank loans and lines of credit, and private equity offerings (See Appendix A for a list of financing options). Choosing the appropriate form of financing was principally a matter of matching the parties’ requirements and restrictions. Each type of financing had its own strengths, limitations and weaknesses. How should Dr. Moore strategically grow and finance the company he had built and nurtured, while legally protecting his assets and maintaining control?

References


Appendix A

Personal financing is the most prevalent form of financing for small-businesses through self-financing in the form of personal savings and savings of relatives. This may be due to such advantages as avoidance of fees, low interest rates, and extremely flexible repayment terms. Defaulting on such a loan has unique risks and disadvantages associated with damaging any personal relationship. Another good reason for this form of financing is that the faith you demonstrate in your own business by risking personal funds is one consideration by bankers and other outside sources. Personal financing encompasses credit cards, home equity loans and other variations of personal lines of credit. Another alternative to low-interest-rate, low-fee personal sources include loans against life insurance cash-surrender values, in which no payments are made since the loan repayment is made from the insurance payout upon the death of the owner. Funds from individual retirement accounts (IRA) can be withdrawn if the money is repaid no more than 60 days later. Because this is not a loan, no interest is paid, however, a 10 percent penalty plus taxes is assessed if the repayment does not fall with the 60-day requirement.

Internally generated financing from net profits earned and retained are advantageous since the only opportunity cost associated with retained earnings is the interest lost by not keeping the funds in the bank. For those companies that may have excessive profits, it is important to allocate these funds to areas of the business that would effectively promote growth. If the owner does not carefully monitor where the funds are directed, opportunities to finance growth through funds generated internally could become lost.

In using bank loans, lines of credit, and other extensions of credit the small business owner may find a wide variety of ways to fund growth, as follows:

Line-of-credit loans are short-term loans that extend the cash available in a business' checking account to the upper limit of the loan contract. Interest is charged on the actual amount of funds advanced, beginning at the loan’s inception until repayment. Line-of-credit loans are intended for purchases of inventory and payment of operating costs for working capital and business cycle needs. They are not intended for capital expenditures such as equipment or real estate.

Installment loans are designed to cover mid- to long term financing needs of the business. These loans are paid back in equal monthly payments designed to pay principal and interest and can be written to cover the various needs of a business. On the date the contract is signed, the full amount of the loan is disbursed to the borrower, interest is amortized from that date to the final day of the loan and no penalties are assessed if the loan repayment occurs prior to the final due date.

Balloon loans are frequently used when a business is awaiting receipt of a payment on a specific date from a customer for its product. These loan types require only the interest to be paid off during the life of the loan, with a final lump sum (“balloon”) payment of the principal due on the last day.

Secured loans require collateral but typically have lower interest rates than unsecured loans. The collateral pledged is usually related to the purpose of the financing. For example, if the loan is to
buy inventory, the inventory will likely serve as collateral. When inventory is used to secure a loan, the maximum allowed allocation of its value is usually 50 percent of the inventory’s sale price. Loans secured with accounts receivable are often used to finance growth. In this situation the bank will usually lend a maximum of 75 percent of the amount due from customers.

*Unsecured loans* do not require the pledge of collateral as a derivative source of payment in the event of the borrower’s loan payment default. An unsecured loan will be granted if the borrower is considered to be low risk by the lender.

*Small Business Administration (SBA) loans* are not granted directly by the SBA to businesses. Since SBA’s lending programs are managed through lending institutions, such as banks, credit unions or nonprofit financial agencies, the lending relationship will be established between the entrepreneur and the lending officer.

*Angel financing* is an informal means of providing startup capital to a business through an affluent individual referred to as an angel investor. Angel investors will typically invest their own funds in exchange for stock or convertible debt. Angel investors frequently require a very high return on investment since they usually bear very high risks. Suitable due diligence, as well as compliance with state and federal regulations should be observed by the parties to angel funding. For instance, some recipients of angel funding must file documentation of the transaction with the Securities and Exchange Commission (SEC Form D).

*Venture capitalism* is very similar to angel financing whereby an investor or group of investors contributes an influx of capital to a start-up company in exchange for some level of control of the company and corporate decision making.

*Trade Credit*, extended to the businesses by suppliers who allow them to buy now and pay later, is an indispensable tool for financing growth for many entrepreneurs. A business is using trade credit whenever it takes delivery of materials, equipment or inventory without paying cash on delivery. Trade credit should be considered carefully since, in reality, it can be quite costly. For example, a vendor who offers a two percent concession on invoices paid within ten days, with the full balance or net amount due in thirty days, is in fact charging interest at the rate of 36 percent per annum.