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Small businesses reduced to survival mode

By Jeff Harrington, Times Staff Writer
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TAMPA — Like many of the small-business owners crammed into the classroom-sized seminar, Judi Belanger had a problem.

Her Ruskin-based pet-sitting business, This Little One Stayed Home, was handling up to 15 customers a day until business dramatically fell off in September. She's lucky to pull in one or two new customers a month.

"Money is tight and people aren't traveling and leaving their pets," Belanger told fellow entrepreneurs during a Small Business Survival Expo last week. Organizers for Hillsborough County's Small Business Information Center pulled together the expo in less than three weeks and were part-encouraged/part-dismayed when almost 400 people showed up.

"We've never done something like this before," Beth Calhoun, an expo coordinator, said before adding in a half-whisper, "Things have never been so bad before."

Amid all the bailout talk for financial and auto giants, the country's vast and varied pool of small businesses, the proverbial backbone of the economy, is taking it on the chin.

Depressing data abounds: Small-business loans taken out have fallen 38 percent from a year ago; two-thirds of senior loan officers report tighter credit standards on loans to small companies. Small business makes up 90 percent of the retail and restaurant trade, one of the sectors suffering most in the recession.

In a recent semiannual survey by American Express, one-third of small-business owners reported the economy as their biggest challenge to growth. "And until small businesses feel more optimistic about their business in the near and long term, this economy will continue to drag," an October report from the U.S. House Committee on Small Business concluded.

Concerns are broad-based. But for many businesses that believe they *could* be growing, the most agonizing issue is lack of available credit from banks and credit card companies. In a November survey by consulting firm George S. May International, most small-business owners said credit relief is critical, but 60.2 percent don't think it will come in time.

"Anyone who relies on short-term credit for things would tell you they're having the same problem," said Doug Towne, a consultant in Largo who advises companies on disability issues.

"We gave (the big banks) $700-billion to free up credit … and apparently it's done just the opposite. They're using this money to buy other banks; they're not extending credit, not to the small-business owner."

At USF's Small Business Development Center in Tampa, assistant director Jim Parrish offers rather somber advice to startups looking for loans: Wait 'til next year. Maybe February or March. "All of the financial institutions, almost all of them, are sitting on their hands … even the community banks that do have money to lend," Parrish said.

Statewide fallout

In its broadest terms, the Small Business Administration defines a small business as any with fewer than 500 employees. In Florida, economists say, small business accounts for more than 80 percent of the economic engine.

Whether it's the lone operator designing Web sites from home or the manufacturer with a work force just south of 500, this recession isn't discriminating; they all face challenges.

One measure of the impact is chronicled by FRED, the acronym for the state-run Florida Research and Economic Database. FRED lists 214 private employers based in the Tampa Bay area with fewer than 500 employees apiece. But that dated list includes more than a few that have either recently gone into bankruptcy reorganization or closed their doors: names like Arigato Japanese Steak House, Accentia BioPharmaceuticals, Creative Loafing, Dynamic Leisure, NetWolves Corp.

Some of the most successful American companies were founded during recessions, like Disney (recession of 1923-24) GE (panic of 1873) and Microsoft (1975).

This time, circumstances are different.

In a typical postwar recession, established but bloated businesses are affected the most. Mass layoffs from major manufacturers are widespread. That's still happening now, but small businesses are being hit harder than usual because the credit crunch is fueling this recession. The last time that scenario happened: 1929.

Stalled startups

Small businesses have historically relied on home-equity loans and credit cards to get established. Those avenues, along with small-business loans from banks, have turned into dead ends. Homeowners have lost equity to tap while credit card companies such as American Express and Citigroup are lowering credit lines and hiking interest rates.

"Washington has failed to realize that so many small businesses rely on a diverse method of financing their day-to-day activities," said Dean Doulou, a business broker and commercial real estate broker in the bay area.

"You can see what's happening. … Go up and down the highways (showing) Pinellas County's strip centers."

In October alone, companies nationwide with 50 or fewer workers eliminated 25,000 jobs, according to the ADP Small Business Report. It was the first decline in small-business employment in six years, running counter to the old saw that small-business employment grows when big companies lay off workers.

"It's tough for small business. They most likely don't have a war chest to fall back on," said Sean Snaith, an economist with the University of Central Florida. "You're not too big to fail when you're a small business."

Snaith recalled a recent conversation with a businesswoman in Orlando who runs a day care center. She used to buy goldfish crackers and other snacks from a vendor on credit; now it's cash only and she can't afford to stock up. "Simple things that small businesses count on are drying up, let alone going to a bank to finance an expansion," he said.

Parrish with the Small Business Development Center said one banker told him they won't approve any SBA loans unless they are secured by commercial real estate and the borrower is taking out no more than 70 percent of the value of the property.

"Why even bother?" he said.

Parrish is steering business owners to alternative financing. One source he cited is equipment leasing companies that are still actively seeking customers for long-term rental agreements.

Another is the SBA's 504 loan program, which targets job creation. Businesses can't use it for working capital, but they can get support for buying land and equipment. Here's how it works: A Certified Development Company approved by the government would loan 40 percent of a project and work with a bank to provide 50 percent, with the bank's loan secured by a first mortgage. The business owner would then have to put up only 10 percent.

Perhaps the most popular option lately for the cash-starved: factoring.

The most common way a factoring company operates is to advance a small business the money needed to meet customer demand by buying that small company's accounts receivable payments. Once customers pay up, the factoring company takes out what it's owed and pays the balance — minus fees of 1 to 5 percent — back to the small business.

Often, factoring companies will advance a business 80 to 85 percent of the value of their accounts receivables. If their accounts are equal to $10,000, a company would get about $8,500 up front.

"It's very expensive money," Parrish said, "but the good news is it's still available, and if your profit margins are adequate, it's a way to go while you're waiting for the banks to start loaning money again."

Bebe Ziegler, who runs Brandon fashion designer Ice It By Bebe, turned to a factoring arrangement with Amerifactors recently after landing a big merchandise order from Bloomingdale's.

"We're not stuck on financing $30,000 … until our check comes in from Bloomingdale's," Ziegler said. "It's instant pay."

And it beats the alternative, she added: putting that $30,000 on a credit card charging 17 percent interest.