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# What's Ailing Small Business?

by Dennis Boone

**POLITICIANS AND REGULATORS AREN'T MAKING THINGS EASIER ON SMALL COMPANIES, AND THE RESULTS SHOW UP IN THE MONTHLY UNEMPLOYMENT REPORTS.**

Kelly Wilson took the leap in July 2008, passing on a full-time corporate management career for ownership of her own business. Weave Gotcha Covered, her specialty interior-design firm, was less than 90 days old when, in Wilson's words, "the bottom dropped out" of the U.S. economy.

Launching a business in the best of times takes guts. Seeing one through startup in the middle of a recession took something extra—focus. "I did not pay any attention to it," Wilson said, recalling the financial system's near-meltdown before the 2008 elections. "I remember going in that afternoon, with the market going nuts and all that doom and gloom.

"But I thought, 'This is up to me, and what I'm going to build with this,'" she said. "I'm a firm believer that positive brings positive. We have doubled and tripled our growth every year, in an industry considered to be fluff—where nobody really needs what we're selling."

Demand for her window-treatment services and other products caught her somewhat off-guard, but she's responded like a true entrepreneur, adding staff and market share. As for the economic news? "I don't listen to the reports—I turn them off."

In a 24-hour business news cycle dominated by dire warnings of economic collapse and a climate of regulatory and policy hyperactivity in Washington, hers is a refreshing story of the possible. Too refreshing, as Wilson found out: When a local TV news crew sought her out for a report on small-business challenges, it backed out after learning that her company was actually succeeding.

By building her business even through a recession and its lingering effects, and by adding staff—she has a dozen people on the payroll now—Wilson is a living example of what the Kauffman Foundation found in a report last year exploring the nature of job creation. It determined that "small business" is too broad a term to apply to that sector of the economy responsible for generating jobs; small start-up companies, in fact, and the energy they release during their rapid growth, are the answer to the confounding riddle policymakers face when they stare at unemployment levels that have nudged above 9 percent yet again.

It seems a simple enough construct: Bring down the jobless rate by removing the restraining bolt on startups. But clearly, the nation isn't doing enough of that. Is that because, as some lament, Washington has it in for small business, as some have claimed in the wake of health-care and banking reforms? Or that the biggest businesses, with greater access to those who write the new laws, are protecting their own market share at the expense of overall growth? (Think here about which banks will really suffer in the wake of the Dodd-Frank financial-reform bill).

Those who deal with small-business development and small-business clients say it isn't as dire an outlook as some make it out to be. Outside forces, particularly from local, state and federal government, have long been the bane of many small-business owners. But these are people who as a class have the "me-against-the-world" mentality that drew them to business ownership in the first place. The challenges of small-business ownership in the current climate can be exacerbated by policy decisions, but in the nation's history of small-business ownership, they say, just when hasn't that been the case?

"The attention to regulation, in my opinion, is window-dressing," says Bob Litan of the Kauffman Foundation. "The average consumer doesn't see the impact of Dodd-Frank at all. And health-care reform doesn't affect business with under 50 employees," which account for the vast majority of U.S. companies. "I think the main problem, and the bankers will tell you this, is on the demand side. There is not a lot of demand for loans because the demand isn't there for business sales. It's a vicious cycle, where the weakness of the recovery is the main impediment."

Litan is an advocate for policies that do more to promote start-ups, unleashing the power of early-phase growth by fostering innovation. But such policies implicitly involve destroying other businesses, small or large, and in policy terms, protecting the status quo can get in the way of making room for the truly innovative.

## No Pain, No Gain?

True pro-growth policies will involve some pain, but within that churn, society overall realizes greater, broader benefits, free-market economists and business leaders believe. That's what innovation does, as the legendary Joseph Schumpeter argued in the mid-20th century with his economic theory of creative destruction.

An oft-cited example of the innovation/destruction paradigm is the 8-track tape. It gave way to cassettes, which yielded to CDs, which have been overtaken by mp3 players. With each innovation, new technologies led to new products, new processes and new jobs. But somewhere out there, a mom-and-pop store specializing in 8-track tapes was doomed if it didn't climb aboard the technology train fast enough. A more recent take on that is what's happened with home entertainment since the advent of Netflix—and what's happened to your neighborhood video-rental store, as well.

Right now, though, many in business fear that we're getting the destruction, but not the creative. That's what Michael Hill, head of Washington-based NLS Venture Capital, wants to address.

"We've seen bank bailouts, stimulus, zero percent interest rates, quantitative easing, and more at unprecedented levels, all done under the banner of job creation—and this is all we get?" says Hill.

"Corporate balance sheets swell with tons of cash, trillions of dollars are sitting in money markets, and the stock market has rallied. Yet, there is still no dramatic job recovery. We have to ask, 'Where do jobs really come from?'"

In May, Hill's group launched an initiative called "You're In Business," designed to promote policies that put seed money into the hands of 1 million entrepreneurs. "Instead of focusing on 'small,'" Hill says, "we need to focus on 'new,' creating millions of jobs by creating millions of businesses."

Even if that effort panned out, long-term success for any start-ups relies on sound fundamentals, said Malinda Bryan-Smith, regional director for the Small Business Development Center at Johnson County Community College.

"When times are good and people start a business, the sales may roll in and they may see this money coming in, but they're not taking the next steps," she said. "They never put the processes in place, they are not disciplined, and when the economy turns down, they don't understand why this is happening to them.

"You have to be efficient," she says. "You have to be lean and mean."

## Successful Standbys

Not all new business growth must stem from high-tech. Innovation in traditional sectors—manufacturing, for instance—can lead to new companies and job creation. The Small Business Association office in Kansas City points to Heartland Fabrication and Machine in Independence as an example of that.

Michael Hudson is the president of Heartland, which launched in 1996 with two employees in a 1,200-square-foot facility. Today, he has nearly 20 on the payroll, operating in a 40,000-square-foot. And he's not doing it with new-fangled concepts, but by cranking out high-quality, machined metals and fittings.

Patricia Brown-Dixon, regional administrator for the SBA, said Heartland was part of a ramp-up by American manufacturers, one driven by small companies.

"Manufacturing has added 238,000 jobs since the beginning of 2010," said Brown-Dixon. "While these jobs are only about 13 percent of those lost during the recent recession, we are witnessing the best period of manufacturing job growth in over a decade."

She noted that 37 states had seen job increases in the manufacturing sector in the 12 months ending this past April, with 8,200 of those in Missouri and 1,700 in Kansas—with few of those generated by large-scale businesses.

Something, then, is working in favor of certain small businesses—just not enough of them.

## Hidden Costs

Paul Weber, who started Entrepreneur Advertising Group in Kansas City in 2003, sees the challenges of small-business ownership from two perspectives: He employs eight at his own agency, and deals mainly with small companies to help them formulate messages they need to drive success.

Small businesses today still face the kinds of challenges they always have, he said, such as accessing capital, managing turnover or dealing with technology upgrades. The recent frustrations for many time-starved business owners, he said, come from the "extras" that policymakers are dumping onto their calendars, even if no direct costs are involved.

"Certainly, when something as dramatic as health-care reform or other changes in regulation come along, there is an additional burden on small business," Weber said. "But let me define it this way: Even though it may not hit my pocketbook directly, the burden on me as a small business owner is to understand it. I have to invest resources to understand it, and though that may not trickle down to the bottom line, indirectly I'm making an investment in understanding it."

Another common frustration, he said, is that Washington's flurry of activities in the name of "doing something" about the economy isn't particularly well-focused, or effective.

"There's a lot of talk about Washington trying to help small business, but a lot of programs we see rolled out not only take time to explore, but nine times out of 10, we can't take advantage of them because of restrictions on access. There are incentives at the state level for adding to your employee base, but with minimum requirements you can't match, or you don't need."

Susan Henson, who runs the University of Missouri extension program's FastTrac NewVenture entrepreneurship program for dislocated workers in the Kansas City area, said she'd heard the same concerns. She cited a recent small-business roundtable, where owners said incentive programs "were set up to hire a greater number of employees than most small businesses are prepared to hire."

"I can't hire 20 at a time, but I might be able to hire five, or even 10," Henson said. "We need tax and hiring incentives that really fit smaller businesses. If you lower some of those thresholds for business to take advantage of, you'll likely see more quantity there."

Weber says he knows exactly what those at the roundtable were running into, just like a lot of small company owners: "Their cries of pain and anguish are valid," he said. But even with all that, most small business owners don't have Washington on their Top 10 list of challenges, he said. "They are more concerned about internal and operational challenges, customer issues, financial issues, those kinds of things. Regulation, for a great number, isn't."

## Seizing Opportunities

Weave Gotcha Covered and Heartland Fabrication and Machine are just two examples of growing companies that should dispel any notion of "war" having been declared on small business. That's not to say that mistakes haven't been made on the policy front, says Litan, back at the Kauffman Foundation.

"I think for many business owners, it's a matter of perception," he said, "and the perception is different because of bailouts. We didn't have that in previous recessions.

"Except for Chrysler in 1980, large institutions didn't get bailed out. This time, the perception is that Main Street got screwed, and that creditors for big business got off scot-free. That perception is going to be hard to shake, because it's true. It happened."

The problem facing not just small business, he said, but the country overall was that today's challenges can't be addressed by solutions from past downturns. The underlying fundamentals have changed too much.

"When we went into World War II, we were not in debt, and we were able to borrow money—a lot of money," Litan said. "We went into this downturn with banks overleveraged, consumers overleveraged, and the country in debt. The long-term deficit is very, very significant; we can't spend our way out like we did then."

Weber, from EAG, sees opportunities for small businesses to resolve that conundrum. "I think we are truly in an era of small business," he said. "We built an ad agency entirely around that.

"But if we did anything right, it was picking the right time to do it. We've had some government support, too, and we've taken advantage of that, as have our clients, with resources like the Small Business Development Center and others. And in Kansas City, when you mix in the philanthropic venues that support small business, like UMKC and the Kauffman Foundation, despite some of the other things that are going on, it's a great time to be in a small business." ■

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