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Small businesses see good omens for 2010

More See Signs of Improvement in the New Year

By Ann Meyer
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As she sits in the construction zone that doubles as her workplace, Sandy Marsico can't contain her enthusiasm. Her marketing and interactive design firm is knocking down walls to expand in preparation for what she believes will be a busy 2010.

"I'm optimistic," said Marsico, principal at Sandstorm Design. "We're being slammed with requests for proposals. We haven't been this busy since 2007."

Sandstorm's growth is the result of hard work and planning. Marsico added two senior managers a year ago, one to head up creative and the other technology, allowing her to spend more time on strategy and sales, including diving into government work and becoming certified as a women-owned business.

"It's meant growth for next year," Marsico said. "I can almost guarantee I'll have more staff" a year from now.

Marsico is among a growing number of business owners who are encouraged by the nation's focus to help existing businesses grow, as well as new ones to emerge.

Like the vast majority of the more than 61,000 [companies](#) licensed with the City of Chicago, Sandstorm Design is a small business; it employs just 11 workers. But together, small businesses are a driver of the economy. The sector is considered a leading indicator because small firms often are the first to respond to signs of economic recovery.

Vantage Solutions is seeing more interest in training and other pro-active approaches to human resource development, instead of pay reductions, furloughs and layoffs. "It's causing me to be optimistic about 2010 and beyond," said Vanessa Smith McTier, owner of the Chicago-based human resources consulting firm. The company recently signed a longer-term lease for more space, and it plans to add staff in the first quarter.

But the breadth and diversity of small businesses make it tough to generalize the optimism.

"We see some that are trying to just make it through, while others are trying to get loans for marketing or expansion," said Marianne Markowitz, regional administrator at the U.S. Small Business Administration.

In Illinois, small businesses number more than 1 million, touching every sector from manufacturing and professional services to retail and health care. According to 2006 Census data, they include 258,000 companies that employ more than 4 million people and contribute \$192 billion in annual payroll to the economy, Markowitz said. They represent 98 percent of state employers and 49 percent of employment.

With all eyes in Washington on the recovery, the sector is getting attention because research indicates small companies -- especially the newest ones -- are the biggest job creators.

A new study of Census data commissioned by the Kauffman Foundation indicates firms that are less than 5 years old created about two-thirds of all new jobs in 2007. On average, these young firms created about four jobs per year.

As a result, the Kauffman Foundation is advocating policy changes to encourage startups, such as cutting payroll taxes, welcoming immigrants who intend to start businesses here, easing lending standards and reforming Sarbanes-Oxley regulation, which discourages small companies from going public.

Although many small businesses fail before they reach the job-creation stage, startups remain the nation's best hope, said Dane Stangler, senior research analyst at the foundation. Some will become "the next generation of large and mid-size businesses," Stangler said.

Despite the severity of the recent recession, "There still were hundreds of thousands of businesses started. And we would expect that to increase" as the economy improves, Stangler said.

Some already see signs of improvement. About 15 percent of Illinois businesses surveyed in September and October said they plan to reduce their work force or lay off workers in the next six months, compared to two-thirds that said they had cut back during the previous 12 months, according to the Management Association of Illinois.

In addition, 13 percent planned to reduce employees' work hours and 23 percent planned to cut merit increases in the future, down from nearly half who already had cut hours and three-quarters who had trimmed merit increases last year, according to the survey.

"There is some sense that belts will be loosened up as the new year begins, and businesses will have

new budgets to spend," said Mary Lynn Fayoumi, the association's president and chief executive.

Still, many businesses are watching what happens with health care reform and economic policy before forging ahead with a growth plan, Fayoumi said. "A lot of organizations are still in a wait-and-see mode. They are still struggling with how lean they should be and when it's safe to staff up again."

Amit Gauri, owner of America's Dog restaurant in Lincoln Park, has his eye on a new location that would double his work force of 12. But he needs capital to expand. Despite the fact that his restaurant is doing well financially, he said, no bank has been willing to lend him the \$300,000 to \$400,000 he needs to open another location.

"It's very frustrating," he said. "When the banks aren't lending, it trickles down. It's the waiting that's hard."

With new federal appropriations designed to encourage lending to small businesses approved Dec. 19, the wait could get shorter. When the Small Business Administration received American Recovery and Reinvestment Act funds last spring, it increased the government guarantee on 7(a) loans to 90 percent and waived borrower fees on most 7(a) and 504 loans. Volume rose markedly, Markowitz said. But those funds ran out Nov. 23, halting most lending to small businesses.

In December, as part of the defense appropriations bill President Barack Obama signed, the government committed \$125 million to continue the enhancements to SBA loan programs through Feb. 28. The new funds are expected to generate \$4.6 billion in additional lending to small businesses, Markowitz said.

"The whole environment should be better this year," Markowitz said. "There will be significant opportunities. We're hoping as an agency to help these businesses get access to capital."