



US and India: the squeeze on small business

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Joe Olivo says the recession hit his small company like a ton of bricks. “Around December 2008, it seemed like our sales plummeted overnight,” says the president of Perfect Printing, a family-owned business in Moorestown, New Jersey, that he took over from his parents in 1988.

“From 1993 to 2008, we averaged double-digit percentage growth annually. The notion of going backwards was foreign to me,” Mr Olivo says. “We ended up losing 23 per cent of our sales in 2009. For a business like ours – with a lot of capital equipment and fixed payments – it was a very difficult time”.

The experience of Perfect Printing, which has 46 workers and annual sales of about \$8m, is commonplace. The company’s sales are now growing fast again, albeit from a low base, but were it not for its owner’s determination, the downturn might have killed it.

Mr Olivo made nine workers redundant during the recession and took on \$600,000 in personal credit card debt. He still wants the business to grow, but says the downturn’s psychological effect will shape his decisions for years to come.

“We’re shell-shocked,” he says. “We’re in such a hole in terms of how much capital we put back into the business, it’ll be years before I’m able to recover that in full. For lots of businesses like ours, that could hamper growth in future. We’ll be much more conservative with investments.”

Perfect Printing’s story is typical. Many small US businesses have spent recent years getting squeezed between fewer orders, lack of credit and demands from customers that they cut costs.

Small companies – defined by the Small Business Administration, the US federal government agency for the sector, as those with 500 or fewer employees – are the backbone of the country’s economy, accounting for 99 per cent of all US businesses and 50 per cent of the country’s employment.

Marie Johns, deputy administrator at the SBA, says the sector is bouncing back faster than bigger businesses and that owners of small businesses are upbeat. However, the National Federation of Independent Business, a small-business association, reports in its latest survey that optimism among small businesses fell in April from March, with more companies cutting jobs than creating them.

For those small businesses that are seeking to grow, the challenges are significant. The main hurdle to growth is that shared by the US economy in general: the continuing lack of demand.

“The top small-business problem is weak sales,” says William Dunkelberg, chief economist at the NFIB. “The concern is lower than a year ago, but we still have far more firms saying their sales are declining quarter on quarter.”

While surveys show that access to credit – a significant problem for small businesses during the downturn – has eased, many companies say loans are still hard to secure.

Seth Guterman, president and co-founder of Empower Systems, a Chicago-based company that makes medical record-keeping software, is one of those frustrated by tight lending conditions.

“Banks have no interest in loaning us money, even though we have a more than 10-year history,” says Dr Guterman, who started the company in 1999. It now has 40 employees and annual revenues of about \$6m. “They’ll only loan us money if we guarantee all of our personal assets – our homes and bank accounts. If we did that, we wouldn’t need their money.”

Another problem is finding good personnel. In spite of the job losses during the downturn, many companies say they cannot fill positions requiring specific skills. Martin Swarbrick, president and chief executive of Bison Gear & Engineering, a company in the Chicago suburbs with 250 staff that makes industrial motors, says he is struggling to find engineers and information specialists.

Hiring staff is a hugely important decision for small businesses. Drew Greenblatt, president of [Marlin Steel Wire Products](#), a company in Baltimore that makes [industrial baskets](#) for customers such as [Toyota, Merck, Boeing and Caterpillar](#), says small businesses are weighing the costs carefully. “Benefits are so expensive that you want to have very few people and get the most out of them,” he says.

Many owners of small businesses also complain about government policy and regulation. Ms Johns notes that the Obama administration has in the past two years cut business taxes and earmarked \$42bn in loans to small businesses, but many companies grumble about high taxes and the cost of healthcare reform.

Bob Trojan, president of Rockford Linear Actuation, an Illinois company that makes hydraulic components for industrial customers such as ThyssenKrupp and Ingersoll Cutting Tools, says healthcare costs would put him off adding to his 30-strong workforce.

Empower Systems stands to benefit from healthcare reform and the Obama administration’s designation of \$20bn for hospitals that switch to electronic patient records. However, Dr Guterman is frustrated that the federal government demanded hospitals use certified software, and then took from 2008 to 2010 to develop criteria for certification. “We had two years with no sales and no revenue,” he says.

Back at Perfect Printing, Mr Olivo says he plans to spend \$400,000 on equipment and \$1.6m on solar panels, yet his most immediate challenge is how to pay day-to-day operational costs.

“I’m having a revenue problem,” he says. “That’s the biggest difficulty at the moment. I might have a six-figure profit this year, but I’ll have to take out a loan to pay my taxes.” – *Hal Weitzman*

India fails to ignite

The common perception among observers of India’s economic ascent is that the pro-market reforms introduced by the Congress party government in 1991 have helped promote entrepreneurship and create thousands of small and mid-sized companies.

Raw data seem to confirm this view. Indian businesses have grown exponentially since the economy opened up in 1991. The country’s corporate sector has mushroomed both in size – adding nearly 6,000 companies over the past 20 years – and scope as its champions expanded their operations globally.



Henryk Kruszynski
Co-owner, Teldat, Poland (military technology)

“We are now large when it comes to the Polish market, with about 200 engineers working for us. While many Polish companies are still hemmed in by the inheritance of the communist past, we were able to start something completely new. You can even see that in the average age of our workforce, which is about 30. We have grown in small steps, putting everything we earn back into the company. Everything we’ve achieved has been through our own funds.”

However, not all has worked out as hoped. Many academics lament that the new liberal regime has failed to break down the economic dominance of the companies that operated during the period of the Licence Raj – the socialist-era system of regulations that gave a handful of well-connected industrialists a stranglehold over the nation's economy and shielded them from outside competition.

A study on the impact of the 1991 reforms on India's economy by Laura Alfaro and Anusha Chari, economics professors at Harvard Business School and the University of North Carolina at Chapel Hill, respectively, showed that companies present before the liberalisation continued to control a larger portion of the economy than those that came post-1991.

The number of companies grew from 3,031 to 8,864 between 1988 and 2005, according to the Centre for Monitoring Indian Economy, which has a database that tracks every company that files financial statements. However, the new private sector groups, which represented 56 per cent of the total in 2005, only generated 17 per cent of overall revenues and 13 per cent of total profits. The rest remained in the hands of state-owned companies and old conglomerates.

The end of the Licence Raj 20 years ago was meant to ignite a new generation of entrepreneurs. One of the few successes has been the rise of India's information technology outsourcing industry, which has grown into a \$60bn industry.

What went wrong? The main problem has been its side-effects and market distortions, say analysts. Many complain that corruption played a fundamental role in thwarting the positive nature of the pro-market reforms that were meant to foster competition and opportunities for aspiring entrepreneurs.

"Economic reforms were supposed to usher in liberalisation, but liberalisation has actually meant big bucks for corrupt politicians," says Brahma Chellaney, professor of strategic studies at the Centre for Policy Research in New Delhi. "The capability of big business to influence policy now is much greater than it was prior to 1991."

Another growing problem for emerging Indian companies has been finding skilled labour. A global survey on talent shortage conducted by Manpower, the employment agency, found that 67 per cent of employers in the country had difficulty filling jobs due to lack of available talent.

Reuben Abraham, a professor at the Indian School of Business, one of the country's most prestigious higher-education institutions, says India risks a talent crisis. "By 2020, we will need about 500m vocational workers, but at the moment it looks like we will be able to produce only about 50m," he says. – *James Fontanella-Khan*

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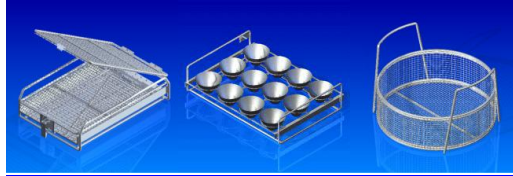
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