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BUSINESS

COMING MONDAY
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JAMES NIELSEN PHOTOS | CHRONICLE

THE ROUNDTABLE: Front row, from left, Jaime Fernandez, Don Sweat, Laura Pennino, Stefani Twyford, Cindy Harreld, Priscilla Schneider. Back row, from left, Brad Kovnat, Marty Spake, Laura Bobrick, Leisa Holland-Nelson, Sally Jozwiak, Wendy Reeves, Steve Drexel, Wayne Kitchens and Randy Guba.

For small businesses, the belts are still tight

STEFANI Twyford walked into her bank recently and saw a poster declaring "saving is the new black."

The slogan summed up what many business owners say they are confronting as recession gives way to recovery. Consumer attitudes have changed, and in an economy hampered by tight credit, consumer spending may not work this time as the economic equivalent of smelling salts for our financial funk.

Twyford, the founder of Legacy Multimedia, which makes video presentations and digital photo archives, said the company's revenue fell by 50 percent last year as consumers cut back.

"That's really been the challenge for us: Where's the money going to come from?" she said. She's now trying to shift Legacy's focus toward company histories and corporate archives.

Twyford was among about a dozen business owners, executives and experts who met with me for a roundtable discussion of the economy Wednesday morning.



LOREN STEFFY

They agreed that the worst of the recession has passed, but they're cautious in their outlook because
Please see STEFFY, Page D2



TIGHT MONEY: Credit's tight for small businesses because they tend to borrow against inventories, says Steve Drexel, right.

STEFFY: Mood of cautious optimism

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much of the nascent recovery so far hinges on government stimulus and a weak dollar.

While credit has loosened in the past year, it remains tight for small businesses in part because they tend to borrow against assets or inventories.

"With sales down, you don't have the receivables, and everybody's trimmed back their inventories," said Steve Drexel, the former CEO of Corestaff Services, a staffing company, who recently joined Ameristem, a biotech startup. "Not only are the underwriting standards tougher, but you just don't have the assets to borrow against, and that's restricting credit."

Financing difficulties and concern about the recovery helped drive pessimism among small businesses nationwide to a five-month low in December. The National Federation of Independent Business' optimism index declined as the economy lost another 85,000 jobs.

Small businesses accounted for six of 10 hires during the past 15 years, according to the federation, yet most hiring in recent months has been at larger firms, Drexel said. Without an increase in small-business hiring, the unemployment rate is likely to continue hovering near its 26-year high.

In Houston, of course, the effects of the recession have been muted compared with other parts of the country, but the local economy hasn't been immune.

Wayne Kitchens, managing partner with the Houston law firm Hughes Watters Askanase, which specializes in bankruptcy and real estate cases, said his firm's foreclosure business rose 300 percent from 2007 to 2009.

"It shows you the softness that we are seeing," he said. "We're not predicting a real downturn in loss mitigation and foreclosure until about the first half of 2012."

While bankruptcy and foreclosure practices do well in a down economy, Kitchens said, his firm, which has almost 100 employees, including 32 lawyers, is affected by the same concerns as any small business.

"When you look at my firm as a business, we recognized in '07 that we were going to have to tighten our own belts," he said.



JAMES NIELSEN : CHRONICLE

SUNNY DAYS: Two of Acro Energy's leaders are Brad Kovnat, left, business operations director, and Marty Spake, the chief financial officer. Spake said Acro wants to expand its solar panel program.



WHO'S WHO

Attendees at Wednesday's small business roundtable on the economy:

1. **Jaime Fernandez**, president, AffordableTours.com
2. **Don Sweat**, president, Galleria Chamber of Commerce
3. **Laura Pennino**, president, Pennino and Partners
4. **Stefani Twyford**, founder, Legacy Multimedia
5. **Cindy Harreld**, president, Clear Lake Area Chamber of Commerce
6. **Priscilla Schneider**, president, 5 to 50 Networks
7. **Brad Kovnat**, director of business operations, Acro Energy
8. **Marty Spake**, chief financial officer, Acro Energy
9. **Laura Bobrick**, graduate student and intern, Pennino and Partners
10. **Leisa Holland-Nelson**, president, ContentActive
11. **Sally Jozwiak**, marketing consultant and co-owner of a family remodeling business
12. **Wendy Reeves**, sales manager, Health & Fitness Sports Magazine
13. **Steve Drexel**, economist and chief operating officer, Ameristem
14. **Wayne Kitchens**, managing partner, Hughes Watters Askanase
15. **Randy Guba**, chief financial officer, Integrated Electrical Services

That included freezing wages for the past two years, although the firm did give bonuses last year. That's enabled it to keep its employees and focus on long-term profitability despite the economic downturn, he said.

Houston-based Integrated Electrical Services has seen the other side of the commercial real estate woes that Kitchens mentioned. The company handles a wide range of electrical and computer wiring for businesses and residences nationwide, and Chief Financial Officer Randy Guba said IES has struggled as the construction industry braces for its third straight year of declines.

"Construction's been under siege," Guba said.

"We've seen significant pressure from the credit markets. All indicators in the commercial space are really pretty much negative."

That's reflected in the IES financial results. The publicly traded company reported that revenue for the fiscal year that ended in September fell 19 percent and the company posted a loss of almost \$12 million, compared with \$190,000 a year earlier. Its share price has fallen by half in the past year.

However, IES sees potential growth from government-related jobs, from wiring military installations to stimulus-funded projects such as wind farms and solar panel installations, Guba said. As the year goes on, he predicts business will pick up.

"We think 2010 is going to be a thawing against the decline of construction that we've seen," he said. "I don't think any of us are that bullish that we think it's going to be a huge growth year."

Priscilla Schneider said her business is already seeing some modest growth. Her company, 5 to 50 Networks, which she founded with her husband in their Clear Lake home, offers computer services and tech support for businesses with five to 50 employees. Last year, the company moved out of the house and hired two full-time employees, she said.

With a dearth of

financing options, funding growth meant reining in other expenses. The company revamped its pricing structure, requiring customers to pay in full for computer equipment after some had delayed payments.

"We were becoming a finance company," she said. "We made some major policy changes."

While some customers were unhappy with the change, none canceled their contracts, she said.

Houston-based Acro Energy is betting on a far bigger expansion from alternative energy, especially solar power. The company last year began designing and installing solar panels in residences and businesses in California, and Chief Financial Officer Marty Spake said it hopes to expand the program across the country, boosted by tax credits and discounts for solar panels that some local utilities are offering from federal stimulus funding.

"It's becoming an economic decision," he said. "We can't grow just by targeting people with certain views on global warming."

Instead, the company believes that certain markets in the U.S. are reaching "grid parity," in which programs such as Acro's offer an economical alternative to higher electric bills. The company, which trades on the Toronto Stock Exchange, plans to acquire other solar companies, roughly tripling last year's revenue of \$8.6 million.

Just as Acro is betting that tax credits and rebates can entice reluctant consumers, AffordableTours.com is noticing that lower prices are luring customers back to the leisure travel business. President Jaime Fernandez said the company's 2008 sales fell by 10 percent, and he expected the decline to double last year. Instead, sales outpaced the previous year because of a surge in business that began in the past few months.

The company has struggled with a decline in leisure travel and a weak dollar, which hurt sales of European tours, he said, but the end-of-the-year uptick came after cruise lines and tour companies cut prices.

"Now, at the beginning of 2010, we're seeing a very strong year," he said. "The prices are going down and sales are picking up, so that's a good thing."

But will it be good enough? As they discussed the year's prospects, the group seemed more optimistic than the mood of small businesses nationally.

Saving may be the new black, but they're hopeful customers will still spend enough this year to keep them out of the red.

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