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Economic concerns putting pinch on Chicago small businesses

by Sarah Schaale | MEDILL NEWS SERVICE

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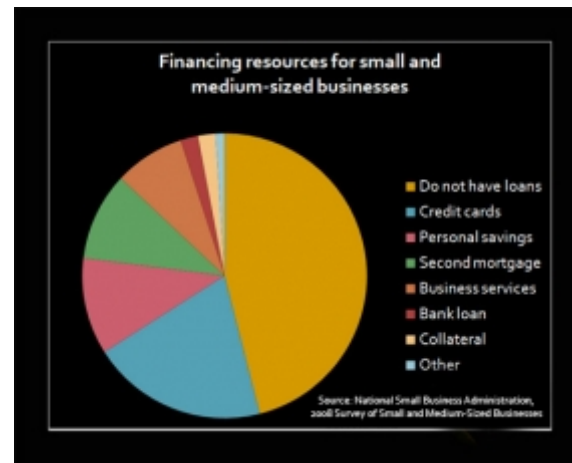
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Ina Pinkney almost didn't have a restaurant when she opened in 1991. With the U.S. in the midst of a recession, launching Ina's from the bottom was difficult.

She faced more trouble after Sept. 11, when she said business was nearly non-existent, no bodies in her booths.

But twice the eatery overcame trying economic times and it continues to serve breakfast, lunch and dinner in the West Loop at 1235 W. Randolph St. Despite those triumphs, Pinkney said, the fix she finds herself in now makes her particularly skittish.

"The first quarter of this year was the worst I have ever known in this business," she said. "My business has felt it over every single level."



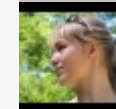
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What with inflation, tightened bank-loan standards and skyrocketing fuel prices, small and medium-sized businesses are feeling more than a pinch in their books. They have less financial wiggle room than large companies and so are less prepared for the downhill ride in the business cycle, particularly one as rocky as current conditions. Crunched Chicago-area businesses are shifting and shuffling what they can to stay afloat.

Pinkney said the rising cost of food hit her restaurant particularly hard. Breakfast is her specialty, so a jump in the price of a case of eggs from \$11 to \$27 in just a few months was painful. In addition to that, a \$1 increase in the minimum wage, fuel surcharges of up to 8 percent from vendors, and even Chicago's bitter winter have wounded operations.

"There were 22 out of 29 days of snow in February," Pinkney said. "Our restaurant was empty. And because it was cold, the utility bill was \$2,600. It was a nightmare of escalating costs."

Pinkney said the economy has led to an overall slump in Chicago's restaurant industry as residents cling tighter to their discretionary income. She said because restaurants work with disposable goods, it is particularly difficult to get bank loans when the business is stretched thin, and the debt of a loan would only add trouble, she said. Instead, Pinkney relied on cutting back employees' hours and promoting her business to the maximum in order to get through what she hopes is a short-term situation.

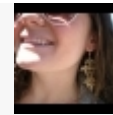
"You cannot grow a business on cost-cutting," she said.

In lieu of bank loans, more businesses are turning to alternative forms of financing, said Tom Stamborski, president of Liquid Capital of Illinois, located in Palatine. He said his business, which provides accounts receivable financing to business-to-business companies at generally a higher rate than bank loans, has had its volume increase about 25 percent in the last quarter.

Stamborski said the limited resources of small businesses compounds problems when there's a downturn in the economy. He added that many do not qualify for bank assistance or government sponsored programs and turn to unconventional funding.

"Businesses are painfully aware that they have less ability to serve their clients," Stamborski said. "[Liquid Capital] can accelerate cash flow, and provide a just-in-time alternative."

Maureen Buckley, chief commercial lending officer for Leaders Bank in Oak Brook, said the housing meltdown and subprime mortgage crisis made it much more difficult for banks to dispense cash. Leaders Bank, which focuses on loans to privately-held businesses, has had to tread carefully with loan applicants, making sure borrowers could weather a business downturn, Buckley said.



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"We're being very selective with the customers that we do business with," she said. "Lacking deep pockets or access to liquidity and capital, we would take a pass on them."

She said because banks have experienced high losses due to loans that couldn't be repaid, lenders must be much more cautious to protect themselves.

"You have to be careful across the board," Buckley said. "It might have started with the housing industry, but it's not sticking to that. These things spread like a cancer."

Even in normal economic conditions, small businesses have a harder time securing loans, said Molly Brogan, vice president of public affairs for the National Small Business Association in Washington, D.C.

"A lot of small businesses lack the assets necessary for a bank loan," Brogan said. "Lenders are really looking at what kind of risk they're taking on."

Tom Schwartz, president and chief operating officer of Itasca-based First Midwest Bancorp Inc., said there has been some increase in demand for small business loans, but getting one may isn't so simple; applicants face stricter requirements, higher rates and tougher covenants.

"There's definitely been a change in terms of tightness in credit caused by the economy and scares from that," Schwartz said.

Chicago's Testa Produce Inc. keeps 55 trucks on the move to run its business, so large and continual jumps in fuel prices have squeezed its bottom line, said President Peter Testa.

"It's absolutely destroying what used to be considered the norm," Testa said. "The price of fuel is rising so fast, it doesn't stabilize. You can't budget to have a 200 percent increase in fuel."

Testa said his business has had to work with customers to cut down on deliveries to help him use fuel more efficiently, but that can't solve the problem.

"That just cuts into your service, and you have to be careful because that affects the customer and they don't want to buy," he said. "It's a very fine edge on how to do it."

On top of the direct pressures, Testa said, his customers find themselves in situations similar to his own, with less funds on hand - and thus take longer to pay him for services. A customer who used to pay Testa in 30 days may now be taking 45 days, and some even up to 60.

While he said he's lucky to have a long-time relationship with his bank to get his business through

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uncertain times, he said it would be damaging to him if more of his customers run tight on cash.

“We have to look very closely, make sure our bills are paid,” Testa said. “We won’t take our eye off the ball right now. You have to be very careful and watch what you’re doing.”



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This Sarah Schaale is such a talented woman, I feel as though Pinkney's struggles are my own. More of Schaale's work please!

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