

BUSINESS

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Small businesses in distress

'It's nasty out there,' attorney says, citing increased closures, bankruptcies in Mich.



Clarence Tabb Jr. / The Detroit News

Business attorney Ken Gross, left, says the number of people coming to him for help with financial problems has soared.

BY JENNIFER YOUSSEF
The Detroit News

Many small businesses in Michigan are in danger of closing their doors this year due to lack of credit lines and decreased demand for their goods and services.

Unable to get credit from banks, an influx of small companies in Michigan, already on the brink of closure in a struggling economy, filed for bankruptcy last year. And the worst of it probably isn't over, business experts predict.

"It's nasty out there," said business attorney Ken Gross, a partner at Thav, Gross, Steinway & Bennett PC in Bingham Farms.

"We're in for a very difficult year."

According to credit analysis firm Equifax Inc., small business bankruptcy filings in the state increased 37 percent from September 2008 to September 2009. There were 3,011 small business bankruptcy filings in Michigan in the first three quarters of 2009, compared to 2,197 filings in the first three quarters of 2008.

Michigan had 187,373 small employers and an additional 627,284 non-employer businesses in 2006, the latest data available, according to the U.S. Small Business Administration. The administration defines a small business as one with fewer than 500 employees.

Gross, who has seen the number of entrepreneurs coming to his firm for help with financial problems escalate 50 percent in the past 12 months, developed a financial crisis management program last year to help businesses and consumers analyze their money issues and devise the best solution.

Two or three years ago, if a business was underwater, the owner could just walk away and start over again, he said. That's not an option anymore, though, because banks have cut commercial loans, entrepreneurs can't get a personal line of credit, and

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they can't borrow money against their homes because home values have dropped dramatically, he said.

Small business bankruptcies in the United States totaled 87,778 for the first three quarters of 2009, up 13 percent over the 77,423 filings reported for all of 2008, according to Equifax. The Obama administration wants to infuse more money into the small business sector to prevent more businesses from closing their doors. President Barack Obama spoke with several bank executives last month to stress the importance of opening more lines of credit to small businesses.

Action too late

The administration's action is coming too late for many small companies that already have gone out of business, said Ed Deeb, president and CEO of the Michigan Business & Professional Association and the Michigan Food and Beverage Association. About 150 of his member businesses have closed in the past year because they couldn't get loans from the bank. In all, there are about 23,500 members in both associations.

"You could go up and down any street and see stores closed, restaurants closed and gas stations closed because they couldn't get credit," Deeb said. "These people are frustrated. They don't know what to do."

Even with the administration's plan to pump more money into the small business sector, Deeb thinks there will be too much bureaucratic red tape, which could delay getting financial assistance to businesses that need it the most.

"Obama should have done this six months ago," Deeb said.

Businesses that are closing for lack of credit run the gamut, said Rob Fowler, president and CEO of the Small Business Association of Michigan. No one is safe, and there is no protection from banks that suddenly demand loans be paid back, even if the business has no cash to repay it.

"This is an acute problem that's happening at a higher rate than last year," Fowler said. "It's very serious, it's very real."

Take what happened to master plumber Raymond Case. He had been in business for 32 years, always paying back loans

Tips for distressed businesses

Attorney Ken Gross offers the following advice for companies that are in financial trouble:

- Trim costs to reach positive cash flow.
- Implement tight accounts receivable policies.
- Require cash-on-delivery from companies that are believed to be filing for bankruptcy.
- Consolidate job descriptions to trim labor costs.
- Communicate with your vendors so they know you are having financial issues.
- Be careful what you say to your lender. Some business people think they should be upfront with their lender to discuss their business's problems, but when the lender learns there is a problem, it often calls the loan and refuses to work with the client.

on time. But business dried up in the past 12 months for Northville-based Case Plumbing Inc. His income was cut in half, and he didn't get paid for some projects because the clients had no money.

Growing debt

Case said he was late paying back two loans, and that's when the bank socked him with a much higher interest rate. Soon, his debt grew to about \$200,000, and he wasn't able to get more credit to bid on new jobs.

Before plumbers can bid on a job, they have to pay for the entire project upfront. They get paid after the work is finished. But because the bank wasn't lending him money and he couldn't get more work, Case was forced to file for bankruptcy so he could wipe out the debt and start all over from scratch.

"I was getting hit from everywhere," the 56-year plumber said. "I just couldn't get out of it."

He sought help from Gross, the business attorney, who advised him to file for bankruptcy in February and form a new company. Gross said he is slowly building up new business, working on small projects, but with a bankruptcy on his record, most banks won't consider lending to him, and it's hard to establish new credit.

"It was a relief, but I wouldn't wish it on my worst enemy," Case said, adding that he feels optimistic about the future of his business.

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