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Betting on the Bounce

By: Dan Beighley



Some in Orange County think that it's time to bet on the bounce.

With federal officials saying the economy is poised for a recovery and with a pool of unemployed workers looking for opportunities, entrepreneurs are saying now is the time to get a company going.

That is, if they can find the financing to get something off the ground.

Many who have been laid off have been looking to carve a niche for themselves, according to J. Adalberto Quijada, director of the government's Santa Ana office of the Small Business Administration.

"Well educated and sophisticated people can find an opportunity," he said.

But many are finding it's not as easy as they would like.

Traditional avenues of funding through venture capital and SBA lending aren't what they used to be.

The SBA reported fewer loans to new businesses for the six months through March compared to a year earlier, due mostly to cautious banks in a weakened economy.

For the six months through March, some 60 loans were made to new businesses in OC totaling nearly \$20 million, according to the SBA.

For the same period a year earlier, 163 loans were made to new businesses in the county for a total of \$32.6 million.

Venture capitalists also have pulled back their funding.

David Tieman launched Tie-man's Fusion Coffees from Ran-cho Santa Margarita two months ago.

Tieman's sells coffee that combines traditional coffee beans with antioxidants.

So far, he's managed to land his product on the shelves of Albertson's grocery stores, but he still has a way to go before he can go cup to cup with the coffee giants.

He says his biggest challenge is finding the money that will allow him to compete with larger companies that have bigger advertising budgets.

Tieman, who has been a teacher, personal trainer, nutritionist, dietician and preconception specialist, failed to get venture capital for his startup.

“We were looking last October, which was the worst time to do it,” he said. “Before the financial meltdown, we had billionaires knocking on our door.”

Instead, he approached private investors who have so far given him \$400,000.

Wary Banks

Local banks are wary of investing in startup businesses, even in boom times. But a tough economy makes it even more challenging to get businesses up and running, as banks are more cautious overall.

Most banks want to see some sort of guarantee of success.

Startups must “have their own capital and experience,” said Steve Doss, a regional sales manager for the Southern California market for San Francisco-based Wells Fargo & Co. “We look at everything to see if we can help them.”

New businesses traditionally qualify for the SBA’s 7(a) loans—the administration’s most basic and popular type of business loan program—but those have dried up in this recession. The SBA’s Santa Ana Office said those types of loans were down to about 325 for the six months through March, compared to more than 1,000 a year earlier.

When businesses don’t have an established record, they’re deemed riskier, according to bankers.

“New businesses are always more challenged to get a loan,” said Matt Ashworth, a regional manager with the Newport Beach office of Minneapolis-based U.S. Bancorp. “I can have empathy on where they’re coming from.”

Bob Gonzales of San Diego-based CDC Small Business Finance Corp., the county’s largest SBA lender, gives about 10% of its loans to new businesses.

CDC, which specializes in secondary commercial loans, hasn’t seen much demand in the real estate slump.

“But there’s a sense that things are beginning to turn around,” he said. “With a lot of competition out of the market, it can make for great opportunities.”

Borrowers who applied for loans before the financial crisis hit last fall stood better chances of getting loans than borrowers do now.

About a year ago Sandy Silvas was able to borrow about \$150,000 to start her franchise of Pizza Patrón Inc., a restaurant chain based out of Dallas.

The former hairdresser considers herself lucky to have gotten the loan when she did.

“I didn’t have any experience with this, but we’ve been slowly building,” Silvas said.

So far, business has been decent, she says. She’s looking to build on her busy weekends with more weekday sales.

People with niches have been some of the most successful in starting new businesses, according to Quijada.

“Some are finding consulting work, or other things in unique areas,” he said.