

# “Small Business - Big Opportunity” Finding Solutions to Small Business Challenges

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On March 22, 2012, the Travelers Institute<sup>SM</sup> held its sixth in a national series of small business symposia, “Small Business – Big Opportunity,” in Saint Paul, Minnesota. Held in partnership with the Saint Paul Area Chamber of Commerce, the event convened regional small businesses, bankers, and government and community leaders to discuss the business environment in the Twin Cities region and to better understand the most pressing issues for small businesses. Panelists identified regulatory burdens and barriers to access to capital as key hurdles to overcome, while also offering tips for obtaining small business loans and business continuity planning advice.

The panel was moderated by Joan Woodward, Travelers Executive Vice President of Public Policy and President of the Travelers Institute. Participants included:

- **Opening Remarks:** Gary Stern, Former President of the Federal Reserve Bank of Minneapolis
- Rick Beeson, President, Park Midway Bank
- Yvonne Cheung Ho, President, Metropolitan Economic Development Association
- Doug Gregory, Regional Vice President, Travelers Small Commercial
- Henry Sanders, Regional Advocate, U.S. Small Business Administration
- Salah Tarraf, President, Tarraf Construction.
- **Closing Remarks:** Mayor Chris Coleman, City of Saint Paul



Salah Tarraf, Yvonne Cheung Ho, and Joan Woodward

Joan Woodward kicked off the discussion by highlighting the fact that as one of the largest insurers of small business in the U.S., Travelers believes small businesses are the economic engine of the United States, and the sector is a driver for creating and sustaining jobs. She went on to say that Travelers can see firsthand how many small businesses are struggling in today’s economy, and that the company’s goal is to help small businesses thrive and not just survive. The Travelers Institute is hosting the “Small Business – Big Opportunity” symposium series to raise awareness of the challenges small businesses are facing and to propose solutions to these challenges.

Gary Stern, former President of the Federal Reserve Bank of Minneapolis, gave a macroeconomic overview of the economy and Twin Cities region, setting the stage for the panel discussion. According to Stern, the national economic recovery began three years ago, and as anticipated, the pace has been slow and frustrating. He went on to say that recoveries slowly build momentum, and in the interim there is usually little policymakers can do to expedite that process. He spoke about the recent pickup in U.S. economic growth, specifically that employment is gaining sizable numbers, and the manufacturing sector is improving while inflation remains under control. The Twin Cities’ economy, because it is extremely diverse in the types of industries present (i.e. manufacturing, service, and government), has been tracking very closely with national economic trends.



Gary Stern



Salah Tarraf, and Yvonne Cheung Ho

Stern spoke of three overarching issues that bear watching and may warrant action during the course of this recovery:

- The Federal Reserve's pledge to keep interest rates low through 2014: This is a conditional pledge, and the Federal Reserve will not sit idle if inflation starts to run rampant. If momentum in the economy begins to build, then they will contemplate raising rates earlier.
- Credit availability: Following a recession, access to credit typically looks like what we are seeing today, but that may change as the economy continues to improve.
- The Federal Deficit: The current deficit is too large for a healthy economic recovery. A mixture of reducing spending and raising taxes is needed to help restore economic growth.

Rick Beeson, President of Park Midway Bank, spoke about how community banks are the microscope for the Main Street economy, and currently he believes the economy is improving. However, he is still seeing small business owners struggle to get loans. He talked about the difference between equity capital and loan capital, specifically how it is significantly challenging today to get a business loan due to the decline in home values, which prevents business owners from leveraging their homes as equity. According to Beeson, banks are ready to lend; but it is more difficult for them to operate due to new, enhanced regulations and they are relying on SBA and nontraditional lenders. A consequence of the recession is the current climate of risk aversion. In his opinion, the result will be fewer community banks, which will negatively impact access to capital.

Beeson's advice to small business owners is to have a good business plan. Today's credit world is all about cash flow; and if there is a disconnect between receivables and payables on

the balance sheet of a small business, then the small business may have a problem getting access to credit. He also suggests that small businesses should ask for advice before they borrow money. They should interview several different banks to find the best fit for them.

Henry Sanders, Regional Advocate for the U.S. Small Business Administration, talked about how the Office of Advocacy is the watchdog for small business regulatory burdens at the federal level. He gave the example of their active participation in the repeal of the Section 1099 reporting mandate originally included in Patient Protection and Affordable Care Act, which required small business owners to file a Section 1099 form with the IRS for all payments made to vendors totaling \$600 or more in a tax year. He also spoke about a project that the Office of Advocacy has recently been working on – the OSHA noise abatement regulation. OSHA proposed a mandate for every small business that required employees to buy new head gear machinery that would better protect their ears. The office raised the concern of the burden this would place on small businesses and stopped the regulation before it was implemented citing current use of ear plugs can do the same job as the new ear head gear. The Office of Advocacy's goal is to stop regulations before they are implemented, during the comment period. Sanders shared that through the office's efforts, \$11.7 billion in regulatory costs to small businesses have been saved in the last year.

Sanders suggested that more small business owners get involved in the rulemaking process and contact him about regulations that are creating a burden. He also recommended they get involved and join their local chamber of commerce and advocacy groups.



Salah Tarraf, Yvonne Cheung Ho, Mayor Coleman, Joan Woodward, Henry Sanders, and Rick Beeson



Salah Tarraf, Yvonne Cheung Ho, Joan Woodward, Henry Sanders, and Rick Beeson

Yvonne Cheung Ho, President of the Metropolitan Economic Development Association (MEDA), began by stating that small businesses are a vital player in the Twin Cities, and she is seeing much more optimism from MEDA's clients who are entrepreneurs of color. However, she is also finding that these businesses have major challenges accessing capital and market opportunities. In her view, businesses began to contract during the recession, and the ones that have properly addressed their challenges are the ones that will thrive moving forward. She spoke about the efforts of MEDA, which offers one-on-one consulting and provides financing to minority businesses that are 51 percent owned or controlled by people of color. MEDA works with a variety of lending sources and with area banks to secure needed capital, investing MEDA's own capital when it can enhance the client's credit position and mitigate perceptions of risk.

For businesses looking to grow, she recommends businesses look into contracting opportunities with the state and federal governments. The Minnesota Procurement Technical Assistance Center, hosted by MEDA, can help. Cheung Ho pointed out that the federal government offers more than \$500 billion in contracting opportunities to businesses each year. The city of Saint Paul also has several programs to help small businesses access public construction contracts.

Salah Tarraf, President of Tarraf Construction, spoke of the challenges his small construction business is facing, specifically financing and bonding, as well as finding and retaining the right employees. He currently has 25 to 50 employees depending on the season. He has relied on programs offered by the SBA, the Cities of Saint Paul and Minneapolis, as well as loans from MEDA to grow his business. He needed financial assistance when he secured a large contract and needed to increase his

employee count. He had been turned down by nine banks previously, but MEDA worked with him to provide the gap financing to secure a bank loan. He recommended to other small business owners that they research financing options available through the SBA and local city programs to help grow their businesses.

Doug Gregory, Regional Vice President of Travelers Small Commercial, spoke about how business continuity planning is critical to keeping a small business open after a disaster. According to a Travelers Institute survey in 2011, more than half of small business owners don't have a business continuity plan in place. Statistically, the majority of small businesses will fail within three years after a disaster if they don't have a business continuity plan. Gregory told the audience that to build a plan, they need to think about how to communicate with customers, employees and vendors after a disaster strikes. Additionally, small businesses should give thought as to how they will protect their buildings and equipment before a disaster strikes. For resources to help build the plan, he recommends they talk to their peer group, a lawyer, and/or an independent insurance agent.

In closing the symposium, Mayor Coleman talked about a cupcake store trying to open in the city, and the enormous hurdles the business is being put through, as an example of what small businesses deal with on a daily basis. As the son of small business owners, he shared he feels strongly that the government culture has to change. It has to get better at saying yes instead of no. He talked about the city's Business Review Council for streamlining regulations, which was implemented a number of years ago with the goal of providing businesses with certainty and consistency from neighborhood to neighborhood.



Mayor Coleman

He concluded by talking about the importance of creating opportunity and opening doors for small businesses and highlighted Best Buy – a company that started locally as a little shop called the Sound of Music and is now a Fortune 100 company.





Salah Tarraf, Yvonne Cheung Ho, Joan Woodward, Henry Sanders, Rick Beeson, and Mayor Coleman

Panelists agreed about the importance of increasing small businesses' access to capital and raising awareness of the resources available to assist with planning, funding and expanding. The challenge the current economic uncertainty presents was acknowledged, but it was agreed that there is more optimism currently; and more small businesses are in a position to grow and add jobs. Attendees were urged to become involved with their local chambers of commerce and advocacy groups and make their voices heard to elected officials in order to implement solutions to current small business challenges.