

ECONOMIC OUTLOOK 2002 – STARTING OVER

Weathering the Storm

Six small businesses that were profiled during the year are coping with the slowdown but don't see recovery anytime soon

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No companies were more vulnerable in 2001 than L.A.'s small businesses, the heart and soul of the area's economy. Many of these firms don't have the capital to weather a downturn – and planning for a lengthy slump can be a big challenge. The Business Journal revisited six such businesses that were profiled during the year to find out how they were coping with the recession and how things were shaping up for 2002. Among the sample: a restaurant that was reviewing how to buy cheaper napkins, a furniture maker that was renegotiating for cheaper prices from his suppliers, and a small bank that made aggressive moves to add new customers. Most of the business owners were cautiously optimistic about 2002, but they don't expect good times to be back anytime soon.

Braden Richter

Richter Furniture Manufacturing

"We were very aggressive at the beginning of the year because we knew the economy could potentially slow us down. I was really in touch with my sales people this year more than ever. We had several sales meetings a week as opposed to (the usual) once a month. I allowed them to be more flexible on pricing. A leather chair that we would normally sell for \$950 was selling for around \$850.

"On top of that, all of us worked a lot harder this year. I saw people in the office until 9 or 10 o'clock at night instead of normally leaving at 4 p.m. Going into the year, we had about 350 accounts. Now we have about 500 accounts. But our accounts have grown much faster than the level of sales.

"My revenues in 2000 were \$19 million and we're past our 2001 projection of \$21 million. I didn't want to lose too much of my profit margin so I was able to work with my vendors to lower their prices. If I was selling a leather chair for less, I also worked with them to buy the leather for less.

"About two months ago, we also bought one of our L.A. suppliers, the company that made our legs, bases and some of our components for a lot of our pieces.

"Still, our normal profit margin is about 33 percent. It will be maybe 31 percent in 2001."

Steele Platt

Yard House Restaurants

"The recession is a concern for anyone. But our success is the ability to support a broad market – ages 21 to 80 years old. We attract a late-night bar market and an early (evening) family market.

"We plan to open a restaurant in San Diego next December. We planned to wait a year in between opening Rancho Mirage (in 2001) and San Diego.

"But obviously in the downturn consumers are going to be more savvy with their hard-earned dollars and make sure they spend wisely. It becomes a more competitive environment.

"We're reviewing all of our operating expenses. We're going to dig a little deeper and find areas where we can save money without affecting the guests' experience. We're going to negotiate harder with our vendors. If we can buy soap and napkins cheaper, we're going to do it.

"Companywide, we'll do over \$23 million this year (up from \$20 million in 2000) and next year we will do over \$30 million. My slowest restaurant does \$5 million a year.

That's Costa Mesa. Profit margins for the stores are anywhere from 5 to 15 percent. My goal (in 2002) is at least 12 percent."

Adam Alexander

Cowan Alexander Equipment Group
Auction house for dying tech companies

"It got a little busier after Sept. 11. We found that some of the companies that had potential funding opportunities and had investors looking to invest on mergers and acquisitions fell through. We saw a little bit of a spike after Sept. 11.

"We only deal with technology companies: Telecommunications, computer services, some biotech, semiconductor, test and measurement. We've liquidated the assets of 300 dot-coms this year. I don't think anyone could prepare or expect anything this year. It was starting to slow down, maybe plateau, when Sept. 11 happened. Our phone didn't ring for a couple of weeks, and then it got crazy again.

"By September, a lot of the fat had already been trimmed in the marketplace. A lot of the companies we've seen after that are very good companies, with good employees and a good idea. They're just a victim of bad timing and an inability to get funds.

"We'll probably break \$50 million (in goods auctioned) for 2001. I think we had about \$20 million in 2000. We had projected around \$40 million.

"I've given up predicting because I'm wrong every time. And we still have projects booked into January and February, generally 30 to 60 days in advance. But if I could predict what's happening by summer, I don't think it will be that much busier or that much slower.

"I'm looking forward to sleeping in 2002."

Jack Feldman

First Commerce Bank

"We are basically right on target with respect to growth in assets, deposits and loans.



Auctioneers: Cowan Alexander saw increased business in the tech slump.

Earnings are a little bit shy of our budget because we had not projected 11 cuts in the prime rate during the course of the year. However, we still anticipate we'll be about 5 percent ahead of last year, which was a banner year.

"We had \$1.1 million in net income for 2000. (Net income for the first) 11 and a half months into this year will be \$1.2 million. That's down a little bit from what we had actually projected for 2001.

"Our headquarters is in Encino, and we have a full service regional office in Brentwood. We have been looking more aggressively to open another office, but we have not yet found the specific location we want to be at. Either their overhead is too high, or it will take too long to break even. We're looking at 2002 or 2003 to open that.

"Everything is in line with projections, and we found our customer base, both business and individual, to be fairly stable and relatively unimpacted by the world at large. We have a very small exposure to the travel industry and a very small exposure to the hotel industry. We focus on light manufacturing, or the service industry, and, of course, we focus on high net-worth individuals."

Larry Cohen

Glyphix Inc.
Developer of advertising
and marketing strategies

"We didn't grow this year the way we'd like to grow, but we'll hit our numbers. It was definitely more difficult because clients are tentative, especially since September. People are looking forward to the year coming to a close. September, October and December were slower than what we've seen in the past. If there are projects that could wait, clients are allowing them to wait. We picked up some new clients, though, and in that sense we're pleased. End of February 2002 is our fiscal year. We're expecting sales of \$1.9 million, a few percentages off from last year.

"Because we're a small firm and very creative in stretching our clients' dollar, we'll be fine. Some of the companies who can't afford large budgets are looking for alternatives.

"We're helping clients develop online businesses to help them operate more efficiently or effectively.

"Our clients will be more conservative in terms of their budgets. (In the coming year) they will be less Web-oriented and more back to basics in advertising. There will be more direct mail things because they're cheaper and are things that people can track. They want to be more results-oriented.

"The trick will be to do your homework and not just do a broad base and throw things out. The first part of (2001), people were still throwing money at the problem."

Martha de la Torre

East L.A.-based El Clasificado
Spanish-language classified ads publication

"Through the summer we were on a 30 percent growth path, from \$3 million last year to what looked to be \$3.9 million this year. But the events of Sept. 11 caused a lot of our clients to cancel or reduce their advertising.

"We have a lot of real estate agents, attorneys, home services and employment opportunities. But new business was at a standstill in September and October, which are generally our peak months of the year. Now we expect to be between \$3.4 million and \$3.5 million for the year. Last year our profit margin was 15 percent and this year we'll probably do about 13 percent.

"Before Sept. 11, the publication sold itself in Los Angeles and Orange counties and the Inland Empire. Our circulation (of 122,000) did not drop. We just were getting a lot of advertising. Now we're having to use more sales techniques to gain and retain customers. We have consultants who are experts in the penny-saver business who come in weekly to train our salespeople.

"When we saw our business going down, we told everyone our goal was to not lay off any of our 50 employees. Now we have 60 employees and we're still hiring. Since August, we have been saving \$4,000 a week on printing costs, which are now \$13,000 a week.

"We have always been successful with local advertisers. We have not tapped into regional and national advertisers, which we will do in 2002. Even in a slowing economy, they still advertise. We're also going after businesses that don't know how to target the Hispanic market."



Publisher: Martha de la Torre saw drop in advertising.