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MARKETPLACE: Dancing despite the downturn

Even with economy uncertain, entrepreneurs starting businesses

BY TIM O'REILEY
BUSINESS PRESS

For most of last month before realizing his life's dream, Errol LeBlanc had grown so tense that he became physically ill.

Preparations had fallen weeks behind schedule and run tens of thousands of dollars over budget, the bank account drifted dangerously close to "E" and the economy had deteriorated from the time he started planning his R.E. Tapas Kitchen & Lounge in December 2006. His mother, who backed him in everything from financing to sewing curtains, was ready to pull the plug rather than see the project destroy his health.

Yet when he started serving on March 4, diners showed up in numbers far larger than his most optimistic projections. Today, he said, the restaurant generates enough cash flow that he can comfortably pay his bills without delaying food or liquor deliveries just to get a later payment cycle.

While he has gotten off to a good start opening a business in a down economy, LeBlanc's experience is hardly universal. Some are holding their own and expect better times, but others are grimly calculating their exit strategies.

Either way, the margin for error in starting a small business has tightened markedly in the past couple of years.

"Before, you could get seven out of 10 things right and still prosper," added Larry Vierra, the interim director of the Nevada Small Business Development Center. "Now, you need to do 10 out of 10. This kind of economy is the big leagues."

Fewer people are willing to step up to the plate, however. Clark County's Department of Business License recorded 9,531 new licenses during its fiscal year ended June 30, down 15 percent from last year.

Nationwide, however, several studies have concluded that new business formation does not fluctuate significantly with the economic cycle.

"The new businesses are slightly fewer and smaller, but you don't see the huge, pronounced effects that you might expect," said Brian Headd, an economist with the U.S. Small Business Administration.

Perhaps more important than raw numbers, the mindset has changed.

"I think the key ingredient that's different from three years ago is that you have to be a great deal more careful to understand who you market to," said Ross Lagattuta, chairman of the local chapter of Service Corps of Retired Executives.

"You can't shotgun it like you used to in the boom times and not pay attention to the kind of people you are trying to attract as customers."

Operations in general must also be executed with greater precision and discipline.

"In better times when there were significant bottom-line opportunities, you could have a hiccup or two and still be competitive," Vierra said. "Now, you have to be adamant about the P&L (profit and loss) statement being as trim and tight as possible."

In keeping with the changed environment, the center has adjusted its seminars to place more emphasis on nuts-and-bolts topics such as human resources and leadership techniques, subjects rushed over in the past to make more time for marketing and finance.

Dennis Wengert, deputy Nevada district director of the U.S. Small Business Administration, ticked off several other factors that carry greater weight in a slow economy burdened by record-high energy prices, such as reducing the estimated number of customers willing to travel more than five miles, working around tighter lending standards by banks and watching cash flow vigilantly.

Perhaps most critical, he said, "A consumer's perception of value shifts to give price a larger weight. ... New businesses now need to pay even more attention to their costs, since pricing restraints will limit the company's ability to cover rising costs."

However, he added, finding qualified help could be easier as unemployment rises. Vendors and landlords may accept lower prices or easier terms on fixtures and leases.

Vierra said this is now a strong economy for people who hoarded cash in recent years in anticipation of swooping in on distress sales.

But Lagattuta cautions that some of the apparent bright spots may have dark sides. For example, a landlord may discount a lease because of tighter spending and created vacancies.

"I don't think there is a particular advantage to opening in this type of economy," he said.

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POSTCARDS FROM THE BUSINESS EDGE

BOLLYWOOD GIFTS

STEVEN PRASAD'S QUEST TO ESCAPE THE QUICKSAND OF THE RESIDENTIAL REAL ESTATE MARKET MAY HAVE GOTTEN HIM SUCKED IN DEEPER.

A MORTGAGE BROKER UNTIL THIS YEAR, PRASAD'S INCOME STOPPED IN MID-2007 WHEN THE FUNDING FOR THE LOANS HE WAS WRITING DRIED UP. RATHER THAN CONTINUE TO STRUGGLE THROUGH THE SLUMP WITH NO END IN SIGHT, HE DECIDED TO TAP HIS EXPERIENCE AS A BANK MANAGER AND RETAILER TO LAUNCH BOLLYWOOD GIFTS ON EAST FLAMINGO ROAD.

BUT JUST A WEEK AFTER HE OPENED IN MID-MAY, WASHINGTON MUTUAL HIT HIM WITH A SUCKER PUNCH, CANCELING THE EQUITY LINES OF CREDIT ON THE HOUSES HE OWNS DUE TO DECLINING REAL

ESTATE VALUES. BECAUSE OF THAT, HE MAY HAVE LOST THE CUSHION HE NEEDED TO NURSE THE SHOP THROUGH THE STARTUP PAINS TYPICAL OF A SMALL BUSINESS. "

I KNEW IT WAS GOING TO TAKE TIME AND I WOULD HAVE TO ADVERTISE," HE SAID. "THE HOME EQUITY LINES WERE GOING TO BE MY CAPITAL TO PAY FOR IT. BUT I DIDN'T SEE IT (THE CANCELLATION) COMING. NOW, I HAVE NO PLAN."

HE HAD TOTAL AVAILABILITY OF \$90,000 ON TWO OF HIS HOUSES, WHICH HE PROJECTED WOULD HAVE COVERED THE STORE UNTIL CASH FLOW TURNED POSITIVE. HE FOLLOWED WHAT EXPERTS RECOMMEND AS SOUND PRACTICE BY NOT TAPPING THE FUNDS UNTIL HE NEEDED THEM, ALTHOUGH HINDSIGHT SUGGESTS HE SHOULD HAVE BORROWED TO THE MAX AND BANKED IT WHILE HE COULD.

IN SEVERAL OTHER WAYS, HE ALSO FOLLOWED THE BOOK. PRASAD STAYED WITHIN HIS RETAIL BACKGROUND; HE HAD PREVIOUSLY OWNED A GROCERY STORE, BUT DECIDED THIS TIME TO AVOID THE LOGISTICAL HEADACHES OF SELLING FOOD. HE OUTFITTED HIS SMALL SPACE BY HIMSELF, PICKING UP USED FIXTURES AND DISPLAY CABINETS WHERE HE COULD TO HOLD DOWN EXPENSES.

THE RESULT WAS A NEW YORK-STYLE BODEGA, WITH A FAR-FLUNG MERCHANDISE MIX SPANNING AMERICAN AND INDIAN VIDEOS -- HE LIKES THE NAME BOLLYWOOD BUT DOESN'T STICK TO THAT GENRE -- HE ALSO OFFERS CIGARETTES, SHAMPOO, RICE COOKERS, CORDLESS PHONES AND KENNY ROGERS COMPACT DISCS.

HE DOESN'T KNOW HOW MUCH LONGER HE CAN GO ON, BUT HOPES TO FIND A BUYER AT LEAST TO COVER HIS \$30,000 INVESTMENT IN THE SHOP.

"A MIRACLE HAS TO HAPPEN," HE SAID. "WHEN TIMES WERE GOOD, WE MADE DONATIONS TO PEOPLE WHO NEEDED HELP. WE HAVE DONE GOOD. SO GOD HAS TO HELP US."

INHABIT DESIGN

TO SUPPORT A REAL ESTATE-RELATED BUSINESS IN AN AWFUL MARKET, THE FOUNDERS OF INHABIT DESIGN HAVE FOUND UNDERSTANDING SPOUSES TO BE THEIR BEST SOURCE OF FINANCING.

SINCE LAUNCHING IN LATE NOVEMBER, HEATHER SOTO AND MICHELLE DIMAURO HAVE PULLED IN ENOUGH WORK TO BREAK EVEN, BUT ONLY BECAUSE THEY DON'T DRAW SALARIES YET. "WE'RE BOTH MARRIED AND DON'T HAVE ANY KIDS," DIMAURO SAID. "I'M SURE (OUR HUSBANDS) WOULD LOVE TO SEE US GET PAYCHECKS SOON. BUT AS LONG AS WE DON'T LOSE MONEY, THEY ARE OK WITH IT."

IN A BACKHANDED WAY, SHE SAID, IT HAS HELPED TO OPEN WHEN REAL ESTATE GENERALLY HAS PULLED DOWN INTERIOR DESIGN WITH IT, BECAUSE IT GAVE THEM THE OPPORTUNITY TO LEARN HOW TO RUN A BUSINESS WITH TRAINING WHEELS. BOTH HAVE PREVIOUSLY WORKED ON THE ARTISTIC SIDE AND NEITHER HAD EXPERIENCE WITH FINANCE OR OPERATIONS, SO LANDING SMALL JOBS AT FIRST RATHER THAN LARGE, PRESTIGIOUS ONES HAS GIVEN THEM THE LUXURY OF MAKING MISTAKES ON A SMALL SCALE.

"WE BOTH CAME INTO THIS PRETTY DETERMINED BUT A LITTLE NAIVE," DIMAURO SAID. "WE'VE LEARNED THAT EVERYTHING IS NOT SO BLACK AND WHITE. WE'RE NOT SO RIGID NOW WITH OUR PRICING AS WE WERE WHEN WE STARTED."

BOTH OF THEM HAD BEEN PUTTING IN LONG HOURS WITH ANOTHER LARGE FIRM THAT SPECIALIZED IN ESTATE-QUALITY PROPERTIES, DECIDING LAST SUMMER TO STRIKE OUT ON THEIR OWN. EVEN AS THE MARKET SLID AND COMMISSIONS DRIED UP, THEY WENT AHEAD WITH THEIR PLAN.

"WE HAD ALREADY LEFT THE OTHER PLACE, SO THERE WAS NO GOING BACK," DIMAURO SAID. "IT WAS NEVER AN OPTION."

AT LEAST INITIALLY, THEY WERE BUOYED BY ASSURANCES OF WORK FROM OTHER PEOPLE THEY KNEW. BUT THAT DEFLATED QUICKLY WHEN A GOOD 90 PERCENT OF THOSE PROMISES EVAPORATED.

"WE LEARNED A GOOD LESSON THAT YOU DON'T COUNT ON ANYTHING UNTIL YOU HAVE A SIGNED CONTRACT IN-HAND," DIMAURO SAID.

TO KEEP EXPENSES DOWN, THEY WORK FROM DIMAURO'S HOME INSTEAD OF SPENDING TENS OF THOUSANDS OF DOLLARS TO CREATE A SEPARATE OFFICE THAT WOULD SCREAM INTERIOR DESIGNER. THEY HAVE ALSO MANAGED TO NEGOTIATE FAVORABLE TERMS FROM SUPPLIERS EVEN THOUGH THEIR ORDERS ARE STILL SMALL.

WITH THIS BASE, THEY HOPE TO REACH THE POINT OF PAYING THEMSELVES WITHIN A YEAR.

MAUI WOWI

IF PAUL GOLDBERG WERE SITTING IN THE OVAL OFFICE INSTEAD OF THE CRAMPED BACK OFFICE OF HIS MAUI WOWI COFFEE HOUSE ON SOUTH RAINBOW BOULEVARD, HE WOULD HAVE SENT TAXPAYERS A \$600 VISA CARD THIS YEAR INSTEAD OF A CHECK.

"THAT WOULD HAVE GIVEN THE ECONOMY A REAL STIMULUS BECAUSE PEOPLE WOULD ACTUALLY HAVE HAD TO SPEND IT INSTEAD OF PAYING BILLS," HE EXPLAINED.

BUT IN THE REAL WORLD, FLAGGING CONSUMER CONFIDENCE HAS RAISED THE HURDLES HE MUST CLEAR TO ESTABLISH A FRANCHISE LARGELY UNKNOWN IN LAS VEGAS ON A FIRM FOOTING AND PROMPTED HIM TO START PLOTTING WAYS TO TURN AROUND WEAK CUSTOMER COUNTS.

"I AM HOPEFULLY COMMITTED TO STICKING IT OUT TO AT LEAST THE END OF THE CALENDAR YEAR, " HE SAID. "I AM GOING TO ASK THE SBA FOR HELP AND THE LANDLORD FOR HELP, BUT I DON'T KNOW."

IN THE MEANTIME, THE TWO PILLARS THAT LED HIM TO BUY THE AREA'S FIRST MAUI WOWI FRANCHISE IN THE SPRING OF 2007 ARE WOBBLING.

"WE WANTED A CONCEPT THAT WAS SOMETHING A LITTLE DIFFERENT," SAID GOLDBERG OF HIMSELF AND HIS NEPHEW JEFF GOLDBERG, A NEW YORK RESIDENT WHO IS PART-OWNER. "EVEN WITH THE ECONOMY DOWN, WE FELT PEOPLE WANTED A LITTLE BIT OF ESCAPE."

HOWEVER, BEING POSITIONED AS AN ALTERNATIVE TO THE "GREEN GIANT," HIS TERM FOR STARBUCKS, REQUIRES PERSUADING COFFEE DRINKERS TO SWITCH ALLEGIANCES, A TOUGH TASK WITH LITTLE MARKETING BUDGET. NOR DID IT HELP THAT DOUBLE D'S OPENED A COUPLE OF HUNDRED FEET AWAY, A MOVE THAT SURPRISED HIM BECAUSE THE PARCEL WAS NOT COVERED BY A CLAUSE IN HIS LEASE THAT PROMISED TO KEEP COMPETITORS OUT OF HIS MALL. AND THEN THERE'S THE ECONOMY.

"THIS HAS HURT US TO SUCH AN EXTENT THAT PEOPLE DON'T BUY THINGS THAT THEY USED TO BUY."

GOLDBERG HAD BEEN CONDUCTING SUPPORT AND TRAINING SESSIONS FOR A COMPANY HE DIDN'T NAME, WHEN HIS TERRITORY WAS REORGANIZED IN EARLY 2006 TO ELIMINATE ALL LOCAL ACCOUNTS. AS A RESULT, HE WOULD HAVE BECOME A FULL-TIME ROAD WARRIOR AND FACED THE PROBABILITY OF A TRANSFER TO DENVER. THAT SET HIM ON THE HUNT FOR A CAREER CHANGE.

BY THE FOLLOWING SEPTEMBER, HE HAD SETTLED ON OWNING A COFFEE HOUSE AND PICKED A MAUI WOWI FRANCHISE IN THE SPRING OF 2007, GOING WITH A CHAIN THAT HAD STORE CLUSTERS IN CALIFORNIA AND ARIZONA BUT NOTHING IN SOUTHERN NEVADA.

HE WAS ATTRACTED BY THE FORMAT BUILT AROUND SELLING BOTH KONA COFFEE AND FRUIT SMOOTHIES, A COMBINATION DESIGNED TO PULL IN CUSTOMERS YEAR ROUND. IN ADDITION, HE TRIED TO CREATE A HOMEY ATMOSPHERE BY FURNISHING IT WITH TABLES AND RATTAN LOVE SEATS WITH FLORAL UPHOLSTERY, INVITING WRITERS GROUPS TO MEET THERE AND STAGING KARAOKE SESSIONS FOR CHILDREN. STILL, HE SAID, "THE PROBLEM IS GETTING CUSTOMERS IN THE DOOR."

"WOULD I DO IT AGAIN TOMORROW? YES," HE SAID. "WOULD I DO IT AGAIN IN THIS ECONOMY? THAT WOULD MAKE ME THINK."

R.E. TAPAS KITCHEN & LOUNGE

IN LATE FEBRUARY, A LIQUOR DISTRIBUTOR SHOWED UP TO STOCK THE BAR THAT DOMINATES THE CENTER OF R.E. TAPAS KITCHEN & LOUNGE, ONLY TO BE TURNED AROUND BY OWNER AND EXECUTIVE CHEF ERROL LEBLANC AND TOLD TO RETURN AFTER MARCH 1.

THE REASON: HE GAINED AN EXTRA MONTH TO PAY THE BILL. WITH HIS BANK ACCOUNT HAVING FALLEN BELOW \$6,000 -- \$120,000 WOULD HAVE BEEN MORE LIKE IT, HE SAID -- AND MORE STARTUP BILLS ON THE WAY, "THE \$14,000 (FOR THE LIQUOR) WAS MONEY I DIDN'T HAVE," HE RECALLED.

THE 28-YEAR-OLD LEBLANC HAD DREAMED ABOUT OPENING HIS OWN RESTAURANT SINCE HE WAS 14 AND HAD STARTED MOVING AHEAD SERIOUSLY IN DECEMBER 2006. HE HAD LONG MULLED OVER WHAT THE MENU WOULD INCLUDE, A FUSION OF CALIFORNIA, SPANISH AND ITALIAN-STYLE TAPAS, AND HOW THE KITCHEN AND DINING AREA WOULD BE LAID OUT, BASED ON HIS EXPERIENCE WORKING AT SEVERAL RESTAURANTS AND HOTELS IN LAS VEGAS.

"THIS IS ONE OF THE MOST FUNCTIONAL RESTAURANTS I'VE EVER BEEN IN," HE SAID.

BUT THE FINANCIAL PART WAS NOT NEARLY SO STRUCTURED.

"IT CAME TO A POINT WHERE I DIDN'T PAY FOR ANYTHING I DIDN'T HAVE TO," HE SAID. "IT WAS OFF THE CUFF."

THE ONE CONSISTENT THEME, HOWEVER, WAS NOT SPLURGING ON FIXTURES OR DECOR. HE BOUGHT DARK WOODEN CHAIRS FROM IKEA AND ASSEMBLED THEM HIMSELF. HE THEN BOUGHT DOORS AND SAWED THEM IN TWO TO CREATE TABLES AND STAINED THEM TO MATCH THE CHAIRS, SAVING SEVERAL HUNDRED DOLLARS EACH. HE ALSO PAINTED THE INTERIOR HIMSELF.

"ANYTHING I COULD DO MYSELF, I DID MYSELF," HE SAID, INCLUDING A LARGE PART OF THE ARCHITECTURE.

ALL TOLD, IT COST ABOUT \$375,000 TO OPEN R.E. TAPAS, INCLUDING ABOUT \$100,000 OUT OF HIS OWN POCKET AND MUCH OF THE REST FROM TENANT IMPROVEMENT ALLOWANCES FROM HIS LANDLORD.

STILL, HE WONDERED WHETHER THAT WOULD BE ENOUGH.

"I WAS HONESTLY SCARED BY THE TIME WE WERE READY TO OPEN BECAUSE THE ECONOMY IN LAS VEGAS WAS GOING TO HELL," HE SAID.

WHAT HAS CARRIED THE DAY SO FAR, HE SAID, IS THE EAST SILVERADO RANCH BOULEVARD LOCATION AND WORD-OF-MOUTH MARKETING. THE SURROUNDING AREA IS MAINLY POPULATED BY FRANCHISES AND NOT INDIVIDUALLY-OWNED RESTAURANTS. THE EMPLOYEES AT SOUTH POINT, LESS THAN TWO MILES AWAY, HAVE ALSO STOPPED BY REGULARLY. WORD-OF-MOUTH HAS SPREAD AMONG OTHER CASINOS WITH THE HELP OF HIS MOTHER, AZALIA LEBLANC, WHO WORKS AT MANDALAY BAY.

ALTHOUGH HE HAS FORMAL CULINARY EDUCATION IN ADDITION TO WORKING IN THE KITCHENS IN PLACES LIKE PARIS LAS VEGAS, GREEN VALLEY RANCH RESORT AND MANDALAY BAY, IN ADDITION TO TEACHING AT THE ART INSTITUTE OF LAS VEGAS, HE NOTED, "THERE'S NOTHING THEY CAN TEACH YOU IN SCHOOL THAT WILL PREPARE YOU TO GET IN BUSINESS.

LAS VEGAS HOME WATCHERS

WHEN LEAVING FOR A TWO-WEEK TRIP TO EUROPE LAST YEAR, DAN AND GINNY KRUGER WERE DISMAYED WHEN THEY COULDN'T FIND ANYONE TO WATCH THEIR HOUSE DURING THEIR ABSENCE.

ALTHOUGH MOST PEOPLE WOULD HAVE FORGOTTEN ABOUT IT IF EVERYTHING WAS STILL THERE WHEN THEY RETURNED, DAN KRUGER JUMPED ON THE INTERNET TO RESEARCH HOUSE-SITTING SERVICES. HE FOUND THEM IN PLACES AS FAR FLUNG AS FLORIDA, ARIZONA AND CAPE COD, RESORTS WHERE LARGE NUMBERS OF PEOPLE OWN SEASONAL HOMES, BUT APPARENTLY LITTLE IN LAS VEGAS.

WHEN HIS EMPLOYER, WHICH HE DID NOT IDENTIFY, WAS TAKEN OVER IN FEBRUARY AND THE NEW OWNERS OFFERED HIM AN EARLY RETIREMENT PACKAGE, IT GAVE THE KRUGERS THE FINAL SPUR AND FINANCING TO GO AHEAD WITH LAS VEGAS HOME WATCHERS.

"I THINK THE TARGET AUDIENCE ARE PEOPLE WHO HAVE DISPOSABLE CASH AND ARE NOT AFFECTED BY HIGH GAS PRICES," DAN KRUGER SAID.

IN PARTICULAR, HE HOPES TO FIND A CLIENTELE AMONG TWO-EXECUTIVE FAMILIES WHO WANT THAT EXTRA MEASURE OF SECURITY WHEN THEY ARE GONE.

BESIDES CHECKING FOR BREAK-INS, LEAKS, INSECT INFESTATIONS OR YELLOWING NEWSPAPERS FOR VACATIONERS OR SNOWBIRDS, THE KRUGERS OFFER TO WAIT FOR REPAIR PEOPLE ON BEHALF OF CLIENTS WHO NEED TO BE ON THE JOB.

THE CURRENT OUTCROPPING OF FORECLOSURE HOMES SITTING EMPTY WOULD APPEAR TO OPEN ANOTHER AVENUE FOR HOUSE-SITTING. HOWEVER, SAID DAN KRUGER, "THAT HAS BEEN A TOUGH NUT TO CRACK." AFTER DISCOVERING THAT BANKS DELEGATE MAINTENANCE RESPONSIBILITY TO REAL ESTATE BROKERS, THE KRUGERS WILL HAVE TO GO DOOR TO DOOR TO TRY TO WIN CLIENTS FROM PROPERTY MANAGEMENT COMPANIES.

HAVING JUST GONE INTO FULL OPERATION IN JUNE, AND DAN KRUGER'S TIME LIMITED BY A CONSULTING CONTRACT WITH HIS FORMER EMPLOYER, IT REMAINS TO BE SEEN HOW MUCH OF A DEMAND LAS VEGAS HOME WATCHERS CAN GENERATE.

"IT'S NOT LIKE PIZZA PLACES, WHICH ARE EVERYWHERE SO YOU KNOW PEOPLE ARE BUYING THEM," HE SAID.

HOWEVER, THE KRUGERS WILL FACE COMPETITION FROM A VARIETY OF ANGLES. BESIDES AT LEAST ONE OTHER COMPANY ORGANIZED TO MIND HOMES, DOZENS OF OTHER PEOPLE OFFER TO MOVE INTO A HOME DURING THE OWNER'S ABSENCE AND SEVERAL PET SITTERS WILL KEEP AN EYE ON THE HOUSE AS AN ADJUNCT TO WALKING AND FEEDING THE DOGS. THE KRUGERS HOPE TO DISTINGUISH THEMSELVES BY INCORPORATIONS AND SECURING BONDING AND INSURANCE, BUT SPENDING THE NIGHT IN THEIR OWN HOME.

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