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Business formation soaring

Huge number of Portlanders launching new businesses

BY STEVE LAW
The Portland Tribune, Jun 25, 2009

As layoffs mount in Portland, more folks are opening their own businesses – despite a brutal economic climate and a dearth of traditional startup money.

Vitaliy Kornyta's house-framing and trucking jobs dried up, so he sold his semi-truck and opened an auto repair shop.

Gary Yu, after years toiling in other peoples' bakeries, built one of his own from scratch.

Jason Hilbourne, after noticing his sons going to bed clutching sharp-edged Lego Bionicle robots, designed a line of stuffed-animal-style robots that are safe for cuddling.



L.E. BASKOW / TRIBUNE PHOTO
Owner Gary Yu (right) and baker Jorge Calderon assemble cream cheese pockets, the top-selling item at Gary's Bakery & Bistro. Yu opened the store last August, as the recession was rearing its head in Portland.

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The three men are among thousands who have launched new Portland businesses in the past year, during the worst recession in decades.

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Last month, the city of Portland issued 579 new business licenses – triple the number of a year earlier. In the past 12 months, the city issued nearly 7,000 new business licenses – two-and-a-half times as many as in the prior 12 months.

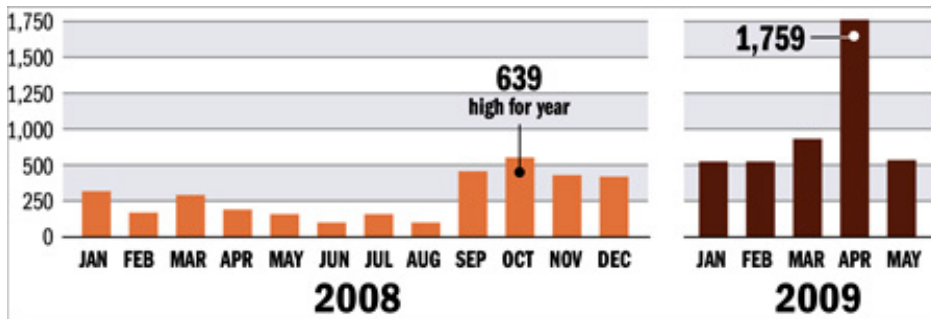
New business formation picked up noticeably starting last September, just as the recession was taking hold here, the world financial system was tottering and corporate layoffs were announced almost daily.

Some of the recent increase may stem from stepped-up enforcement to assure small-business owners get proper licenses, or from related changes in city policies, said Scott Karter, Portland Revenue Bureau audit supervisor. There also are seasonal blips, such as a huge spike in April when new business owners paid their first city business taxes.

Still, the economy appears to be a major factor in the upsurge, Karter said.

It's common for people to form small businesses during economic downturns, especially when they can't find jobs. But the recent pace of business startups in Portland is "remarkable," said local economist Joe Cortright. In past recessions, many people left the area to find work, but that doesn't appear to be happening so much now, he said.

"I view that as a very healthy sign for the economy in the long term," Cortright said. "It's like you're planting seeds. Some of them will succeed wildly and have big economic effects."



TRIBUNE GRAPHIC: PETE VOGEL • The number of people forming new businesses in Portland began surging last September, just as the economy began tanking and layoffs skyrocketed. This chart shows new business licenses issued by the city Revenue Bureau.

Big job generators

Oregon traditionally relies on small businesses for job creation more than most other states.

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Companies with fewer than 500 employees provide 57.2 percent of all private-sector jobs in Oregon, compared to the national average of 50.2 percent, according to the latest data, from 2006, compiled by the U.S. Small Business Administration. Only seven states have a higher share of jobs from smaller companies, and those states tend to be more rural in nature – Maine, Vermont, North and South Dakota, Wyoming, Idaho and Utah.

What's also remarkable about the brisk pace of Portland business startups is that it comes at a time when startup funding has fizzled, which wasn't such a barrier in prior recessions.

"Usually during recession periods such as this, historically, new business startups have increased," said Harry DeWolf, director of the Small Business Administration's district office in Portland. "This time, we have the banking challenges and the financing challenges."

People launching small businesses typically rely on personal savings, loans from family, credit cards, bank loans and tapping equity from their homes.

But shrunken home values and the banking crisis have largely closed the spigot on home equity loans and mortgage refinancing.

Many credit card companies are raising interest rates and lowering customers' lending limits.

Family members that face disappearing home equity and dwindling retirement funds have less wherewithal to help relatives start businesses. And banks, normally picky about helping startups because of their high failure rate, are more gun-shy than ever.

In past years, at least 25 percent of the area banks offering SBA-guaranteed loans were willing to loan to startups, DeWolf said. "I would say it's probably less than 5 percent now."

Money still available

His office, which serves Oregon and Southwest Washington, has guaranteed 513 loans to small businesses, worth a total of \$109 million, in the past eight months. That's well below the average \$266 million in SBA-guaranteed loans issued in each of the prior three full years. SBA loans go to businesses that have been around awhile as well as startups.



TRIBUNE PHOTO: L.E. BASKOW • *Vitaliy Kornyta works on his cherished Lada in the auto garage he opened three months ago, at age 22.*

Despite the financing challenges, many entrepreneurs are creative about finding ways to get their business started.

“The majority of businesses get started, basically on a shoestring, with a lot of sweat equity,” Cortright said.

Some loans are still available for the right business plan, though clearly in tighter supply.

Portland Development Commission, the city economic development and urban renewal agency, expects to provide \$4 million in business loans for the fiscal year ending this month, said Fred Atiemo, who manages PDC’s business finance programs. That compares to \$6.4 million last year and \$9.8 million the year before that, he said.

PDC also is finding that borrowers are coming to the agency with far less supplemental funding from other sources than in past years, Atiemo said.

Kornyta said he put in about \$35,000 of his own money, much of it from selling the truck, and got about \$45,000 from his mother, which he said came from an insurance settlement after his sister was in an accident.

Wu got a deep discount on his bakery fixtures and equipment when another baker went out of business five years ago, and he put the gear in storage until recently. His wife also arranged an \$80,000 second mortgage on their home before the market tanked. Wu said he works almost 17 hours a day, and his wife works 14 hours.

Hilbourne used \$60,000 of his own savings to start his toy manufacturing company. He does the work, with the help of his wife, while maintaining his regular job in engineering services.



TRIBUNE PHOTOS: L.E. BASKOW • *Jason Hilbourne created his own toy manufacturing business after designing cuddly robots called Bunk Bots.*

As more people start businesses, a record number are turning for assistance to the local Small Business Development Center in the Lloyd District, a state and federally funded assistance program for entrepreneurs.

“We’ve seen a lot of people coming through our doors, more so than we’ve ever experienced,” said Tom Lowles, local director. The program, affiliated with Portland Community College, first opened in 1983.

It could be a good time to start a business, Lowles said. New entrepreneurs can test the market and validate their business concept, he said, and be poised to take advantage when the economy recovers.

stevelaw@portlandtribune.com

NEW OWNERS SEEK NICHE DESPITE SOUR ECONOMY Catering to the tastes of ‘New Chinatown’

Gary Wu didn’t exactly plan to open a bakery in the midst of a deep recession.

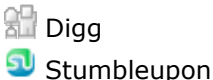
But so far he’s making a go of it, largely by catering to the tastes of immigrants in eastside Portland’s “new Chinatown.”

Wu and his wife, Amy Xie, opened Gary’s Bakery & Bistro, on Division Street and Southeast 86th Avenue, last August. A month ago, they added a bar in the adjoining space.

They already have five employees and some loyal customers, judging from the 10 people at the bakery on a recent weekday afternoon.

The key is serving baked goods while they're warm and fresh from the oven, Wu said, arguing that it's even more important than flavor. And people who immigrated from China tend to prefer less sugar and oil in their baked goods, he said.

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BY STEVE LAW

The Portland Tribune, Jun 25, 2009

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In the Hong Kong-style bakery, customers can pick out their own hum baos, red bean buns and taro toast from a series of bins. Or they can order custom cakes, tiramisu and other treats from behind the counter.

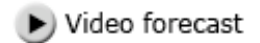
Though business is down since the recession worsened, most people can afford \$1.60 for a freshly baked treat, Wu said. People still come, but they spend less.

The bakery is "doing all right" despite the recession, he said. It's too soon to tell if the bar will work, but he's hopeful the video lottery terminals will prove lucrative. An immigrant from the People's Republic of China, Wu noted that gambling is popular in his native culture.

Wu worked several years at bakeries in other states and noticed how well people did when he helped them open bakeries. He spent several months patiently rehabbing the former fireplace store into a brightly colored bakery and bistro, starting before it became clear the economy was tanking. Then



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he had little choice but to keep steaming ahead, and he still spends most of his waking hours at work.

Wu's advice to other would-be retailers is simple. Keep close to your customers, he said, and "if you don't want to work hard, don't open your business."

Meet Servo, Tracks, Otto, Pinch and Stepper

They're soft and cuddly like stuffed animals and have grabbers for arms. The ones with red eyes are up to no good.

They're the Bunk Bots, the creation of Jason Hilbourne, a contract engineer from Northwest Portland who helped design and engineer parts for Apple Computer and other consumer electronic companies.

Hilbourne, 39, longed to form his own toy company after helping engineer two toys for a client. His "aha moment" came when he saw his young son asleep in bed hugging a spiky Lego Bionicle robot.

"I thought, 'If they want their robot toy in bed with them, it should be soft,'" Hilbourne said from his downtown Portland office.

The only problem: He launched his company, Huge Factory LLC, in March 2008, just as the recession was starting to infect Portland's economy.

With about \$60,000 of his savings, he designed the toy robots on a computer then employed two Chinese manufacturers in a "bake-off" to see which one made the better prototype.

The first batch of 10,000 Bunk Bots arrived last November, too late for holiday sales. But he's since sold about 5,000, and they're being offered at about 50 retailers, including Finnegan's Toys and Gifts, Powells Books and Amazon.

"Our target audience for these guys are geek dads or geek parents," Hilbourne said. "They're the ones who are going to want to buy robots for their kids instead of My Little Pony or Tickle Me Elmo."

Hilbourne has approached the business cautiously. He would like eventually to live on his company's income, but for now is keeping his day job. He goes to trade shows, sends out product information via blogs and e-mail and has produced dozens of YouTube videos to create a buzz.

Hilbourne hasn't tapped any outside financing, though he said that's crimped his ability to advertise, market and distribute his toys. "Because I didn't, they're not flying out the door as fast as I planned," he said.

The recession has put a damper on sales, with retailers reluctant to order an untried product or stock too much inventory.

But Hilbourne expects to have a second generation of Bunk Bots on store shelves by this year's holidays.

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TRIBUNE PHOTO: L.E. BASKOW • *The sign advertising \$10.95 oil changes lures traffic to Kornyta’s Auto Service, an otherwise nondescript garage on bustling Powell Boulevard.*

A fresh coat of white paint and two auto lifts

Vitaliy Kornyta learned to work on cars and trucks at his grandpa’s shop back in Ukraine, starting at age 10 or 11, he says.

So when the recession dried up work in construction and trucking, he opened Kornyta’s Auto Service in Portland three months ago.

At the ripe age of 22.

So far, business is brisk, thanks to the catchy “\$10.95 oil change” sign on bustling Southeast Powell Boulevard near 68th Avenue.

Kornyta said he’s making only \$2 on each oil change, but he’s buying at least \$4,000 worth of motor oil each month.

“I do good prices because people don’t have the money,” Kornyta said, while rebuilding a Ford F-250 pickup truck. “I don’t make too much money, just enough for living.”

He’s also earned an ethnic market niche after spending \$1,000 for startup advertising in area Russian Orthodox churches. Now Russians and Ukrainians account for about 65 percent of his business.

A prior auto shop in the building, Metro Express, also attracted clientele by offering cheap oil changes, but it closed down last year. Dennis Kornyta, Vitaliy’s father, lost his mechanic’s job when that place closed and now helps his son.

Vitaliy Kornyta, a former mechanic for a Toyota dealership in Vancouver, was able to buy the empty building on contract from the owner. He put in about \$35,000 of his money, much of it from selling his semi-truck, and got a \$40,000 to \$45,000 loan from his mother, derived from an insurance settlement from his sister’s auto accident.

Kornyta added a fresh coat of white paint to the once-dingy shop and installed two \$10,000 auto lifts.

He doesn't seem worried about taking on so much debt and responsibilities in the midst of a recession. "It's not scary," he said. "Everybody likes this place because it's not too much money and we do quality work."

– Steve Law

RESOURCES FOR SMALL BUSINESS OWNERS

Small Business Development Centers

Help entrepreneurs with business plans, financing; offer workshops and training series.

Portland center: 503-978-5080 or www.pcc.edu/business/small-business-development

Other Oregon centers: www.bizcenter.org

Small Business Administration

Federal agency that provides loan guarantees, assistance with financing, contracting, advocacy.

Oregon district office in Portland: 503-326-2682 or www.sba.gov/localresources/district/or/index.html

SCORE

Nonprofit that matches entrepreneurs with volunteers who worked or work in the field, to provide free consulting, counseling and advice.

Local chapter: 503-326-2808 or <http://scorepdx.org/page.php?id=38>

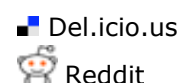
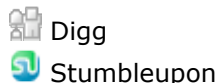
Portland Development Commission

City agency that helps with variety of loans and location assistance: www.pdc.us/bus_serv/default.asp.

The PDC is hosting a small business town hall on the city's economic development strategy and small business initiatives, on Monday, June 29, 11:30 a.m. to 1:30 p.m., at Double Tree Hotel, 1000 N.E. Multnomah St.

Limited seating by reservation. Contact Claudia Plaza at 503-823-3234 or smallb@pdc.us.

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