SMALL BUSINESSES AT WORK

When the editors of Economic Perspectives *attempted to come up with a common thread to describe small business in the United States, it was soon obvious that there was no single answer. Clearly, to be successful, small-business owners must be hard working. And most are passionate about the product or service they are providing. We interviewed five small-business owners who described for us how they started and the continuing challenges they face. The five include a family business, one owned and operated by a woman, another operating in a foreign country, a fourth that sells in foreign markets, and a fifth that turned a small business into a big business.*

FLICKERWOOD WINE CELLARS: A FAMILY BUSINESS

In 1998, when Ron Zampogna retired from the U.S. Forest Service, he was only 56 years old. "I'm not much for sitting around," he says. Zampogna did have a lifelong hobby: Like others in his family, Ron had developed an impressive skill at winemaking. His son Rick suggested that Ron explore the possibility of starting a winery. Today, Flickerwood Wine Cellars sells 5,000 to 6,000 gallons of Strawberry Fields, Flickerwood Dew, and two dozen other varieties to retail and, where permitted, mail-order customers. It also operates a successful wine-tasting bar and a gift shop offering wine-related products, gift baskets, and numerous unique items.

From Rick Zampogna's first suggestion that his father become a professional vintner, Flickerwood has been a family business. Ron's wife, Sue, is the business manager, tending carefully to the finances; a daughter, Julie, designs the distinctive labels that adorn each Flickerwood bottle; and a daughter-in-law, Tammy, helps Ron at the many wine festivals at which Flickerwood makes new customers. Father and son work together at the actual wine production. The business has also grown to include several part-time employees.

When the Zampognas resolved to open a winery, they turned to a Pennsylvania Small Business Development Center (SBDC) located at Clarion University, in Clarion, Pennsylvania. Based in 16 universities and more than 90 outreach locations, these centers provide consulting services and educational programs to Pennsylvania small-business entrepreneurs. They might, for instance, help prospective business owners test a new business

Courtesy Flickerwood Wine Cellars, Kane, Pennsylvania

The Flickerwood bottling area, with six-bottle filler and semiautomatic corking machine.

proposition, shape a business plan, or investigate funding opportunities.

The Clarion SBDC helped the Zampognas craft a business plan, a necessary step for persuading investors to offer the required financing. It took six months to complete the plan, but it enabled the Zampognas to raise nearly $120,000—80 percent, Ron says, of the funds needed to start Flickerwood. Sons Rick and Tim Zampogna, both carpenters, constructed the almost four-meter-high wine cellar. Their labor helped reduce the need for start-up capital.

Ron Zampogna speaks lovingly of the winemaking process. Because wine grapes are not successfully cultivated in Pennsylvania's McKean County (where the winery is located), Flickerwood imports its grape juice (or *must*) from vineyards elsewhere in Pennsylvania. Ron can explain at length the processes of compound adjustment and fermentation, stabilization and bottling, but the strongest message is simply that he enjoys and takes pride in his work. Flickerwood wines have captured multiple prizes in the Pennsylvania Farm Show Wine Competition and from the Pennsylvania Wine Association. Business continues to increase at the rate of 15 to 20 percent annually.

Flickerwood demonstrates a number of the elements common to small-business success stories. Ron Zampogna's winemaking skill and knowledge were essential. Important, too, were the SBDC professionals who shared their practical business experience to nurture a small business such as Flickerwood as one pillar of a healthy regional economy. Investors who saw diligence and preparation in Flickerwood's business plan were willing to bet their capital on the Zampognas' prospects of success.

Ron lists working with Sue as one of the many benefits of running a family business. He also believes that Rick, who originally worked only nights at Flickerwood but is now a full-time wine entrepreneur, will continue to run the company when Ron finally decides to move on. But that won't happen any time soon. "I never want to retire," he says.

— Michael Jay Friedman

Courtesy TLC Adcentives LLC

TLC Adcentives president Terri Hornsby.

TLC ADCENTIVES: A WOMAN'S RECIPE FOR SUCCESS

Terri Hornsby moved to Houston, Texas, in 1994 with a degree in broadcast journalism, but she could not find a job. In a Houston newspaper, she saw a help-wanted ad for an advertising specialty representative.

"I did not have a clue as to what that meant," Hornsby says. Even so, she got the job—selling pens and pencils branded with a client corporation's logo. Although she lacked sales and advertising experience, Hornsby quickly mastered her job and began to attract more corporate customers for her employer.

After a while, some customers started asking her why she didn't go into business for herself. So she did, part time at first. But when Hornsby landed a big contract, she decided to give up her job and instead operate her full-service promotional advertising company, TLC Adcentives, on a full-time basis. That was in May 1995.

"We take companies' names and logos and help further 'brand' them in the marketplaces that they're trying to reach through the promotional products we provide," Hornsby explains. For her first big customer, Shell Oil Company, that means arranging the production of awards, jackets, caps, golf balls, umbrellas, pens, pencils, and all sorts of executive gifts, all featuring the Shell logo. Hornsby and her four or five employees now serve major oil companies, technology giant Hewlett Packard, a major hospital, and some medium-sized and small businesses.

The biggest projects are called catalog fulfillment programs. For these, TLC Adcentives stocks a warehouse with 70 or so products featuring a client company's logos and fills its customers' weekly orders on demand.

Hornsby advises the owners of smaller businesses on how to promote themselves in the marketplace by using the correct promotional products. "I tell them we don't 'do cheap,' " Hornsby says. "We will find things within your budget, but we don't do cheap because if someone receives something cheap from a trade fair ... and they walk away and say, 'You know, that was really cheap,' then there goes all your branding."

Hornsby has made mistakes and faced challenges in her business. That's part of the learning curve, she says. For example, she hired someone to manage the company's financial records who she realized too late was doing a poor job. "That was a lesson learned because it was a very costly lesson," Hornsby says.

She also purchased a $7,500 software program that was so complicated that no one in the company could figure out how to use it. And she borrowed money for the business on credit cards, "which becomes very costly," she says.

Hornsby's biggest challenge came in 2003 when she was diagnosed with breast cancer. "I just maintained the business. I didn't try to grow it," Hornsby says. "That year was probably our toughest year, but we survived."

However, she considers herself lucky that throughout the ordeal of chemotherapy, she needed to take off only a single day from work … and that her corporate customers provided her support and comfort. Staying at work might have even assisted her recovery, she says. "I wasn't just thinking, 'OK, I'm sick—I'm going to lie in bed for the next six months.' I think [the business] kept me motivated."

Hornsby's advice to novice entrepreneurs is simply to give the customer good service. When a customer's order gets messed up, for whatever reason, spend the money to make it right. "Then in the end everybody wins," Hornsby says. "The clients are happy; they refer you to somebody else, and they come back to do business with you again."

— Bruce Odessey

TIMBERLINE TRACTOR & MARINE: PROVIDING SERVICES TO THE WORLD

Lori Scholtz never believed that she and her husband, Joseph, would own a business, let alone one that services engines throughout the world. Their story demonstrates how a combination of skill, hard work, and a willingness to seize opportunity when it arises can lead to business success.

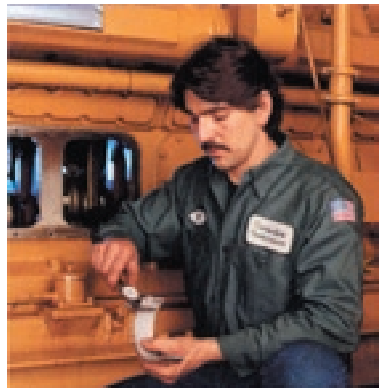
Joseph Scholtz is a talented engine mechanic. For about 15 years, he worked for Caterpillar Tractor, a leading manufacturer of diesel and natural gas engines. During this time, Scholtz aggressively honed his skills, not least by taking classes in advanced engine repair and obtaining certifications demonstrating his expertise in the repair of more complex motors.

Around 1981, Scholtz was approached by a Caterpillar competitor, the manufacturer of an "after-market" parts line. As with automobiles, the owners of bulldozers, front-end loaders, and other complex machinery may choose to repair their equipment with often less-costly after-market parts. This parts manufacturer offered the Scholtzes the opportunity to start their own business. The manufacturer would supply the parts, and Joseph Scholtz would perform the repairs. The arrangement meant leaving Caterpillar, but it offered the Scholtzes the chance to be their own bosses.

The business diversified and grew. In addition to bulldozers, Joseph Scholtz worked on engines used by hospitals, as well as on boat engines. Marine engines especially can be very complex and require much work; repairing one is a big job, one that could tide over a small business in slow times.

When the parts supplier wanted the Scholtzes to concentrate on tractors and bulldozers to the exclusion of marine work, they instead severed the relationship and struck out on their own, incorporating as Timberline Tractor & Marine.

The biggest obstacle facing the young company, says Lori Scholtz, was cash flow. But Timberline possessed important assets. Joe's technical skill was the most obvious one. Joe also had maintained his contacts at Caterpillar and at several boat companies around the U.S. Great Lakes. These contacts would prove instrumental in growing the marine part of the business. The transition to becoming an international business flowed naturally from Timberline's expertise in marine engines. When a freighter, cruise ship, or other large vessel requires engine repair, the motor is not removed and shipped to the mechanic; rather, mechanics travel to the boat, sending ahead their tools and parts. Joe Scholtz and a team of craftsmen have traveled to Singapore, Italy, and other countries to service complex motors.


Courtesy Timberline Tractor & Marine Inc., Cleveland, Ohio

Timberline owner Joseph Scholtz measuring the connecting rod bearings of a marine engine.

Despite its international presence, Timberline remains a small business. Aside from Joe and Lori Scholtz, it employs three secretaries and one other mechanic, although additional mechanics may be engaged to help with a particularly large job.

Lori Scholtz, who previously worked for a medical company, never expected to run a business. She nevertheless finds the role of business owner a rewarding one, and she considers the pressure to give up their marine customers—the impetus for starting Timberline—"a blessing."

— Michael Jay Friedman

LYNKA: OPERATING A SMALL BUSINESS OVERSEAS

The U.S. owners of LYNKA, the leading promotional products company in Poland, have prospered by overcoming the same kinds of challenges businesses everywhere face, plus some others specific to operating in a foreign country, according to co-owner John Lynch.

"Most of what we're dealing with are just the same commercial issues that other businesses are dealing with—getting rate systems in place, training your people, coming up with a good marketing program, improving your product quality," Lynch says.

Lynch and co-owner Anne Kalin together operate LYNKA, headquartered in Krakow, producing T-shirts, jackets, pens, coffee mugs, leather bags, and thousands of other products bearing the logos of corporations, schools, and government agencies.

The two came to Poland in 1991 as part of a U.S. Agency for International Development program to give advice to Polish companies about how to operate in a market economy. They decided to stay and go into business for themselves.

"It was very much the wild, wild East," Lynch recalls.

In 1992, Lynch and Kalin started doing consulting work. In 1993, they got the idea for producing clothing and other products bearing a company brand that the company could use as gifts to customers, promotional giveaways, rewards to employees, and so on. They started with three employees, one machine to make the imprints, and about $20,000 in personal savings.

In 1994, they borrowed money from local banks and from relatives for expansion, and in 1995 the company made more than $1 million in sales. By 2004, LYNKA employed about 150 people; had offices in Warsaw, Gdansk, Poznan, and Silesia; and had sales of more than $20 million.

According to Lynch, he and Kalin succeeded by working hard to produce quality goods and services, treating their employees well, meeting all of their obligations to the government, and following good business ethics.

"We did it all ourselves, from scratch, without any real outside partner ... and that was in rather hardship conditions because [Poland at first] was a country with an underdeveloped infrastructure," Lynch says. "Just learning Polish was a challenge in itself, and just getting to know the local business culture—there are lots of risks in doing business in foreign countries."

The infrastructure—telephones, roads, railways, air travel—is "a hundred times better" now, he says. The government regulatory burden is decreasing somewhat, but still takes up too much time: reports to the statistical office, monthly tax audits, health and safety audits, and lots of permits. "Businesses are constantly going to various government offices to wait in line for two or three hours to get things stamped ... and that is an inherent part of the Eastern European system," Lynch says. "It's getting better, but they're still slow."

He adds, however, that the biggest problem is not regulation but unethical competition. He says that his company offers good value to attract business, but that other companies offer kickbacks—bribes paid to a customer's purchasing agent. "There are still lots and lots of kickbacks in purchasing and marketing departments in all different


Courtesy LYNKA

A LYNKA corporate logo imprinting machine.

types of industries," Lynch says. "You have to find the clients who are decent, honest clients who are buying based on quality and service. And so there's a definite part ... of business that you lose." Nevertheless, Lynch feels that doing business in Poland is mostly a pleasure, even better now since the government cut the business tax rate from about 40 percent to 19 percent and since Poland joined the European Union (EU). Exports to 22 of the 25 EU member countries account for about 25 percent of LYNKA sales now, up from just 5 percent three years ago, he says.

"Thanks to the EU, we're experiencing dynamic growth of exports because we have Western quality, and we still have a competitive advantage on costs" because Polish labor costs less than that in other EU countries, he says. Polish membership in the EU is "the best thing that happened to us."

— Bruce Odessey

Radio One: A Small Business That Grew Large

Catherine Hughes struggled at first to keep her small business afloat, but her perseverance was rewarded: Radio One is today the seventh-largest radio broadcasting company in the United States. It owns or operates 69 radio stations targeting an African-American audience and employs about 2,400 people. She credits her success to an unwavering commitment to her business goals and to being involved in every aspect of the company.

Back in the 1970s, working at Howard University in Washington, D.C., Hughes devised a music format for the university's radio station that increased station revenue many times over. When the university declined to license the format, she decided to go to work for herself.

"I was determined that I would never be in a situation again where I was blessed with coming up with a billion-


Courtesy Radio One

Radio One chairperson and founder Catherine Hughes.

dollar format and people not taking it seriously," Hughes says.

In 1980, Hughes took out a $1 million loan to buy her first radio station, WOL. She programmed it ambitiously, with talk shows—an expensive kind of programming—aimed at African Americans. When interest rates shot up to nearly 28 percent, she struggled to keep up her repayments.

"I literally had to sacrifice everything," Hughes says. "My car was repossessed, I lost my home, but I did not lose my business, and I was able after 7-1/2 years of struggling to turn it into a profitable entity."

In those rough early days, Hughes lived at the radio station—sleeping in a sleeping bag, cooking on a hot plate and washing in the station's public bathroom—and hosted the morning talk show, all the while running the business.

Her lenders wanted her to switch the radio station's format to less expensive music programming, but Hughes persisted in her daring strategy and continued broadcasting talk shows 24 hours a day.

When the first radio station turned a profit, Hughes bought another one, and then another, and then many others. Ten years ago she gave up the daily talk show.

Her advice to people thinking about starting a business is not to think that someone will work harder at your business than you do. "People who work for individuals judge their commitment to the business based on what they see as your commitment," Hughes says. "So you can't just open a business and go off and play ... and expect other people to make your business successful.

"You must be the first person to do what is necessary to make your business successful even if it takes 25 hours in a 24-hour day," she says. "You have to believe in yourself and believe that you can accomplish what you set out to do."

One of the things Hughes says she did right was to bring her son, Alfred Liggins, into the business, serving as president and chief executive officer, running day-to-day operations, while she has moved to chairing the board of the company's directors, making long-term decisions.

"In developing nations, extended families as well as immediate families often times are the work-force for the businesses," she says.

— Bruce Odessey