

David vs. Goliath

Preserving the entrepreneurial spirit of our community



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By Eric C. Pritz, CFP®, CMFC | Posted in Hill Section Life (October 2014)

As we were waiting for our table at Uncle Bill's this past weekend, my wife and I took our kids on a stroll along Highland Avenue. As I passed by the original location of the now closed Magpie gift shop, which shuttered its doors over two years ago, it got me thinking about the growing plight of so many small downtown shops and boutiques in Manhattan Beach, Redondo Beach and Hermosa Beach, as well as in hundreds of affluent communities all across the nation. What can we, as financial advisors, do to help our small business owner clients avoid the same fate as the beloved Magpie?

The storyline playing out in downtown Manhattan Beach is the exact same one that has taken place years earlier in La Jolla, Santa Barbara and other upscale beach communities. Highly desirable areas attract wealthy residents who, through expansions, renovations and new residential developments steadily drive up property values. This concentrated affluence, in turn, attracts larger upscale retailers willing to pay a premium for prime downtown space to serve this audience. And the ultimate victims end up being the small, family-owned hardware stores, surf shops and art galleries who are unable to afford the skyrocketing cost of retail space.

Helping small businesses compete

Much of what I've heard and read lately amounts to little more than recriminations. Sure, it's easy to point our fingers at property owners or real estate agents and admonish them for being greedy and hiking up rents. It makes us feel a bit more noble and righteous. But should we honestly expect any business to accept a lot less than the market is offering out of some sort of altruistic duty? Would many of us be willing to work for half of our market value salary merely because our boss is a nice guy?

If anyone's actually to blame for the plight of the small downtown business owner – it's the wealthy residents who have flocked to these idyllic beach communities. We are the proverbial cheese that's attracting these designer boutiques and upscale restaurants. Rather than affixing blame, however, what will most help the small business owners in our communities are practical, actionable strategies; strategies that are equal parts activism and fiscal management.

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The activism component is relatively straightforward and easy. Each and every one of us needs to go out of our way and make a concerted effort to patronize these businesses – to show our support, not just with our words but with our wallets. If rents are increasing by 20%, then we need to do our part as consumers to try to increase shop revenues to offset those costs.

Small business owners must take responsibility too and need to work smarter to better manage their businesses. There are a number of areas where financial improvements can have an immediate and positive impact on operations. Are you retaining enough cash in your business? Most owners don't. Their after-tax revenue becomes their personal income. By keeping a sufficient amount of cash in reserve, however, you can significantly reduce your operating risk and maintain a much greater ability to weather the ups and downs of business cycles as well as new challenges like rent hikes. Additionally, there may be opportunities to offset some of your higher operating costs through more effective tax planning, a restructuring of your employee benefits, and/or debt and equity financing. A strong financial planning organization can help you explore various solutions that may work for your business.

The bottom line is that trying to put any sort of arbitrary cap on the amount of rent that can be charged, restricting who can rent, or rejecting certain tenants creates a very slippery slope. But through a combination of enhanced, focused patronage and sound financial management, a great many of our cherished downtown establishments not only can be preserved, they can be helped to flourish and, in turn, preserve the small-town charm of our community.

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