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Local firms feel squeeze

Credit crunch leaves large, small businesses desperate for cash

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Posted: Wednesday, Oct. 08, 2008

Slideshow



Tony Walter (above), who worked for the Allison-Erwin Co. for 25 years, sets up merchandise for its liquidation sale. The wholesale distribution company's president, Bob Allison (below), said recent losses made it harder to borrow money, and he "couldn't see where I was going to come out of this hole at all." JOHN D. SIMMONS – jsimmons@charlotteobserver.com

From Fortune 500 corporations to family-owned companies, businesses in the Charlotte region are scrambling to make sure they can keep getting money during the nation's credit crunch.

The Federal Reserve on Tuesday announced a plan to ease the squeeze by buying large amounts of short-term debt, which companies rely on to finance day-to-day operations. That move, however, comes after area businesses already became anxious about being able to borrow money in the weeks and months ahead.

Duke Energy last week said it would draw about \$1 billion from a \$3.2 billion credit agreement with more than 20 lenders, in part because the utility wasn't sure it could get that amount in

new financing for expansion projects this year.

Meanwhile, smaller companies are finding higher standards and more scrutiny when it comes to new loan requests.

Joe Gass, president of Heritage Printing & Graphics, moved from Washington, D.C., about three years ago to open a Charlotte office. He has since hired three salespeople and wants to add more, he said, but tighter credit has put that on hold.

At its core, the financial crisis is about borrowing and lending, with a damaged credit system threatening to derail the economy. Weighed down by bad mortgages and other debts, many banks and other financial institutions are more reluctant to lend money, even to each other.

Credit affects not only individuals and families seeking home, auto or other loans, but also businesses that borrow money – for everyday operations as well as capital projects.

Most companies don't have a real-time balance of revenues and expenses. For example, a dollar collected Monday doesn't go into a paycheck issued Friday. Instead, a company might borrow money to cover expenses, then pay off that debt with revenues collected the next week or month, when it again borrows money to cover the latest expenses.

Upset that cycle – by limiting loans or hiking rates – and companies can come up short.

"It's like the oil in the engine," said Sherry Jarrell, an economics and finance professor at the Wayne Calloway School of Business and Accountancy at Wake Forest University. "The oil is frozen, so the engine doesn't move."

Fed move comes too late

The Fed plans to buy commercial paper, a short-term financing mechanism used by companies to pay employees, buy supplies and fund other day-to-day operations.

While intended to give companies a new place to get cash, the move comes too late for companies that were in a precarious position before the crunch.

Spectrum Yarns last week closed plants in Kings Mountain and Marion, eliminating about 200 jobs.

"In the midst of this national financial crisis, Spectrum has been unable to obtain sufficient financing to keep operations going," wrote C. Douglas Blanchard, Spectrum's president, in a letter to the N.C. Department of Commerce.

In Charlotte, Allison-Erwin Co. – a 115-year-old wholesale distributor of furniture and appliances – held a liquidation sale last week, with signs at 2920 N. Tryon St. reading "Must Satisfy Creditors."

Sales were down 50 percent in August, leaving the company with at least a six-figure loss, President Bob Allison said. That made it harder to keep borrowing money, he said, so he called it quits after meeting with his bank a month ago. "I couldn't see where I was going to come out of this hole at all," he said. "They would have pulled the plug. It may have been that

day. It may have been a matter of hours.”

Will payrolls be affected?

Beyond curbing a company's growth, the crucial question is how much the credit crunch will crimp everyday expenses such as payroll – at a time when many companies have seen a dip in sales.

“The demand for short-term debt has gone way up at exactly the time that supply has gone down,” Jarrell said. “I know it's having an impact on payroll.”

Others wonder if the threat to employee pay is overblown.

Businesses in good shape still can get money, and those that can't handle higher interest rates and more scrutiny from banks likely were struggling already, said a controller at a Charlotte contracting company, who didn't want to be named because he wasn't authorized to speak publicly.

“If a company had that problem today,” he said, “they probably had that problem six months ago.”

One saving grace may be the relative health of the N.C. economy compared with other parts of the country, said Jennifer Conrad, a finance professor at UNC Chapel Hill's Kenan-Flagler Business School.

In addition, Conrad said, many companies may resist cutting payroll until they know for sure that the downturn will last a long time, and that they won't need those employees again anytime soon.

“They may try, to the extent they can, to bridge that gap,” she said. “Letting them go and then trying to hire them back could be really costly.”

Staff writers Kirsten Valle and Joe DePriest and Observer news services contributed.

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