

Recession Spells End for Many Family Businesses

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Mom-and-Pop Enterprises Often Lack Formal Crisis Plans; Sad Customers and Loyal Employees Are Left in Wake By [DANA MATTIOLI](#)

Siblings Georgia, Jimmy and John Roussos have spent most of their lives working in the kitchen of the restaurant their father opened in 1954. The eatery managed to survive a hurricane and other setbacks, but it wasn't until this August that the recession took its toll, forcing Roussos Restaurant in Daphne, Ala., to permanently shut its doors.

After months of slow sales, family businesses are being forced to close, ending legacies and leaving behind a wake of sad customers and loyal employees. "Some family businesses that were just hanging on have said it's time to get out," says Dann Van Der Vliet, director of the Vermont Family Business Initiative at the University of Vermont.

An estimated 90% of U.S. businesses are family-owned or controlled, from traditional small businesses to a third of Fortune 500 firms, according to the Small Business Administration. Hard data are hard to come by on the number of small family-controlled enterprises that have closed in this recession, but experts say the prolonged slump has hurt a significant number. About 4.3 million businesses with 19 or fewer employees closed during the fourth quarter of 2007 through the fourth quarter of 2008, according to the Bureau of Labor Statistics.

These businesses, often steeped in tradition and not as flexible to change, tend not to have formal plans in place to respond to crisis. "They've seen reductions in top line revenue that they just can't react fast enough to," says Beth Wood, assistant vice president of market development and family-business advocacy with MassMutual. Problems securing credit in this recession have also prevented some family businesses from getting the funding they need, she adds.

The economic downturn is really just the latest setback for family-run businesses. In the 1970s and '80s, exorbitant income taxes and estate taxes forced many to close, says John Ward, professor of family enterprise with Northwestern University's Kellogg School of Management. Before that, the anti-establishment movement during and after the Vietnam War made many children reluctant to take over the family business, he says.

Jimmy Roussos, 60 years old, says the financial meltdown last fall caused business at Roussos Restaurant to drop in half practically overnight.

The restaurant, which claims to have served the likes of Elvis Presley and Jimmy Buffett, began offering specials to help drive traffic, but the attempts ate into its bottom line. "You had to discount so heavily to get someone in the door that it just wasn't profitable anymore," says Georgia Roussos, 53.

After months of being unprofitable, the siblings made the difficult decision to close shop, leaving their 55 employees -- many who have worked there for more than 35 years -- out of work. The siblings say it was emotional not only for them, but for their workers and loyal customers.

Harry W. Schwartz Bookshops, a family-run chain of four small bookstores in Milwaukee, had to shut its doors in March. The shops, started in 1927, were a fixture in the community, known for author visits, children's story time and ability to bud romances. Carol Grossmeyer, former president of the shops, says she met her late husband David Schwartz at one of the locations when she applied for a job and he hired her.

Mr. Schwartz passed away in 2004 and Ms. Grossmeyer eventually took over. Already the book business was suffering, with customers gravitating toward online orders and larger chains eating into sales. The economy's rapid decline in the last year put an even bigger dent in sales, 5%. and Ms. Grossmeyer says she realized she couldn't remain in business.

"It was really hard because you're closing your family legacy," says Ms. Grossmeyer. "I cried for a month before it happened and a month after."

To be sure, there are many family businesses that are holding their own, better equipped to survive a downturn because they usually hold less debt than public companies and can turn to older family members who have navigated other recessions.

But for those who couldn't shake the current lapse, losing a legacy is particularly difficult.

"To shutter an enterprise that often has a family's name above the door is a horrible experience to go through; there is grief and loss associated with it," says Drew Mendoza, managing principle of The Family Business Consulting Group Inc.

It can also be a curveball for would-be heirs. Austin Blankenbeckler, 27, grew up on his family's car lot in Waxahachie, Texas. As a child he washed cars at Carlisle Chevrolet and always expected he would one day run the business like his grandfather and father. Now, the General Motors Co. dealership that has been around since 1926 and managed to survive the Great Depression and World War II, is faced with closing.

Mr. Blankenbeckler worries about his career options. "I actually never really thought about doing anything else," he says.

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