



DENNIS MCGOY | SACRAMENTO BUSINESS JOURNAL

Superior Produce foreman Don Lopez Sr. gets orders ready for delivery. The company's chief financial officer, Cindy Mulhern, said working with the state is great most of the time, but last year when the budget wasn't passed until October, the produce company wracked up \$1.5 million in debt.

STATE FUNDING: A WILD RIDE

Relying on the state for funding can both help and hurt small business

KATHY ROBERTSON | STAFF WRITER

Sometimes pay is good, work is steady and there's plenty of business in state contracting. Other times pay is low, late and unreliable.

Small businesses that contract with the state have to be cautious and prepared for the worst. When times are bad, there's not much of a cushion.

"Most of the time, it's great because we get paid," said Cindy Mulhern, chief financial officer at Superior Produce Inc. in Sacramento. The company provides fresh produce to state prisons in Northern California.

Tips for managing state work

- Be conservative with expenses
- Nail down a line of credit
- Have a back-up plan

The company hung on until the final state budget was signed Oct. 8, 2010, and it collected more than \$100,000 in penalties for the late payments.

Reimbursement has been prompt and up-to-date in 2011.

Gov. Jerry Brown signed the 2011-2012 budget on June 30, the first time in years it's been done on time.

"The state is good business," Mulhern said. "It's just very frustrating at times." Sometimes, frustration spoils the venture.

Jim McDonald was losing \$15,000 to \$20,000 a month and saw no reprieve in



Superior Produce provides fresh produce to state prisons in Northern California.

sight when he decided to shutter Robertson Adult Day Health Care, which relied on government funding that's been slashed.

"Dealing with the state of California is an emotional roller coaster," said McDonald, who closed his center June 10. "And nobody gives a rat's rear end."

NO RESERVES TO FALL BACK ON

For some, the payoff is good over the long haul.

State contracts generate roughly 80 percent of the income at ProProse, a Sacramento-based social marketing company with five employees.

"It certainly gives me heartburn when I hear the state budget is going to be delayed again," chief executive officer Anne Staines said. "It's hard to plan for it. I've had to be extremely conservative in cash flow and not invest the way I'd like to or in hiring people."

Slow pay is a particular problem for the public relations company, Staines added, because ProProse has to front the money for expensive media buys. She used a line

of credit to hang on last year until state payments resumed.

"Clearly, many small businesses — given the state of the economy — do not have huge reserves they can fall back on," said Scott Hauge, executive director of Small Business California, a San Francisco-based advocacy group. "The state withholding money places severe cash-flow problems on them, and it can be difficult to get money from banks."

Some cut costs or services when they have to but hang on because they see a need and want to help.

Mike Kurtz and his wife got into the child-care business more than 30 years ago because they thought they could do a better job than other companies in the market.

National Human Development Foundation Inc. operates four centers in Sacramento County for low-income children. About 50 employees serve roughly 200 children across the four centers. The new state budget appears likely to cut state revenue to the company by 11 percent to 15 percent.

"We're just looking at now," Kurtz said late last week. "We'll have to reduce the number of children — and staffing."

The business will continue, however. "When you look at the children in the program, and talk to other generations you served years ago, it's something people say they needed," Kurtz said.

'PAIN IN THE WALLET'

McDonald closed the doors at Robertson's Adult Day Health Care but will continue his private practice as a physical therapist.

The private practice helped pay the bills because state reimbursement for adult day care is so low. McDonald tried for three years to expand Robertson's to 75 beds

Advice for new leaders: Be patient

It's important to listen to your employees and develop their trust

Every business eventually must weather the storm of leadership change. The manner in which new leaders approach their role will set the tone for their tenure and affect every stakeholder for years to come.

Whether a rookie or seasoned veteran, a startup or established business, taking over the role of leader in an organization will test the most talented and most capable people, and can easily bring the strongest to their knees.

If you find yourself with the privilege of stepping into a leadership role, I have some advice.

It's common for new leaders to feel the need to demonstrate their wisdom and quickly achieve a major win by solving some long-standing problem. Resist that temptation.

According to Frank Otto, managing principal of NexLevelIT, "If the issues were simple, they would have solved them before you got there." Be patient and don't overreach. Give yourself time to get a feel for the culture and the people.

Recognize that you're going to be in the spotlight for some time. Staff, customers, and vendors, along with every other stakeholder, will be watching you closely.

Don't take yourself too seriously and remember to have fun. If you can't enjoy being the leader, it will be difficult for others to enjoy themselves. Be a role model and focus on the positives.

Your organization will have many different personalities, each carrying a long history, which has a way of making change difficult. Forcing staff to adapt to your style is rarely the right approach, and it's rarely effective.

"Leadership change is usually not greeted warmly, but the way in which an organization responds depends on many factors, including alignment of each follower's organizational beliefs, values and vision with those of the leader," said Steve Pon, who recently graduated from Drexel University with a master's in business administration.

The better approach is to connect with staffers early and work on internal communications. Listen to them often and work on developing trust. Be clear about your values and stick to them to create confidence.

On the other hand, don't be too set in your ways or locked into solutions that have worked in previous companies. Every leadership role is unique and flexibility is critical. What helped a leader



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STATE | State funding cuts cause some small firms to cut back or close their doors

FROM PAGE 9

from 49 in order to get some economies of scale, but was unable to get state attention or approval. Adult day health care centers provide specialized care and therapeutic treatment to manage patients with chronic conditions so they can continue to live at home.

McDonald met with state regulators but got no assistance. He sought a legislative fix that never gained traction.

State funding for the statewide program was halved in the new budget, with expectations of a new approach by autumn with federal backing. To McDonald, that says the spigot will be turned off entirely.

“I am very conservative and a Republican,” McDonald said. But “if (taxpayers) want the best bang for the buck in California, it’s through adult day health care.

“The irony is the cost of one hour of physical therapy in private practice generates two times the revenue I’d get for an entire day for one person in adult day health care,” McDonald said.

“We loved doing it. We loved working with clients. We loved our employees

— but not the pain in the wallet.”

McDonald is not alone. Small business owners lack faith in government to actually help them crawl out of the financial hole they’re in, said John Kabateck, executive director of the National Federation of Independent Business.

“If anything, they want government to get the heck out of the way and let them do what they do best: create jobs and contribute to the community,” he said.

Mike McGlothlin, who with his wife co-owns Golden Days Adult Day Health Care Center in West Sacramento, is more optimistic.

“For right now, it’s business as usual. The rate is the same,” he said.

But it looks like state funding will be cut in half and the program will change. It that happens, McGlothlin won’t be able to provide services and pay his workers.

“I just try to be optimistic,” he said. “It’s a good program that does save the state money and does so many people so much good. Maybe the powers that be will see the value of the program.”

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MANDELBERG | The best leaders know when to change, when to maintain status quo

FROM PAGE 9

be successful in one situation can undermine his or her success in the next.

And don’t be afraid to say you don’t know or that you made a mistake. Nobody can possibly know everything, especially when joining a new organization.

And nobody can have the right answers all the time. As the leader, your job is to tease all the wisdom and experience from your staff to help you make the best decisions.

In today’s fast paced world, leadership is all about understanding change — knowing when change is good, as well as knowing when the status quo is better. The best leaders are those that can adjust and adapt from one style to another.

If you think it’s easy to define what it means to be a good leader, think again. Academics, politicians and business icons all have tried to define good leadership for thousands of years. Unfortunately, their failures have proven only that good leadership cannot be defined in absolute terms. Good leadership is situational, a moving target that defies formula.

Good leaders must trust themselves and have confidence in their decisions — two particularly difficult objectives. Avoiding mistakes is not the measure of a good leader but the manner in which you handle mistakes is.

LARRY MANDELBERG helps companies implement change while minimizing fear and frustration. For more information, go to www.mandelberg.biz.

Firms protest cost of calorie labeling rule

KENT HOOVER | WASHINGTON BUREAU CHIEF

The Food and Drug Administration may have underestimated the cost of complying with proposed food and calorie labeling rules for chain restaurants and vending machines.

That’s according to the Small Business Administration, which urged the FDA to consider less-expensive alternatives.

The proposed rules, called for in the health care reform law, require chain restaurants and operators of 20 or more vending machines to disclose nutritional information. The FDA estimates the rules will apply to 278,600 restaurants and 10,800 vending machine operators.

The rule will cost each restaurant around \$1,100, according to the FDA, mainly for testing foods, preparing new menus and training employees. Industry groups, however, indicate the costs would be higher. Plus, they contend some aspects of the

proposed rule are too rigid — for example, why should they provide nutritional information for a bucket of chicken when more than one person will be eating it?

Meanwhile, the International Franchise Association fears the rule will disadvantage small franchisees when competing against independent competitors. Independent restaurants with less than 20 locations are exempt from the rule, but that exemption doesn’t apply to franchisees, even if they operate only one unit.

“These new requirements will dramatically increase costs for some small businesses that are in competition with similar independent restaurants that are not subject to the requirements of the new law,” said IFA Senior Vice President Judith Thorman. “We are asking FDA to ensure these rules are implemented in a way that accommodates small business owners.”

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