PAYCHEX THRIVE
A BUSINESS PODCAST

Season 4 | Episode 20

# Business Financing Predictions for the 2023 Economy

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**Announcer:**
Welcome to Paychex THRIVE, a Business Podcast, where you'll hear timely insights to help you navigate marketplace dynamics and propel your business forward. Here's your host, Gene Marks.

**Gene Marks:**
Hey everybody and welcome back to another episode of Paychex THRIVE. My name is Gene Marks, and thank you so much for joining us this week. And this week I have Greg Ott with me here. Greg is the CEO of Nav, Inc. at nav.com. Greg, first of all, thank you very much for joining me.

**Greg Ott:**
A pleasure to be here Gene. Thanks for having me.

**Gene Marks:**
Just before we're going on, you're right, I do recognize you. You do look familiar. I think we had met at some Intuit event a thousand years ago when you were working for Intuit at the time, correct?

**Greg Ott:**
Yeah, I was running global marketing for QuickBooks.

**Gene Marks:**
Got it, got it. Oh my god, what a job. I can't even imagine. I'm glad that you're here now. And now you're the CEO of a company called Nav. First of all, tell us a little bit about what Nav does.

**Greg Ott:**
Simply put, we help it make easier for small businesses to access capital. We're the only place that a small business owner can understand what they're qualified for before they apply. And we've brought together over 70 different lenders. We've got about 110 different business credit cards, got business formation services, and we allow small businesses — as well as business insurance — we allow small businesses to compare their options and then make informed choices. In other words, we're trying to help you navigate your financial decisions.

**Gene Marks:**
Love that. Specifically, if I have a client for you, Greg, and they're looking for financing and I say, "Well, go to nav.com." What will the experience be? In other words, what will they get out of visiting your site?

**Greg Ott:**
Sure. We'll invite them to connect their financial data to our platform, which includes their cash flow information, their credit information, not just their personal credit but their business credit. We're the only place that can actually show you your business credit summary scores for free. And then we use that information in a digital experience to help you see which lenders you're qualified for and what types of products you're qualified for and even how much you can get. And then because we're sitting on that same data, we can streamline that application process and save you some time.

**Gene Marks:**
That's awesome. And how do you make your money? Do you get a commission or some type of fee from the lenders themselves or is it from the business?

**Greg Ott:**
If a small business owner actually gets the loan or gets the business credit card or gets the business insurance through us, then we get paid by the lender or the card issuer. A lot of what we do for them is we help align qualifications and streamline that process. It's a bit of a win-win in the ecosystem. Small business owners or the applicants don't waste their time and the borrowers and lenders don't waste their time and money trying to underwrite people that aren't qualified for their products.

**Gene Marks:**
Got it. And it's funny because your business, it's not too dissimilar from my own, we sell CRM applications, my company, like Salesforce and Dynamics and Zoho and a few others, but we sell a half dozen of them. I like that model, your model in the sense that your product agnostic, I'm assuming, right?

**Greg Ott:**
Absolutely.

**Gene Marks:**
I visit your site. I'm looking for financing, you're going to take me through a match. You don't really care where I'm getting the loan from as long as the financing is the right deal for me, correct?

**Greg Ott:**
Right. We are absolutely all about streamlining that access to capital and consider it a bit of an aggregation model where we are the objective advisor to help navigate those solutions. And just like you said, in the small business ecosystem, there continues to be a proliferation of vertical software and lenders and card issuers. It's very fragmented and we think our role is to create efficiency in this fragmented ecosystem ultimately really with our eyes on the small business owner as the customer.

**Gene Marks:**
Makes sense. All right, let's talk about 2023. I've been writing and speaking about. A year ago at the end of the year for 2022, looking forward, I was predicting that Blockchain was going to be a big deal for small businesses and in some ways it has, in some ways it hasn't, but it's obviously in the news particular some of the stuff going on with crypto nowadays. But for 2023, tell me if you disagree on this, I think it's going to be all about interest in 2023. This is the first time, I don't know how old you are, but this is the first time in my memory of running a business. I've been running my business since the mid-nineties were, I've really seen the interest rates that my parents were dealing with back in the seventies and early eighties. Not as bad but high. And I think that's going to have a huge impact on small businesses in 2023. And I wonder if you agree with that, and what are your thoughts on the impact of interest rates this coming year?

**Greg Ott:**
Yeah, I think it is going to be a huge factor for small businesses, particularly because access to capital on an ongoing basis, it's like access to some degrees, access to water. We all know small businesses have to run on thin cash balances. Some studies show it's 18 days cash on hand or 30 days cash on hand, which means the availability of that capital has been critical. But now that capital's going to get more expensive and it's going to take more to pay it back. And that becomes a real challenge in a rising interest rate environment. We've all been coasting on cheap capital across the board, but especially small businesses and now it's going to get more expensive. And so, I think that's going to affect a lot of ways that small businesses think about operating their business and think about managing their cash flows.

**Gene Marks:**
I think you're absolutely right and people always equate that the capital issue is like, "Well it's going to have a big problem for startups, early stage companies." And it is, there's no question. And we're seeing that right now in the tech industry. They're laying off tens of thousands of people because capital has become that much more expensive and their investors are running out of patience funding losses. But, our audience here, Greg, is employer-owned businesses. Companies that have been around for a while, they're equally as effective. You just mentioned about cashflow, I was at a client just yesterday. They have 110 employees and they live off their working capital line because it's a finance inventory and they're like, "Geez, these costs are really going up."

**Greg Ott:**
And our target audience tends to be about 50 employees and below. Really specialize in 20 employees and below. And it is the business owner who's trying to make all these financial decisions and that cost of capital is definitely going up and raising their mindset. And we think about from hair salons and delivery services and construction and transportation are all core businesses that operate on how much is coming in, how much has to go out and what do I do when there's a gap in between. And our platform is really designed to give you that financial health picture to help bridge that gap in between. But we show you where the inflows and outflows are coming based upon connecting to your financial data. And I think that's the part small businesses can't take for granted that easy access for capital that they may have had in the past.

**Gene Marks:**
You're a hundred percent right. Walk me through, Greg as well, some of the universe of financing options that we have on your site. We go all the way from traditional banks, which are probably the lowest cost of capital lowest interest rate if you qualify, all the way up to credit card financing, which obviously is the highest or among the highest in interest rates. But you guys offer other options and they may have some pros and cons, more so this year than in the past. I was wondering if you can walk us through what some of those examples are?

**Greg Ott:**
Yeah, absolutely. And I think so much of it depends on essentially what your financial profile is like. If you can qualify for a loan or a line of credit from a bank, that's always going to be your cheapest option. The problem is the barrier to entry there has gotten higher and higher. And I think we saw that during PPP where a lot of banks were shocked that these small, small businesses actually wanted them to serve them. Banks avoid risk. And small businesses tend to be risky. You got five years time in business, healthy, profitable business, scaling banks are happy to serve you. Anything else, you get pushed into this broader ecosystem of financial products. And it's confusing. It's very different than the consumer side where a mortgage is a mortgage and a student loan's a student loan, a car loan's a car loan.

**Greg Ott:**
You have all these different financial instruments called cash advances or factoring or term loans or lines of credit. And they all get jumbled together for the small business owner. And what we try and do, we've aggregated all of those different products and different lenders across the board so that you can say, "Well based upon not only your credit profile and what you're actually eligible for but then what your needs are." And one of the most important questions in the small business ecosystem is how soon are you going to pay it back?

**Greg Ott:**
That starts to determine so much about what type of financial product is good for you. In the consumer ecosystem and mortgages we're all used to APR, annual percentage rate. And that's great when you're paying something back over 30 years but it doesn't become a really good comparison if you're paying something back in three months or six months or 12 months. And we try and bring these different financial products together and allow you to compare your options and we have content and videos and things to help you understand what they are. But the biggest factor truly is what are you qualified for? One of the mistakes that other small businesses make is if you apply for products you can't get and then you start to get hard inquiries onto your credit profile, you actually continuously damage your financial eligibility. And that's one of the things that actually was part of the originating idea on Nav, which is to help inform small businesses so they make smart choices.

**Greg Ott:**
And one of the things we continue to see is a lot of small businesses extend themselves. Sometimes their personal credit profile isn't that strong. If you haven't established a business credit profile or you don't really have a good sense of how you're going to be judging your cash flows, you don't really know what your options are. And you've got all these different financial products and some of them sound too good to be true. We try and create objectivity amongst all those pitches that you get as a small business owner.

**Gene Marks:**
I was asked this just last week, I'll turn around and ask you the same question. Knowing that it's going to be a more challenging financing environment in 2023, knowing that interest rates are on the rise and will continue to rise, and I want to ask you about that as well, but where should we be going for financing? And just as a preview, there's no more PPP, there's no more idle loans unless you're literally in a disaster area. There's no more grants or whatever. I've been telling my clients that they should be leaning hard on SBA loans like 7(a) and 504 loans through an SBA banker only because you have more of a chance of getting it approved because they're I think 80% covered by the government. Even though the bankers hate the paperwork that's involved. Is that bad advice? And also is there any other place that you're telling small businesses, say, "In 2023 your best bet is probably going to go here to evaluate this?"

**Greg Ott:**
By far and away it is the best advice if you're actually qualified for that. And if you think about it, that is actually highest, one of the highest bars is to qualify for an SBA backed loan. And it's no shortage of paperwork to qualify for it. The SBA would do somewhere around 60 to 80,000 loans a year out of millions of loans. They've got a good profile if you can qualify. But the challenge for most small business owners is they don't actually qualify for it. There's a credit score you can get from FICO called the FICO SBSS score. It's a black or white threshold that if you're above I think a 185, you actually qualify. And if you don't welcome to the rest of the ecosystem.

**Gene Marks:**
I got to interrupt you there. And you're absolutely right and it's disappointing to hear that only because it's not supposed to be what the SBA is for. They're supposed to be a financing vehicle for those types of businesses that would normally qualify for a traditional bank loan. And why would you say that so many other businesses don't in the end qualify?

**Greg Ott:**
It's a couple of reasons and I don't know we'll have time. This actually be really interesting to talk about. I love what the SBA does and what they stand for.

**Gene Marks:**
Me too, me too.

**Greg Ott:**
Their advocates for small businesses but their primary distribution channel is through banks. And banks come back to mitigating risk and minimize risk even if the government's back in the loan. Banks also have costs, it costs them as much to underwrite a million dollar or a five million dollar SBA loan as a $25,000 7(a). For banks, to some degree, it's a misalignment of incentives even as well as the SBA is intended. One of the exciting trends on the SBA is they are starting to look at making government backed loans through non-bank lenders. And that will actually, who often have streamlined just their underwriting processes, they're using data and algorithms to, I think we talk about a quick no is so much better than a long, maybe.

**Gene Marks:**
A hundred percent right.

**Greg Ott:**
And banks tend to sit on long maybes. Some of the up and coming, the non-bank lenders, and things like that, at least what they're doing because they're using the data and they're crunching through, they can give you the quick no and allow you to move on to the next opportunity.

**Gene Marks:**
What you're saying is really that the SBA really needs to revise this distribution system of its loans. And for sure banks may have some role in these traditional banks, but like you said, they like to avoid risk and there are other ways to get loans out there. The idle loans that went out during COVID, it was a disaster. It came directly from the SBA and believe me, there are lots of issues with those loans as well from a fraud standpoint and a processing standpoint. But in the end it's the SBA probably needs to reevaluate but I guess in the end it doesn't help our clients right now if they're still looking. Where else? What other options would be out?

**Greg Ott:**
I was going to say especially if the SBA is not for companies in launch mode or survival mode, they're for companies who have scaled, got to that point. They love funding companies that have 50 employees and want to go to a hundred. They also think about, "How do I drive employment?" That's what we saw. In the PPP wasn't the small business protection plan, it was the payroll protection plan.

**Gene Marks:**
True.

**Greg Ott:**
And you saw how they had to revise everything because they realized a lot of small businesses either have just even a couple or no employees, it just wasn't structured for them. And I think the SBA is really going to have to reframe it's thinking not just on distribution but it's the structure of who is trying to get capital to and restructure some of that.

**Gene Marks:**
I am definitely going to write about this. This conversation is like my wheels are turning and it's a good topic to have but all right. Anyway, other options because Nav is providing options to me and my clients. What do you think will be hot in 2023 as far as potential financing options?

**Greg Ott:**
The number one thing I think, it should almost be on your checklist of things is just have a line of credit. Something you can draw on when you need it. It's there, it's available that you don't have to go reapply for capital when you need it. And even if it's starting with a small line of credit by drawing and paying it back, drawing it, you actually improve your financial qualification so you can qualify for more credit. And I think that by far and away is where people are going to go. Even for banks term loans where they give you the chunk of money upfront and you pay it back over a longer period of time. Even for non-bank lenders, that's risky because they don't know what's going to happen at the end of 12 months or 24 months.

**Greg Ott:**
And those products are just becoming less and less available, term loan products. We are one of the distribution partners for Marcus, which is delivered by Goldman Sachs and they're fascinating to look at because they're very smart people, Goldman Sachs. And they're like, "This line of credit product, this term loan product, let's lean into the line of credit product." And I think it is a bit of an alignment of risk and access is lines of credit. I'm sorry.

**Gene Marks:**
I'm sorry. You bring up such a great point. I apologize for jumping in but on that line of credit, your recommendation that you have though, most lines of credit though have variable interest rates, I'm assuming. That's something that we have to be aware of. And I wonder, I was going to ask you about interest rates anyway and this is a good segue into that in 2023, do you expect interest rates to continue increasing? And I know you don't got a crystal ball, can only do what you're going to do and I'm curious what kinds of interest rates you would expect your borrowers to be looking at, business commercial borrowers because they're a lot higher?

**Greg Ott:**
Yeah, they are definitely a lot higher and I think whatever the stuff I'm reading, we're all reading, the Fed is not quite done yet. That means the rates go up and what becomes interesting is, the Fed tends to raise rates by half a point, lenders tend to raise rates by a full point and so on. It just gets more expensive. I think it all depends on your financial profile, on your qualification profile. And they're going to offer a rate that's commensurate with what they see in your risk. If you've got good cash flows, you can show good average daily balance, no NSF's, your credit profile is strong, your rates will be probably in the low teens-ish, I think you're staying there, but they're all creeping up.

**Greg Ott:**
But sometimes the rate and it's an annual percentage rate if you're going to pay it back in three months or six months, sometimes one product versus the next delta and actually how much, if it costs you 25 to pay back 23, it's a little bit of a different framing than interest rates. And that's what we try and help small businesses compare their options. But if you're not well qualified or particularly if your personal credit is say 650 or below or even lower than that, the rates are just going to go higher and higher.

**Gene Marks:**
It's a little spooky only because we hear about mortgage rates right now as we're recording this are averaging around 7%. Commercial rates for the past 10, 15 years from my clients have been lower than that six to 8%. Now you're talking about even for the better condition businesses could be looking to pay interest rates in the low teens, it's just a lot higher than what we're paying before and that just has an impact on businesses. You had mentioned as well about differentiate, and I don't want to run out of time here, but you did bring up a really interesting point about differentiating between annual rates and not. I'm assuming you're talking about online, some lenders where, and I don't want to put words in your own, but they might have interest rates that are like 50% a year, but nobody gets annual loans from these people. They're for short, quick things. Talk a little bit about that and when those would be preferred over a traditional loan.

**Greg Ott:**
And part of that is why we got into the business because there are predatory lenders out there that have commissions and judgment and all these other horrible things. And there are ones who are like, "No look, we're not trying to do it. We'll be transparent and we try and work with the ones who are transparent and have guidance." But that's where if you're going to pay it back, some of these online lenders, they're going to be your best option. And the value added is, I would say never feel like you're locked into a lender. You always have other options, especially if you can take credit and pay it back. You've just improved your financing options. You should be able to move. In the small business space, lenders tend to ladder, one lender tends to work here, the next lender is just slightly under them and the next one's just under them.

**Greg Ott:**
And you can work your way up that ladder when you know what your options are. But it is, one of the things you can do is take a short term loan that on an annual basis looks high, but make sure you can pay it back. Don't take more cash or credit than you need. And that's a little bit of, to your point on guide advice for the small business owners is just do a little bit of math, understand if you can take on some debt and then pay it back and you're pretty certain on it, that's actually a good move. Even if it seems expensive right now because what you're going to do, you're going to move yourself up that ladder and lower your cost of capital over time.

**Gene Marks:**
And just to reinforce that point, I had a client, this is a year or so ago, was opening up a coffee shop in Philadelphia, got a prime retail location for it, but the landlord was requiring a giant deposit which he did not have the funds for. And he went to an online lender, a reputable online lender and it could have been through Nav actually, and the annual interest rate was like 60% or 50%, but he only needed enough money so that he could put the down payment on and then he basically then refinanced that into more of a traditional longer term loan. Do you know what I mean?

**Greg Ott:**
Yeah.

**Gene Marks:**
I guess that's to your point, he wasn't paying 50% interest. He paid a fee because it made business sense for him to do that. And that's how we all have to be viewing financing.

**Greg Ott:**
Absolutely. That ability to move, we think about a 30-year mortgage is like, "Well that's what we're going to do for 30 years. I'm a small business owner." You can get capital and then restructure it and refinance that debt. There's this random amalgamation of different lenders and it's trying to find out what you can do, especially given how much time you have. There's a great study that says, "If you're going for a bank loan, expect somewhere between eight to 15 hours worth of paperwork and back and forth." And sometimes you're like, "I just need to get this capital so I can get this lease signed and then I can restructure it." And that speed is where some of these non-bank lenders, some of these online lenders can really help you as long as you go to the best one for your financial situation.

**Gene Marks:**
Which is exactly the reason why he went to that online lender because he had the money in his account within 24 hours. And they all, like what Nav does, you connect your financials if you're using QuickBooks or Xero or Sage or whatever, you connect them and they can see what your history is right away and make quicker decisions. Greg, we're almost out of time. This has been a great conversation. I really appreciate it. Just one final question for you is again, for 2023, if you're willing to pay, and I don't mean Tony Soprano pay, I mean if you're willing to pay, do you still expect there to be your financing alternatives out there for most

small and mid-size businesses in 2023, as long as you're expecting that it's going to just cost more? Is that the environment that we're in?

**Greg Ott:**
Yeah, definitely. There's an option for everyone. At some point, what you want to avoid is the two guys in tracksuits on the corner, Rocky Balboa out there taking care of things and say, "What are the next best alternatives?" And some of what that-

**Gene Marks:**
By the way, I take that personally, because I'm from Philadelphia, but I'll let it slide for the purposes of this conversation again.

**Greg Ott:**
There is an option for everyone. It gets more expensive and the amount you can borrow gets smaller. But that's where I would say if you're deliberate about, I'm going to work my way up that ladder, you can over time move from one lender to the next lender, improve your financing qualifications. You get judged not only in your cash flows and your credit profile, but how well you've paid back previous debt. And I think that's where it becomes more important in a high interest rate environment that you're always thinking, especially going back to our initial point, knowing that you're always going to need that, a little bit of that lifeline. You know you're going to need access to capital for planned and particularly unplanned expenses. And gearing yourself up, building your financial profile so that you're ready when you need it.

**Gene Marks:**
Great advice, and I will take that back to my clients as well. Thank you. I've been speaking with Greg Ott, who's the CEO of Nav Inc at nav.com. Greg, hopefully we'll have you back sometime in 2023 and we'll see how right or wrong we both were about where things were going during the year, but I appreciate your time very much.

**Greg Ott:**
My pleasure, Gene. Thanks for having me.

**Gene Marks:**
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