

Why Keeping Your Employees Top of Mind is Good For Business



Gene Marks

CPA, Columnist, and Host



John Arensmeyer

Founder and CEO
Small Business Majority

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 THRIVE by Paychex. My name is Gene Marks. Thank you so much for joining me. I'm here with someone who I've known for quite a long time, John Arensmeyer. Now, by the way, Arensmeyer, right, John?

John Arensmeyer:

That's correct.

Gene Marks:

Okay, good. Just want to make sure that I'm pronouncing it right. John is the Founder and CEO of Small Business Majority in Washington DC. John and I, we travel in the same circles, we've talked to each other separately on different occasions. We've been on Lauren Feldman's great podcast and organization of 21 Hats. So, I'm happy John that you decided to join me. John's organization represents a lot of small businesses around the country and what better person to talk to as we get into 2023, about some of the issues that are facing small businesses in 2023 than John? So first of all, let's just back up a little bit, John, let me ask for a little background about yourself and also Small Business Majority. Tell us about you.

John Arensmeyer:

Well, good to be here, Gene, thanks for having me. I ran a small business, a interaction communications company and before that was actually a lawyer and before that was involved in public policy. So, when I finally sold my company, I sort of thought about it for a while, what am I going to do now when I grow up? And decided to really merge my interests in small business and public policy.

John Arensmeyere:

So, founded Small Business Majority 17 years ago and we do three things basically. We are a hub for resources and education for small businesses across the country with a particular focus on more underserved businesses. We do a lot of work on policy and advocacy both nationally and in the States. And we do a lot of research. We have a whole sort of research and insights division where we do polling, we do focus groups, we do economic studies and we try to link that with the work that we do both on the education resources side and the policy and advocacy side. We've got 85,000 small businesses across the country as part of our network. We have a network of about 1,500 partners with whom we work. These are organizations that serve small business, whether they be lenders or technical assistance providers, local chambers of commerce, and we work with them to do a lot of our work. We have nine offices across the country in about six different states and that's kind of who we are.

Gene Marks:

First of all, that is absolutely amazing. That is much bigger than I thought that you guys were and that is incredibly impressive. When you say you've got, you said 85,000 small business members, in other words, how do businesses get involved with your organization? Is it a paying membership type of relationship?

John Arensmeyer:

We do not have a paid membership. These are folks that have joined our network and remain on our network. Obviously there's a vast range of how involved they are. We have obviously a couple thousand who are most involved within that. And the reason we don't charge membership is that we work, because of these partnerships we have with other organizations, particularly with local chambers and other business organizations, that we go to them and we present ourselves as a partner who can speak to specific issues, who can help them with advocacy, help them with connections to resources, and they don't want us doing that with them jointly and then picking off their members and charging them. So that's the model we have. We're fully philanthropically funded as a result.

Gene Marks:

I was just going to ask about your funding. So your funding comes from both private, is there any public funding as well or is it all from private organizations?

John Arensmeyer:

Very little. We have had some public funding in the past. It's primarily charitable foundations and corporate foundations.

Gene Marks:

John, that is, I mean that really is amazing and you've been doing this for 17 years, so thank you for doing this. How big an organization are you employee wise or do you have contractors or whatnot? How are you organized? You said you had nine offices, right?

John Arensmeyer:

Well, we're pretty much all full-time employees. We have a couple open positions, including all open positions, it's 32. 32 employees.

Gene Marks:

That's great. So, if you're listening to this or you're watching this conversation, I mean just please be aware that not only does John have all these members that are small business, but John, you're a small business owner yourself. I'm assuming you're... Small Business Majority is a non-profit, but as my wife will attest, who runs a non-profit, I mean non-profits are every bit a business, as a for-profit business. In fact, honestly, most of my clients are non-profits anyway and they're taxpayers. So, I just want to be clear that the opinions that

you have and the activities that you're doing are coming... You're not just some journalist or somebody that's on the outside. You are an actual business owner and experiencing whatever the issues are that businesses are experiencing.

Gene marks:

So, all right, so let's go into 2023. I wanted to hear some of your thoughts on some issues that are impacting businesses in 2023 and I also just maybe your insights or advice as far as navigating around those issues. So, first, as we head into the year, inflation is certainly with us as we're having this conversation, it's hovering around 7 to 8%, both CPI and PPI. It's going to take a while for it to really work its way down. I just read the other day that M2 money supply growth is actually for the first time in a long time, has actually gone into negative growth, which is good news when it comes to fighting inflation. So the Fed is taking steps by raising interest rates, holding off on buying back bonds. Obviously supply chain issues are starting to...definitely been alleviating compared to where we were a year and a half ago.

Gene Marks:

So, what are you seeing out among your constituents or members, John? Are they feeling less inflationary pain? Is my first question. What do you expect them to be dealing with, is my next question regarding inflation? And just thoughts on navigating through this year, which will be an inflationary year.

John Arensmeyer:

Well, they're definitely feeling inflationary pain and alongside that workforce challenges with people. There's a lot more workforce pressures, difficulty, a lot of professions finding people, so they're definitely dealing with that. But I would say that they're still, their basic needs or their basic concerns haven't really changed that much. There's not a lot they can do about inflation. They obviously are, I think they have a heightened focus on having a productive and happy workforce. But the three buckets that we focus on are really businesses need access to capital, resources, and opportunities to start and to grow. They need a system that allows them and their employees to have quality jobs, whether that's access to healthcare, childcare, paid leave, retirement. And they need to operate on a level of playing field. And it does involve taking a look at whether there are unfair practices, any competitive practices, any trust laws that perhaps could be enforced to give them that level playing field, the tax system that's fair.

John Arensmeyer:

So, those things haven't changed. I think the workforce issue has really been somewhat heightened and because of that, there's a lot of frustration. There's a frustration that we can't solve our immigration dilemma. Even legal immigration has cut down. There's so many industries that rely on immigrants for the hospitality industry, the construction industry, they've been hurt particularly, and then there's costs. There's costs of the benefits I talked about. There's costs of inflationary costs on wages. So, the basic concerns have always been there, but they've been heightened by some of these issues that we're facing now.

Gene Marks:

Workforce. At the beginning of this year, something like 26 states, were raising their minimum wages. Federal minimum wage still remains at \$7.25 an hour. You help to advocate for public policy. I mean certainly certain small business organizations really push back against any increase in a minimum wage. What are your thoughts on minimum wage increases and do you believe that there will be a federal increase to the minimum wage anytime in the foreseeable future?

John Arensmeyer:

Well, we've done a lot of polling on this in the past and even before all these inflationary pressures. We found the majority of businesses supported an increase in the minimum wage even as high as 12, \$13. This was a couple years ago. The reality though is that for most businesses it's kind of irrelevant because you

can't hire people at those kinds of wages. So, we certainly support an increase in minimum wage, but the fact of the matter is for most businesses, they have to pay more than the minimum wage, because of all the inflationary pressures we've talked about. And the fact that the minimum wage hasn't been raised to match that is pretty ludicrous.

Gene Marks:

It really is. Do you or your organization support an increase nationally or do you think that it's being handled the right way, just leaving it to states and local governments to determine their own local minimum wages?

John Arensmeyer:

Well, I think having a good floor nationally is what we need, and then states should be free, where the cost of living is higher, they should be free to tack onto that. We have that system now, we just don't have a floor that's high enough.

Gene Marks:

Fair enough. Other inflationary pressures and cost pressures on businesses as we head into 2023 regarding labor. Two big ones sort of come into mind. One is worker classifications. Department of Labor coming out with new rules in 2023, which may cause many businesses to have to reclassify some of their independent contractors as employees. If that happens, businesses have to incur additional costs, taxes, benefits, make them eligible for workers, more employee and employment rights. What do your members say about this? Do you sense that there is a big pushback against that? Do you feel that there is fear against that or do you feel more compliant?

John Arensmeyer:

I think there's definitely concern. Our position is, and we submitted a comment letter on the proposed rules, is that we obviously endorse the fundamental desire to make sure that people aren't misclassified, that people working in jobs that nobody would consider independent as a dishwasher or janitor, that those people are not misclassified, that they are properly positioned as employees. But, where I think the rule goes a little too far is they've missed the point that there is a much more complex economy out there. There are a lot of people we find in our own network even, who themselves, if they're solopreneurs want to remain independent, they themselves do retain solopreneurs. These are not people who you would think of in this sort of abused category of people who really are being misclassified. So, I think they've gone a little too far in terms of trying to address what is a legitimate concern. And we've gotten a lot of pushback from folks in our network and our comment letter reflected that.

Gene Marks:

Yeah, I'm hearing the same thing. And it is, you're 100% right. I mean there are so many freelancers and independent people that are out there. I mean the number of startups in this country has just exploded over the past few years. And it's almost like the people are saying, "We want to be more independent and do that kind of work." And then the Department of Labor is saying, "Well, hold on, maybe some of this stuff will classify you as an employee." I use a lot of independent contractors in my business and I can assure you, none of them want to be my employees. They like being independent. So, it's an ongoing issue.

Gene Marks:

Do you feel, John, that the current Administration is more pro-employee and pro-labor? Besides the worker classification rule? There's other rules coming in 2023 that the Department of Labor -- Pay transparency, overtime rules -- I understand are being looked at. Potentially, overtime wages will increase, which will also potentially create more cost for employers. Do your members feel that this is unfair or too much or too pro worker, or again, do you feel that most of your members are more understood and able to deal with these kinds of new regulations?

John Arensmeyer:

Well, I think it's a false choice to be you're either pro-business or you're pro-labor or pro-worker, particularly when it comes to small business. I mean as you know Gene, most small businesses, workers are like family. I'm not suggesting there aren't small businesses out there that maybe aren't doing the right thing, but what we find is there's an ecosystem here that needs to be supported and that means supporting the needs of the owners, to be able to grow the businesses. It also means making sure that the workers employees have access to benefits, have a decent living wage, and we don't see those things as being in opposite. We're pretty happy that the current Administration kind of sees that this is not a dichotomy. As I said, I think the Department of Labor's proposed rule goes too far, but as a general matter of the Administration itself, I think they kind of get the balance between the two.

John Arensmeyer:

And as I said, we don't choose to look at this and our members don't choose to look at this as a business versus employer. We're really all in the same boat. We've got a lot of stresses and strains and issues out there. We've got quite frankly, some challenges dealing with bigger businesses and we choose to look at this as one ecosystem trying to work together to make sure that it thrives.

Gene Marks:

Yeah, you're absolutely right. It's funny too, I mean, you read and you see in the news how the media, and I'm one of them, we love to portray that there's some big issue going on or some big controversy because of some rule that's coming out in Washington when, I mean, you hit it right on the head. I mean, most employers that I talk to, most of my clients, I mean they care about their employees, they want to pay them a fair wage. Most of the time when regulations come out from the government telling employers that you should be doing certain things, most of our clients are already doing it anyway, because they know it's just the right thing to do. So, it's only people that seem to be on the extreme sides of that debate that are the ones getting the attention. The rest of us are like, "Yeah, I mean of course that is a normal thing to do and we've been doing that for a while."

John Arensmeyer:

Well, as you know Gene, small business owners do not tend to be ideological. I mean, of course there are ideologicals who happen to run small businesses, but I mean we're a pretty pragmatic bunch and you're, what I think you're suggesting is when ideologies on either side take over, it creates problems.

Gene Marks:

It really does. It really does. Staying on labor, only because it is such a big issue with us in 2020 -- it's going to continue to be a big issue. I'm kind of curious what your thoughts are on what your members are doing to retain people and attract new people to their business. You're right about we need more of a level of playing field. We're competing against big companies. We're competing against the government. We're trying to bring good business. I've always thought that small businesses are a great place. Way more advantages than big businesses, depending on how you are as an employee, you're flexibility and chance to get ahead and make a difference and all of that. Are there any sort of hot benefits that you're seeing, John out there that people are offering? Do you see your members saying, "You're talking about specific..." Do you see your members planning on increasing compensation significantly in 2023 to stay competitive? What do you see your members doing to try and attract and retain people in 2023?

John Arensmeyer:

Well, I think it's a mix. I mean, those who can increase compensation because perhaps they have increased revenues, whether that's between inflation or due to particular business they're in are doing that. Some can't do it though. Cost of benefits is a huge issue. The Affordable Healthcare Act really helped in that it

took the pressure off of employers having to provide coverage. And there are a lot of options now, and I know you've written about this. Yes, you can offer coverage, but the exchanges, particularly with the continuation of the expanded subsidies in the Inflation Reduction Act, make that an attractive alternative.

John Arensmeyer:

So, the big area I see, benefits related if you will, is childcare. And this is a big issue for us for two reasons. One is that small businesses can't attract employees because the employees, they have their own childcare needs and they can't attract employees who have tremendous childcare needs, and they need to be a lot more flexible about that. And then the fact is, who are the childcare providers? They're almost all small businesses, most run by women, many run by people of color and immigrants. So, you've got a need both from the business side and from the sort of employment side to address this. And it's an issue that we're getting more and more involved in, we're actually in Colorado, we do a lot of work providing business assistance to small business providers who need to learn more about licensing and regulations.

John Arensmeyer:

But the fundamental economic problem is there, and we were very sorry to see in the legislation that ended up being Inflation Reduction Act, that all the childcare subsidies were removed, because that kind of separates us out from most of the rest of the developed world. And if we don't solve this problem, we're going to have long-term workforce issues.

Gene Marks:

Yeah. Again, we're in agreement on that. I mean, again, people... Listen, I'm a right of center person when it comes fiscally, and to me it makes sense fiscally to level the playing field. And if the government can offer assistance to small businesses, whether through tax credits or other funding, to help them provide childcare for their employees, number one, it keeps those employees coming to work rather than missing time. So to me, that's a tangible economic benefit. But number two is it does help us establish a level playing field. There's large corporations that are already doing just that and are able to attract employees with kids.

Gene Marks:

I feel the same way about healthcare and I don't know how you and your organization stands on it. I mean, my wife is from the UK and they have National Health in the UK. There are strengths and their weaknesses and pros and cons, I get that. But I just always felt, I always agreed with her. I just don't know why, John, I have to provide, I'm involved in my employee's healthcare decisions. I would rather there be some type of a national health system. I could just say, "Listen, we'll all just pay the tax that we're paying anyway for premiums and then just get it through the government." And I wonder if that's anything that your organization is continuing to advocate for or what you're hearing from your members when it comes to healthcare?

John Arensmeyer:

Well, if somebody dropped in from outer space to set up a system, you would not make it be an employer-based system. You would [inaudible 00:20:02].

Gene Marks:

If somebody dropped in from outer space and evaluated our system, even they wouldn't be able to figure out our system.

John Arensmeyer:

Are you saying that healthcare's complicated, Gene?

Gene Marks:

A little bit. A little bit, yeah.

John Arensmeyer:

That said, we are about creating as many options as possible at as affordable a price as possible to talk about dramatically overhauling a system that is still very much employer based, overnight. That is not a reality. It's not a practical reality, it's certainly not a political reality. Perhaps there are ways to move toward that. There have been, we've supported proposals to expand Medicare to 55. There's ways to take baby steps toward that, but transforming it all overnight doesn't work. And in the meantime, employer-based healthcare for the most part remains the gold standard. And a lot of businesses use that as a way to attract and keep good employees. And we don't want to turn that on its head overnight, even though there's no question there's disparities between those companies that can afford to do it and those who can't.

John Arensmeyer:

So, I think we're pragmatists here, we want to keep the options open. That's what the ACA did. The fact that they've continued the subsidies in the Inflation Reduction Act is great. We're big into, in working with a bunch of other partners to try to lower costs in the system. Ultimately the system is burdened by excessive costs that have really nothing to do with how payment's made. So, I don't know if I'm answering your question. We're-

Gene Marks:

It does.

John Arensmeyer:

Yeah. Ideally this is not the best system, but it's what we've got and we need to work with it and we need to maybe take baby steps toward bringing a little closer to a more universal system.

Gene Marks:

All right. That is great. All right, I have a few more questions for you then I'll let you go. This is, it's great stuff. So, next question I have for you has to do with financing and funding. I'm talking to my clients. Everyone has seen a doubling in their interest rates, obviously over the past year. Some of my smaller clients are seeing commercial rates in double-digit range from traditional banks. It's having a big impact on their working capital, what inventory they can buy, receivables they can manage. And then of course with higher interest rates, banks start contracting loans that are going to be given out. It creates a tougher financing environment, not only for growth companies, but for startups. We're already seeing that within the tech industry. In 2023, if a business owner's coming to you, John, and saying, "Hey, I do need financing." Outside of traditional banks, what are you telling them? Where do you think are a good place to go for financing this year?

John Arensmeyer:

Well, you're right about what's going on with traditional banks. We've already had an issue with them not serving the really small businesses or businesses in under-resourced communities, even before the increase in interest rates. So look, there are other opportunities out there and we've got to figure out how to scale them. CDFIs offer mission-driven loans, but they do require subsidies to do that. We're very happy that the State Small Business Credit Initiative was continued in the American Rescue Plan and that is providing \$10 billion to the states and to native tribes. Half a billion of that specifically directed to our technical assistance that is going to be administered by the states. This was a revamping of a program that had existed coming out of a great recession, which did very well and we're very hopeful. It's those sorts of more innovative products and opportunities that we need.

John Arensmeyer:

And the government needs to take some risk in this. The government is uniquely set up to absorb risk in lending, and you can't put this all on the private sector. And so we're hopeful that the SBA is looking at expanding the people who can offer 7(a) loans. They're making changes to their Small Business Investment Corporation, their Small Business Lending Corporation. So, there's a lot of opportunities out there. We've got to figure out how to look at risk a little differently. I mean traditional ways of looking at risk simply through FICO scores, you leave a lot of people on the sidelines. And this was a case before interest rates started going up. So, there's a big role for government to play to put in place innovative programs, try to get them to people who have been left out of the system, and try to perhaps soften the blow of some of these higher interest rates.

Gene Marks:

And we were talking about some of the things you're working on during this year. Is that one of the policies that you're advocating is to provide more financing options?

John Arensmeyer:

Yes.

Gene Marks:

And besides that, what else do you have on your agenda 2023?

John Arensmeyer:

In lending or otherwise?

Gene Marks:

Well, otherwise. Definitely lending and then what else?

John Arensmeyer:

Well, we're very concerned that licensing and other regulations of very small businesses, that is continuing to be a real burden to start businesses and to grow businesses. I think I was seeing a statistic that one in four businesses now need a license, whereas a couple generations ago it was one in 12.

Gene Marks:

Yeah. By license you mean to cut someone's hair, you need a PhD in astrophysics.

John Arensmeyer:

You don't need to do hair braiding, you probably don't need a fancy license. So, I mean there's a lot of need to look at ways that we can streamline that. We talked about all these issues around providing quality employment through benefits and then sort of fair competition and antitrust, which is actually one of the few areas that has bipartisan support right now. We were very sorry that some of the bipartisan bills that in the last Congress did not pass the self-preferencing law. So yeah, that's what we're focused on is to try to move the needle in all those areas.

Gene Marks:

Final question, and this has been great by the way. You and I are a little bit older here. Small business owners in general tend to be over the age of 50. I mean more than half of them according to the SBA, and I'm sure your members are indicative of that demographic. So, I'm just hearing more and more about succession planning and exiting our business and building value and preparing for the future. What is the future? Are you hearing the same? Do you expect there to be a big uptick in business exits and transition of wealth over the next few years? What are your thoughts on that?

John Arensmeyer:

Well first of all, you're absolutely right and I'm glad you mentioned it. Most people don't realize that over half of small business is run by people over 50 and just for a variety of reasons. Yeah, we are hearing about concerns about succession planning. One area that we're starting to take a look at is employee ownership, employees taking over businesses. We're maybe doing some pilot work in Georgia on that. And, I think there need to be easier ways for businesses to.... Look some businesses don't want to be sold or they're not appropriate to be sold, but some are. And to be sold, quite frankly, I sold my business and that was a good thing. So, I think that we need to ease those burdens and create those opportunities. So yeah, there's definitely some need to look at succession planning. It's not something we spend a lot of time on, but it's something that we're hearing more and more.

Gene Marks:

Okay. Fair enough. John Arensmeyer is the founder and CEO of Small Business Majority in Washington. John, what is your website?

John Arensmeyer:

Smallbusinessmajority.org

Gene Marks:

Sounds simple enough. Get involved, guys. Join John's organization. He represents tens of thousands of small businesses around the country and is a great voice and advocate for all of us who are running businesses. John, thanks very much for joining me. That was a lot of fun.

John Arensmeyer:

Good to be here, Gene.

Gene Marks:

So, you've been listening to Paychex THRIVE podcast, by name is Gene Marks. Thank you so much for joining me. We will be back soon again with another segment on a topic that will impact your business. If you have any type of suggestions or topics or guests you would like to recommend, please visit us at our site at P-A-Y-X.me/thrivetopics. That's payx.me/thrivetopics. Again, my name is Gene Marks. Thanks for listening. We'll be back to you soon. Take care.

Gene Marks:

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Speaker 1:

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