

Why CPA.com's Erik Asgeirsson Thinks the Coronavirus Pandemic is a Defining Moment for Accounting Firms

PAYCHEX
Business
Series

Coronavirus



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President and CEO of the International Franchise Association (IFA)



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Full transcript

Gene Marks:

Hey everybody, welcome to the Paychex Business Series Podcast. I'm your host Gene Marks. I'm a certified public accountant and regular business columnist for a bunch of publications, including FORBES and Entrepreneur. But more importantly, I'm a small business owner of a financial and technology management services company.

Gene Marks:

I've teamed up with Paychex, the leading provider of human resources, payroll benefits, insurance services, to bring you real life advice from real life business owners and industry experts. In this podcast, we'll talk about the complexities of running a small business and how they're handling the challenges they face. And these small businesses that we're going to talk about today are franchisers, because I'm speaking today to Robert Cresanti and Matt Haller.

Gene Marks:

Robert Cresanti is the CEO of the International Franchise Association and Matt Haller is a Senior Vice President of Government Relations and Public Affairs at the International Franchise Association. And Paychex is the preferred vendor for payroll processing for the International Franchise Association. Hello.

Robert Cresanti:

Hi.

Matt Haller:

Hey there.

Gene Marks:

Good. Glad that you guys are both on. I do a lot of questions for both of you guys. And Robert I know we had another conversation, but I'd like you to repeat again exactly who and what the International Franchise Association is.

Robert Cresanti:

Thank you. We represent over 700,000 businesses in the United States and about eight million employees in the U.S. We have brands, many of the national brands that you would know in the hotel brands and the restaurant brands, and also elder care. It's a very diverse business model, franchise business model, and it allows owners, small, local individuals to be owners of nationally recognized brands.

Gene Marks:

Matt, we're coming out of this pandemic and a lot of franchises are reopening. Did you find a lot of them taking advantage of the Paycheck Protection Program?

Matt Haller:

Yeah, we actually just finished a survey last week, Gene, that showed more than 90% of franchise owners took part of both the PPP program and about 60 plus percent took advantage of the other main program, the Economic Injury Disaster Loan Program.

Matt Haller:

So big uptick from the beginning of the program when lots of people were interested, but nobody could get access to a lender or figure out the rules. So as the program has evolved, lots of uptick, still some challenges on implementation and some ideas that we have, that Congress is looking at in terms of flexibility, but yes, lots of uptick.

Gene Marks:

What is the biggest concerns among these people? I guess forgiveness has got to be high of mind, correct?

Matt Haller:

Yeah, forgiveness is the big one, but I think the even bigger one at the moment, is for businesses that can't fully reopen and are still under stay at home orders or some limited ability of opening, having more weeks to spend the funds would be most helpful right now.

Matt Haller:

So the program requires you to use funds within eight weeks of the loan being disbursed and we are pushing to expand that to as much as 24 weeks. That would give the business owner the flexibility to get to the 75%, to get the full forgiveness, given the situation is so fluid.

Gene Marks:

Robert, how damaged were your members during this pandemic and what industries suffered more than others?

Robert Cresanti:

I think they were uniformly damaged as it became more and more apparent that these situations were challenging the health of American consumers and that we had very little scientific information to go on. I think the government rightly took a very cautious note and that included closing down many, many, if not, most of the businesses that are members of ours, the local small businesses were closed.

Robert Cresanti:

There were a few, as I mentioned when we spoke last, that were open. Some of the home health care and some of the brands that delivered auto repairs were open and were deemed essential services, but by and large, overall very broad damage. And then as some of the food services were opened up very slowly, the restaurants that didn't have drive-thru capability and so forth, which are a big portion of our membership, were also significantly damaged.

Robert Cresanti:

So we saw people with drive-thru food, take out facilities ginning up business quicker than the folks that didn't have that available. But then some innovation started to take place, the ingenuity of entrepreneurs, they started marking places in the parking lot and delivering food out to the cars. So that started to spread. As soon as you saw some of them doing it, the more and more the system started to learn. So it was fascinating to watch this at a distance.

Gene Marks:

Robert is a follow-on, a lot of the franchise owners that did have economic consequences from all of this, some of them may not make it. What do you think of that? How many franchises and obviously you can't be specific, but do you think many will be going out of business because of this, as a result of the pandemic?

Robert Cresanti:

Look, I think in the long-term, we're going to see a lot of dislocation in businesses. I think anybody who was running a marginal location prior to this, which happens. Businesses get run down. They haven't renewed their store and it's getting a little bit worn and long in the tooth, et cetera. Those kinds of businesses are going to be the ones that were, would be in the most, in jeopardy.

Robert Cresanti:

Great locations, I think have the possibility of and the probability of coming back, that are well managed and so forth. One of the surprises that happened out of the legislation that really was a big challenge to us was the additional \$600 a week that was given in unemployment benefits to folks, to encourage their staying home.

Robert Cresanti:

And so, you can't run small businesses with no employees. And when people make two or sometimes three times the amount of money they were making before, on unemployment, rather than working, the decision to come back to work is somewhat more challenged.

Robert Cresanti:

So we've been trying to work on policy and Matt's been very active in this. We're trying to work on policy solutions that are created by people who don't run small businesses on a day to day basis, but have a thought of trying to do good and right from Washington D.C. And they may know how to run a hedge fund or they may know how to regulate the banking industry, but they often don't think about the very smallest of the businesses in the United States. And that's who we represent.

Gene Marks:

Matt, let me jump onto that comment from Robert about the unemployment. It's not just unemployment, but in a recent stimulus bill passed by the House, wants to continue those additional federal unemployment benefits through 2021. And not only that, but mandate vacation, paid time off actually, for sick time. What are your thoughts on that? And how do you think that would affect franchises around the country?

Matt Haller:

Yeah, it would be difficult. I mean, I think generally speaking, we don't support opportunistic ways to enact longstanding ideas using the coronavirus response as an opportunity. I think extending and expanding unemployment insurance was appropriate at the time, in March. And I think a targeted expansion of that may be appropriate going forward beyond July.

Matt Haller:

But absent some mechanism to cap it at a level commensurate with an employee's previous pay and also providing, I think there's a lot of ideas out there now about how you can incentivize a return to work with either a direct payment or a tax credit to the employer or the employee. Those are things that we clearly may need, but I think using this as an opportune time to enact long standing wish-lists is, I think, inappropriate.

Gene Marks:

Right now, as we sit in early June, a lot of states are reopening and by mid June there will be a lot more that's reopening. How can a franchise owner, I mean, these federal unemployment benefits go through the, I believe, the end of July, right? So how can a franchise owner get employees back to work between now and then if they are getting paid more from the federal government? What are you telling your members?

Matt Haller:

Well, what we're telling them is, and we didn't have to tell too many of them because they're pretty, for the most part, in touch with their employees, but open lines of communication, right? I think communicating at the outset that, "Hey, I am going to put you on unemployment now, but I am trying to bring you back," whether you are taking a PPP loan or not.

Matt Haller:

Communicating with the employee about that. And I think now that there is guidance for employers who are looking to get forgiveness from the PPP loans, who can state that they've offered an employee their job back and the employee has turned it down. If you've established that line of communication ... Then that doesn't impact your forgiveness.

Matt Haller:

I think if you could establish that communication throughout the entirety of your closure, it's going to be a lot easier to document that if you do run into that unfortunate situation where you're trying to close out your forgiveness by June 30, but the unemployment benefits go beyond that. Because I think people want to know that their job is going to be there beyond July 31, even if they see the short term, upside of potentially earning slightly more staying at home. But I think like any relationship, the communication is the most important aspect.

Gene Marks:

I think you're right. I mean, the business owners that have the best relationship with their employees and deal with them on a personal level, I'm sure can, will be best positioned to work something out that's mutually beneficial between now and the end of July.

Gene Marks:

It's just so extra challenging when you have a pandemic that goes on, that's a biological issue, and then you have the government, for the right reasons, shutting down businesses in places where things had to be done. But then with this legislation, it's also added just so many challenges to businesses. Trying to help, but then they hurt. They try to help individuals with more unemployment and they wind up hurting a lot of small businesses.

Gene Marks:

Robert, you had mentioned about some franchises not making it back. They were maybe, marginal errors or more importantly, marginally operated. Which to me, my take from that is that the franchise themselves were, they weren't run very well to begin with and those are the first ones to fall. And I just, that to me, does that present an opportunity for somebody that wants to get into the game?

Robert Cresanti:

It absolutely does. We literally switched ... I don't know. I was saying this to someone the other day and it was completely lost to them. I said, "It's like driving down the highway in fourth gear and shifting down into first." They weren't necessarily familiar with anything other than an automatic car.

Robert Cresanti:

But we went from the best of times, with optimally priced and consistently priced labor, with predictable markets, with a very strong business environment in the United States. With nearly full employment, to the point where the number one problem that people were having was getting even trainable employees to come into their offices to receive the training and move on. To a place now, where unemployment is enormously high and commodity pricing is not optimized. It's challenged and its availability is challenged, in fact.

Robert Cresanti:

And so we are, there's a kink in the hose for a time. I think it's going to be temporary. I think we are going to see a massive rebound at the right time. So I definitely think that they're going to be good business opportunities to be had there. But we say this to folks all the time, because we spend a lot of time talking to people who were interested in the buying and acquiring franchises, measure twice or thrice and cut once.

Robert Cresanti:

Be careful in how you select what it is you want to do and then go from there. Find the right franchise concept to be married up with, so that you can understand what is going to be the opportunity and what are going to be the challenges of going into any business. And franchising as well, falls into that category.

Gene Marks:

That's great. And Robert, so that's for people wanting to buy into franchising. And Robert, just as we close things out, for existing franchise owners that emerge from this, where there's economic downturn, there's disruption and where there's disruption, there's opportunity. And if you are an existing franchise owner and have a few bucks in the bank still and/or maybe credit available, what type of opportunities would you say are available for them?

Robert Cresanti:

I think there are tremendous opportunities that are available at the moment. I think it's still early to decide what exactly comes back when, but you asked me earlier about people being affected and so forth and we talked a lot about food today. But I have a very good friend who recently bought a trampoline park and my children, my son and I spent many, many hours at the trampoline park. And we left a lot of money there.

Robert Cresanti:

And at the moment, those parks are among the last things to be reopened again. And they have a high cost in the sense of infrastructure. Their personnel costs aren't necessarily as high, but the infrastructure cost is very high. And so you're going to see disruption that varies from the place where you might see a number of fast food locations closing down in one area. And therefore the existing restaurants that are in that space being taxed with new customers, because there's less competition going on there.

Robert Cresanti:

You might want to look at different opportunities that are completely outside of food or outside of hotels or even outside of other things, into the service space. Certainly the demographics in the United States continue to trend outwards and having careful healthcare brought into the home for the elderly and for grandma and grandpa, making sure that they're well taken care of. That's another booming business in the franchising space and with good reason. There's a lot of need for it. And there are large number of great companies that are out there that are pursuing that space.

Gene Marks:

That was Robert Cresanti, CEO of the International Franchise Association. He was joined by Matt Haller, a Senior Vice President of Government Relations and Public Affairs at the International Franchise Association, as well. Both of you, Robert and Matt, thank you. Great advice and some real insights into some potential opportunities in the world of franchising.

Gene Marks:

For more information about what we discussed today and other coronavirus questions and topics, please visit the Paychex COVID-19 Help Center. The address is paychex.com/coronavirus-resources. Thanks everyone for listening. Thanks to you, both Robert and Matt, for joining me. You guys are great. And everyone, we will see you next time.