

## Season 2 Finale: Rising Costs, Labor Shortages are Top Issues for Businesses in 2021

**PAYCHEX**  
Business  
Series

Coronavirus



**Gene Marks**

CPA, Columnist, and Host

### Full transcript

**Gene Marks:**

Hey everybody. Welcome to the final episode of Season Two Paychex Business Series Podcast. My name is Gene Marks. I'm so happy that you have joined me for this little discussion today. We've done some recap episodes looking back on some of the interesting guests that we've talked to in this last season, and we've got some really great ones scheduled for season three. But you know, as we enter into the next season, as we enter into the fall season, what I wanted to do is, I wanted to look ahead. We've talked about all the issues that were facing businesses over the past year, obviously COVID being among the biggest of them all, safety, and workplace practices.

**Gene Marks:**

But now, as we're heading into 2022, and the end of 2021, we've got some other issues that we've got to be grappling with. So we're looking ahead. And those two issues, there are two of them that I think are the most prevalent on the minds of my clients and my readers and my own business itself. They kind of come down to this: I mean, number one is, we're in an era right now of rising costs, particularly generated by supply chain issues and inflation. We're also in an era of significant labor disruption—a shortage of labor that's out there, that is impacting our ability to provide services and make products for our customers.

**Gene Marks:**

So what I wanted to do and talk about in this final episode is, I wanted to look ahead, and I want to give you some ideas and some strategies for dealing with these two big issues. The first being, of course, rising costs. I mean, you read the news just like I do. There's certainly no doubt that costs are rising. We know the consumer price index has gone up anywhere from 5 to 6% year over to year, which compared to 2020, the past 10 or 15 years actually, is almost three times that amount. So we've seen consumer prices rising. Guys, we are seeing producer prices really going up as well. I mean, the producer price index just came in out of an increase of, like, 8.4%. But I think we know if we're in certain industries, we're seeing increases a lot higher than that.

**Gene Marks:**

I've looked at the producer price index for St. Louis Fed, they have something called FRED, F-R-E-D, which is this data repository that you can go and search yourself. I saw that in some of the more significant categories that are core to businesses like lumber, materials, plastics, freight, iron and steel, some of those prices have gone up anywhere from 20 to 100%. Shipping containers—just getting, putting stuff into a container and shipping it to or from China—those containers have increased in price more than five times since this time last year. Even wages, they've gone up, hourly wages, year over year, about 4%. And I think both you and I know we're expecting to see those wages increase even more over the next year. So we've got these real headaches about rising costs.

**Gene Marks:**

So I wanted to just give you some ideas. Listen, none of these are my own creation. As you know from listening to this podcast, I talk to a lot of very smart people—public policy makers, economists, business owners themselves, and other people that are strategists—and I've learned from them. I talk to my clients and a lot of business owners all around the country and I've learned from them, too. I've learned this is what they are doing to confront this era of rising costs. Let me just give you some strategies you should follow.

**Gene Marks:**

Number one, everyone I know is revisiting prices. Very, very important to do that. If you haven't been raising prices, you should be. Even if you're lucky enough to be in a business where you don't really need to be raising prices, I have to tell you, you might want to take the opportunity to raise them anywhere, because everybody is, right now, raising their prices. It's been built in. People have an expectation of higher prices. It's not a bad idea to do that.

**Gene Marks:**

Also, communicate with your customers as well. So I see a lot of businesses increasing their investments in customer relationship management, those are CRM systems, so that they can have more, better, frequent communications with their customers about potential price increases, or even order deliveries and lead times. So increase your communications, and also revisit your pricing on all of your products, and make sure that you've got a flexible way to do just that. That's number one.

**Gene Marks:**

The second thing that I am seeing businesses do to control their costs is they're locking into long-term agreements wherever they can. So they're going to their suppliers, they're going to their landlords, they're going to their banks. They're even talking to their key employees that have higher compensation, and they're contracting into fixed contracts with all of those parties. Now, this is not a move that's saving them money, because in some cases they may have to make commitments in advance to doing something like this, or even buying materials in advance.

**Gene Marks:**

But I can tell you, at least this is what I hear from my clients, that putting down long-term contracts for the future, at least it gives you some element of control over your cost structure and it decreases the potential for surprises on prices as well. So that has a big impact on how you can run your business. So increased prices, communicate with your customers, lock down on long-term contracts.

**Gene Marks:**

The next thing I want to tell you is to buy. My smartest clients are buying inventory and property. They're not buying GameStop or Bitcoin because that's not what they know, but they're buying what they do know.

They know, in this era of rising prices, you buy now if you expect prices to go up in the future. I can assure you for at least the next six to 12 months, we are going to be in these types of inflationary times. So they're buying inventory where they can. They're buying property where they can, or even equipment, because property, equipment and inventory, those assets, they do their best during inflationary times.

**Gene Marks:**

So recapping again, increasing communications with your customers, raising prices where you can, locking down long-term agreements, buying inventory, property, and equipment as well, as a hedge against inflation and to prepare yourself for any potential price increases.

**Gene Marks:**

Here's another thing I'm seeing a lot of my customers doing and a lot of my clients doing, is they're redoing their debt. First of all, the president's recent plan for addressing COVID included a little tweak to the Economic Injury Disaster Loan program that you should definitely be aware of. Now, if you go for an Economic Injury Disaster Loan, and you can get them directly from the SBA at [sba.gov](https://www.sba.gov), when you get those loans, you can now borrow up to \$2 million, and you will pay a fixed rate of 3.75% interest over 30 years.

**Gene Marks:**

So that's a pretty good long-term debt at a fixed rate of interest. And we know interest rates are going to be going up sometime in the future once the Fed starts taking actions to combat inflation. So it's a pretty attractive deal. Let me tell you something that makes these economic injury disaster loans even more attractive, particularly in light of the president's recent actions: you can take the proceeds of those loans and pay down existing debt with them. This wasn't the case before. Now, it's the case.

**Gene Marks:**

So if you've got some existing debt and it's at a higher interest rate, or maybe it's at a variable rate, that may cost you more in the future, get a fixed price 30-year E-I-D-L, Economic Injury Disaster Loan, from the SBA, turn around, and pay down your debt. That will free up some financing for you to go out and buy some property, equipment, and inventory. By the way, when you're talking about SBA loans, don't forget the section 7(a) and 504 loans too. They're 95% guaranteed by the federal government. So the banks, the SBA lenders, have a lot of incentives to get that money out there. You can borrow these loans, these sections 7(a) and 504 loans, they really have—you can use them for working capital, for inventory, for property, for equipment, you can borrow up to \$5 million. You pay them back anywhere from five to 20 years, depending on the loan itself. So that's great availability of financing for you to see you get through these inflationary times.

**Gene Marks:**

So just as a recap, in inflationary times, what my clients are doing? They're talking to their customers, increasing their communication, they're raising prices where they can, they're locking into long-term agreements, they're buying up inventory and property and equipment where they can, and they're getting financing from the government, particularly these Economic Injury Disaster Loans, as well as these other Small Business Administration loans, the section 7(a) and 504 loans.

**Gene Marks:**

Those are some of the big things they're doing. Some of the other things, just on a side, they're keeping a good eye on their finances by having good financial reporting. As I've been writing about in a whole bunch of different places, a lot of business owners are investing in technologies as well to keep their overhead

down. Their operational technologies, accounts payable management, and HR platforms, even the ones that Paychex offers, have been great for pushing work down to employees, giving them mobile access to their data, letting people enter information in themselves that increases productivity, and reduces the amount of work that's being done administratively.

**Gene Marks:**

So inflationary times, these costs, we're looking—going ahead of costs increasing, continuing to increase over the next six to 12 months. Hopefully things will, will even out a little bit and get a little bit less crazy. We're hoping with that with, maybe, with future variants, become less of an impact on the economy, but those are some of the things that employers are doing this year, companies are doing to control rising costs. So, that's on the cost issue.

**Gene Marks:**

The second big issue that we're facing as small business owners going forward now, has to do with labor. We know that labor is tight. We understand that, yeah, there have been a lot of factors that have been keeping people away from jobs. We know there's the enhanced unemployment benefits and stimulus payments and childcare help and healthcare help, and all other sorts of things that have been keeping, including fear of coming to work from safety issues. But a lot of that's potentially going to be changing.

**Gene Marks:**

We do have 11 million unfilled jobs right now. Even though the unemployment rate is still not so bad, there are still a lot of employers, and I'm sure you're one of them, that are looking for people. So let me tell you what employers are doing, not only to find people in 2021 and 2022, but also to, to offer them some hot benefits, okay? Let me share with you what some of those are. For starters, when we talk about finding people, obviously the online sites are very, very popular. The CareerBuilders, the Indeeds, monster.com, LinkedIn, even Craigslist. Those are great places to go and find people.

**Gene Marks:**

But I just wrote a pretty detailed piece in The Philadelphia Inquirer recently about what some Philadelphia-area businesses were doing. You might be surprised at some of those things. One of them is some of them are aligning with professional organizations. For example, if you're looking for an accountant, go to your local CPA society. If you're looking for somebody to help you with office administration or HR, go to the society of human resources people. In other words, if you go to your local industry groups or to professional organizations, they have a lot of input into the availability of people within their profession and it's a great resource to find people.

**Gene Marks:**

The second place that I thought was really interesting came from a guy who works at Temple University in their workforce development area. He has relationships with faith-based and religious groups, in the Philadelphia area, because churches, synagogues, mosques—all these religious groups that are out there—they know their communities, they know their members, they know the people that are looking for jobs or potentially looking for jobs. What he's been doing is encouraging employers in his area to reach out to these different faith-based and religious groups, and make contact and have relationships with them over time, so that they can also maybe recommend people into their jobs.

**Gene Marks:**

Then the third place that I find, well, fourth, we said online, we said professional and industry organizations, we said faith-based groups—the number one place, guys, where people are finding new employees nowadays, is by asking their existing employees, the number one place. So, you should be constantly

talking to your employees and asking if they have any family members or friends or people in their neighborhood that might be looking for jobs, or might be looking to change a job. It's a great referral. You get a personal experience with somebody referring somebody in. It's just—year after year, it turns into the number one place to find employees.

**Gene Marks:**

The states have different programs. You can Google your state. Local colleges and universities have got their own career sites for entry level people. But like I said, faith-based organizations, talking to your existing employees to get recommendations, professional organizations, and of course, online, yeah, the online sites as well. All of those are resources that you want to be tapping to find good employees.

**Gene Marks:**

Now, let me tell you something else about this era that we're in. We have a shortage of labor right now. And even though there is 11 million unfilled jobs out there right now, and this has been a big problem, let's all agree that this was a big problem even before COVID. I mean, back in 2019, when I asked my clients, what were the number one problem they have, it was always, it's always been finding good people. That problem is now exasperated now. I mean, we've now got such a shortage of people that employers are falling over themselves to bring good people into their companies.

**Gene Marks:**

So when you think about it, it's a supply and demand issue. We have less of a supply and we have a high demand for workers. What happens when there's a low supply and a high demand for an asset, like any asset? Well, the price of that asset goes up. The bottom line is, guys, is that you're looking to 2021, and heading into 2022, you're going to have to pay more to attract the kind of talent that you want to attract. That goes for salary and hourly wages. You're going to have to pay more. So if you still find yourself paying the wages that you were paying back in 2019 or 2018, the world has changed, and you're going to have to step that up.

**Gene Marks:**

However, the government has got some good programs to help you fund some of those increases. We've talked before on this podcast in this past season about the Work Opportunity tax credit. Take advantage of that. You can get up to \$9,600 per each employee, per year, through 2025 as a tax credit if you hire somebody that came off of welfare, somebody out of prison, somebody out of the military, or most importantly, somebody who's been unemployed for more than six months. You can get this tax credit. You calculate it and apply for it in advance. So before you hire that employee, talk to your accountant or your payroll service to help you figure out what the value of that tax credit would be, and then share it with your employees.

**Gene Marks:**

So if you're thinking of hiring somebody and times are tight and you want to pay them a little bit more, you want to offer them a hiring bonus, go to your payroll service or go to your accountant and say, "Hey, we're going to hire this person. We think we want to pay them, I don't know, 45 grand a year. What would be our Work Opportunity tax credit?" and your payroll service or accountant will do the math for you, and say, "Hey, your tax credit should be, I don't know, \$5,000 for this employee." Good. Go back to that prospective employee and say, "Hey, come and work for us and after 60 days, we'll give you a \$3,000 bonus just for coming to work for us."

**Gene Marks:**

That's a big deal, and could make the difference between attracting that talent over somebody down the street who's not offering that bonus. By the way, you offer them a \$3,000 bonus, you're still \$2,000 ahead. So, leverage the Work Opportunity tax credit to pay hiring bonuses for your employees and focus on some

of the more hottest and popular employee benefits this year. You should be offering some type of a health plan. What I mean [by] health plan? If you already have an existing high-deductible plan, make sure you've got health savings accounts associated with it. If you have a plan or you don't have a plan, offer healthcare reimbursement accounts.

**Gene Marks:**

In both of those situations, you or your employees can put pretax money away, so it doesn't get taxed, and then they can pull it out. In HSA's example, they can pull that money out to pay for unreimbursed medical expenses. By the way, whatever they save stays with them forever, even if they leave their job. Employees like that. If you open up an HRA for your employees, you can put pretax money into that account, and they can take the money out and buy healthcare or from one of the Obamacare exchanges or something else. Those are great incentives to provide, along with your existing healthcare plans for your employees. That's something—a required benefit this year.

**Gene Marks:**

Another hot benefit this year, of course, is retirement plans. Look into the changes from the Secure Act. The Secure Act, which was passed in 2019, and then in 2020, it kind of got overshadowed because of COVID. You can get up to a \$15,000 tax credit over three years just by starting a 401k plan for your business. Or you can get just a \$1,500 tax credit for tweaking the terms of your 401k plan to require employees to participate. They can always opt out, but just by making the change in that language, you can get a \$1,500 tax credit for doing that. So make sure you've got good retirement plans.

**Gene Marks:**

Also, make sure you've got a good work-from-home policy, because you know what, guys, the millennials were right. They said to us before 2020, "We should be working from a home more. We do need more independence and more mobility, and the ability to work from anywhere that we want to." A lot of us older guys were always like, "No, no, no. You come into the office." Then COVID hit, and what happened? Everybody went home. What happened? People still worked. The cloud worked. We were still mostly secure. It was pretty good. We've learned that the millennials were right. People can work remotely. So have a work-from-home policy this year.

**Gene Marks:**

You know, obviously, some of your employees may not be eligible for it, because they have to be there on site. But for those that are, give them the opportunity one or two days a week. Make it a trial period for your new employees. Say, "Hey, listen. We'll have a work-from-home. We'll try it for 30 or 60 days. If it's not working out between, for your reasons or your supervisor's reasons, then you come back into the office." But at least try it out, have a work-from-home policy for your employees because you're going to be asked about it.

**Gene Marks:**

You're also going to be asked about mental health benefits too, by the way. Mental health has become a big issue this year and is no longer the stigma that it used to be. I mean just ask Naomi Osaka or Simone Biles. Now, younger workers themselves are asking about what mental health benefits that you as the employer are offering. And what is your answer? Do you provide counseling? Do you provide reimbursement, if somebody needs to seek the services of a therapist or a psychiatrist? Do you even have a workplace culture that has certain days of time off or working events or barbecues for everybody, something to even out the, you know, work-personal life balance that so many employees are looking for. You have to address mental health and make sure that you've got a program and benefits that cover people that need that assistance because you will be asked about it.

**Gene Marks:**

Also, you're going to be asked about your paid time off policies as well. Consider unlimited paid time off, unlimited. Even if you think, like "That sounds crazy to me," it's not as crazy as you think. Unlimited paid time off plans—a lot of employees take less time off when they have unlimited paid time off plans, believe it or not. If you have an unlimited paid time off plan, you don't necessarily have to pay for any unused vacation. A few court cases in the country have found in favor of employers not requiring them to do that because how do you pay for unused vacation when you have an unlimited paid time off plan?

**Gene Marks:**

You can have multiple PTO plans in your company depending on the level of the employees, or how many years of service they've given to your company. If that's the case, have an unlimited paid time off plan for maybe certain types of employees that have been with you long enough, or have proven their worth. Just make it so that supervisors have to approve any time off before it's taken. That way, you're guaranteed to make sure that nobody takes really big advantage of it.

**Gene Marks:**

So healthcare insurance, retirement plans, mental health capabilities, unlimited paid time off, work from home, those are some essential benefits that you have got to be offering this year. These are hot benefits. A few others, by the way, to keep in mind, you should be offering some type of student loan assistance. A lot of employers are offering that. And by the way, this year, you can deduct up to \$5,250 per employee for educational expenses, and to help them with their student loans as well just for this year for the student loans fees. It may become permanent in the future. So many of your employees are buried under student debt. It's a great way to help them out, and a great benefit to offer to attract new employees.

**Gene Marks:**

Oh, and how about same-day pay? Paychex offers this service. This is a big deal. Same-day pay is becoming very, very much in demand among hourly workers. It works like this. You pay an employee 50% of their wages after they've worked that day, and then you pay the other 50% when the pay period ends. It's complicated because there's employer taxes, and there's benefit calculations that need to be done, which is why you want to use a payroll service to do it. But same-day pay—I tell you something—if your cash flow can afford it, what a great thing to offer to your employees, or prospective employees, when particularly somebody down the street that's competing for that same person is not doing that. So that's another great benefit that you want to offer.

**Gene Marks:**

All right, guys. So in recap, all right, we've come through a difficult year, we know that. A lot of those issues were covered in Season Two. We're going to be looking ahead in Season Three and talking about interviewing some really interesting people about the economy, and about policies coming up and about some successful tactics that entrepreneurs have taken, and legislation that will be affecting you. But I can tell you, looking ahead into the end of 2021 and into 2022, we've got two big issues that we're going to be dealing with, rising costs, for sure, and labor disruption, a shortage of employees.

**Gene Marks:**

Just to remind you, to deal with rising costs, communicate with your customers, increase your prices wherever you can, buy inventory, property, and equipment wherever you can, get financing from the Small Business Administration, particularly the Economic Injury Disaster Loans and the section 7(a) or 504 loans, lock down long-term agreements to keep these costs under control, have good financial reporting to keep an eye on all of your overhead, and invest in technologies that will increase productivity like payables

management technologies or HR platforms, which increase productivity. These are all things that I am seeing business owners doing right now to prepare themselves in an increasing cost environment, which we're going to be dealing with over the next six to 12 months. That's costs.

**Gene Marks:**

Labor—we have a shortage of labor. We are going to have to pay more for our employees in 2022, probably anywhere from 4 to 6% more, so you're going to need to budget for that. You also need to be leveraging some of the government's help. The work opportunity tax credit, if you focus on that, you can take that tax credit and use it as a hiring bonus from new employees that will offset those costs of bringing those employees back to work. Talk to your payroll service or your accountant about it. And strongly consider offering some of the hot day benefits that the employees are going to be needing, and they're going to be asking for: health insurance, health savings accounts, healthcare reimbursement accounts, a good 401k plan. There are tax credits to help you get it set up and reimburse you.

**Gene Marks:**

You want to offer benefits for working from home. Have a plan for those employee that can do that. Give it a trial period for those employees, but you got to have a plan available. Mental health benefits have to be addressed and make sure that you're being--that you're offering them. Paid time off, including—think about it—unlimited paid time off for certain employees that have earned that type of benefit. It is a great benefit to allow. Assistance with student loans is huge for those younger employees that are just starting out. Finally, think about offering same-day pay to your hourly workers. You pay them for 50% of their time that day with the other 50% at the end of the payroll period. It's another great benefit to offer.

**Gene Marks:**

So again, in this area of rising costs and labor disruption, labor shortages, these are what businesses are doing, and what they're going to be doing over the next six to 12 months. You should be doing the same. Anyway, I'll wrap things up. I hope this conversation helped you. Those are my thoughts. I've been out all around the country speaking to industry groups and trade groups, really since the end of April, which is great news, because a lot of people are back on the road, and going to conferences, and I'm really pleased to see that.

**Gene Marks:**

But when I talk to all these business owners, when I interview people for the articles that I'm writing for all the different places, when I talk to our more than 600 clients in my own small business, I'm just telling you, this is what the smartest business managers and executives are doing to confront rising costs and labor shortages. So consider me your vessel here. I have now just relayed that information to you, and I hope that you take some of that information and use it to the benefit of your business.

**Gene Marks:**

All right. Thanks for listening. Thanks for joining me. My name is Gene Marks. You have been listening to the Paychex Business Series Podcast. By the way, if you need any other help or tips or advice for running your business, please visit us at [paychex.com/WORX](https://paychex.com/WORX), that's W-O-R-X. Hope you enjoyed the first two seasons of our great podcast. I'm really excited to get started with Season Three, and I know you're going to love it as well. So we will see you back again soon. Take care.



HR | Payroll | Benefits | Insurance