

# Payroll Tribune

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## Après Moi Le Deluge

The headlines in the Financial Times on 18 September 2008: **Interbank Lending Grinds to Near Standstill; Money Fund Sector Shocked as Reserve** (an institutional fund) **“Breaks the Buck”**; **Credit Panic Hits Historic Levels**; **HBOS** (English savings bank) **Is a Victim of a Widespread Collapse in Confidence**; **Ireland Secures Pay Freeze for Public Sector**; **This Greed Was Beyond Irresponsible**; and, **America Will Need a Trillion Dollar Bail-Out**.

The last four Payroll Tribunes, going back to March 2007, warned about the complete lack of underwriting and at least misrepresentations if not fraud committed by brokers, investment bankers, and the investment committees of the insurance companies, money market funds, pension funds, and banks who bought this flawed paper. And, not to go unlisted, the politicians, who filled Fannie and Freddie with their cronies and took bribes in the form of political contributions, and who threw gasoline on the fire by forcing banks to make loans to unqualified borrowers through ill conceived community reinvestment programs aimed at getting votes, not equity.

The figure pointing will come. The special interest groups will flood Washington with their hands out. The politicians will generally put headlines and votes ahead of economics and sound fiscal policy.

*But you have a business to run, customers to service, employees to lead, and owners to help through this mess. What makes sense? **Look for the government** (Bush lead by Paulsen; Obama lead by Volcker: and McCain lead by Holtz-Eakin, Taylor, and Fiorina) to keep **providing the system liquidity**, to continue to **redefine the rules on the collateral** it will take, **ease monetary policy** as inflation, for now, takes a back seat to survival, **build a loan “rehab” bureau** to warehouse bad loans which have been rewritten down below their economic value, **fund the FDIC** to a high level to show that retail bank deposits are safe, and **increase regulation**: more real capital, no more off-the-books funding, leverage requirements, rules on shorting stocks, more regulators, and prosecution of those who committed fraud in this process.*

The politicians will be tested more than at any time in our nation’s history. Many, even the leaders of the most important committees, are economically challenged. Most are populists who covet votes and sound bites over strategic economic thinking. The candidates have good, smart, capable advisors if they will listen to them. I am fearful of the Congress. They are so petty, shortsighted, and economically and management challenged, that I fear that they will postpone or greatly lengthen the recovery process. If they blow it, there is a possibility that the United States itself could lose its credit standing, lose its reserve currency standing, and default on its obligations. This is not a remote possibility. The odds are more than 20% in favor. If this happens, your children and grandchildren will not find themselves in an economic or political environment like the one that you had that provided you with the opportunity to build your company, or one that you would even recognize.

### How does this analysis help you run your bureau better?

You should already be familiar with your bank’s and your ACH company’s credit standing. Your first place to get that information is the FDIC website, though in this fast moving environment you should read your local newspaper/news website. Because interest rates are low and investment risks are higher than they have been, you might think about leaving balances at your bank as compensating balances to cover your “bank charges” rather than sweeping it into investments that you have not researched. To feel better about that, you might look at how you have entitled your tax/clearing accounts with your bank. Your fiduciary accounts, if registered as such, may get you individual customer FDIC coverage. Ask your banker about what you need to do to get more FDIC coverage. As we have discussed before, you can reduce your credit risk while Congress fiddles by doing your homework on building and using credit files on the banks you use and on the instruments you invest in. Any good banker or broker will get you the information you need. They should not get your trust or your business without it.

## Planning Environment for 2009

You need to plan and budget more than ever in a difficult economy. I think that you should think about what your customer is going through, and plan for it. Think about your competition, and how the economy will stress their operations and financial resources. Then, you should think about your company, how to manage risks, and how to grow market share. Outsourcing of payroll and HR functions will not only survive, but will grow in this economic downturn and protracted recovery.

### Your Customer...

In many cases their check volume will be flat to down, their credit risk to you will be up for NSF's and uncollected funds. They will not accept significant price increases. They too will be managing their expenses closely.

### Your Bank...

Today banks will not lend to each other. They are cutting back/off lines of credit to customers. They are seeing increased delinquencies in their real estate, commercial, and retail loan portfolios and the regulators are either all over them or are watching them like a hawk. They are in no mood for sloppy banking practices from payroll service bureaus. Overdrafts will probably cause them to react quickly. Repeated offenses will get a bureau dropped by the bank. However, they also want and need your deposits. They know that you are watching their credit quality and their performance also.

### Your Competition...

The big guys are doing just fine. They will see current customer check volume drop, but they will increase their acquisition programs to maintain and build market share. They will suffer the loss of interest income, but they will also build revenues through more cross sales of payroll services to their customers.

Some of the independent firms you compete with will get smaller. Some firms will sell out because the risk of being in business during a recession is just too stressful. Some firms will sell because their balance sheet is too weak to help them survive. They borrowed too much money in the past and can't get the banks to roll it over, for example.

Most will survive and help to continue to expand the payroll outsourcing industry.

### Your Company...

Outsourcing payroll is a great business and will remain a great business. October is the month to do two things to make 2009 a better year for you. **First**, conduct a dispassionate review of your company...its operations; its internal controls; its funds transfer policies and practices; its treasury management practices; and its special risk areas. If you can't do it yourself, or you don't trust yourself to be objective enough, get outside help. **Second**, complete a **written business plan**. Include in the Plan: a one page **marketing plan** (include price considerations, product changes and introductions, sales plan, and customer service training), a one page **operating plan** (staff review for efficient operation, operating system implementation/conversion, capital equipment needs), a one page **financial plan** (goals and objectives, review of working capital requirements including credit lines, risk management in the tax department and treasury operations (funds transfers and investments), and a **budget** (it should allow you to know exactly how you make money and guide you as to when and how to control costs).

I expect that if you wish to grow your company, even in a very difficult economic environment, you can. If you want to sell your company, you will be able to. You will get the best price if you have prepared your company well for sale. Try to resist business brokers who know nothing about our payroll industry. There will be consolidations for those who wish to grow and for those who wish to remove some capital from the table but also want to stay in the business.

## Henshaw/Vierra Management Counsel LLC

We know the payroll business, as owners, managers, and consultants for over 15 years. When it's time to **grow** your company, **think** through strategic alternatives, **plan** and **manage** a system conversion, manage change in your company, build and maintain a budget and/or plan for a sale or consolidation, **we can help you** as we have helped dozens of payroll companies around the country.

Call us, in confidence, with your questions at 510-749-3225 or e-mail [guy@henshawvierra.com](mailto:guy@henshawvierra.com). Visit our website [www.henshawvierra.com](http://www.henshawvierra.com) for IPPA peer group surveys, tools to help right size your firm, and past Payroll Tribunes with advice on managing service bureaus.