



# LEND ACADEMY

## **PODCAST TRANSCRIPTION SESSION NO. 256-LEXI REESE**

Welcome to the Lend Academy Podcast, Episode No. 256. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Today's episode is sponsored by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking is going virtual. It's happening online September 29th through October 1st. This year, with everything that's been going on, there'll be so much to talk about. It will likely be our most important show ever. So, join the fintech community online this year where you will meet the people who matter, learn from the experts and get business done. LendIt Fintech, lending and banking connected. Sign up today at [lendit.com/usa](https://lendit.com/usa)

**Peter Renton:** Today on the show, I am delighted to welcome Lexi Reese, she is the Chief Operating Officer of Gusto. Now, Gusto is a super interesting company, they describe themselves as an all-in-one people platform for payroll benefits and HR. So, you might be wondering why I have a payroll-type company on Lend Academy Podcast because they have become heavily involved with the Paycheck Protection Program helping out their 100,000 plus small business customers and so, it was a really interesting story.

I've seen them in the press quite a bit so I wanted to get Lexi on the show just to talk a lot about....not just about the PPP, but obviously what their company does and how they're supporting small businesses and what they've seen. They've got a great...having really a payroll company, you get great insight into what is actually happening and Lexi shares some really interesting statistics about what's happening in the small business universe.

We talk about how they're going from the lending side of PPP, to the forgiveness side, we talk about how else they're helping their small business customers navigate the crisis and we talk about how they've been impacted and what's exciting for Lexi right now. It was a fascinating interview, we hope you enjoy the show.

Welcome to the podcast, Lexi!

**Lexi Reese:** Thank you, Peter. Thanks for having me.

**Peter:** My pleasure. So, I'd like to get this thing started by giving the listeners a little bit of background. You've had an interesting career to date so why don't you give us some of the highlights before you got to Gusto.

**Lexi:** Yeah. Well, getting to Gusto is directly connected to my daughter's lemonade stand.

**Peter:** Really, that's an interesting one.



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**Lexi:** Will start from the beginning which is, I think, work needs to have meaning and if you're lucky enough to have a choice, you should do it in service of others. I started my career in documentary film making in Nicaragua telling the story of girls forced into prostitution to help their families make ends meet. Afterwards, I worked with Accion International which is a micro finance organization to help those same families receive financing to help them call themselves out of poverty.

Business had been off my radar until a great mentor at Accion said, if you pursue business, you'll have the ability, Lexi, to make a powerful difference for real people. I went to business school and afterwards worked at both Amex and Google and in small business initiatives which really showed me how small business ownership helps people own their own futures and it can change generational wealth and outcomes.

I joined Gusto because that feeling is in hyper drive, we exist to make a difference in the life spans of small businesses and help them be successful, especially right now when they're in the fight of their lives. So, we're doing everything in our power through our product and our policy to help small businesses survive this current crisis. The connection to the lemonade stand, I can go into if you want, but.....

**Peter:** Yeah. I think it sounds really fascinating so why don't you just touch on that now.

**Lexi:** Yeah. I think, back to the first time when my family met Josh, leaving Google was a family decision and Josh as the CEO of Gusto, and he came with his wife to meet my family and my daughters had a lemonade stand outside and I had Josh pitch them on why they should use Gusto. I told them that Josh run a lemonade stand of his own, he had sold a lot of lemonade so that somehow clicked for them. I don't know that he made the sale, (Peter laughs) but he made enough of an impression that... here I am.

**Peter:** So, it's really quite a transition going from one of the largest, most successful companies on earth to a startup, going from Google to Gusto. So, I'm curious about the...I mean, you touched on it a little bit, but what were you doing at Google that sort of has prepared you to help you with Gusto.

**Lexi:** Yeah. I think when I joined the Small Business Team at Google in the late 2000's, I was really inspired by the mission of Google creating access to the world's information and Gusto's mission is similarly exciting to me, create a world where work empowers better lives. Gusto is a people platform that enables currently over 100,000 small businesses nationwide to onboard, pay, insure and offer benefits to their teams. I think, in ordinary times, we're doing the bulk of what a human resources department or people team would do, from payroll, to insurance, to benefits administration.

This, of course, aren't ordinary times and I know we'll get into how Gusto has been helping in the last four months and since COVID really began to take hold, but I think that we want to help people save and prepare for a better future for themselves and their families and creating a



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scaled program that is creating an excellent service to enable people to foster humanity at work...feels like one of the most exciting things to be doing right now.

**Peter:** Right, right, for sure. It's interesting because you said you've got 100,000 businesses, you've got probably a unique window into employment data, maybe....we're recording this in late June, June 29th to be exact so, we're going to find out more about the June unemployment numbers in a few days, but what are you seeing as far as the employment data with the small businesses that are at Gusto?

**Lexi:** Yeah, happy to answer that. I would say....I mentioned these aren't ordinary times for Gusto, which I think is primarily known for payroll and health insurance, but in March when COVID struck, we had to go further to help businesses navigate what was happening. So, we shipped about 40 new features within the first two weeks of COVID, including building a resource hub that simplified legislation state by state and then built features that streamlined everything related to the Payroll Protection Plan which is the \$650 Billion allocated to go through the Small Business Administration dedicated to help small businesses in a cash crunch keep people on the payroll.

**Peter:** Right.

**Lexi:** So, that has become really a lending launch pad that has enabled us to provide nearly \$2 Billion in approved lending for small businesses, both our existing customers and small business prospects.

**Peter:** Right.

**Lexi:** So, the window that we have is inclusive of the window of the PPP lending which I can talk about.

**Peter:** Sure, sure. So, obviously the regular listeners know the PPP really well, we've been following it super closely over the last several months. So, maybe...I'd love to hear your approach....you're, obviously not a lender, that's not in your core business, but how did you approach it? Did you set up like a portal....obviously, you're got a lot of payroll data and as the Payroll Protection Program so obviously, you were well positioned to help small businesses, how did you actually approach it? What did you do exactly?

**Lexi:** Yeah. So, we knew that a major component of the process for folks to get approved was to calculate monthly payroll costs which is tough and time consuming to do on your own, so we streamlined that into a one click process so that small business owners had what they needed and could just jump to the front of the line with either their existing bank or alternative lenders and get first in line for that PPP loan.

So, one of my favorite stories about this is a customer called Melissa Wirt, so Melissa owns an apparel company for nursing moms called Latched Mama and she told us that her lender made the PPP applications available right in the middle of bath time which is no small feat for Melissa



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because she has five children and that's pretty much the most chaotic time of day. But, because Gusto had streamlined so much of the paperwork for her, she could literally handle that time and send in her PPP application that evening and she was approved that same day.

So, that's the product ties in a version of what we did for small business customers, but we're also in a small business resource hub. We had much of our legal team making sense of the legislation that we tried to write in really expert but warm and approachable ways for small businesses to find what resources were available to them, not just the PPP, but state local industry resources that were available to them to help them navigate this as well.

**Peter:** Right, right. And so, I presume...I think, I read it was Cross River Bank you're using? I think....I remember, I read somewhere that some of the partner banks you were using...just tell us a little bit about those relationships and who you were using.

**Lexi:** Yeah. So, we found that fintechs and regional banks as well as CDFI's have really filled the gap and been truly, extraordinarily effective partners in serving small businesses, so we partnered with fintechs like Fundera, Lendio and Cross River Bank, which as you know, is a community bank that thinks like a fintech,

**Peter:** Right:

**Lexi:** And we've heard so many stories from small business owners who were left out of the PPP funding and then were approved in no time through our partnership with Cross River Bank and these stories are just incredible.

One, in particular, is Yellow Owl Workshop in San Francisco. They create hand printed cards and gifts and the founder, Christine Schmidt, she had tried everything, she did everything that was asked of her and was hours away from laying off her entire workforce when the funds came through from Cross River. She told us she had been...I think her quote was "a sea of tears for weeks" and, suddenly, there she was crying happy tears. So, these partnerships have been incredible and we've been happy to be able to offer them through our platform.

**Peter:** Yeah, it's so important. I feel like that's.....you know, this is really life and death for many of these small businesses and it's been great that you were able to do that and move so quickly to help because I'm sure through your quick actions and actions of others, we've literally saved hundreds of thousands of small businesses from going out, from going under.

So, I want to talk about the next stage because the PPP by the time this published, the PPP...well, you know this exactly, they could be extended. It's ending tomorrow, as we're recording this, so the next stage is forgiveness and again, this is very much about payroll data. I'm curious about what you're doing there exactly to help your customers who have got a PPP loan apply for forgiveness.

**Lexi:** Yeah. I think you know it well, Peter, I think your listeners know too, but time matters, people do not have....small businesses, generally, do not have cash on hand beyond a month or



two months and we can go back to your question about the data we collect and I'll answer that fully, but there's a ton of paperwork that goes into securing a PPP loan, but the same amount, if not more, is true when you're trying to have those loans forgiven.

So, to get the forgiveness, you have to spend 60% of your loan amount on maintaining payroll and we've created a Loan Forgiveness Tracker which complies with the legislation as we know it today and compiles payroll expenses so that small businesses can stay on track and apply for forgiveness with the same ease as that PPP lending launch pad that I described earlier.

**Peter:** Right, right. So, I'm curious because, you know, the PPP Program was very much targeted at a variety of small businesses and the Forgiveness Program, it keeps changing so I presume....I don't know what the last changes were, within the last two or three weeks, I think, when they've announced a different....like the 60% you talked about. That wasn't the case when it first came out so, I imagine, you're tracking these changes because there may will be more, I mean, there may well be new, either a renewal of the PPP or extension or a change in the forgiveness laws. So, how are you sort of keeping on top of all those changes?

**Lexi:** I think the only thing that is certain is that there will be changes (both laugh) so we have effectively made it our own initiative that comprises members of our legal team, members of our content team, members of our credit team and members of our sales advisors and customers support advisors team to be our COVID-related experts.

These folks are charged with staying one step ahead of what's happening and then productizing it wherever possible to make it easy for customers to know what to do before they need to read anything, but also putting in our contents, again, not just for our customers and that's what I think is really....the important piece is to remember that a lot of the problems with PPP were because it assumed that you had access to one of the major banks.

But, if you look at, for example, the BIPOC population, Black, Indigenous, People of Color, because of systemic inequities in our banking system, a lot of people who this program was designed ostensibly to serve, were left out completely. And so, we're really interested because it aligns with Gusto's mission to ensure that our customers and non-customers know here's the aid that's available, your task to access it, here's the follow up needed to stay compliant and that is motivating to everybody who works at Gusto.

**Peter:** Right, right. I just want to get back to the data that I asked a little earlier, can you give us some sense of how these small businesses are doing with the PPP loan. As you mentioned not everyone got one, but just give us some sense of the state of small business from your perspective.

**Lexi:** Yeah. Our perspective to make sure everybody knows what the context is, it's specific to small businesses with 100 employees or less, it's largely what we tag in our payroll data as a leading indicator of what we think is to come in an economic crisis like COVID kicked off and for context in March, our data showed a 1000% increase in small business layoffs. It was



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absolutely March madness, April showed the layoffs cooling a bit, but we moved into furloughs, furloughs became the vocab word that suddenly everybody and their mother knew.

And then, our latest data in May showed small business headcount is actually increasing, but headcount overall is down since the crisis started and hiring is being driven, specifically by re-hiring, so that 22% of all hires were re-hires from people that had been paid off. The industries where we saw the highest growth levels were those that you would imagine might be re-opening in the context of phase two or phase three cities re-opening.

So these are facilities, food & beverage, transportation, construction and then we also showed that hiring and re-hiring were nearly twice as high for companies that reported receiving the PPP loan. So, you asked about that compared to those that did not so, 34% versus 18% if you didn't have a PPP loan. So, businesses that received loans were more than twice as likely to re-hire than businesses that did not which just, again, speaks to how do we get lending to people that are most in need that keep our communities vibrant and are commonly strong.

**Peter:** Right, right. So, I'm curious, from your perspective....you know, the PPP, I think it's been a pretty successful program. Certainly, there have been challenges which we're not going to get into here, but it points to a larger issue and that is the need for capital for small businesses. So, given that you've really.....you said you've done almost \$2 Billion in loans, that's a decent sized lending operation in normal times so, are you thinking of expanding into business lending beyond the PPP to help your clients?

**Lexi:** Yeah. Well first, I would just say and, again, I think it's a larger conversation, but among those people that did apply for PPP aid, only 12% reported receiving the funds. So, I think, whether it was a successful program, it was certainly a great start to address the needs of these businesses, but I think it's still very early days in these. In terms of Gusto getting into this business, we feel really good about making sure that we take the data that we have which is so imperative to every lender and making that accessible to small businesses so they can go to their lender of choice.

We're not a lender, but we're always looking for ways to get small businesses access to the capital that they need so we think that this partnership that has been accelerated with fintechs has been a strong example of how can we work together as an industry to get relief funds into the hands of small businesses and their employees without any lag time.

**Peter:** Right, right, okay. So, beyond the PPP.....I know you touched on it a little, but I'd love to kind of tease it out a bit more about what else you've been doing to help small businesses navigate....this is probably the worst iconic crisis of their existence.

**Lexi:** Yeah. When Gusto is working well, we love when people almost anthropomorphize the service and so someone said to me, we hired Gusto and when you hire Gusto you have, effectively, 1,100 people working on your behalf to understand what you need to know, anything that's related to onboarding, paying and insuring your teams. We're excited to just keep the services that we've created and taking feedback from our customers who said, for example, you





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know, this is great that you have the federal guide, but what about a state-by-state hub for small businesses to get up to speed on the latest state and local information so we've been updating that ever since, we're excited for that to continue.

One thing that was really exciting that we've been working on for a while, but we updated and changed in response to COVID was a new suite of tools for hiring and onboarding employees. So, given that many businesses are still working from home or just really constrained conditions and understanding the fact that it takes most small businesses 10 to 12 hours to onboard a new employee, we created this suite of tools to make it easy to automatically send customized offer letters, to e-sign key documents, to set up software for new employees provisioning everything an employees needs on day one. So as soon as Lend Academy gets on Gusto, you're going to experience this feeling. (Peter laughs)

**Peter:** Okay, okay. So, I'm curious about like what about the other questions small business owners are asking you, I mean, right now....like you offer a range of different services for them, are there certain themes that are coming out beyond what we've already talked about that small business owners are seeking answers to?

**Lexi:** So, we are getting a lot of questions around state compliance, meaning what is legally required and how do I deal with these shifting guidelines from, again, federal, state and government authorities so, generally, that's one line of questioning. We have a lot of questions from small business owners who have to make the economic decision in terms of being a very real team decision of whether to cut hours or reduce staff, but how do they do that while fighting to keep healthcare benefits going for their workers in the midst of the health crisis.

**Peter:** Right.

**Lexi:** Huge theme and, right now, we're getting questions about the potential for a next round of federal aid, what will it look like, when might it be available and again, we have a team working with lawmakers to keep aid coming for small businesses, particularly for Black, Indigenous and People of Color and other unrepresented groups.

**Peter:** So, I'm curious about how the crisis has impacted your company, specifically. You're in California, I believe, I presume....is everyone still working from home at Gusto and how else are you being impacted?

**Lexi:** Yeah. To serve the 100,000 plus customers we have, we have home bases in San Francisco, New York and Denver and we have about 1,100 Gustees, I think I mentioned, who are primarily working from home and given how critical the services we provide are, well, that's a change in environment. That was a change we were prepared for because we had to plan for any contingency so that we could keep the support on for our customers.

**Peter:** Right.



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**Lexi:** So, we are, I think, weathering that well. Anybody who's been on five months of Zoom (Peter laughs) would say, you know, there are some adjustments.

**Peter:** Yes, yes, I understand. I know you're on a Zoom call right now and I appreciate you keeping it up. Okay, so then, are you guys marketing right now. I mean, this is a tough time for small businesses, but, also the other thing is small businesses are looking to save money which was what I was saying before we started which is how we're really looking into Gusto as a potential for our company. So, how do you sort of juxtapose that into your marketing programs.

**Lexi:** Really honestly, Peter, one of the reasons that I joined is there is no cognitive dissonance between selling and marketing and servicing. The way that Gusto works, we're a subscription business, if you hire us to onboard payments and insure your teams and you have a great experience, you can continue your subscription service, no lock-ins, no lack of transparency.

Generally speaking, Gusto, relative to any other business I've worked with, generates most of its new customers through word-of-mouth from its existing customers. So, it's not new for us to say, scale an extraordinary service that people love programmatically to save as much time and money for our customers as possible, that's always been a theme. Doing it now with a sense of renewed urgency and understanding and empathy for what businesses are going through, but that is priority number one and, again, that is a very deep part of our growth strategy.

But, as part of our mission, we also want small businesses everywhere nationwide to know that Gusto exists and to provide them the support that they needed. I think in COVID, by all means, we have been marketing our services because if you were not on a cloud-based payroll provider prior to COVID, your ability to access and understand the legislation and the federal loans available to you and participate in that was extremely compromised.

So, we don't think we can create a world where work empowers better lives for everyone, everywhere if we don't continue to let people who are used to older systems or different ways of doing things know that we exist. We have a very big partnership with the accounting community who has become, as you can imagine, and probably experience ever more important advisers to customers who are looking for support in navigating this.

**Peter:** Right, right. I've certainly seen the Gusto name out there quite a bit during this crisis. I feel like I've seen some pretty high profile articles that I read with your names so, clearly, the message is getting out. So, before we wrap up, just a couple of things, I'd love to get your perspective.....and you seem like you're a fairly optimistic person, but I'd love to get your perspective on how you're looking at small business and the future of small business in this country.

**Lexi:** Yeah, thank you for saying that. It's not just my feeling, it's the study that we've had on small businesses throughout many crises going back to 2008 and beyond and I think you will get how many companies are forming and what's happening to those companies once they are formed. I think every expert will tell you this is not like any other crisis we've seen because you





didn't have a shelter in place order combined with the consummate health and economic restrictions and everything that's happening in our world so this is by no means different.

But, I think you can also say, do you imagine a world where small businesses are not a meaningful part of our economy and our lives and the answer is no. So, I think where we land is we plan for the worst and hope for the best as it relates to new companies starting in smaller numbers than they have. Of course, we've already seen some businesses having to make difficult choices about going out of business, but where we see on balance is also businesses starting in the context of helping to serve needs that emerge because of the current context that we're in and also, businesses transforming their business model.

Example is a business called Snap Bar in Seattle that was an events-based marketing company that has now become, effectively, a virtual gift company that sources from small businesses and has transformed its business model and its go-to-market motions and has been really successful doing it. I think that we're under no illusions that this is over or that it's not going to be difficult, but I think we remain bullish that small business owners, the people that depend on them are resilient. We also remain sober in the reality that small business is often the option for many business owners who are left out of other alternatives of participating in our economy.

**Peter:** Right, right. I've been a small business owner my entire career pretty much and my father was a small business owner before so your words resonate with me. So, last question then, what are you working on right now that's most exciting for you and for Gusto going forward?

**Lexi:** I think that...jeez, what's not exciting, Peter (Peter laughs). I think that we're really excited about the onboarding and hiring tools that we have, that we just launched in.....literally, four days in the market. So, we're excited about some expanded opportunities we'll give to folks to participate in health insurance and then we're always thinking about how do we help people save for a prosperous future and there are some exciting developments coming on that side as well.

**Peter:** Interesting. Well, Lexi, we'll have to leave it there. I really appreciate you coming on the show today.

**Lexi:** Thanks, Peter.

**Peter:** Okay, see you.

You know, I think Gusto is a great example of this new trend we're seeing that's been called embedded finance where you basically take one financial function and embed it into your company and they did that with the PPP. Obviously, they're not a lender, they talked about Cross River Bank who handled most of their loan volume, but they would have plugged that in pretty quickly and easily. There's other things that they can do and we talked while off the air about this new trend and how companies like Gusto are able to access different types of financial products that they would not have been able to just a few years ago. So, they didn't



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share any secrets about what's coming down the pipe, I think we're going to see companies like Gusto offer a broader suite of financial products and that is courtesy of this trend we're calling embedded finance.

Anyway on the note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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