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- Have Lower Turnover
- Have Higher Profitability
- Have Happier Employees

That’s why **98%** of them would recommend a PEO to another small business.

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*From research conducted by economists Laurie Bassi and Dan McMurrer, 2013-2017.*

www.napeo.org
PEOs Are a Boon to Employers and Employees Alike

New research shows professional employer organizations benefit small company employees as much as the businesses themselves.
“A PEO can take the responsibility of recruiting new talent and administering all the paperwork off the shoulders of HR managers, freeing up time they can devote to conducting a deeper analysis of strategic employee issues.”

James Bell, Sr. President, Abel HR

Results of a recent study by National Association of Professional Employer Organizations (NAPEO) were so dramatic that organization president and CEO Pat Cleary was hesitant to release them. “Some of the data was so extremely positive that it seemed too good to be true. We worried people might think it wasn’t legitimate,” he says.

But it was. NAPEO has been commissioning research reports conducted by an independent economist on the PEO industry for the past five years. Today there are between 780 and 980 PEOs providing services to between 156,000 and 180,000 SMBs. Recently, the association has also begun conducting focus groups of SMB owners to gauge awareness of PEOs by those not currently using them and satisfaction levels among those who are.

“You can understand how someone might think this is all just too good to be true, and we see that among some non-PEO users in the focus groups,” Cleary says. “But by the end of the sessions, after listening to their peers who are PEO users talk about the positive effects it’s had on their businesses—about how it lets them divert resources from non-revenue generating functions like HR and refocus those resources on core competencies—most of them change their way of thinking.

Comprehensive solutions for HR needs

PEOs provide SMBs with comprehensive solutions for all their human resources (HR) needs, including payroll, benefits, tax administration, regulatory compliance assistance, and other HR-related functions. By taking those responsibilities off the plates of small business owners,
Unleash your growth potential with next-level HR.

Power your people with a strategy built for them.

Elevate your HR with Fortune-500 level benefits, stress-free payroll and HR administration, all with Insperity’s seasoned support team and powerful HR technology by you and your employees’ side.

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PEOs allow them to devote more energy and resources to boosting productivity, increasing revenues and profits, and focusing on their core mission.

“With solutions for payroll, HR, retirement, insurance, and more, PEOs offer a true one-stop-shopping experience, which frees and empowers business owners to focus on running their business,” says Terry Sukalski, vice president of human resource services sales, Paychex, Inc., based in Rochester, New York.

The buying power of a PEO gives SMBs access to big-business employee benefits that they might not be able to afford on their own, such as 401(k) plans; health, dental, life, and other insurance; dependent care; and other types of benefits not typically associated with a small business.

Sukalski notes that while the PEO model, which is known as co-employment, has been in existence for more than 30 years, it’s still an unfamiliar concept for some business owners. “Professional employer organizations leverage the relationship of co-employment to enable business owners to manage the increasingly complex administration of human resources, payroll, state unemployment tax administration, and workers’ compensation,” he says.

That’s a significant burden to lift off a business owner, and many welcome the prospect. However, there is a misperception among some business owners that a PEO takes full control of a business’s employees. “The reality is that PEOs take on the administrative aspects of human capital management—things that can take quite a bit of time but don’t generate revenue,” Sukalski explains. “The business owner continues to manage day-to-day business functions and core responsibilities.”

**A three-party employment relationship**

The legal construct behind the co-employment model most PEOs use means that a business’s employees now have a second employment relationship with a third party. Paul Sarvadi, chairman and CEO of Houston-based Insperity, says the replacement of a two-party relationship with a three-party relationship has led to misconceptions that the employer might suffer a loss of control, or that employees might become less loyal.

“Both of those are myths,” he says. “First of all, when a company signs up with a PEO it gains more control, not less, because now there are experts to rely on and resources not previously available. It also drives a significant boost in employee loyalty. Now the company is able to provide greater benefits and services, and employees feel more valued.”

Sarvadi’s conclusion is borne out by NAPEO’s research. Its studies show the PEO clients have happier, more-engaged employees who are more likely to stay with the business. Compared to their peers at SMBs that are not PEO clients, employees of PEO-client SMBs are significantly more likely to feel that their employer demonstrates commitment to them as employees, has good hiring practices, has good HR policies and practices, does a good job of designing employees’ jobs, and provides employees with good training and development opportunities.

Employees of PEO clients also report significantly higher scores on key measures related to employee satisfaction and confidence in management, including level of employee engagement, intention to stay with their current employer until retirement, confidence in the employer’s competitive and growth strategies, and trust in the way it supports employees in delivering excellent customer service.

Pain points trigger PEO engagement

Hitting an HR pain point is frequently what leads a small business owner to start looking into the PEO solution. “In many cases, prospects first approach us...”
LET’S CHAT ABOUT PEO

As the only PEO offering a dedicated HR professional and industry-leading technology, Paychex is the smart choice.

See how Paychex can help your business with a free HR assessment. Schedule yours: payx.me/smart-choice
Both the empirical data and user-reported experiences reflect a broad range of positive effects for PEO clients, including:

70% Report that revenue has increased since they started using a PEO.
- Annual median revenue growth for PEO users was double that of comparable businesses not using a PEO, while expected annual median revenue growth is 40 percent higher for PEO users.

66% Report their profitability has increased since becoming a PEO client; SMBs using a PEO were 16 percent more likely to report increased profitability than their non-PEO counterparts.
- The failure rate among SMBs that use a PEO is half that of similar companies that do not use a PEO.

98% of business owners who use a PEO would recommend one to a colleague.
- No respondents reported negative impressions of the PEO industry.
- PEO clients have up to 14 percent lower employee turnover than non-PEO businesses.

because they are frustrated about benefits, including what to provide, how to provide them, the complexities involved, and, of course, the cost,” Sarvadi says. “That’s often an initial pain point, but compliance issues, administrative responsibilities that bog the company down, and concerns about risk management are other common triggers,” he adds. “I’d also include finding employees on that list. Being able to recruit and retain key people is always top of mind for growing businesses.”

The HR space continues to become more involved and challenging from both an administrative and a strategic standpoint, especially for SMBs that don’t have the resources available to larger enterprises. One of the great advantages of a PEO is that it’s so comprehensive that it can provide a single solution to multiple issues.

“PEO selection

When choosing a PEO, it’s very important to do your homework on the company you’re about to go into a co-employment relationship with, Sukalski says. “You want a PEO that you can rely on. The most reputable and respected PEOs will be certified by the IRS and accredited by the Employer Services Assurance Corporation (ESAC). Paychex is both,” he
adds. “Just as important, you’ll want a PEO that shares your corporate values.

Sarvadi stresses that when SMBs are considering a PEO, it’s very important that they understand not only the range of services the PEO can provide, but also the depth of those services. “How deep does the PEO support go in each of the areas you’re interested in, whether it’s benefits, HR, or liability-related situations? What level of interaction do you want? Some clients just want the basic instant infrastructure components with little interaction. That’s why there are different models and prices points, and you have to think those through.”

Cleary says that several factors are driving continued growth in the use of PEOs by SMBs. They include economic, regulatory, and demographic trends.

“The strong economy is an obvious tailwind, and regulations are always getting more complex. If they ease off on the federal side, they pick up on the state side,” he says. “The demographic factor is really interesting. The biggest users of PEOs are business owners ages 25 to 35. Every business school graduate has had one commandment hammered into them: If it’s not your core business, outsource it. So if you’re on the fence about using a PEO, you should know that your competitors are already doing it—and they’re benefitting from all the advantages our research has shown that PEOs provide.”

For more on the companies and organizations cited in this special section, please visit the following:

- National Association of Professional Employer Organizations (NAPEO)
  ncapeo.org
- Abel HR
  abelhr.com
- Insperity
  insperity.com
- Paychex
  paychex.com

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Pat Cleary President, CEO NAPEO

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