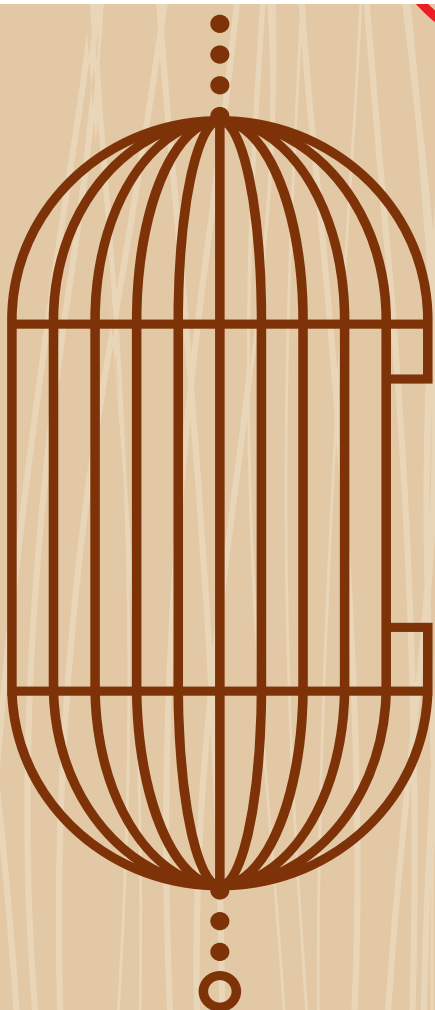


PEOs Are a Boon to Employers and Employees Alike

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,

EVER WONDER WHY YOUR COMPETITORS HAVE MORE TIME TO FOCUS ON GROWING THEIR BUSINESSES?

Maybe they're using a **Professional Employer Organization (PEO)** for HR, benefits, payroll, and workers' comp.

PEO Clients:



Grow Faster



Have Lower
Turnover



Have Higher
Profitability



Have Happier
Employees

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

What are you waiting for? Learn more about PEOs and find one that fits your business at napeo.org.

“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.”

Terry Sukalski

*Vice President of Human Resources Sales,
Paychex, Inc.*

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



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.

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.
- ▶ The failure rate among SMBs that use a PEO is half that of similar companies that do not use a PEO.

"I like to describe a PEO as instant infrastructure for upgrading a business's ability to respond to multiple challenges at once"

Paul Sarvadi, Chairman and CEO, *Inspireity, Inc.*

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.

"I like to describe a PEO as instant

infrastructure for upgrading a business's ability to respond to multiple challenges at once—employee record-keeping, compliance, running payroll," Sarvadi says. "I refer to them as 'regularly scheduled business interruptions.' They're very important, of course, but they are recurring and have to be done properly every time, and that can really cut into a business leader's time and resources. A PEO can be an excellent solution for that."

Jim Bell, Sr., president of Cranbury, New Jersey-based Abel HR, makes the case that HR analysis has been overlooked and under-prioritized at SMBs for many years. "HR managers at these companies simply don't have enough time in their busy schedules to get involved in strategic HR analysis," he says. "They are too bogged down with the minutiae of employee administration. With the high level of employee turnover in so many industries, just scrambling to fill open positions and keep up with the related paperwork eats up all their time."

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. "A PEO can help with any HR issue a company may have," Bell says. "From a compliance standpoint, Abel HR has staff dedicated to researching the ever-changing regulatory environment. Our clients always receive personalized service when they call us, and it's provided by experienced staff members available for consultation on most any subject."

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." ■

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Pat Cleary *President, CEO NAPEO*

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

**National Association of
Professional Employer
Organizations (NAPEO)**
napeo.org

Abel HR
abelhr.com

Insperty
insperty.com

Paychex
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