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THE PEO ADVANTAGE

Delivering Measurable ROI in Multiple Ways

Offloading HR responsibilities helps small and midsize business owners save money and focus on growth



Professional employer organizations (PEOs) offer small and midsize businesses (SMBs) a long list of advantages, but one stands out above all the others. By relieving SMB leaders of some of the myriad distractions constantly competing for their attention, PEOs free them up to focus on driving business growth.

"N

obody goes into business to deal with administrative tasks.

They go into business because they are passionate about a product they designed, an invention they produced, or a cause they want to champion," says Michael Mendenhall, senior vice president, chief marketing officer, and chief compliance officer at TriNet. "Very few entrepreneurs dream of spending their days recruiting talent, figuring out how to provide employee benefits, processing payroll, or staying on top of a litany of ever-evolving employer-related laws and regulations at every level of government."

Those HR-related issues can rapidly take over business operations unless they are strategically and proactively outsourced early on, and that is where a PEO comes in, Mendenhall adds. "By helping SMBs to manage many employer-related responsibilities and liabilities, a PEO, such as TriNet, frees business leaders from the shackles of HR administration so they can focus on what matters most: growing their business and enabling their people."

As Alex Quevedo, president of human resources outsourcing at ADP, points out, "The cost to do business is at an all-time high. A PEO helps you consolidate vendors, streamline processes, and mitigate some of your risk as an employer. But ADP doesn't

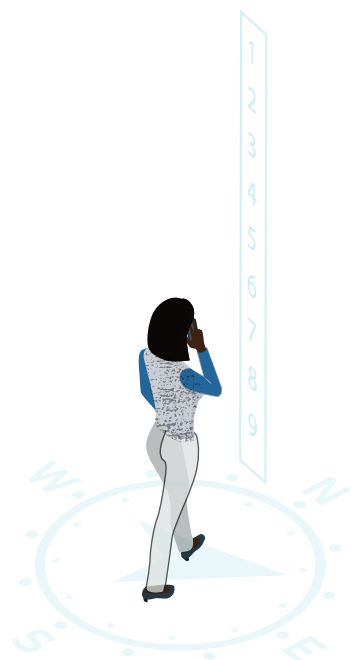
stop there. We go beyond to look at critical areas like designing the right benefit strategy, proactive risk mitigation, and addressing employee turnover and productivity."

Adding strategic value

Relief from administrative and transactional distractions and burdens is just one aspect of the advantages PEOs provide, says Paul Sarvadi, chairman and CEO of Insperity. As core business and strategic issues become more HR-related than ever before, PEOs are adding real value at a foundational level.

"Business leaders are concerned about motivating their people to exert greater discretionary effort, fostering effective collaboration, and making sure employees are aligned with company goals," he says. "The consultative support a PEO can provide around these important issues can have a big impact on business performance."

Terry Sukalski, vice president of PEO and insurance at Paychex, says that in the current environment, a PEO is "a necessity to help any business navigate uncertainty, which, as we all know, has been the one constant over the past few years." Business leaders at Paychex see three challenges consistently in both internal and external data faced



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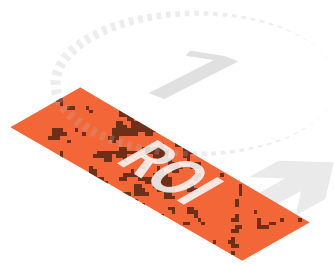
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The IRS does not endorse any particular certified PEO.



[The PEO] business model sells itself because the return on investment is so impressive.

Pat Cleary, president and CEO, National Association of Professional Employer Organizations (NAPEO)

by businesses of all sizes today: finding new talent, retaining existing talent, and cashflow management.

The Paychex PEO solution is uniquely positioned to help businesses meet those challenges, Sukalski says. “We’re taking data and turning it into insights, taking insights and turning them into action, and making effective HR recommendations. It’s an incredibly versatile solution that has components to assist in reacting with lightning speed to help our clients remain competitive.”

Keeping pace with change

The core issues challenging SMB leaders change as the economy changes, but PEOs have demonstrated a unique ability to adapt along with them. For example, throughout much of 2020 and 2021, simply surviving COVID was the top priority for many SMBs. Research conducted by McBassi & Company for the National Association of Professional Employer Organizations (NAPEO) provides clear evidence of how PEOs helped many do just that.

From the onset of the pandemic in early 2020 through July 2021, PEO clients were 58 percent less likely to have permanently closed than comparable small businesses not using a PEO. They were 32 percent less likely to have experienced a negative overall effect on business from the pandemic, and they were 82 percent more likely to have restored business operations to pre-pandemic levels or better.

PEO clients were 18 percent more likely than comparable small businesses to have had their 2020 Paycheck Protection Program (PPP) loans forgiven, and they were 71 percent more likely to have received PPP loans in 2021. On the employment front, PEO clients notched a 1 percent increase in employment during the survey period, while comparable small businesses experienced a 6 percent decline.

Rising to the challenge

“If adversity is a crucible to prove

the mettle of a business concept, then the COVID pandemic was the ultimate test for the PEO industry—and it came through with flying colors,” says Pat Cleary, NAPEO’s president and CEO. “It was heartening to see how so many small businesses reached out to their PEOs as the entire economy started to crumble, and it was inspiring to see how those PEOs rose to the challenge and seized the moment.”

As Cleary points out, there were no PPP loan experts prior to March of 2020, simply because the loans did not exist before then. “I am proud of the way our members jumped into action and filled that void by ramping up programs to assist their clients,” he says. “The findings of the McBassi study clearly illustrate what a great job they did. I’m also proud of the way the team at NAPEO was able to pivot quickly and make sure our members were armed with all of the information they needed to help their clients.”

As the impact of the pandemic began to wane and the economy picked up steam, competition for talent reemerged as a top challenge for SMBs. There were 11.4 million unfilled jobs through April 2022, and despite strengthening economic headwinds, U.S. employers added another 390,000 jobs in May, according to the U.S. Bureau of Labor Statistics.

With many more job openings than available candidates, SMBs often face an uphill battle against larger companies for the best talent. “A PEO can help a small business level the playing field by providing the kind of benefits infrastructure, including technology and 401(k) plans, that larger companies offer,” Sarvadi says.

PEOs can help SMBs make the kinds of recruiting process improvements that are important in a tight labor market, such as making offers more quickly and crafting competitive salary and bonus packages. “These are industry-specific issues,” he says. “Because PEOs deal with so many businesses in so many



Businesses that work with a PEO can save an average of 27% on their HR-related costs.¹

Better HR Drives Better Business Performance

Outsourcing your HR services to a professional employer organization (PEO) may open a wider range of benefits for your team — from improving recruitment and employee retention to freeing up your team to focus on other areas of your business.

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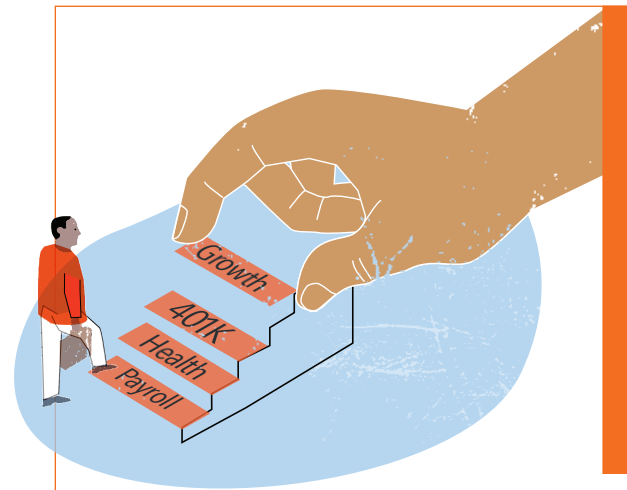
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¹NAPEO Market Research Tracking Survey Report, 2021

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PEOs Provide Value on Multiple Levels

For many years, professional employer organizations (PEOs) were one of the best-kept secrets in the small and midsize business (SMB) community. The biggest challenge the National Association of Professional Employer Organizations (NAPEO) faced was simply getting the word out about all the benefits PEOs could provide.

“Once business owners started using a PEO, they would ask where this had been all their life,” says Pat Cleary, president and CEO at NAPEO. “It’s a business model that sells itself because the return on investment is so impressive, and NAPEO has increased its marketing budget eightfold over the past decade to help spread the message. But the industry’s early growth was primarily driven by word-of-mouth.”

That is still a big factor in PEOs’ growing popularity, especially since the onset of the COVID pandemic. SMBs that are PEO clients were almost 60 percent less likely to have permanently closed during the pandemic than non-PEO clients, and they were 82 percent more likely to have restored business operations to pre-pandemic levels or better by July of 2021.

Good news travels fast
Word of that success spread quickly, not just among SMBs, but also throughout the venture capital community.

Many angel investors now make outsourcing HR responsibilities a precondition for their investment in any new business.

PEOs deliver significant value to their clients in three broad categories:

- **Improving their ability to attract, motivate, and retain employees**
- **Enabling SMB leaders to focus on their core business by offloading HR responsibilities to the PEO**
- **Lowering HR-related expenditures**

The upside on that last category is dramatic. According to “The ROI of Using a PEO,” a report prepared for NAPEO by noted economists Laura Bassi and Dan McMurrer, the annual ROI from using a PEO is more than 27 percent, based on cost savings on HR personnel costs, health benefits, workers’ compensation, unemployment insurance, and other external expenditures in areas directly related

to HR services, such as payroll and other benefits.

“The value of a PEO increases exponentially during an economic downturn because that is when a business will need every advantage it can generate,” says Terry Sukalski, vice president of PEO and insurance at Paychex. “The technology and services available through the Paychex PEO create business efficiencies, saving our clients time and money.”

Happier employees, better results

The positive impacts of using a PEO are well documented in other important areas, including employee satisfaction and the scope and agility of benefit programs.

Ninety-one percent of employers working with a PEO say their employees are satisfied with their benefits offering, versus just 64 percent of employees at organizations not working with a PEO, according to a report based on MetLife’s 18th Annual U.S. Employee Benefit Trends study. Similarly, 89

percent of PEO clients say their benefit programs meet employee needs as they evolve, versus 60 percent of non-PEO clients.

The report found that employers working with PEOs were more than twice as likely to offer financial planning/education/workshops in their benefit lineups than other employers. They were far more likely to offer additional benefits, such as accident, hospital indemnity, legal, critical illness, pet, and cancer insurance.

In addition, the report confirmed the impact benefits can have on employee retention and loyalty. Among employees satisfied with their benefits, 85 percent intended to be working for the same organization a year later, versus 60 percent of employees not satisfied with their benefits. Eighty-three percent of employees satisfied with their benefits felt committed to their employer’s goals, versus just 42 percent of employees not satisfied with their benefits.

verticals, they are on top of what is happening in the marketplace. They have a lot of information they can bring to bear to help SMBs facing recruiting challenges.”

More leverage for candidates

“In an environment where competition for top talent is intense, the best candidates have greater leverage than ever before. That makes company culture an even more important factor in keeping your talent and attracting new hires,” Quevedo, says.

“The best candidates are looking for companies with a demonstrated commitment to investing in their employees, and PEOs have a lot to offer when it comes to creating that kind of culture,” he says. “For example, ADP TotalSource, our PEO, can provide the kind of comprehensive employee benefits packages that are a must-have for SMBs competing against larger organizations to recruit and retain the best employees.”

As Quevedo points out, the rapid growth of remote work since the start of the pandemic creates opportunities for SMBs to expand talent-acquisition efforts beyond their immediate geographic area. But the shift toward remote work also adds complexity.

“Setting up payroll, tax, compliance, and benefit plans for employees that reside in different states can be very time-consuming for employers,” he says. “PEOs relieve this additional burden so business owners can prioritize their time to be spent on other priorities, like the supply chain or growth.”

Culture plays an increasing role

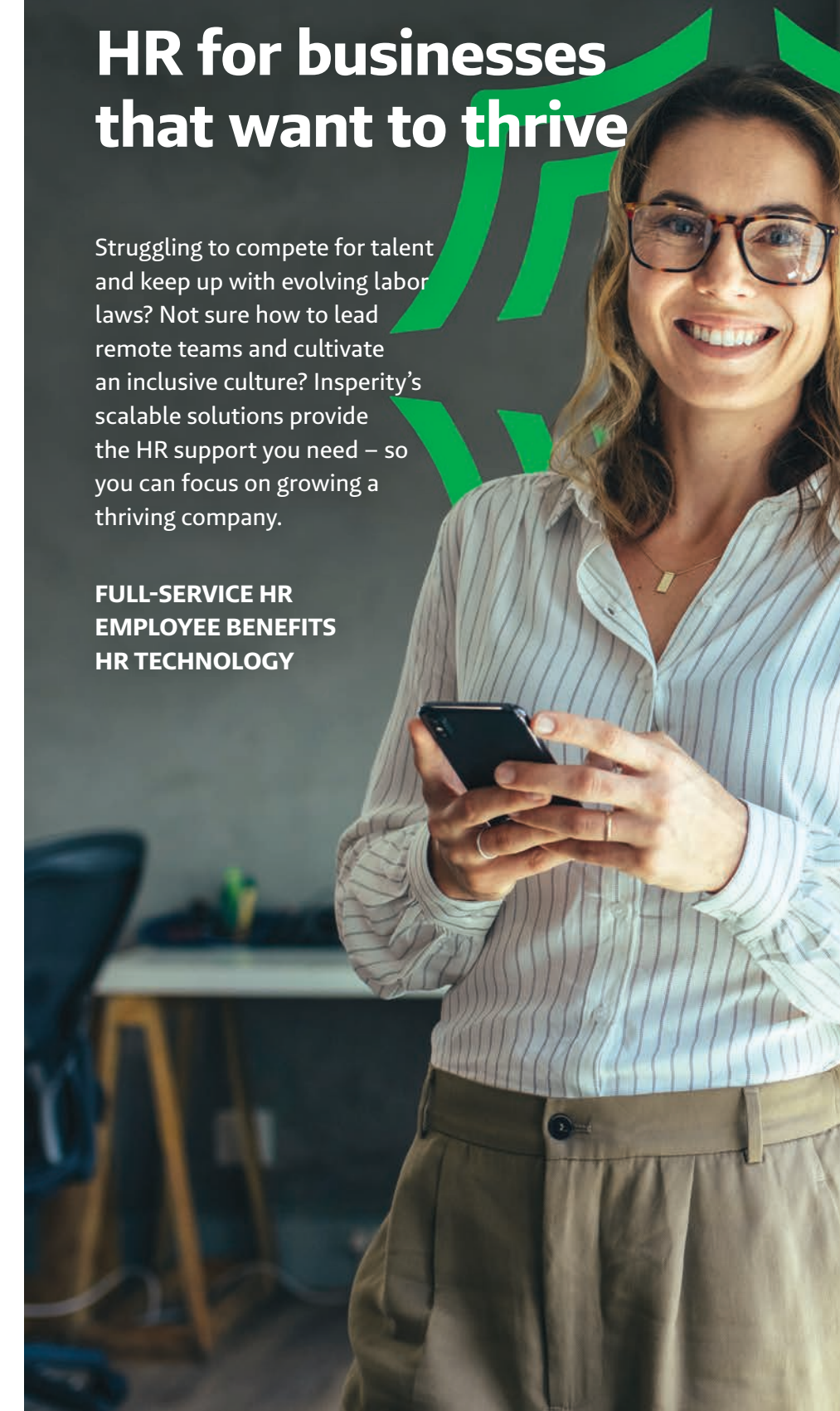
With the balance of power between employers and employees subtly shifting in the latter’s favor, workplace culture takes on added importance in recruiting top candidates and retaining talented existing employees.

“As the pandemic drove home for many businesses, company culture

HR for businesses that want to thrive

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isn't about team lunches, ping-pong tables in break rooms, and casual Fridays," says Mendenhall. "It's about employees feeling uniquely valued and seeing, first-hand, how their contributions are integral to company success."

It's about them being able to work on their own terms and being provided with the tools they need to contribute at their maximum level, Mendenhall adds. These tools include comprehensive employee benefits, technology, payroll services, HR expertise, and more. "They need to know that their basic needs of healthcare, pay, and the ability to juggle work and home are being taken care of by an employer who makes people a priority."

"Our experience has shown us that no two businesses are the same. Each has its own culture, purpose, and strategy," Sukalski says. "The PEO is the perfect solution because of its ability to flex and evolve over time."

Multistate regulatory woes

Attorney John M. Polson, chairman and managing partner of Fisher Phillips and co-chair of the firm's PEO and staffing practice, says the increasing complexity of regulatory compliance is a challenge SMBs should not underestimate. "State and federal human resources compliance is like a game of Whac-A-Mole for SMBs. It seems like every day there is a potential for a new rule or court case that impacts human capital management."

That is particularly true for businesses with employees in multiple states with inconsistent laws, he adds. "PEOs that service customers in all 50 states can shoulder many of the employee-related administrative compliance responsibilities for SMBs, allowing them to spend more time focused on managing and growing their businesses."

One area that is particularly problematic for SMBs is wage and hour claims, where they face the same employment liabilities as larger businesses but with fewer resources



Going forward, the important role PEOs play in the SMB community will continue to grow...The value that PEOs deliver to SMB leaders in all kinds of economic environments will only increase.

Pat Cleary, president and CEO, NAPEO

to achieve compliance. "Wage and hour compliance is not intuitive, particularly for startups and emerging growth companies," Polson says.

Young growth businesses often make fundamental mistakes, such as classifying the entire company as being exempt from overtime "because that just feels consistent with an entrepreneurial culture to the founders," he says. "PEOs can help startups and emerging companies catch and address such mistakes before they turn into bigger problems."

PEOs are multifaceted

Noting a common misconception that PEOs only help with risk mitigation and offering high-caliber benefits, Todd Preston, national

practice leader, special markets at consulting firm Gallagher, counters that the reality is quite different.

"An effective PEO is a technology platform, scalable to support the HR needs of a growing organization, with a mindful eye on cost stabilization and cost control," he says. In addition to scalable systems and improved business functionality, the best PEOs layer on powerful data and insights and provide live strategic HR support in critical decision-making processes.

"With this level of access, a company can foster an inclusive and collaborative culture and improve employee relations through enhanced forums of communication and formalized processes, while optimizing business performance through improved retention incentives and employee experience," Preston says.

Making the right choice

Choosing the right PEO should be a thoughtful and intentional process. "The selected PEO should reflect the values of the organization," Mendenhall suggests. Since PEOs handle such a wide range of business needs, it is important to conduct due diligence. "The PEO's fiduciary standing, IRS certification, data security, and technology platform are all key areas of consideration," he says. "The right PEO provides technology, people, and insights to help businesses meet their goals in challenging and dynamic economic conditions."

A good starting point for a PEO search is the "Guidelines for Choosing a PEO" section on the NAPEO website. The page includes links to a search tool, a list of certified PEOs, and the home pages of the two primary certification organizations.

"Going forward, the important role PEOs play in the SMB community will continue to grow," Cleary says. "The regulatory environment evolves and becomes more complex with each administration change, and dispersed workforces are here to stay in one form or another. The value that PEOs deliver to SMB leaders in all kinds of economic environments will only increase." ■

HR Check-In: Prepare for What's Next

Be sure you have the technology and solutions you need to attract and retain the best talent



If there is one important point the pandemic drove home for businesses, it's that people matter most—always. Business plans, funding successes, product quality, service offered, or hours spent burning the midnight oil don't mean a thing for long-term success without the right people.

HR solutions for the people who matter most
Top challenges facing small and midsize businesses (SMBs) today include securing the right people in a tough hiring market and unpredictable economic landscape. The workplace changed drastically during the last two years with the rapid shift to remote work, flexible hours, and labor market challenges, which had employers clamoring to retain their top talent and find ways to replace those who moved on. Some experts are predicting more uncertainty and economic challenges ahead.

But with every challenge comes opportunity to improve, and SMBs have risen to meet obstacles brought on by the pandemic. Some shifted their operations, in many cases doing so literally overnight. They found ways to put people first and offered employees the human resources (HR) technology necessary to give them the highest quality work experience possible.

Full-service HR for business success

With an increasingly competitive hiring environment, many business leaders realize that the key to surviving whatever the future may bring is taking care of the people so vital to their success: their employees. The right HR products and solutions—including an HR technology platform that meets the modern needs of employees—are crucial to this effort and should include:

- Real-time technology, including mobile capabilities, which empower employees to manage many of their critical HR functions anytime, anywhere
- Onboarding capabilities that help employers make a good impression from day one
- Workforce analytics that enable smarter HR decisions in real time
- Compensation consulting and benchmarking data to help strategize compensation offerings to attract top talent
- A comprehensive employee benefits offering that today's employees demand
- Industry-specific HR consulting expertise to provide strategic support necessary to cultivate an engaging company culture, professional growth opportunities, and additional perks that help them stand out from other employers
- Risk mitigation and compliance services for a distributed workforce to help SMBs protect their businesses while navigating complicated and evolving employment laws and regulations

SMBs are resilient, and they will continue to be so through the challenges—both anticipated and unpredictable—that are to come. TriNet will continue to provide the HR solutions and necessary products to attract and retain the talent needed to help their business thrive.