

2020 NAPEO Market Research Tracking Survey Report

December 2020

METHODOLOGY

OBJECTIVE

- The core objective of this research is to track the benchmark awareness, understanding and use of PEOs to better understand the impact of NAPEO's marketing efforts.
- Further, this research looked to uncover/confirm core concerns among potential clients and use MaxDiff* exercises to examine:
 - Which core PEO services are seen as most burdensome for business owners to handle inhouse
 - Which PEO benefit statements are most compelling for potential clients

*MaxDiff explanation is located in the appendix at the end of this report

APPROACH

- Method: online
- Sampling: 500 interviews
 - 66% business owners
 - 34% key decision makers
- Field dates: November 30, 2020 – December 11, 2020
- Margin of error: $\pm 4.4\%$ for total sample

SCREENING CRITERIA

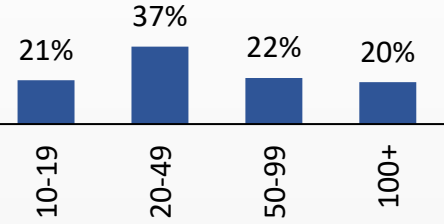
In order to qualify for this survey, participants must have met the following criteria:

- At least 25 years old
- Key decision maker for hiring a professional services firm to help handle internal business functions
- At least 10 full-time employees
- Business revenue of at least \$500,000

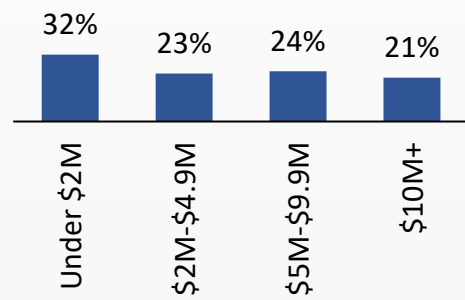
Note—percentages throughout report may not sum to exactly 100% due to rounding.

DEMOGRAPHIC MAKEUP

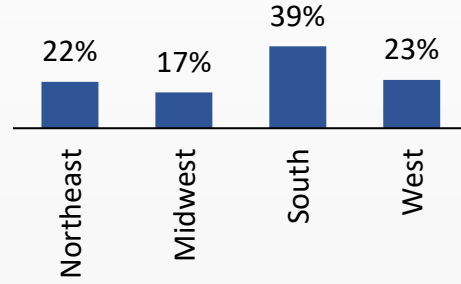
of employees



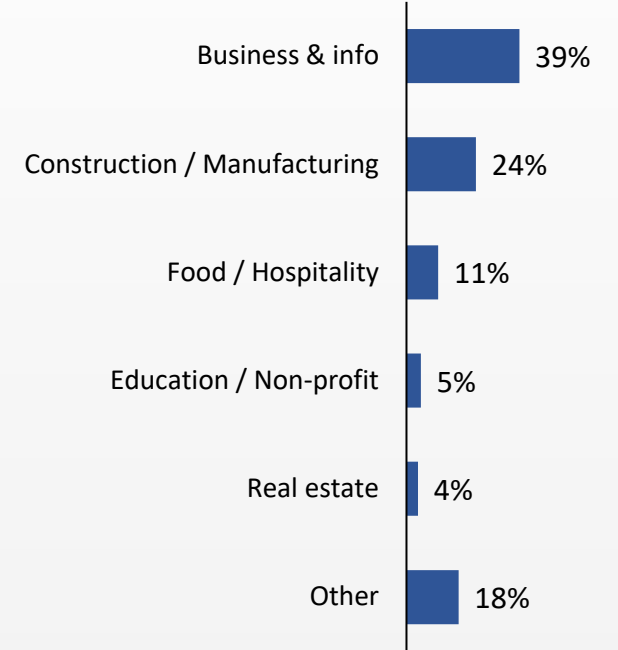
Annual gross revenue



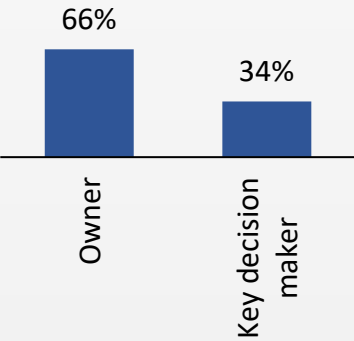
Business location



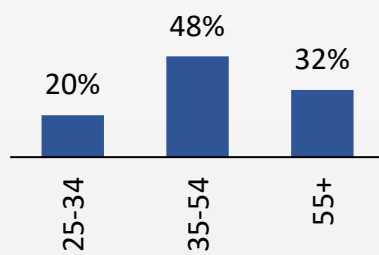
Business industry



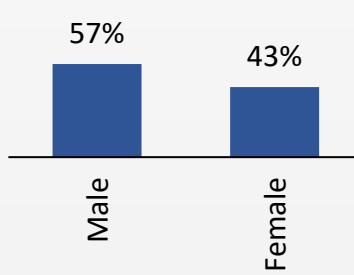
Role



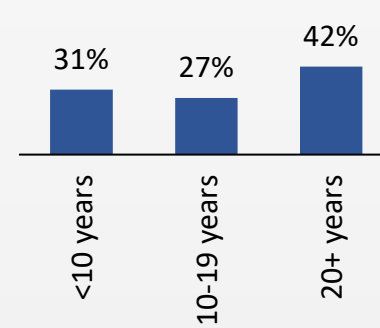
Age of respondent



Gender



Years in business



KEY METRICS TRACKING

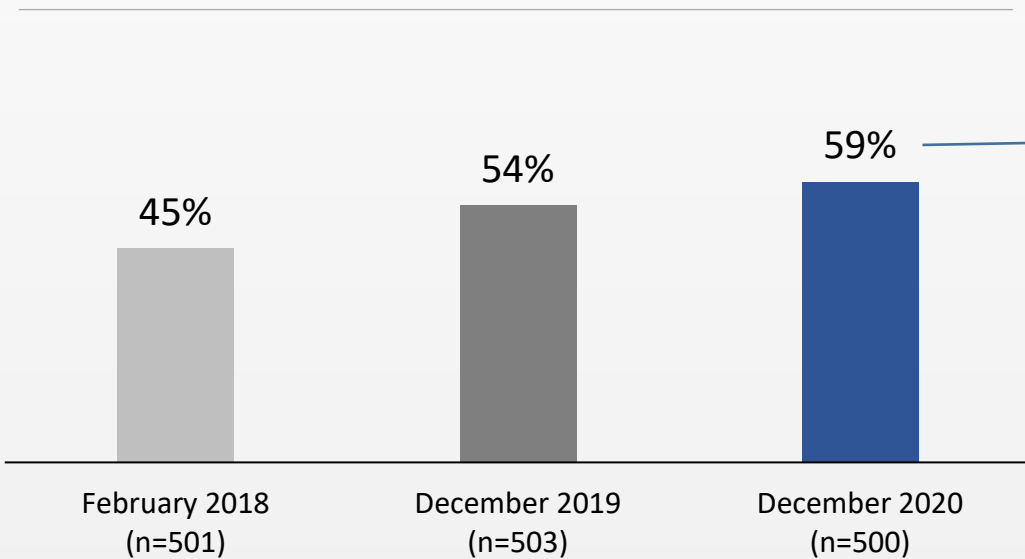
EXECUTIVE SUMMARY: KEY METRICS TRACKING

- **Nearly all key metrics for PEOs increased in 2020:**
 - ✓ Awareness of PEOs is up to 59% among decision-makers (+5 percentage points over the past year and +14 percentage points since 2018).
 - ✓ Aided familiarity also increased in 2020 to 72% saying they are *very or somewhat familiar* with PEOs (+7 percentage points over the past year and +11 percentage points since February 2018).
 - ✓ Among non-users, there continues to be strong interest in using a PEO after reading a description (63% interested).
 - ✓ PEO use is up 2 percentage points to 21% over the past year among this sample of decision-makers.
- **While awareness and familiarity continue to be strongest among younger decision-makers (25-34 years old) and businesses that have been around 10 years or less, there was a significant increase in both metrics for businesses with 100+ employees in 2020.**
- **While decision-makers continue to be most likely to learn about PEOs from friends / colleagues or reading about them in an article, there was a significant increase who reported discovering a PEO online (+7% to 29%).**

AWARENESS OF PEOS

- Awareness of PEOs increased 5 percentage points over the past year and 14 percentage points since February 2018.
- Awareness is up among nearly all demographics with especially strong movement among larger businesses (100+ employees) and businesses that have been around 10 years or less.

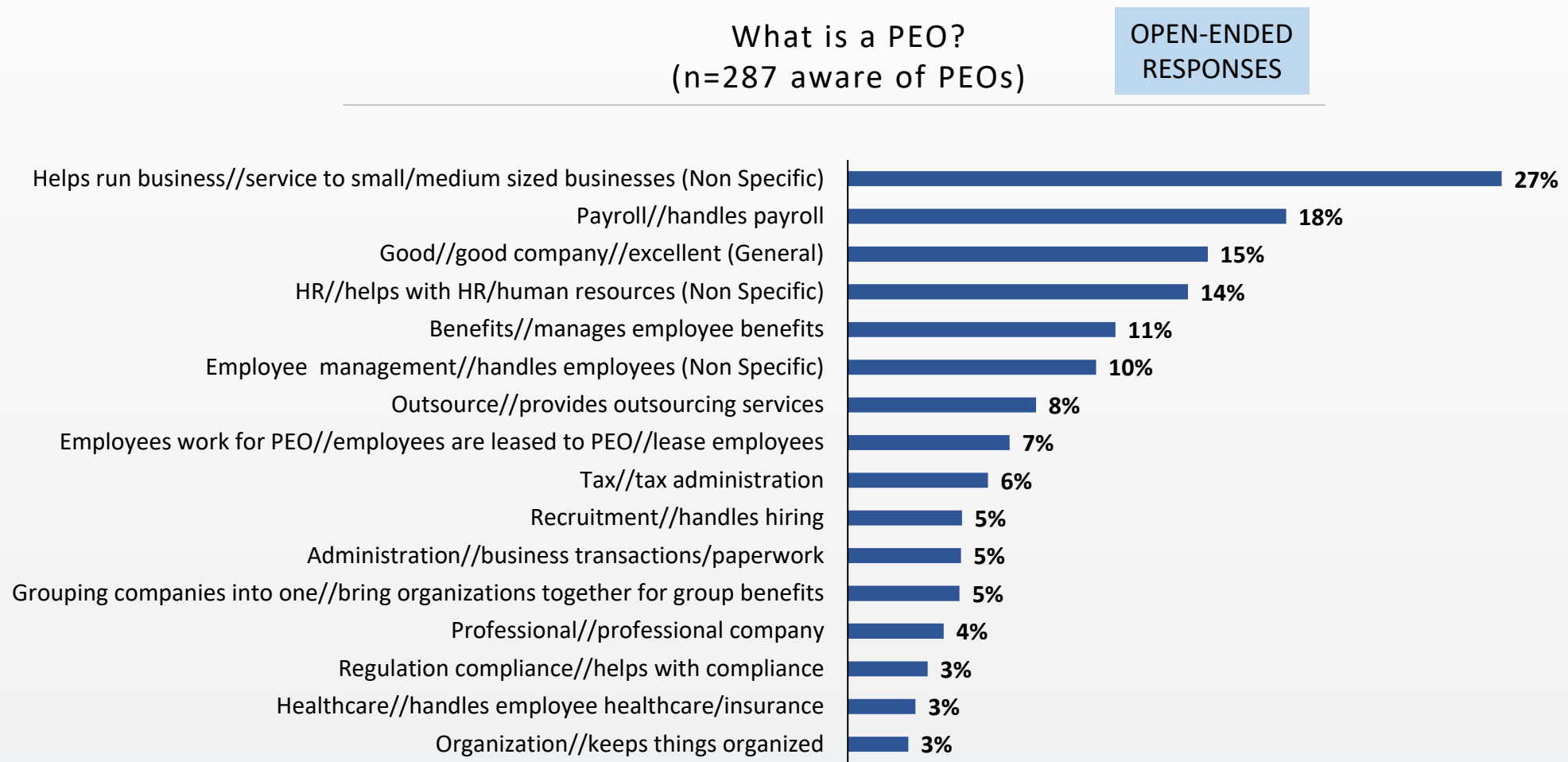
Aware of PEO – Professional Employer Organization



		% Aware of PEO (change from 2019)
Company size	10-19 employees	44% (+4)
	20-49 employees	53% (-1)
	50-99 employees	62% (+6)
	100+ employees	81% (+15)
Decision maker age	25-34 years old	78% (+4)
	35-54 years old	64% (+11)
	55+ years old	39% (-5)
Years in business	Less than 10 years	79% (+16)
	10-19 years	59% (+3)
	20+ years	44% (-3)

UNAIDED UNDERSTANDING OF PEOs

- In general, about 25% (up from about 20% over the past year and <10% in February 2018) of all decision-makers accurately describe what a PEO is and does.



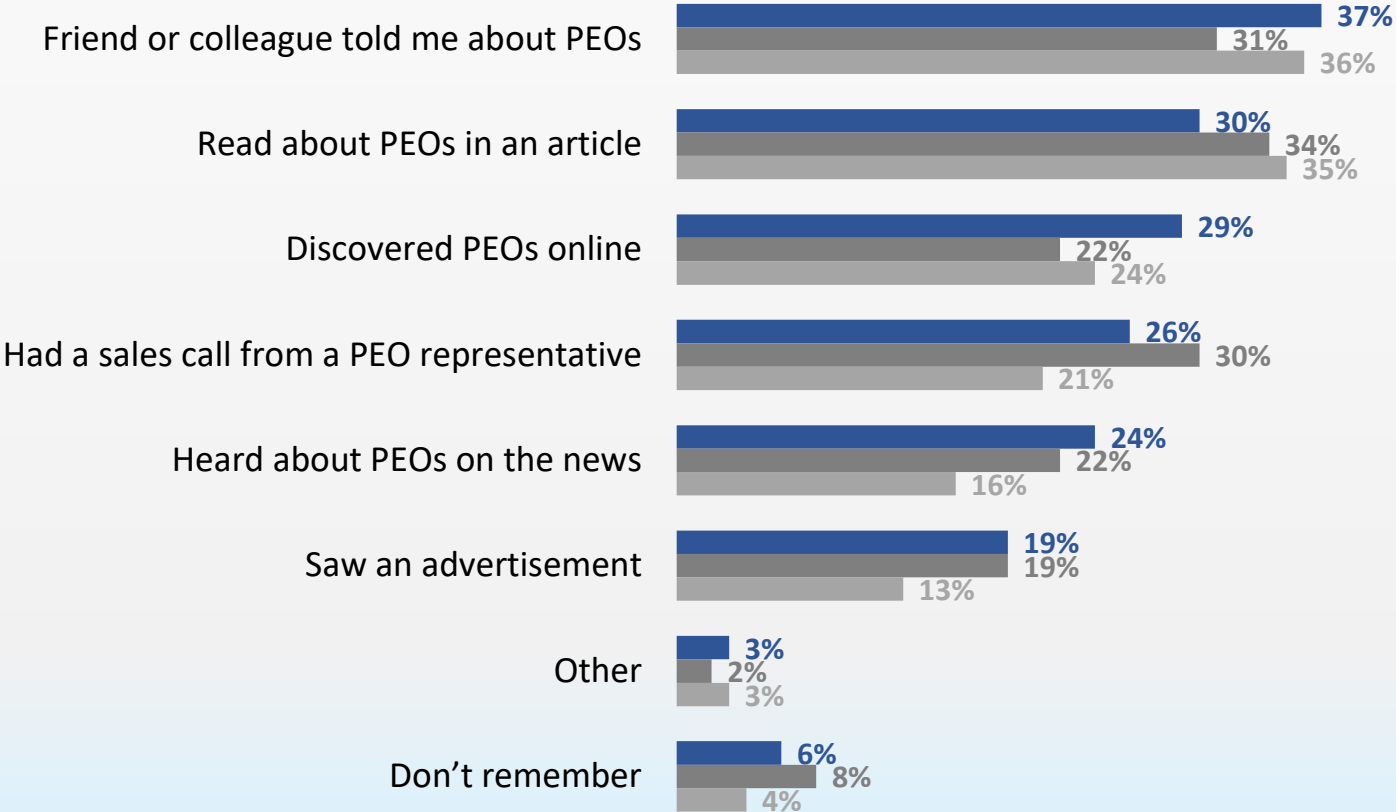
Q: In your own words, what is a Professional Employer Organization (PEO) or what does a PEO do?

HOW DO DECISION-MAKERS LEARN ABOUT PEOs

- Participants aware of PEOs were most likely to learn about PEOs by reading about them in an article, a friend/colleague or discovering them online.

How Decision-Makers Learned about PEOs – among those aware of PEOs

- December 2020 (n=287)
- December 2019 (n=270)
- February 2018 (n=226)



Q: And how did you learn about Professional Employer Organizations (PEOs)?

PEO DESCRIPTION

Respondents were presented this PEO description before answering the following questions in this section.

A professional employer organization provides comprehensive human resources services to small and mid-sized businesses. They work hand-in-hand with business owners to create a customized package of services that includes some or all of the following:

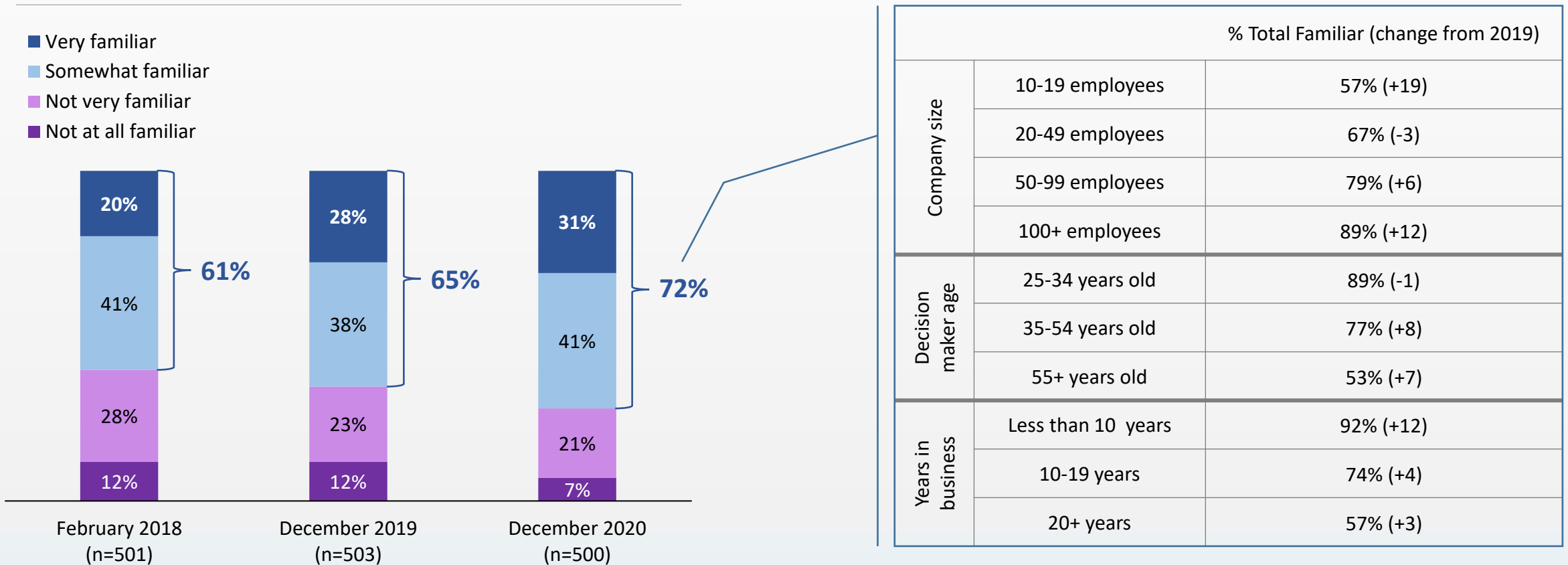
- ✓ Payroll
- ✓ Benefits such as healthcare coverage, other types of insurance, and retirement plans such as 401(k)s
- ✓ Tax administration
- ✓ Workers' compensation
- ✓ Regulatory compliance assistance
- ✓ Human resource services such as employee relations and employment issues
- ✓ Access to HR-related technology

They do this by establishing a co-employment relationship in which both the PEO and the business have an employment relationship with the worker. The PEO assumes much of the responsibility and liability for the business of employment, such as risk management, human resource management, benefits administration, and payroll and employee tax compliance, while the client company maintains the day-to-day supervision of their staff and all of the management responsibilities.

AIDED FAMILIARITY WITH PEOs

- Nearly three-quarters (72%) of key decision makers say they are very or somewhat familiar with PEOs, up 7 percentage points over the past year and 11 percentage points since 2018.
- Over the past year, the largest increase in familiarity is among those with 10-19 employees, 100+ employees, and businesses that have been around less than 10 years.

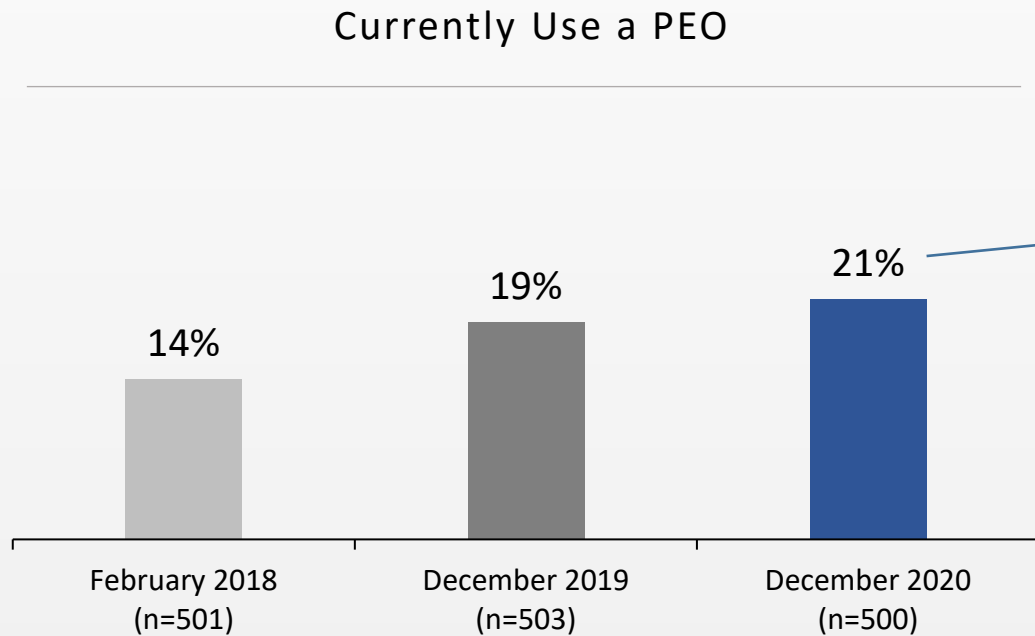
Aided Familiarity with PEOs



Q: After reading this description, how familiar would you say you are with companies that offer professional employer organization [PEO] services?

PEO USE

- Current use of PEOs increased 2 percentage points over the past year and 7 percentage points since February 2018 among this sample of decision-makers.
- In 2020, there was a significant increase in reported PEO clients among those in business less than 10 years.



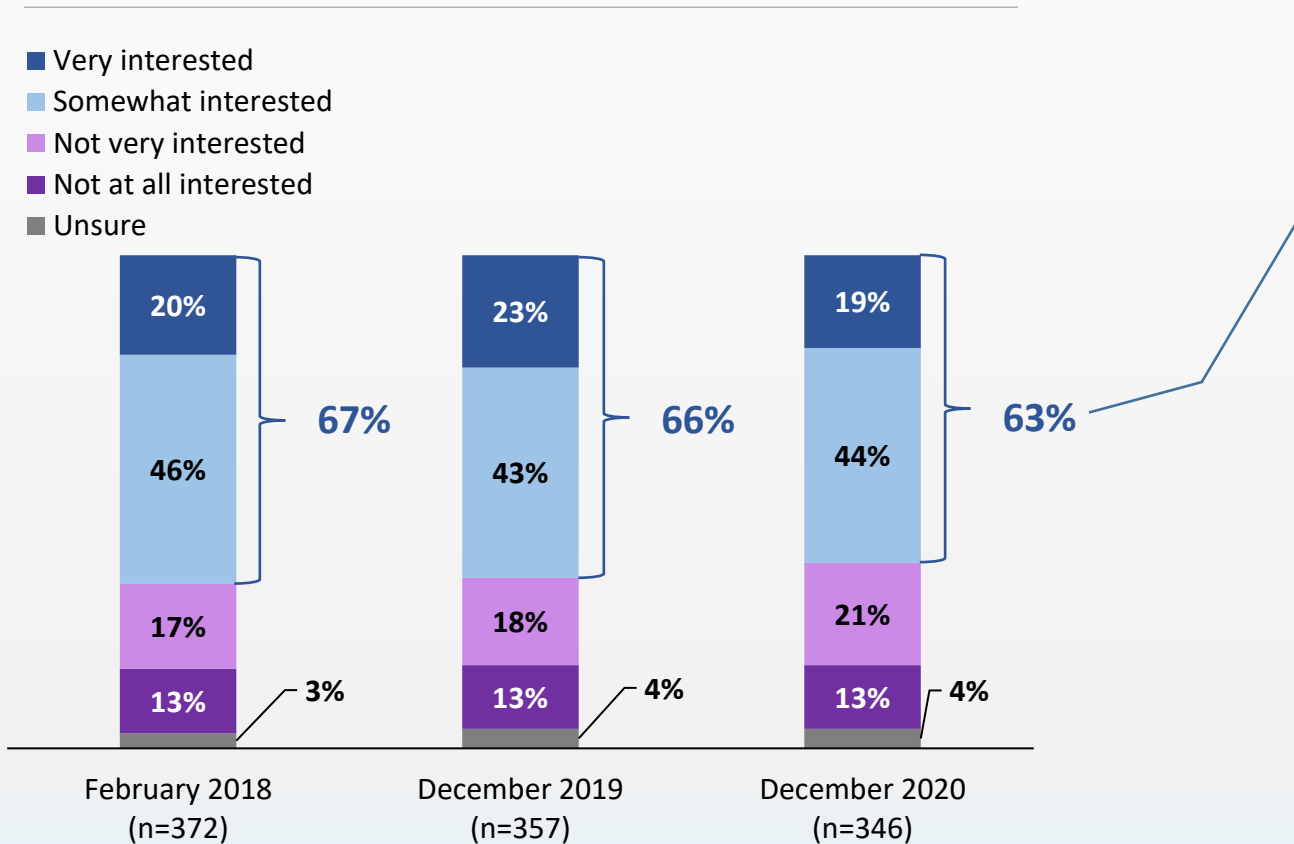
		% Use a PEO (change from 2019)
Decision maker age	25-34 years old	35% (-3)
	35-54 years old	26% (+5)
	55+ years old	5% (-1)
Years in business	Less than 10 years	39% (+7)
	10-19 years	19% (+1)
	20+ years	10% (-3)

Q: And, which of the following best describes your company's use of a professional employer organization [PEO]?

INTEREST IN USING A PEO AMONG NON-USERS

- Similar to previous years, interest in using a PEO is strong among non-users (63% total interested and 19% very interested).
- As the percentage of key decision makers using a PEO increases, it is expected to see a decrease in interest of remaining non-users since those interested have already been converted into users.

Interest in using a PEO – among non-users

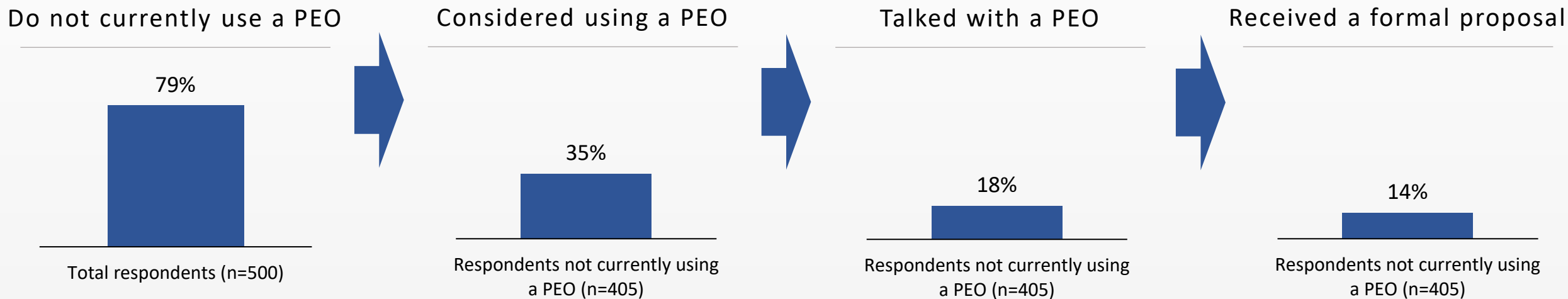


		% Very/Somewhat Interested (change from 2019)
Company size	10-19 employees	53% (+1)
	20-49 employees	65% (-5)
	50-99 employees	67% (-9)
	100+ employees	69% (+2)
Decision maker age	25-34 years old	82% (-9)
	35-54 years old	66% (-6)
	55+ years old	53% (+2)
Years in business	Less than 10 years	78% (+1)
	10-19 years	72% (+1)
	20+ years	52% (-7)

Q: Considering the definition of a PEO you just read, how interested are you in using this type of offering for your company?

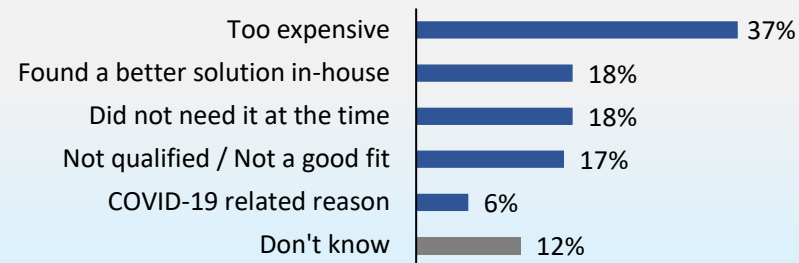
PEO CONSIDERATION FUNNEL

- Among the 79% of participants who do not currently use a PEO, 35% indicated they have considered using a PEO with 18% actually talking with a PEO and 14% receiving a formal proposal from a PEO.
- Among those that received a proposal but did not move forward, cost was most often mentioned as the reason not to proceed.



Reasons for declining proposal (n=56* receiving proposal but not using PEO)

OPEN-ENDED RESPONSES



*Warning: small sample size

Q: And, which of the following best describes your company's use of a professional employer organization (PEO)?
 Q: Although your company does not currently use a PEO, has your company ever considered using such a service?
 Q: Have you or anyone in your company ever spoken with a PEO about their service offerings?
 Q: And have you or anyone in your company ever received a formal proposal from a PEO?
 Q: What was the main reason or factor that you did not move forward with their services after receiving a formal proposal?

BENEFIT STATEMENTS

EXECUTIVE SUMMARY: BENEFIT STATEMENTS

- **The return-on-investment benefit statement is seen as most compelling across all decision-makers followed by median revenue growth and increased profitability. These benefit statements perfectly align with business owner top concerns in 2020 – business/economic growth and financial stability.**
 - **The ROI benefit statement resonates especially strong among older decision-makers (55+ years old) and smaller business sizes (10-19 employees).**
- **Smaller businesses (10-19 employees) are also significantly more likely to find the increased profitability and 7%-9% faster growth compelling compared to other business sizes.**
- **Although it is found to be only moderately compelling among all decision-makers, *PEO clients being more than twice as likely to receive PPP loans* is found particularly compelling for businesses with 100+ employees and younger decision-makers (<55 years old).**

PEO BENEFIT STATEMENTS TESTED

1. PEO clients grow 7%-9% faster than other comparable small businesses that do not use a PEO
2. Employee turnover is 10%-14% lower for PEO clients compared to other small businesses that do not use a PEO
3. PEO clients are 50% less likely to fail compared to other small businesses that do not use a PEO
4. PEO clients are significantly more likely to offer retirement plans and, in turn, attract and retain employees
5. Expected annual median revenue growth for PEO clients is 40% greater than that of comparable non-PEO firms
6. PEO clients were 16% more likely to report an increase in profitability compared to other small businesses not using a PEO
7. 98% of business owners who are PEO clients would recommend a PEO to a small business colleague
8. The annual return on investment, or overall cost savings, from using a PEO is conservatively estimated at 27.2%
9. PEO clients were more than twice as likely as non-PEO clients to receive Paycheck Protection Program (PPP) loans during the COVID-19 pandemic
10. A PEO saves you time by taking administrative tasks off your plate, allowing you to focus on your core business
11. With a PEO, you are able to offer Fortune 500-level benefits to your employees at an affordable cost
12. A PEO provides the peace-of-mind of having a team of experienced HR and employment experts to help you comply with government regulations
13. Employees of businesses that use a PEO have higher levels of job satisfaction and engagement than employees of businesses that don't use a PEO
14. PEO clients are 91% less likely to be temporarily closed and 60% less likely to have permanently closed due to the COVID-19 pandemic

MOST COMPELLING BENEFITS OF USING A PEO

Statistically higher score than all other groups

Benefit of Using a PEO	Most Compelling Benefit (MaxDiff*)	Age of decision-maker			Business size (# of employees)			
		25-34	35-54	55+	10-19	20-49	50-99	100+
The annual return on investment, or overall cost savings, from using a PEO is conservatively estimated at 27.2%	9.9	8.6	9.6	11.2	11.7	9.8	9.7	8.3
Expected annual median revenue growth for PEO clients is 40% greater than that of comparable non-PEO firms	8.7	7.6	8.3	9.8	9.9	8.6	8.6	7.7
PEO clients were 16% more likely to report an increase in profitability compared to other small businesses not using a PEO	8.5	7.7	8.3	9.2	9.7	8.3	7.9	8.1
A PEO saves you time by taking administrative tasks off your plate, allowing you to focus on your core business	7.8	6.8	7.4	8.9	8.8	7.8	7.9	6.5
A PEO provides the peace-of-mind of having a team of experienced HR and employment experts to help you comply with government regulations	7.5	7.9	7.1	7.8	8.0	7.3	7.2	7.6
PEO clients grow 7%-9% faster than other comparable small businesses that do not use a PEO	7.4	6.7	7.1	8.2	8.5	7.1	7.3	6.7
PEO clients are 91% less likely to be temporarily closed and 60% less likely to have permanently closed due to the COVID-19 pandemic	7.2	7.4	7.6	6.4	6.3	7.2	7.5	7.7
98% of business owners who are PEO clients would recommend a PEO to a small business colleague	7.0	7.4	7.4	6.1	5.9	6.9	7.5	7.6
Employees of businesses that use a PEO have higher levels of job satisfaction and engagement than employees of businesses that don't use a PEO	6.7	7.2	6.7	6.5	6.5	6.7	6.7	7.1
PEO clients are 50% less likely to fail compared to other small businesses that do not use a PEO	6.2	6.3	6.5	5.8	5.8	6.3	6.3	6.6
PEO clients were more than twice as likely as non-PEO clients to receive Paycheck Protection Program (PPP) loans during the COVID-19 pandemic	6.2	6.9	6.5	5.2	5.0	6.2	6.0	7.4
With a PEO, you are able to offer Fortune 500-level benefits to your employees at an affordable cost	6.0	7.0	6.1	5.3	4.7	6.1	6.3	6.8
Employee turnover is 10%-14% lower for PEO clients compared to other small businesses that do not use a PEO	5.7	5.9	6.2	4.9	4.6	6.0	5.8	6.3
PEO clients are significantly more likely to offer retirement plans and, in turn, attract and retain employees	5.3	6.4	5.3	4.8	4.5	5.6	5.3	5.7

*MaxDiff calculation explained in appendix on slide 31.

Q: Now we are going to review multiple benefits for businesses that use a PEO. On each of the next several screens you will see 4 benefits of using a PEO. For each exercise, please select the benefit you find most compelling for your business (LEFT COLUMN) and the benefit you find least compelling for your business (RIGHT COLUMN).

DECISION-MAKER PERCEPTIONS

EXECUTIVE SUMMARY: DECISION-MAKER PERCEPTIONS

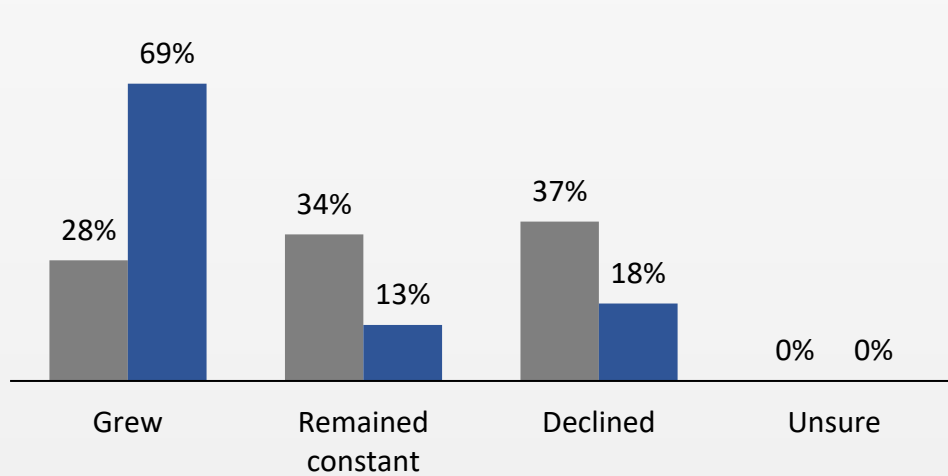
- **Despite the COVID-19 pandemic, PEO clients reported significantly higher likelihood of their business growing in 2020 compared to non-clients.**
- **Prior to 2020, business owner concerns centered around employee acquisition and retention. The COVID-19 pandemic has fundamentally shifted the concern to center around economic/business growth and financial stability.**
- **The most trusted sources of information continue to be trusted advisors and business associates, but the significant increase in trust of trade associations realized in 2019 (+6 percentage points to 28%) held in 2020.**
- **Similar to 2019, decision-makers most often agree that insurance benefits and compliance with employment regulations are most burdensome in 2020. During the past year, key decision makers report HR technology and payroll tax administration as more burdensome while workers' compensation is now seen as less burdensome.**

PAST BUSINESS GROWTH & FUTURE EXPECTATIONS

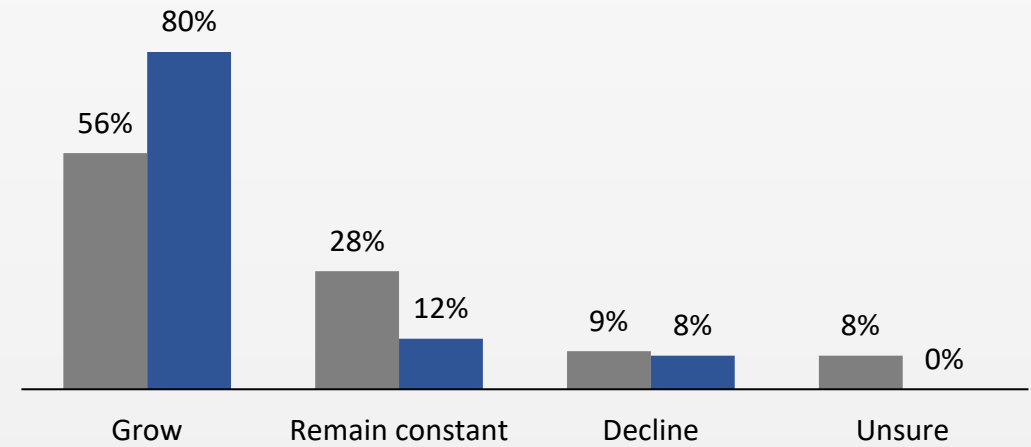
- Despite the COVID-19 pandemic fundamentally changing expected business growth in 2020, current PEO users are significantly more likely to report business growth last year compared to non-users, 69% vs. 28%, respectively.
- Further, current PEO users are also significantly more likely to report expected business growth next year.



Past year – 2020



Next year – 2021



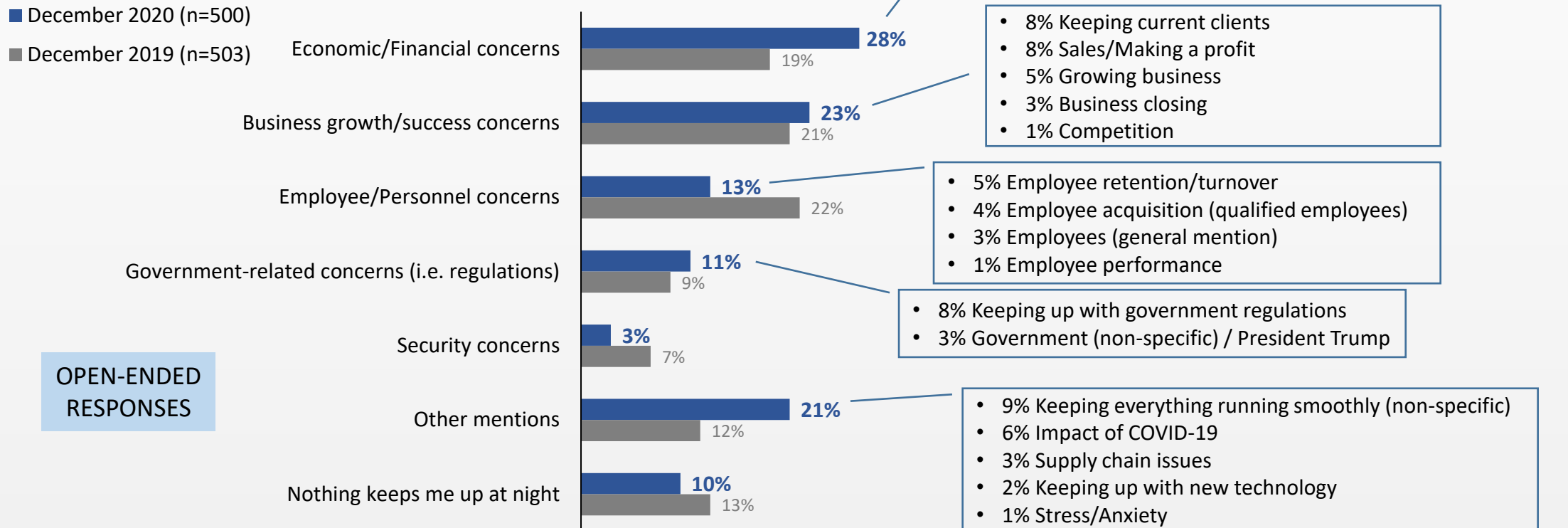
Q: In 2020, did your business grow, decline, or remain at about the same level compared to 2019?

Q: And, do you expect your business to grow, decline or remain at about the same level over the course of 2021?

TOP CONCERNS FOR BUSINESS OWNERS

- In 2020, business owners and key decision makers are most concerned with financials and business growth in general. This is a clear shift from 2019, when top concerns centered around employee acquisition and retention.

What keeps you at night in regards to running your business?
(n=500)



OPEN-ENDED RESPONSES

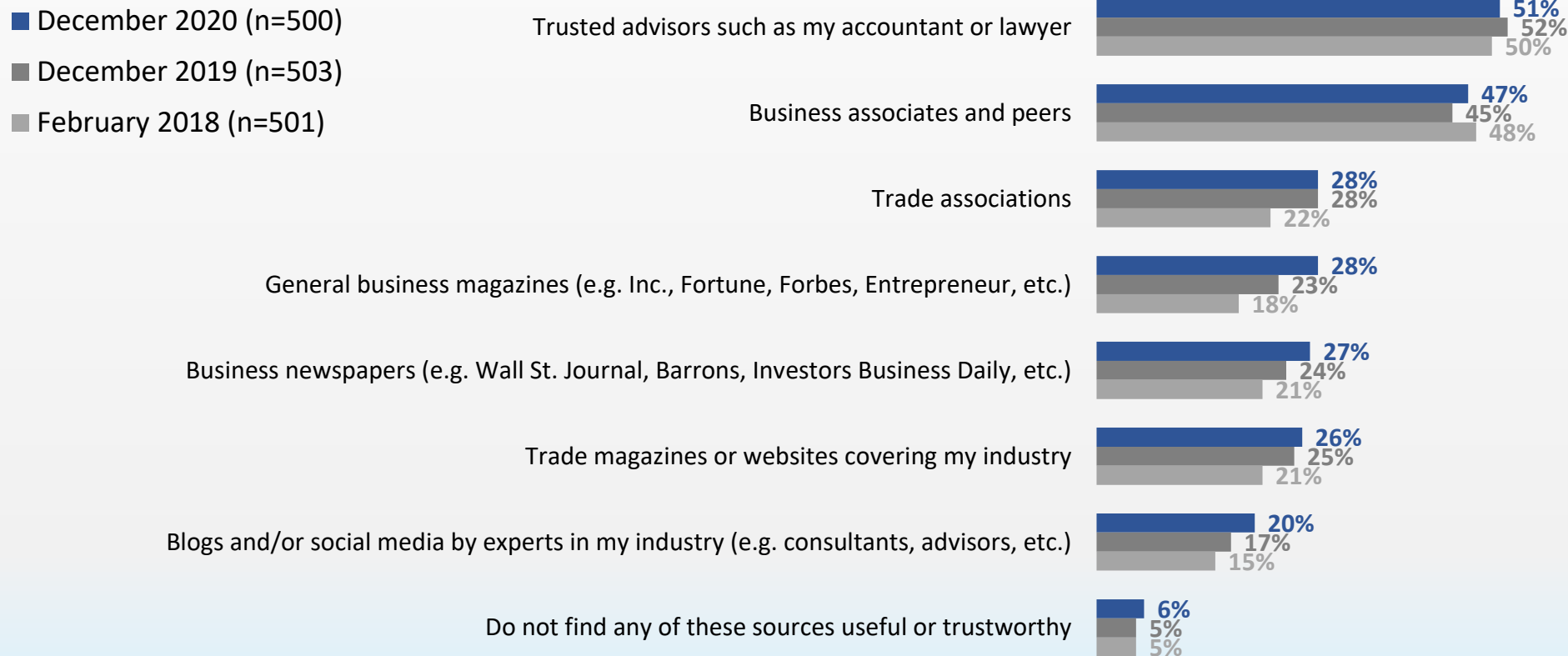
Q: [SPLIT SAMPLE A] Considering everything that goes into running a business, what is the number one thing that keeps you up at night? In other words, what is the one thing that you worry about the most in regard to running your business?

Q: [SPLIT SAMPLE B] Considering everything that goes into running a business, what is the number one thing that keeps you up at night as you think about the year ahead? In other words, what is the one thing that you worry about the most in regard to running your business during the ongoing COVID-19 pandemic?

TRUSTED SOURCES OF INFORMATION

- Similar to previous years, trusted advisors (e.g. accountant, lawyer, etc.) and business associates/peers are the most trusted sources of information.
- The large increase of trust in trade associations realized last year in 2019 (+6%), held in 2020 at 28%.




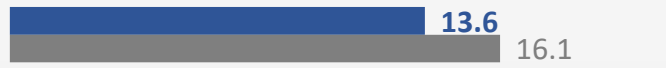

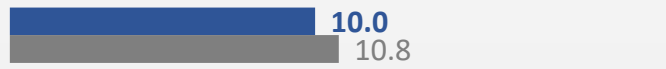

Trusted Sources of Information



Q: Regarding information and insights on managing your business better, what do you find are the most useful and trustworthy sources?

MOST BURDENSOME BUSINESS FUNCTIONS

- Similar to 2019, insurance benefits and compliance issues are seen as most burdensome in 2020.
- In 2020, HR technology and payroll tax administration are seen as more burdensome while workers compensation is seen as less burdensome compared to 2019.

Business Function	Most Burdensome Score (MaxDiff*) ■ December 2020 (n=500) ■ December 2019 (n=503)	Age of decision-maker			Business size (# of employees)			
		25-34	35-54	55+	10-19	20-49	50-99	100+
Insurance benefits such as healthcare coverage and other types of insurance (including purchasing and administration)	 18.8 18.6	16.8	18.8	20.0	21.3	18.6	18.3	16.9
Compliance assistance with employment regulations (state and federal)	 17.5 18.1	15.3	17.5	18.8	18.6	17.8	17.9	15.2
HR technology (including applicant tracking, performance management, employee on-boarding, online benefit enrollment, employee self-service, etc.)	 16.8 15.4	16.2	16.7	17.4	17.6	16.4	16.2	17.4
Workers compensation administration and claims management	 13.6 16.1	14.0	13.3	13.9	13.1	13.5	14.1	13.9
Payroll tax administration	 13.3 11.7	14.3	13.2	12.7	12.9	13.3	13.6	13.3
Retirement plans such as 401k(s)	 10.0 10.8	11.3	10.3	8.8	8.6	9.9	10.1	11.7
Payroll processing	 10.0 9.3	12.1	10.2	8.5	8.1	10.5	9.8	11.5

*MaxDiff calculation explained in appendix on slide 31.

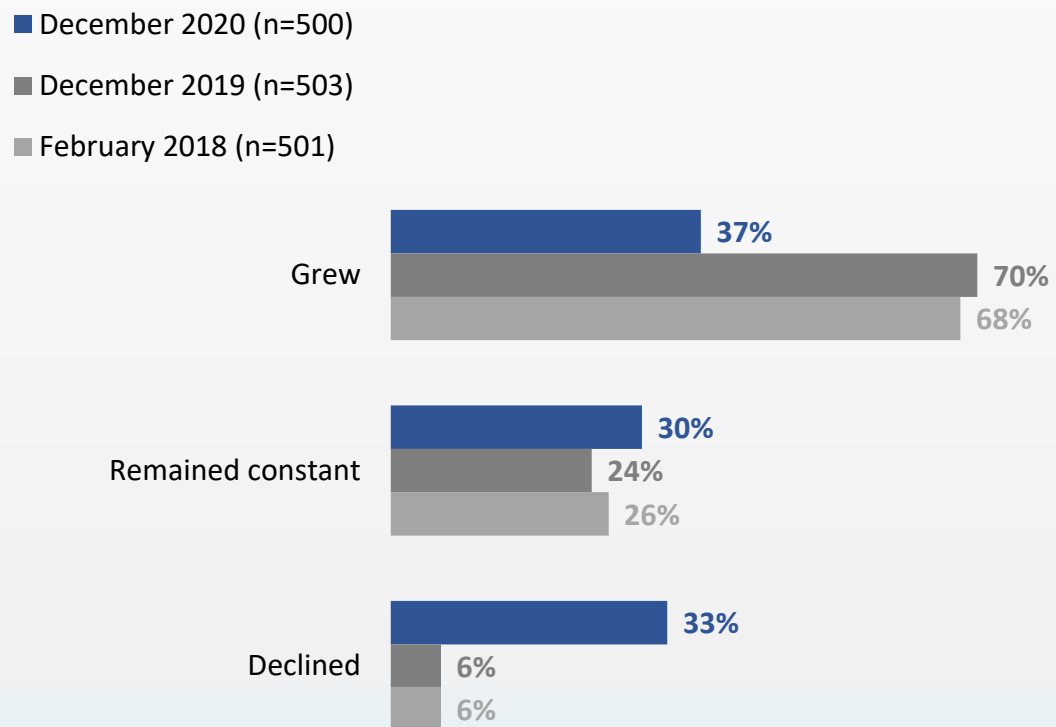
Q: Now I want to know how burdensome your core business functions are for you and/or someone on your staff throughout the course of the a typical year . In other words, in a year where there is not a global pandemic. On each of the next several screens you will see 3 business functions listed on each screen. For each exercise, please select the function you find most burdensome (LEFT COLUMN) and the function you find least burdensome (RIGHT COLUMN).

IMPACT OF COVID-19

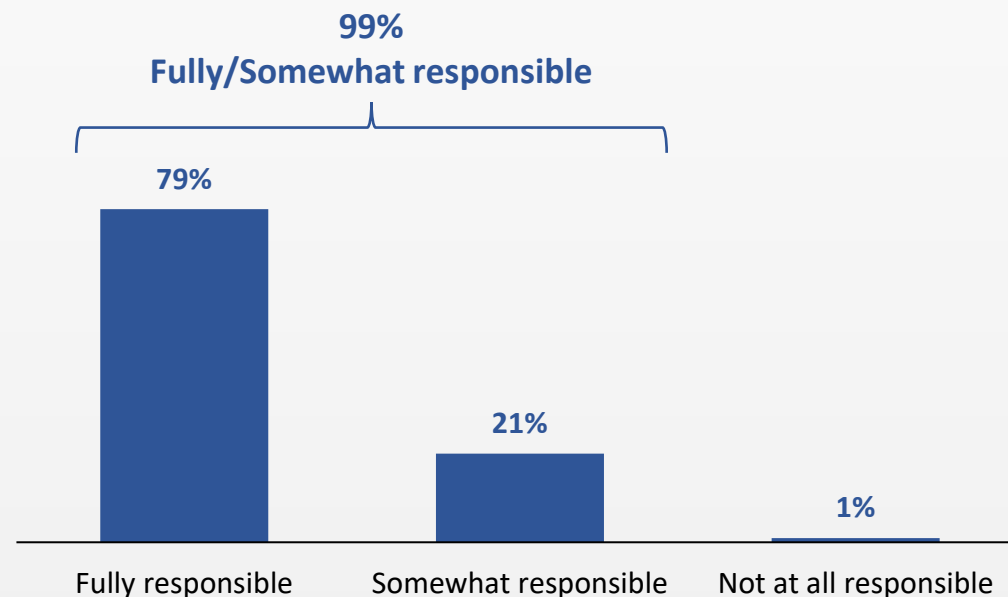
PAST BUSINESS GROWTH

- The COVID-19 pandemic fundamentally changed business growth rates observed in 2018 and 2019 with nearly equal percentage of respondents reporting their business declined as reported their business grew in 2020 (33% and 37%, respectively).
- Nearly every respondent reporting a decline in business, feels the pandemic is at least somewhat responsible for that decline.

Past Business Growth



Covid-19 Responsibility for Business Decline (n=173 reporting business decline in 2020)



Q: In 2020, did your business grow, decline, or remain at about the same level compared to 2019?

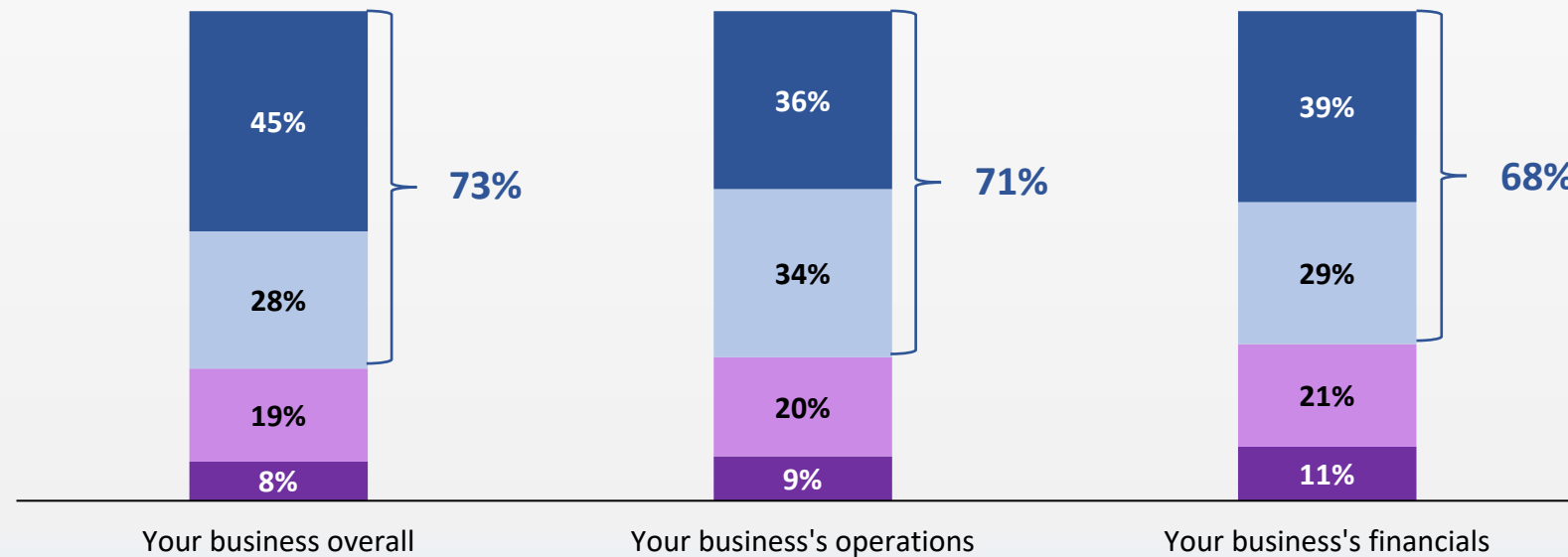
Q: How much responsibility do you place on the COVID-19 pandemic as the reason why your business declined in 2020?

COVID-19 IMPACT ON BUSINESS FUNCTIONS

- About 7-in-10 key decision makers agree that the COVID-19 pandemic has had a major or moderate impact on their business overall, their business's operations, and their business's financials.

How much of an impact has the COVID-19 pandemic had on...
(n=500)

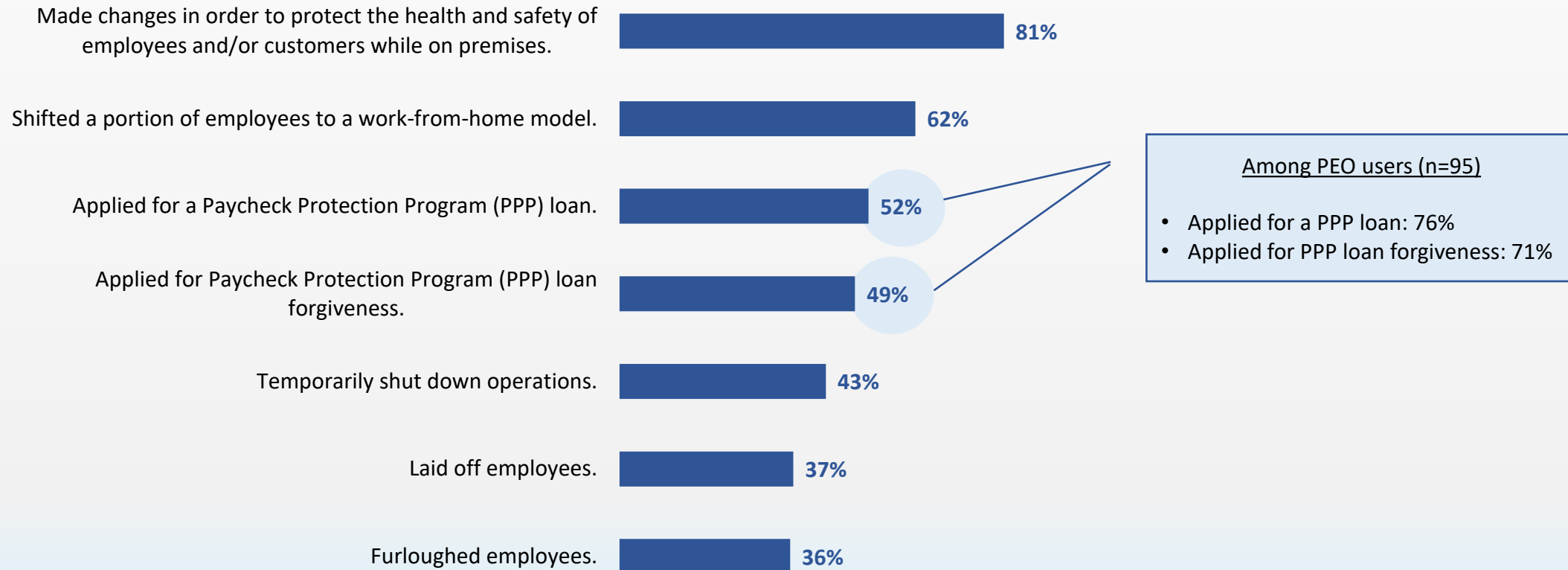
- A major impact
- A moderate impact
- A minor impact
- No real impact at all



ACTIONS TAKEN AS A RESULT OF THE COVID-19 PANDEMIC

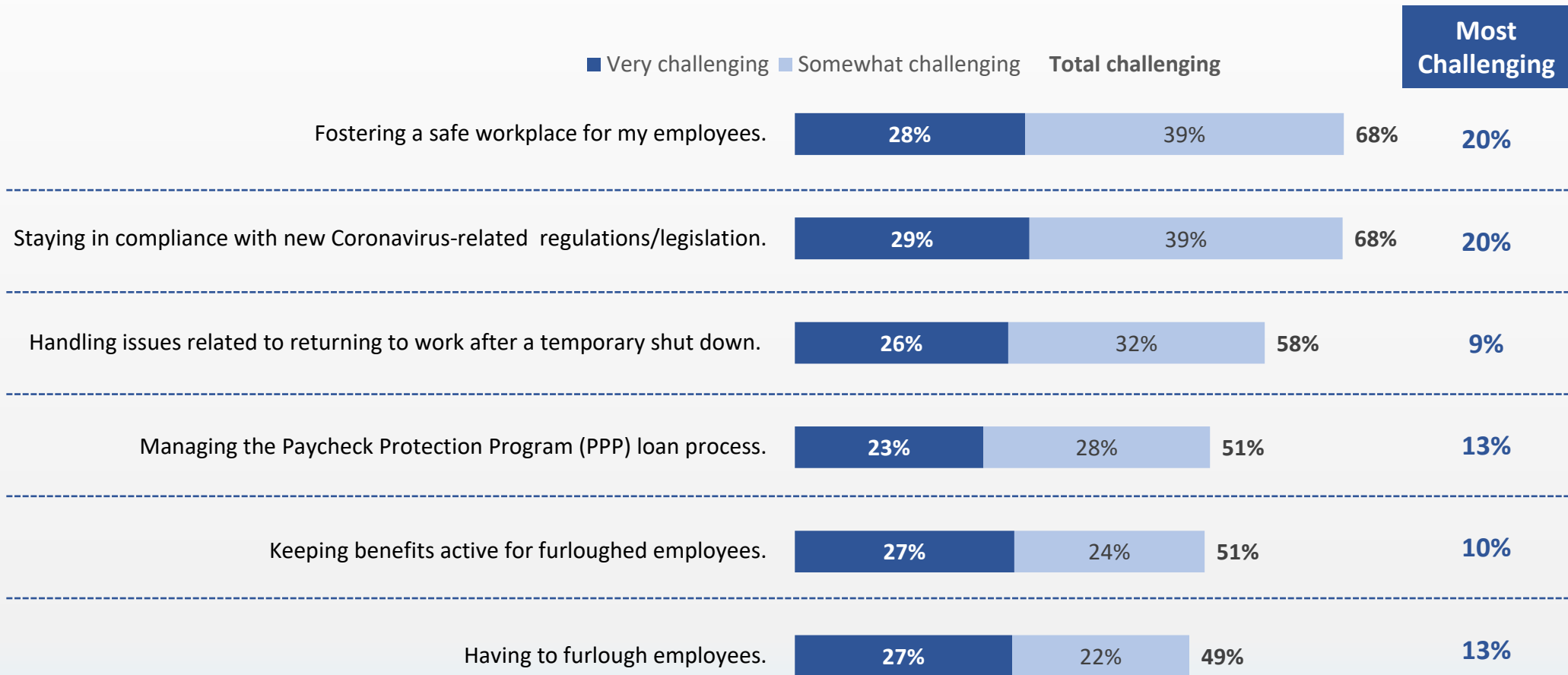
- Due to the COVID-19 pandemic, 43% of businesses reported having to temporarily shut down operations.
- More than half (52%) of all businesses report they applied for a PPP loan and current PEO users were significantly more likely than non-users to have applied for a PPP loan (76% vs. 46%, respectively).

Actions taken because of COVID-19
(n=500)



CHALLENGING ASPECTS OF THE COVID-19 PANDEMIC

- More than two-thirds (68%) of key decision makers agree that fostering a safe workplace for employees and staying in compliance with new Coronavirus-related regulations were very or somewhat challenging over the past year.
- About half (51%) also agree that managing the PPP loan process was very or somewhat challenging.



Q: Now thinking specifically about running your business during the COVID-19 pandemic, how challenging was each of the following issues other the past year?

Q: Which of the following issues was MOST challenging for you?

EXECUTIVE SUMMARY: IMPACT OF COVID-19

- **The COVID-19 pandemic fundamentally changed expected business growth rates in 2020 with only 37% of businesses reporting that their business grew over the past year, down from 70% in 2019.**
 - **Further, nearly all reporting a decline in business in 2020 agree that the COVID-19 pandemic was fully or somewhat responsible for that decline.**
- **About 7-in-10 respondents report that the COVID-19 pandemic had at least a moderate impact on their business operations and financials.**
- **About half (52%) of businesses report applying for PPP loans and current PEO users are significantly more likely to have applied (76%).**
- **Business owners and key decision makers report that fostering a safe work environment for employees and staying in compliance with new Coronavirus-related regulations are the most challenging aspects of being a business owner during the COVID-19 pandemic.**

APPENDIX: MAXDIFF EXPLANATION

MAXDIFF (BEST-WORST SCALING) EXPLAINED

MaxDiff (best-worst scaling) is an approach for obtaining preference/importance scores for multiple items. In this case burdensome business functions and PEO benefit statements.

With MaxDiff, respondents are shown a set (subset) of the possible items in the exercise and are asked to indicate (among this subset) the most and least compelling items (or most and least burdensome business functions, etc.):

For each exercise, please select the benefit you find most compelling for your business (LEFT COLUMN) and the benefit you find least compelling for your business (RIGHT COLUMN). **Please note that each of the statistics in these statements has been verified by independent research.**

(1 of 11)

MOST compelling	LEAST compelling	Benefit of using a PEO
<input type="radio"/>	<input type="radio"/>	Expected annual median revenue growth for PEO clients is 40% greater than that of comparable non-PEO firms
<input checked="" type="radio"/>	<input type="radio"/>	Employees of businesses that use a PEO have higher levels of job satisfaction and engagement than employees of businesses that don't use a PEO.
<input type="radio"/>	<input type="radio"/>	PEO clients are significantly more likely to offer retirement plans and, in turn, attract and retain employees
<input type="radio"/>	<input type="radio"/>	With a PEO, you are able to offer Fortune 500-level benefits to your employees at an affordable cost.

Click the 'Next' button to continue...

Respondents typically complete eight to fifteen such sets where each set contains a different subset of items. The combinations of items are designed very carefully with the goal that each item is shown an equal number of times and pairs of items are shown an equal number of times. Each respondent typically sees each item two or more times across the MaxDiff sets.

Why use MaxDiff instead of standard rating scales? Research has shown that MaxDiff scores demonstrate greater discrimination among items and between respondents on the items. The MaxDiff question is simple to understand, so respondents from children to adults with a variety of educational and cultural backgrounds can provide reliable data. Since respondents make choices rather than expressing strength of preference using some numeric scale, there is no opportunity for scale use bias.

The trade-off techniques used in MaxDiff are robust and easy to apply. The resulting item scores are also easy to interpret, as they are placed on a 0 to 100-point common scale and sum to 100.