



National Association
of Professional Employer Organizations

RESULTS

NAPEO'S 2019 SURVEY OF BUSINESS OWNERS

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RESULTS: NAPEO'S 2019 SURVEY OF BUSINESS OWNERS

BACKGROUND/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: 503 interviews
 - 64% business owners
 - 36% key decision makers
- Field dates: November 26, 2019 – December 3, 2019
- Margin of error: ± 4.4 for total sample

SCREENING CRITERIA

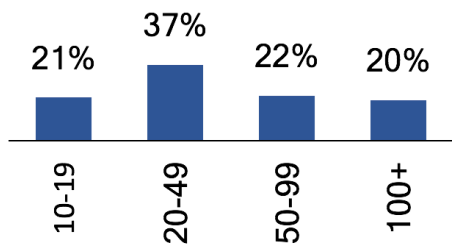
In order to qualify for this survey, participants must have met the following criteria:

- 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

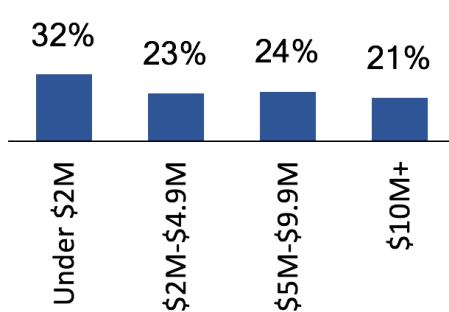
Note: percentages throughout report may not sum to exactly 100% due to rounding.

DEMOGRAPHIC MAKEUP

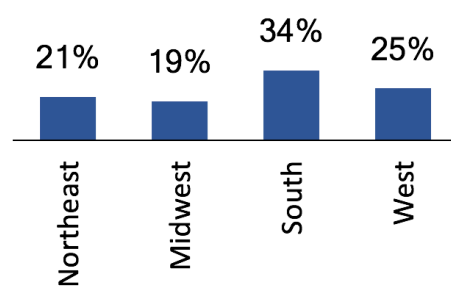
of employees



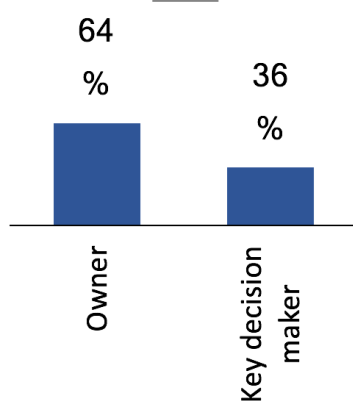
Annual gross revenue



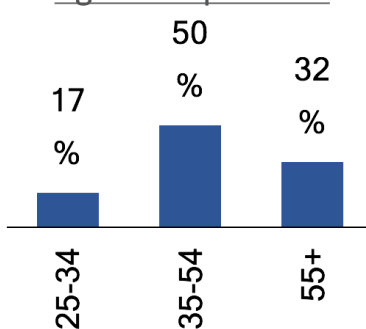
Business location



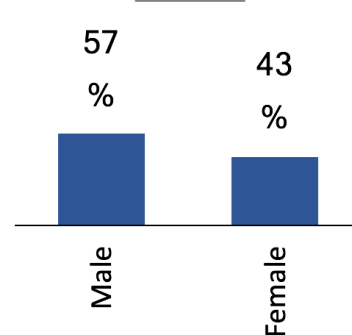
Role



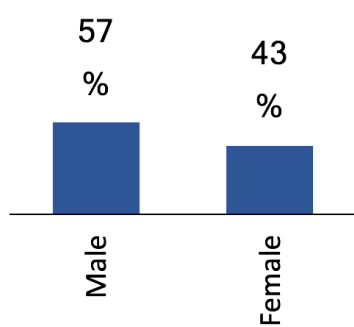
Age of respondent



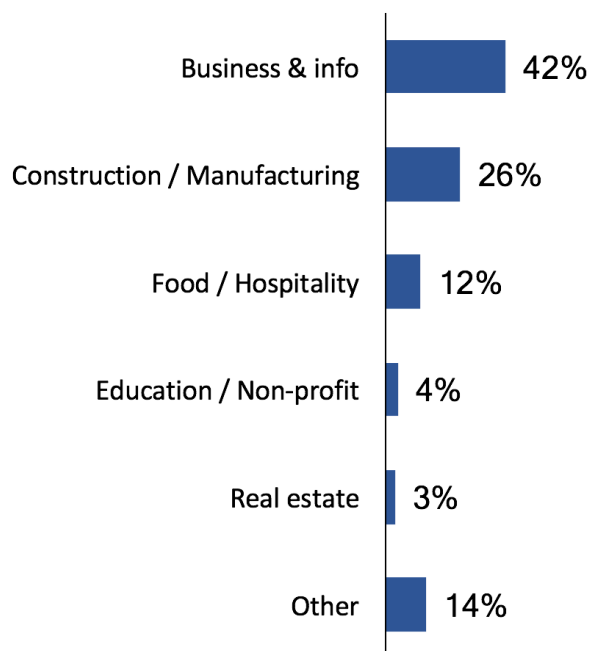
Gender



Gender



Business industry



KEY METRICS TRACKING

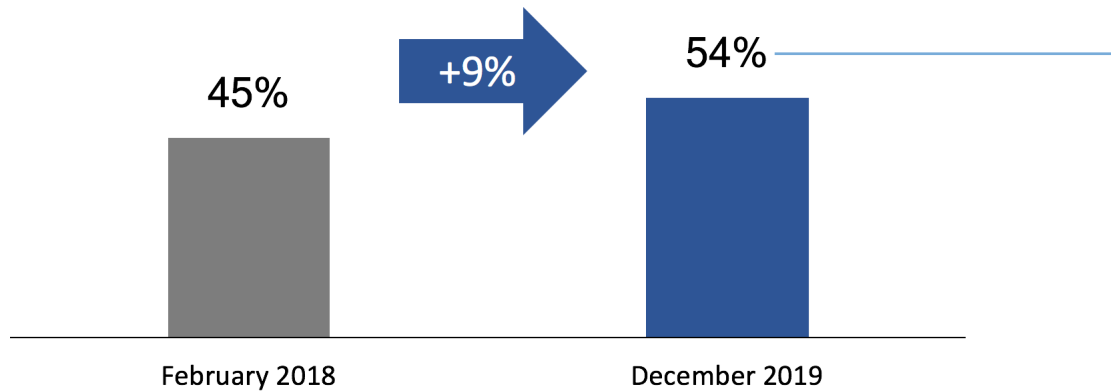
EXECUTIVE SUMMARY: KEY METRICS TRACKING

- Nearly all key metrics for PEOs increased in 2019:
 - Awareness of PEOs is up to 54% among decision-makers (+9 percentage points since February 2018).
 - Among those aware of PEOs, familiarity significantly increased in 2019 to 46% saying they are very familiar with PEOs (+11 percentage points since February 2018).
 - Among non-users, there continues to be strong interest in using a PEO after reading a description (66% interested).
 - PEO use is up 5 percentage points to 19% among this sample of decision-makers.
- Awareness, familiarity and use continues to be strongest among younger decision-makers (25-34 years old) and businesses that have been around 10 years or less.
- 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 had a sales call with a PEO representative (+9 percentage points to 30%) and/or saw an advertisement for a PEO (+6 percentage points to 19%).

AWARENESS OF PEOs

- Awareness of PEOs is up 9 percentage points since February 2018.
- Awareness is up among nearly all demographics with especially strong movement among larger businesses (100+ employees) and younger decision-makers (25-34 years old).

Aware of PEO - Professional Employer Organization (n=503)



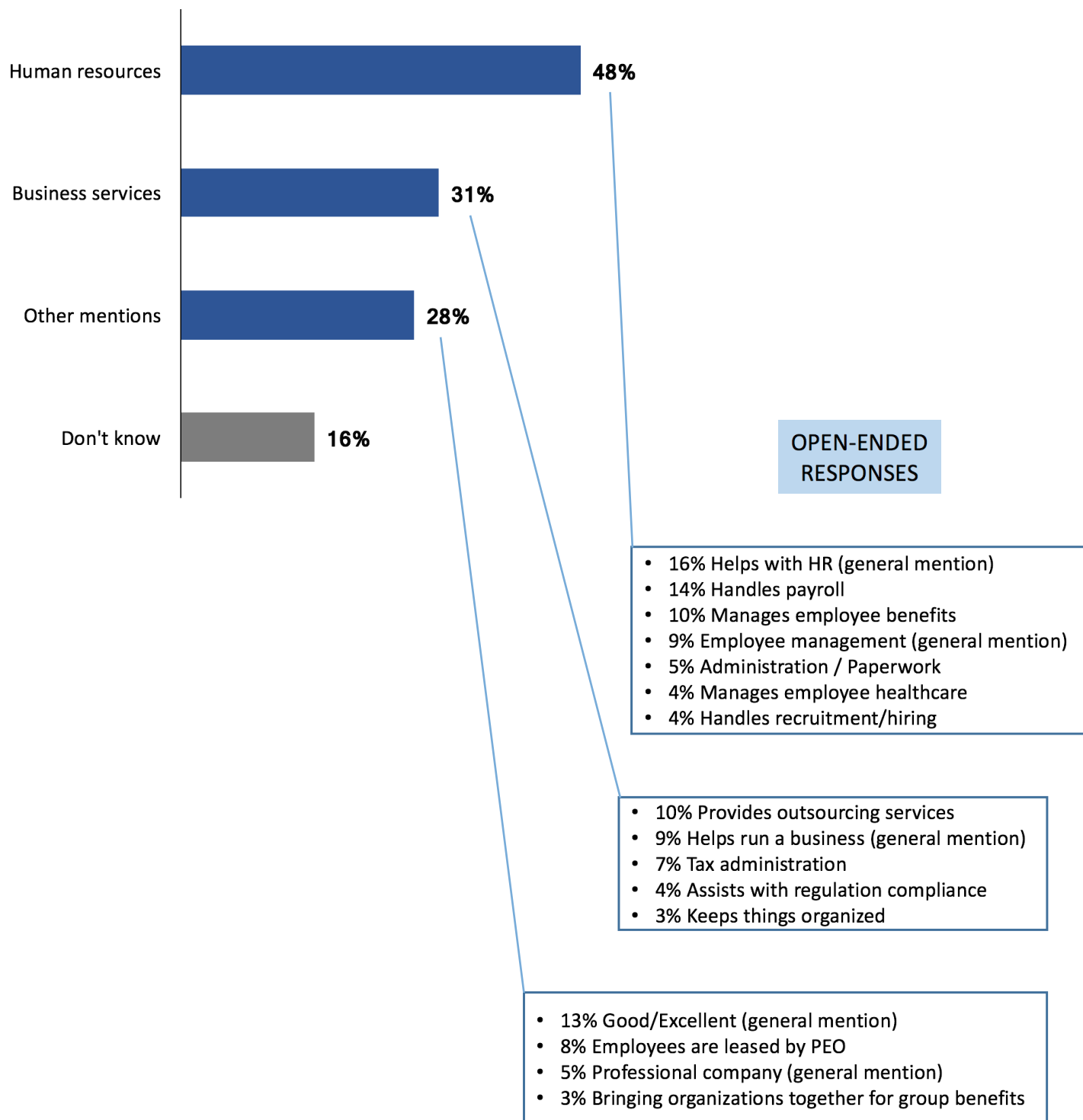
% Aware of PEO (change from 2018)		
Company size	10-19 employees	40% (+8)
	20-49 employees	54% (+2)
	50-99 employees	56% (+4)
	100+ employees	66% (+11)
Decision maker age	25-34 years old	74% (+14)
	35-54 years old	53% (+10)
	55+ years old	44% (+6)
Years in business	Less than 10 years	63% (+11)
	10-19 years	56% (+4)
	20+ years	47% (+11)

Q: Are you familiar with the term PEO – Professional Employer Organization?

UNAIDED UNDERSTANDING OF PEOs

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

What is a PEO?
(n=270 aware of PEOs)

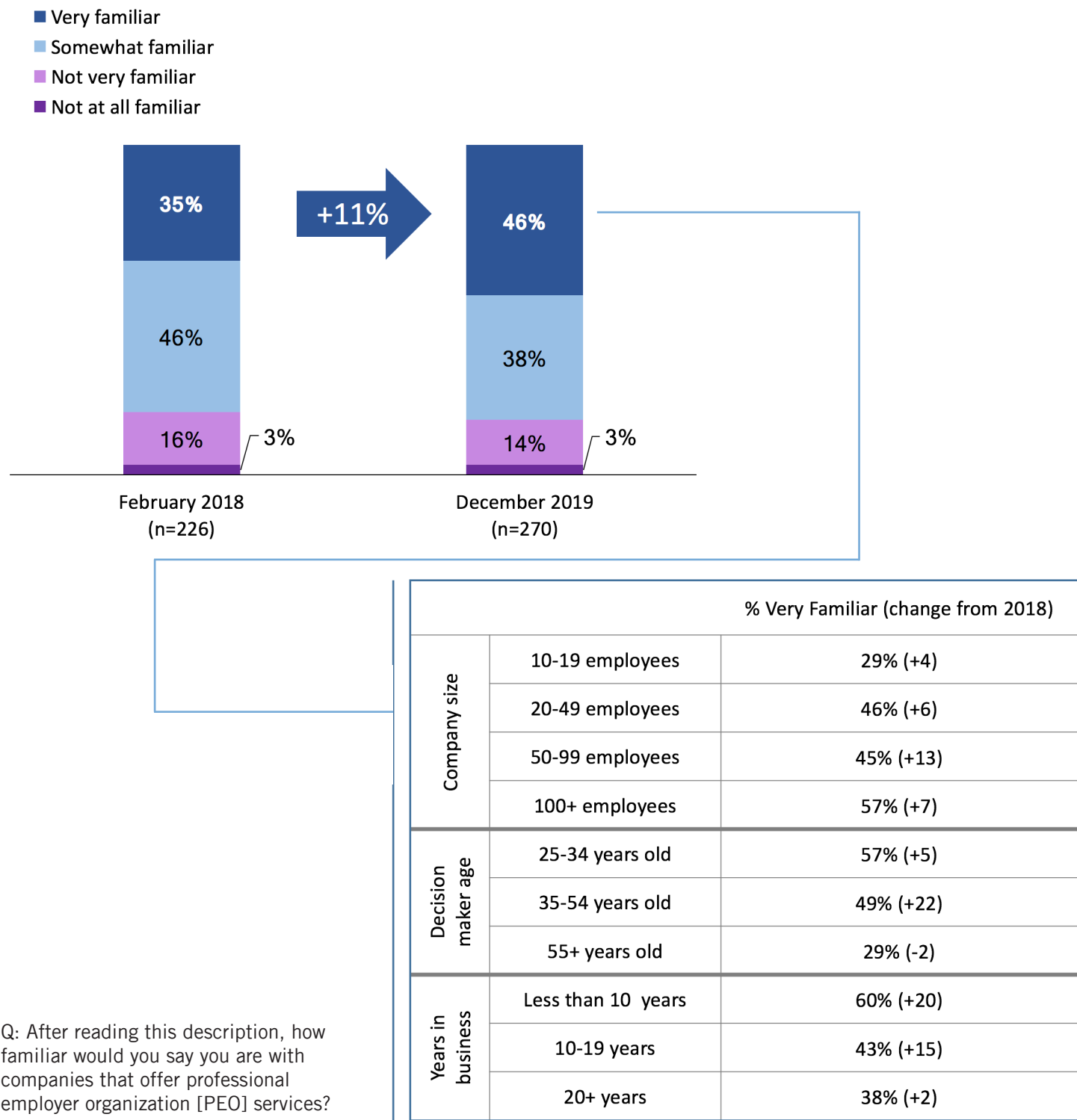


Q: In your own words, what is a Professional Employer Organization (PEO) or what does a PEO do?

FAMILIARITY WITH PEO DESCRIPTION AMONG THOSE AWARE OF PEOS

- Nearly half (46%) of those aware of PEOs say they are very familiar, up 11 percentage points since February 2018.
- The largest increase in familiarity is among those with at least 20 employees, decision-makers less than 55 years old and businesses that have been around less than 20 years.

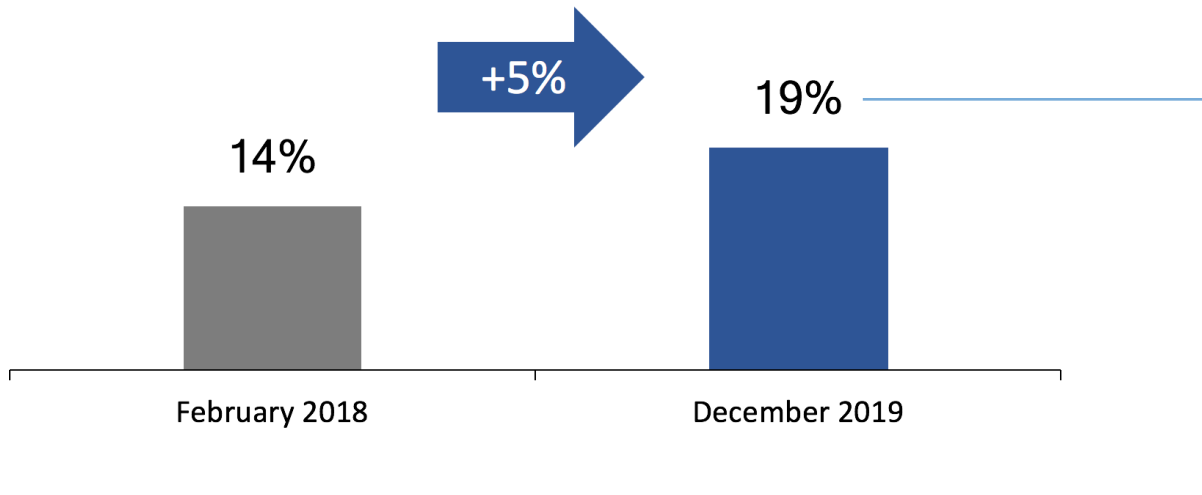
Familiarity with PEOs - among those aware



PEO USE

- Current use of PEOs is up 5 percentage points since February 2018 to 19% among this sample of decision-makers.
- Similar to 2018, use is highest among younger decision-makers and businesses that have been around less than 20 years.

Currently Use a PEO (n=503)



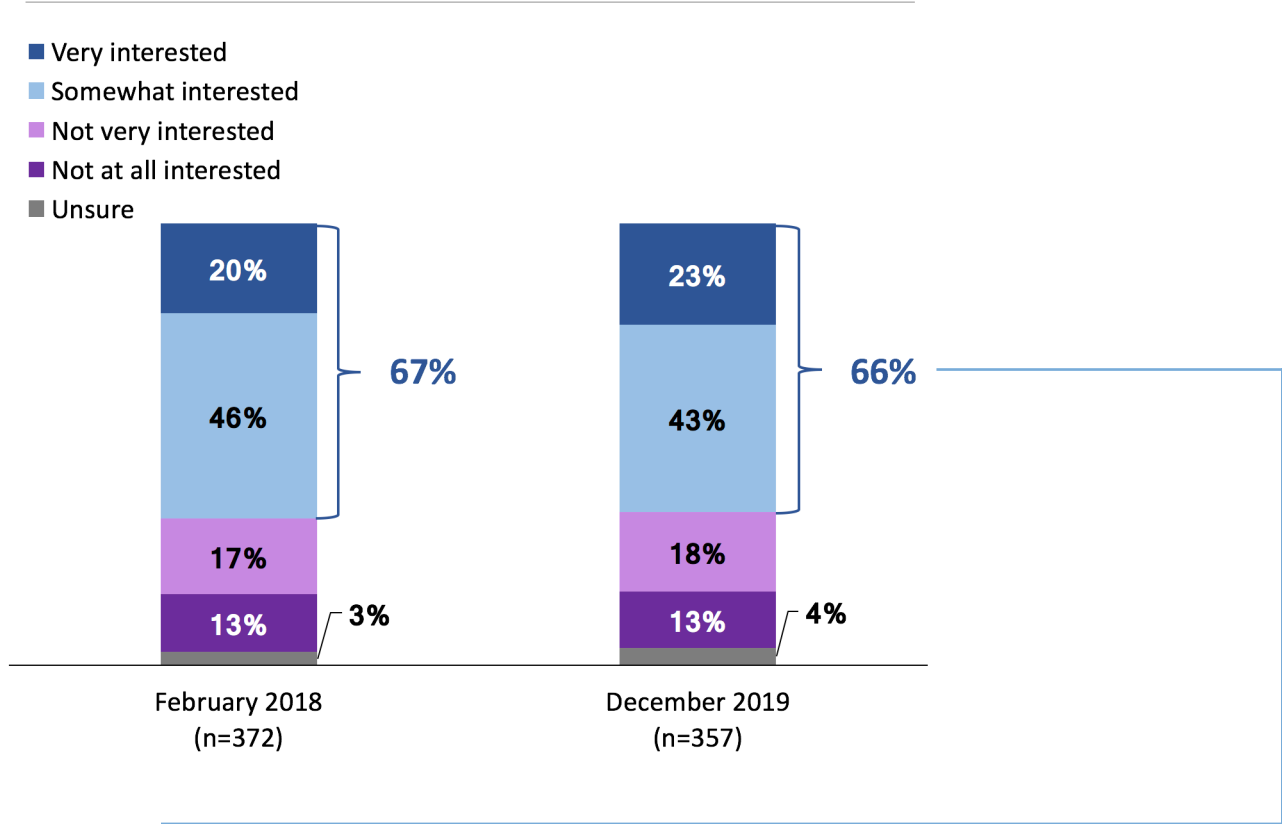
% Use a PEO (change from 2018)		
Company size	10-19 employees	5% (-5)
	20-49 employees	19% (no change)
	50-99 employees	25% (+13)
	100+ employees	28% (+8)
Decision maker age	25-34 years old	38% (+12)
	35-54 years old	21% (+8)
	55+ years old	6% (-2)
Years in business	Less than 10 years	32% (+10)
	10-19 years	18% (+3)
	20+ years	13% (+5)

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 2018, interest in using a PEO is strong among non-users (66% total interested and 23% very interested).
- Interest is highest among younger decision-makers and companies in business less than 20 years.

Interest in using a PEO - among non-users

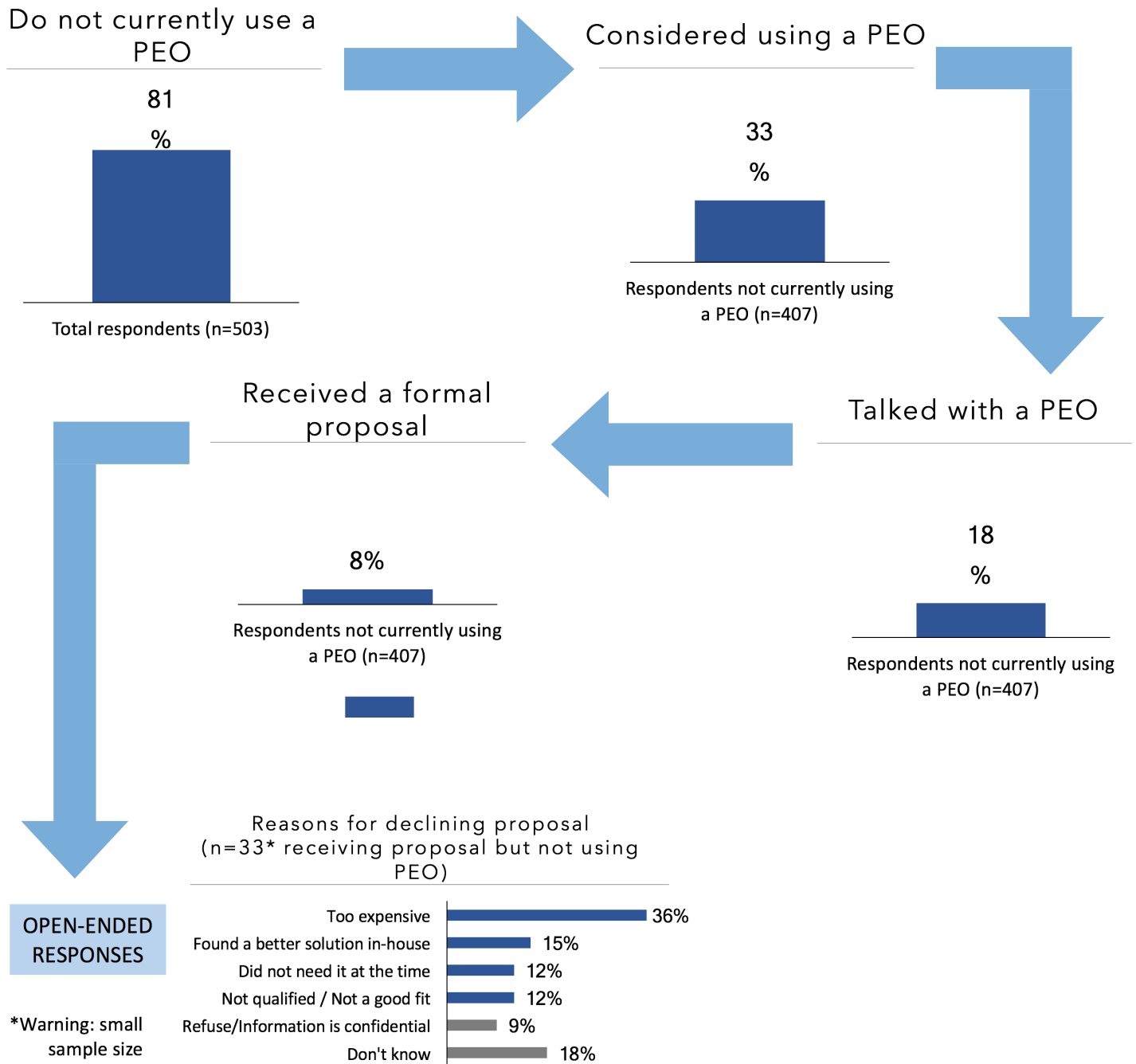


% Very/Somewhat Interested (change from 2018)		
Company size	10-19 employees	52% (-11)
	20-49 employees	70% (+4)
	50-99 employees	76% (+5)
	100+ employees	67% (-8)
Decision maker age	25-34 years old	91% (+2)
	35-54 years old	72% (+2)
	55+ years old	51% (-3)
Years in business	Less than 10 years	77% (-4)
	10-19 years	71% (+1)
	20+ years	59% (+2)

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 81% of participants who do not currently use a PEO, 33% indicated they have considered using a PEO with 18% actually talking with a PEO and 8% 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.



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?

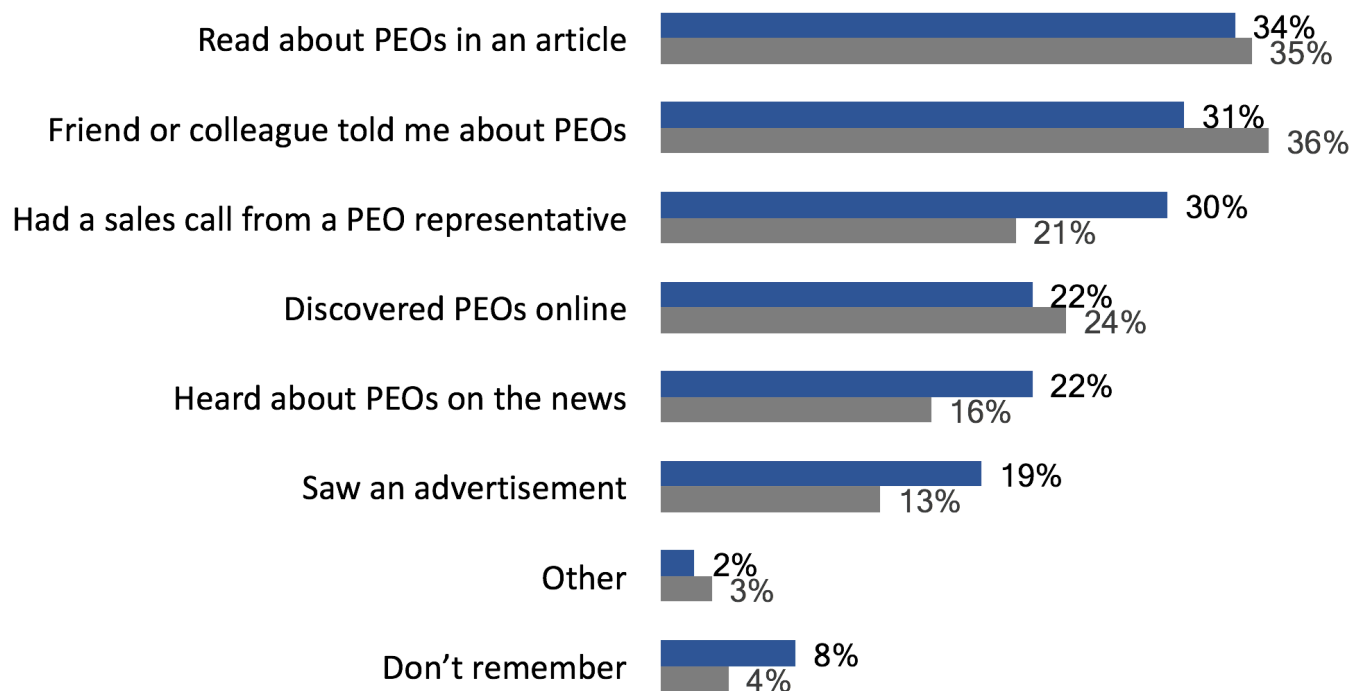
Q: And have you or anyone in your company ever received a formal proposal from a PEO?

Q: What was the main reason or factor that you did not move forward with their services after receiving a formal proposal?

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 having a sales call with a PEO representative.
- Compared to 2018, there was a significant increase of decision-makers who learned about PEOs through a PEO representative and/or saw an advertisement.

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



■ December 2019 (n=270)

■ February 2018 (n=226)

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

BENEFIT STATEMENTS

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. PEOs provide a conservative estimate of 21% cost savings of HR administration
5. PEO clients are significantly more likely to offer retirement plans and, in turn, attract and retain employees
6. Expected annual median revenue growth for PEO clients is 40% greater than that of comparable non-PEO firms
7. PEO clients were 16% more likely to report an increase in profitability compared to other small businesses not using a PEO
8. 98% of business owners who are PEO clients would recommend a PEO to a small business colleague
9. PEOs allow their clients to focus on their core business and not HR related functions
10. Administrative costs are around \$450 lower per employee for businesses that use a PEO
11. Compared to non-PEO business employees, employees of businesses using a PEO are 8% more likely to say they intend to stay with their current employer until retirement
12. The annual return on investment, or overall cost savings, from using a PEO is conservatively estimated at 27.2%

	Business Function
1	The annual return on investment, or overall cost savings, from using a PEO is conservatively estimated at 27.2%
2	Expected annual median revenue growth for PEO clients is 40% greater than that of comparable non-PEO firms
3	PEOs provide a conservative estimate of 21% cost savings of HR administration
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5	PEO clients were 16% more likely to report an increase in profitability compared to other small businesses not using a PEO
6	PEOs allow their clients to focus on their core business and not HR related functions
7	PEO clients grow 7%-9% faster than other comparable small businesses that do not use a PEO
8	98% of business owners who are PEO clients would recommend a PEO to a small business colleague
9	Employee turnover is 10%-14% lower for PEO clients compared to other small businesses that do not use a PEO
10	PEO clients are 50% less likely to fail compared to other small businesses that do not use a PEO
11	PEO clients are significantly more likely to offer retirement plans and, in turn, attract and retain employees
12	Compared to non-PEO business employees, employees of businesses using a PEO are 8% more likely to say they intend to stay with their current employer until retirement

MOST COMPELLING BENEFITS OF USING A PEO

- ROI, revenue growth and cost savings benefits are the most compelling for decision-makers.

	Most Compelling Benefit (MaxDiff*)	Age of decision-maker			Years in business		
		25-34	35-54	55+	<10 years	10-19 years	20+ years
1	11.6	9.6	11.5	13.0	10.3	11.5	12.4
2	10.2	9.1	10.4	10.6	9.6	9.9	10.8
3	9.8	8.5	9.6	10.6	9.2	9.6	10.2
4	9.7	9.0	9.3	10.7	9.5	9.8	9.7
5	8.9	8.9	8.7	9.2	8.9	8.8	8.9
6	8.8	8.7	8.9	8.7	9.3	8.7	8.5
7	7.6	7.5	7.9	7.3	7.7	7.6	7.6
8	7.6	9.1	7.2	7.3	8.2	7.4	7.3
9	7.4	7.9	7.6	6.8	7.1	7.6	7.4
10	6.9	7.8	7.1	6.1	7.4	7.1	6.5
11	5.9	7.0	6.2	4.7	6.4	6.1	5.4
12	5.6	6.9	5.6	5.0	6.2	5.8	5.3

* MaxDiff calculation explained in Appendix on slide 29.

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).

EXECUTIVE SUMMARY: BENEFIT STATEMENTS

- The return-on-investment benefit statement is seen as most compelling among decision-makers followed by median revenue growth and cost savings related benefit statements.
 - The ROI benefit statement resonates especially strong among older decision-makers (55+ years old) and companies in business at least 20 years.
- The benefit of freeing up the business owner's time is seen as moderately compelling among total decision-makers, likely because there is not a hard statistic tied to the benefit. However, this benefit does resonate stronger with companies in business less than 10 years.
 - Previous research has shown that, while the statistics are often seen as unbelievable, they do draw the intrigue of decision-makers.
- Although employee-related concerns, specifically acquisition and retention, are top-of-mind concerns for business owners, the benefit statements related to these areas rate as the least compelling.
 - Previous research indicates that decision-makers often find it very difficult to believe that a PEO can help in these areas.

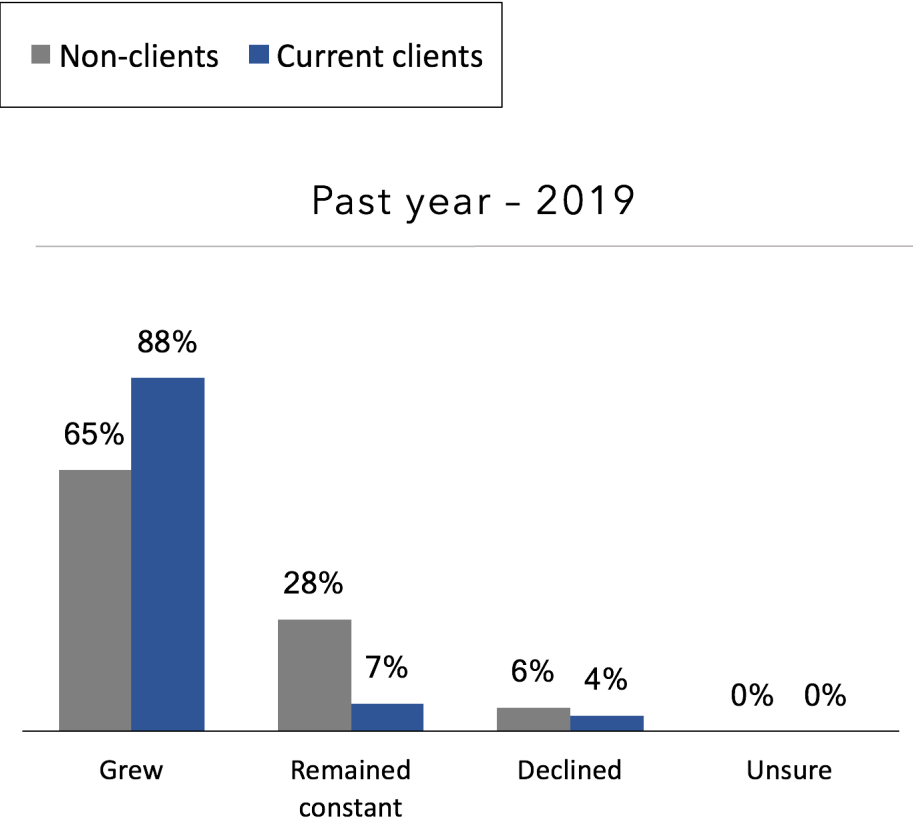
DECISION-MAKER PERCEPTIONS

EXECUTIVE SUMMARY: DECISION-MAKER PERCEPTIONS

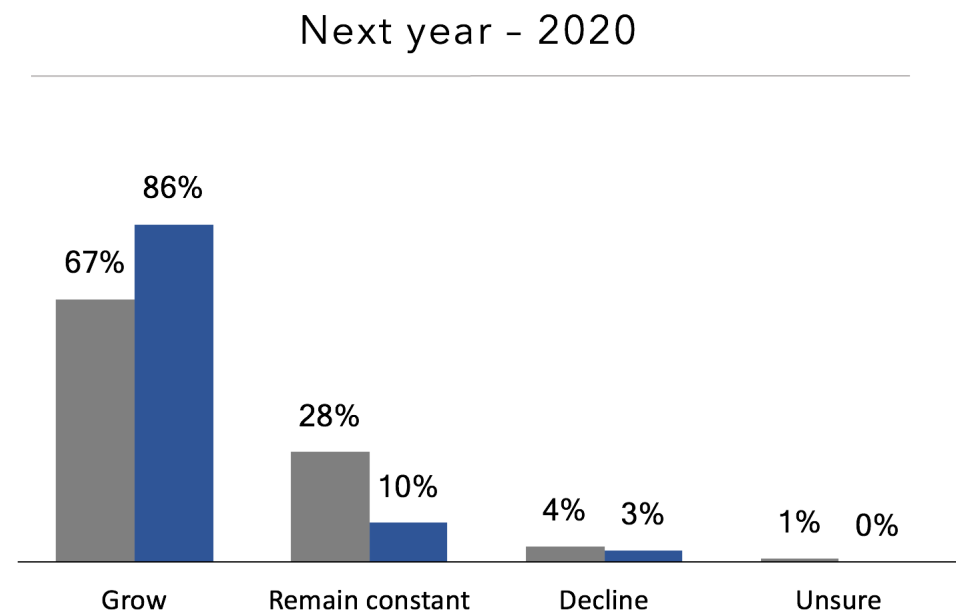
- There continues to be much stronger growth expectations for companies using a PEO compared to those not currently using a PEO.
- Top concerns for business owners continue to be related to employee/personnel concerns and business growth/success concerns.
- The most trusted sources of information continue to be trusted advisors and business associates, but there was a significant increase in trust of trade associations in 2019 (+6 percentage points to 28%).
- Decision-makers most often agree that insurance benefits and compliance with employment regulations are most burdensome followed by workers compensation and HR technology.
 - Compliance with employment regulations is especially burdensome for older decision-makers (55+ years old) and those companies in business for at least 20 years.

PAST BUSINESS GROWTH & FUTURE EXPECTATIONS

- Current PEO users are significantly more likely to report business growth last year compared to non-users, 88% vs. 65%, respectively.
- Further, current PEO users are also significantly more likely to report expected business growth next year.



Q: In 2019, did your business grow, decline, or remain at about the same level compared to 2018?

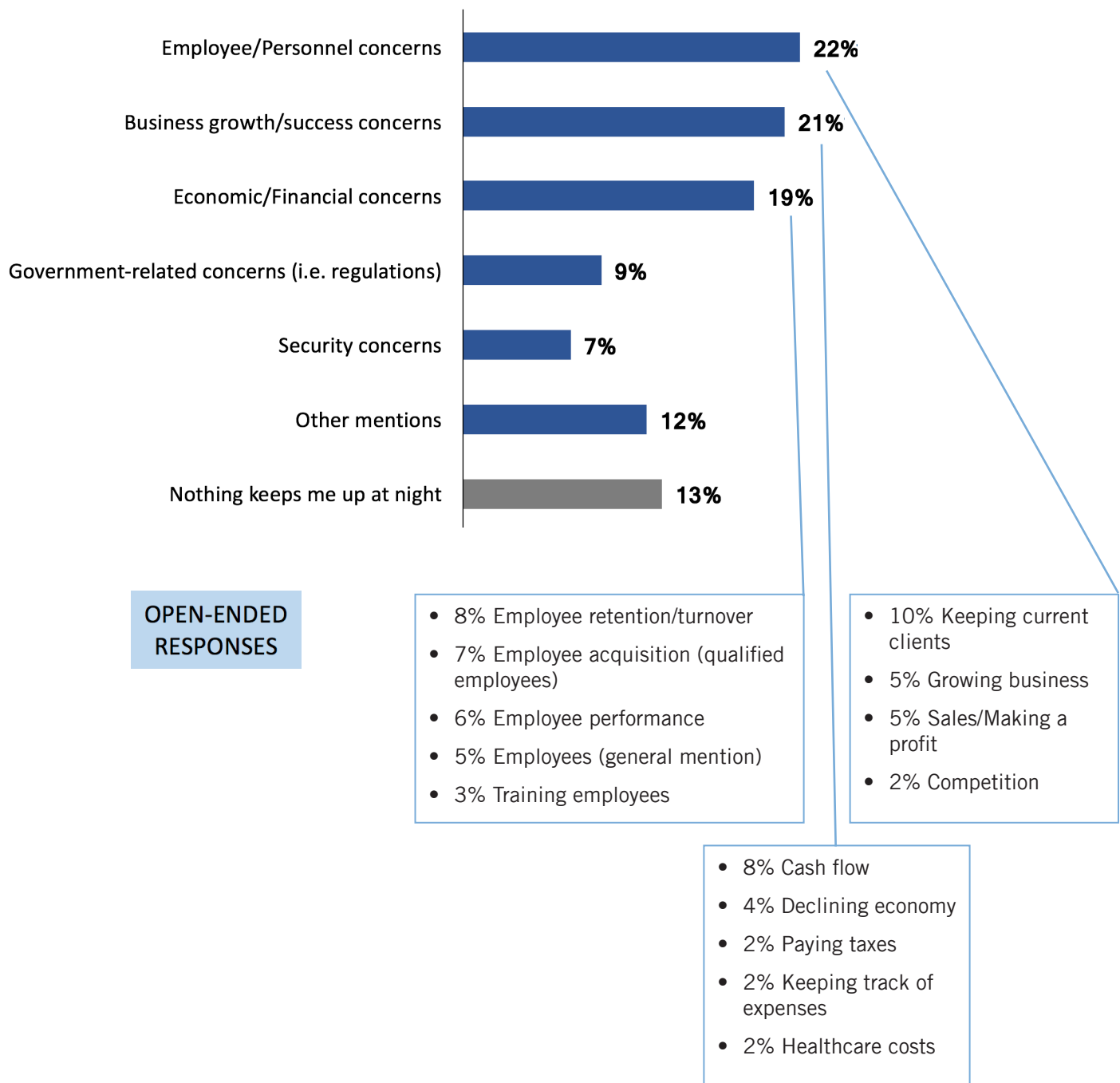


Q: And, do you expect your business to grow, decline or remain at about the same level over the course of 2020?

TOP CONCERNS FOR BUSINESS OWNERS

- Similar to last year, employee-related concerns and business growth/success are top of mind concerns for business owners and decision-makers.

What keeps you at night in regards to running your business?
(n=503)



Q: 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? Please be as detailed as possible with your response.

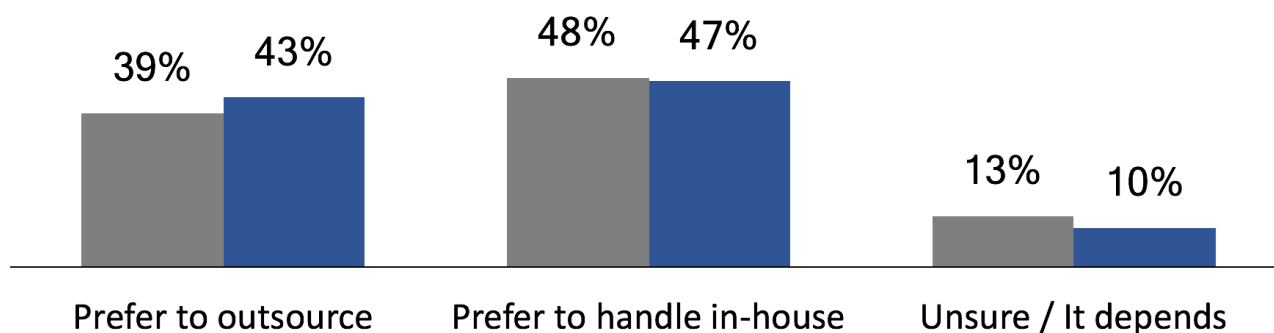
PREFERENCE TO OUTSOURCE BUSINESS FUNCTIONS

- There is a moderate hesitancy to outsource business functions among the respondents with nearly half saying they prefer to handle in-house even if it is proven to be the same cost either way.
- Compared to last year, there is a slight increase in desire to outsource business functions (+4 percentage points).

■ February 2018 (n=501)

■ December 2019 (n=503)

Preference to outsource business functions



Q: Assuming the cost would be the same to you either way, would you prefer for your company to handle all human resource related functions, including benefit and regulatory issues, in-house or would you prefer to outsource those functions to a firm specializing in those functions?

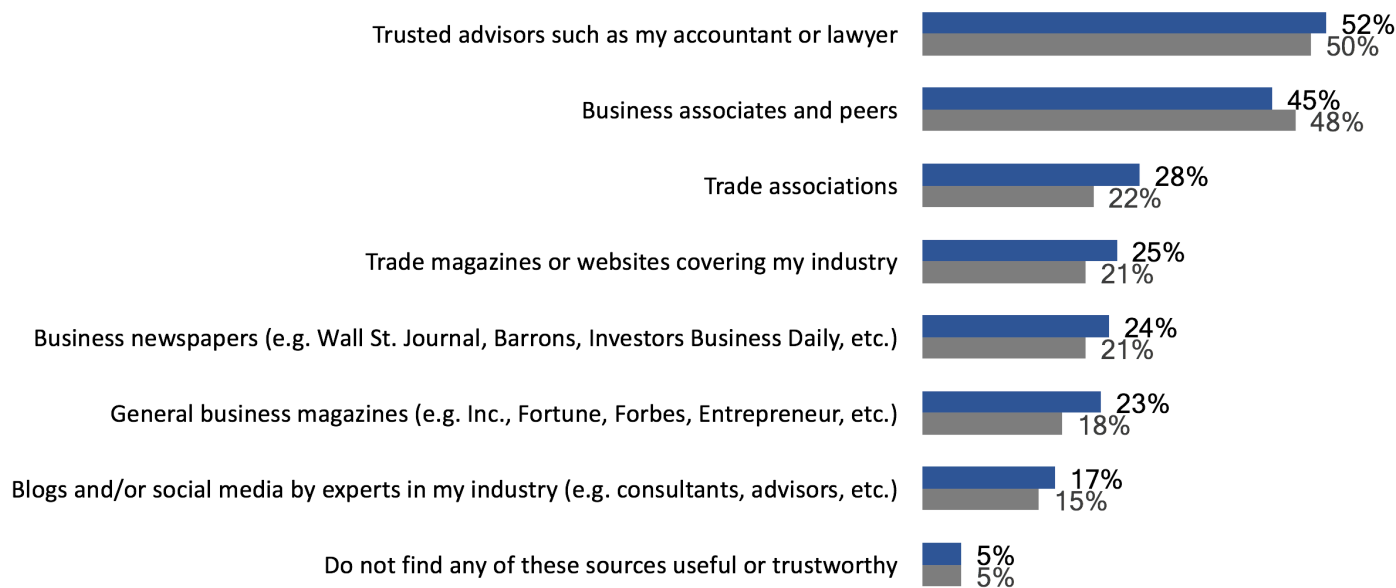
TRUSTED SOURCES OF INFORMATION

- Similar to last year, trusted advisors (e.g. accountant, lawyer, etc.) and business associates/peers are the most trusted sources of information.
- Compared to last year, there is a large increase of trust in trade associations (+6%), general business magazines (+5%) and trade magazines or websites (+4%).

■ December 2019 (n=503)

■ February 2018 (n=501)

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

	Business Function
1	Insurance benefits such as healthcare coverage and other types of insurance (including purchasing and administration)
2	Compliance assistance with employment regulations (state and federal)
3	Workers compensation administration and claims management
4	HR technology (including applicant tracking, performance management, employee on-boarding, online benefit enrollment, employee self-service, etc.)
5	Payroll tax administration
6	Retirement plans such as 401k(s)
7	Payroll processing

- Insurance benefits and compliance issues are seen as most burdensome followed by workers comp and HR technology.
 - Compliance is especially burdensome for older decision-makers (55+ years old) and older businesses (20+ years in business).
- Payroll (including tax administration) and retirement plans are seen as less burdensome.

		Age of decision-maker			Years in business		
	Most Burdensome Score (MaxDiff*)	25-34	35-54	55+	<10 years	10-19 years	20+ years
1	18.6	17.1	19.2	18.3	18.7	18.3	18.6
2	18.1	16.2	16.8	21.2	16.5	17.6	19.3
3	16.1	15.1	16.1	16.4	15.9	16.8	15.6
4	15.4	14.5	15.8	15.5	14.8	15.3	15.9
5	11.7	13.2	11.7	11.1	11.4	12.2	11.6
6	10.8	12.3	10.6	10.3	11.9	10.6	10.3
7	9.3	11.5	9.9	7.2	10.8	9.2	8.6

*MaxDiff calculation explained in Appendix on slide 29.

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 year.

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).

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, PEO benefit statements and potential PEO taglines.

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.):

Now we are going to evaluate a number of potential taglines the PEO industry is considering using to help define itself. When evaluating these taglines, please consider the overall definition you reviewed earlier and all the benefits of using a PEO.

On each of the next several screens you will see 4 taglines that the PEO industry is considering. For each exercise, please select the tagline you feel fits best with what a PEO is and does (LEFT COLUMN) and the tagline you feel fits least with what a PEO is and does (RIGHT COLUMN)

*

Fits best	Fits least	Potential PEO taglines
<input type="radio"/>	<input type="radio"/>	PEOs: Focused on HR so you can focus on your business
<input type="radio"/>	<input type="radio"/>	PEOs: HR solutions that help businesses thrive
<input type="radio"/>	<input type="radio"/>	PEOs: Good for employees. Great for your bottom line
<input type="radio"/>	<input type="radio"/>	PEOs: The employment experts

1 of 7 sets

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.



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