

PEO MARKET RESEARCH

Comprehensive Report • April 2018

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Executive Summary

OBJECTIVE:

NAPEO looked to answer three key questions to help elevate the familiarity and understanding of the Professional Employer Organization (PEO) industry: 1) Why do PEOs have the customers they have? 2) Why aren't more businesses using PEOs? and 3) What can NAPEO do to increase PEO market share?

Throughout the course of the research, it became clear that we also needed to better understand how to more effectively engage with the potential client audience, so we updated question 3 by dividing it into two parts: 3a) What is the best way to engage with potential clients? and 3b) What can NAPEO do to increase PEO market share?

In order to answer these questions, Povaddo conducted primary research with four audiences including PEO owners, PEO current clients, PEO "almost-clients" and PEO potential clients. A range of methodological approaches were used, including one-on-one in-depth interviews, an online survey of 501 business owners and managers nationwide, and six in-person focus groups. The following represents the key findings and strategic insights uncovered to help NAPEO answer the four questions and move forward with a communication plan aimed at elevating the familiarity and understanding of PEOs among small to mid-sized business owners and key decision makers.

WHY DO PEOS HAVE THE CUSTOMERS THEY HAVE?

To begin, it was necessary to establish benchmark awareness and use measures to demographically profile and understand the current customer base. The surface-level awareness of PEOs appears headed in the right direction, with 45% of the sample aware of PEOs and another 22% aware of these types of companies. However, a true understanding of a PEO is much lower, with less than 10% of those who have never used a PEO being able to articulate what a PEO is and does. Among this sample of business owners and key decision makers, current PEO use sits at 14% with another 8% indicating they have used a PEO past. However, the demographic profile of users is very promising for the future with the highest use among 25-34 year old business owners (26%) and those in business for less than 10 years (22%).

Initially, some current clients became aware of PEOs while searching for help to relieve some of the burden associated with HR-related functions, while others mention specifically being targeted and approached by a PEO representative.

The decision to move forward with a PEO was almost always based on a trust that the PEO would handle the functions with same care and investment as the business owner. Current users indicate this trust was built by direct communication from the PEO and peer/colleague recommendations and testimonials. Although a few clients mention cost-savings as a reason they continue to use a PEO, nearly all agree that time savings and peace-of-mind are the key drivers for continued use.

Executive Summary (continued)

WHY AREN'T MORE BUSINESSES USING A PEO?

Simple awareness of and understanding about PEOs is clearly an issue. While awareness is trending in the right direction, a true understanding of PEOs has room for improvement and is, in fact, the major issue. Beyond awareness, it was important to determine the potential barriers that could prevent businesses from using a PEO. While there is a fair amount of burden associated with the various HR-related business functions, owners do not immediately show a preference to outsource those business functions. However, there is room for optimism as they often express a desire to have enough trust in another company to handle some of their business functions.

Among those potential clients, the PEO description and key impact statements were presented to understand if exposure to these materials would move this audience into a “likely to use” state. The PEO description generates strong interest in learning more about these types of companies and the impact statements work well to move those interested into a higher likelihood to use. Articulating this information in a concise and impactful way will be critical for moving potential clients along the buyer’s journey, especially those owners not actively searching for help. However, care needs to be taken when describing the nature of the co-employment relationship. Many owners mention this as somewhat confusing and an important area of concern. Owners do not want to feel they are losing control of the employee experience. Further, the revenue/profit benefit statements certainly have the “wow-factor” and rise to the top in terms of impact during the quantitative survey, but in-depth discussions revealed that the higher level statements (e.g. freeing up owners time and 98% client recommendations) are more believable and impactful, especially for larger size businesses.

Although consideration of a PEO appears high, only about half of those considering have actually talked with a PEO, indicating a low likelihood to act on that consideration. Potential clients receiving a formal proposal but not moving forward mostly mention concerns regarding transparency of cost and fear of increasing costs as reasons for not moving forward.

Although exposure to the PEO description and impact statements generates strong interest in using a PEO, there is a general concern about the potential negative impact that hiring a PEO may have on the employee experience.

WHAT IS THE BEST WAY TO ENGAGE POTENTIAL CLIENTS?

In order to engage with this audience, it was critical to first understand what is most important to them in regards to running their businesses. While financial and growth concerns are top-of-mind for all business owners and key decision makers, this potential client base exhibited a strong relationship and general concern for their employees across all research phases. This relationship is a top consideration for all their business decisions, including outsourcing business functions.

When outsourcing business functions, owners and key decision makers mention a multitude of factors they consider but most often the decision came down to building trust through

Executive Summary (continued)

recommendations/testimonials, exhibiting confidence in a seamless transition, reputation/longevity of the firm and direct/transparent communication from the firm's representatives.

While trusted advisors and peer/colleague recommendations provide strong influence on conversion to PEO use, trade associations and local chambers represent industry-specific opportunities. Further, standard marketing tactics should play a role in elevating awareness and putting PEOs top-of-mind among those looking for help.

WHAT CAN NAPEO DO TO INCREASE MARKET SHARE?

Based on the key findings across all the research, there are number of next steps for NAPEO in order to help the PEO industry gain market share moving forward, including...

- Creating an actionable marketing communication strategy based on the key research findings to help elevate the awareness and associations with the PEO industry.
- Providing tools and resources on how to interpret and use the research findings to effectively communicate to potential clients.
- Utilizing messages gleaned from the research to inform industry promotion efforts going forward.
- Assisting the industry with speaking in a common language by providing standard messages that be modified as needed.

STRATEGIC RECOMMENDATIONS MOVING FORWARD

The research uncovered several key considerations for marketing efforts in the future. These recommendations/considerations are generalized to the PEO industry overall and customizations will need to be made based on industry-level and even specific PEO-level factors.

Focus future communications around the well-being of the businesses' employees. Owners continually mention a concern for their employees, including the effect of a transition, as a barrier to outsourcing more of their business functions or using a PEO. Communications should focus on alleviating the concern with a seamless transition process that always focuses on the well-being of the employees. Further, utilize previous research findings that show increased employee satisfaction among PEO clients.

Future marketing efforts need to be "triaged" for the different categories of small and mid-sized business owners. First, those businesses seeking help: simply amplifying awareness and understanding will help PEOs become top-of-mind when firms start looking for help with HR related functions. Second, those businesses who don't know there is a better way ("If it ain't broke - don't fix it"): This group shows strong interest in using a PEO once they are aware of the

Executive Summary (continued)

benefits, but they will be much harder to reach and impart an urgency to change the status quo. Third, those businesses still not interested: some business owners remain uninterested in using a PEO after becoming aware of the benefits.

Outreach to trusted advisors and word-of-mouth marketing initiatives will likely result in the greatest impact, but also increasing ties and communications with trade and local associations will help align PEOs with industry verticals. Although participants indicate that standard marketing techniques, such as email or online marketing campaigns, are often ignored and not trusted, these tactics should play a role in driving awareness of PEOs, especially among those seeking help.

The impact statements will likely not move many uninterested business owners, but they should play a role in moving owners from “interested” to “likely” to use a PEO. However, care needs to be taken on which benefits to emphasize as the complete list is likely too much for unaware owners to digest. While the revenue/profit statements are very impressive and eye-catching, the higher level statements about freeing up time will likely have a larger impact with the status quo owner group. Further, the cost savings benefits are much more likely to be believable compared to the revenue/profit statements.

While raw costs will always be an issue with some potential clients, business owner value expectations are in line with average industry costs. Presenting costs in a transparent manner and alleviating concerns around potential increases in cost will be crucial once “in-the-door” with the potential client.

Finally, it should be noted that the totality of the research suggests a very positive outlook for the PEO industry in general. Simply getting the PEO description and impact statements in front of business owners generates strong interest in learning more about PEOs. Further, the 25-34-year-old business owner demographic shows the strongest interest in using a PEO and that demographic group will continue to make up more of the business owner universe as time goes on. Across all phases of research (including in-depth interviews, focus groups and open-ended responses in the survey) and all audiences (including owners, current clients, potential clients and almost-clients) there were zero negative associations or connotations with the PEO industry.

Methodology – Overall Research Approach

PHASE 1

AUDIENCE	<ul style="list-style-type: none"> • PEO owners (mix of board members/non-board members) • Current PEO clients • PEO “almost-clients”
METHOD	<ul style="list-style-type: none"> • In-person and telephone in-depth interviews
OBJECTIVE	<ul style="list-style-type: none"> • Establish owners perception of the industry and what they hope this research will achieve. • Develop an in-depth understanding of why current clients use PEOs and uncover any gaps between that client value and perceived member value. • Obtain insights that would be useful in developing the research instruments for the following phases.

PHASE 2

AUDIENCE	<ul style="list-style-type: none"> • Potential PEO clients (non-users) • Current PEO clients
METHOD	<ul style="list-style-type: none"> • 501 completed online surveys
OBJECTIVE	<ul style="list-style-type: none"> • Develop an intricate understanding of the potential customer base and establish a benchmark awareness of PEOs in order to track/measure moving forward. • Quantitatively assess: <ul style="list-style-type: none"> - Perceptions, understanding and likelihood to use a PEO - Benefit statements and impact on likelihood to use a PEO in the future - Optimal ways to communicate to small/mid-sized businesses - Potential barriers to using a PEO in the future

PHASE 3

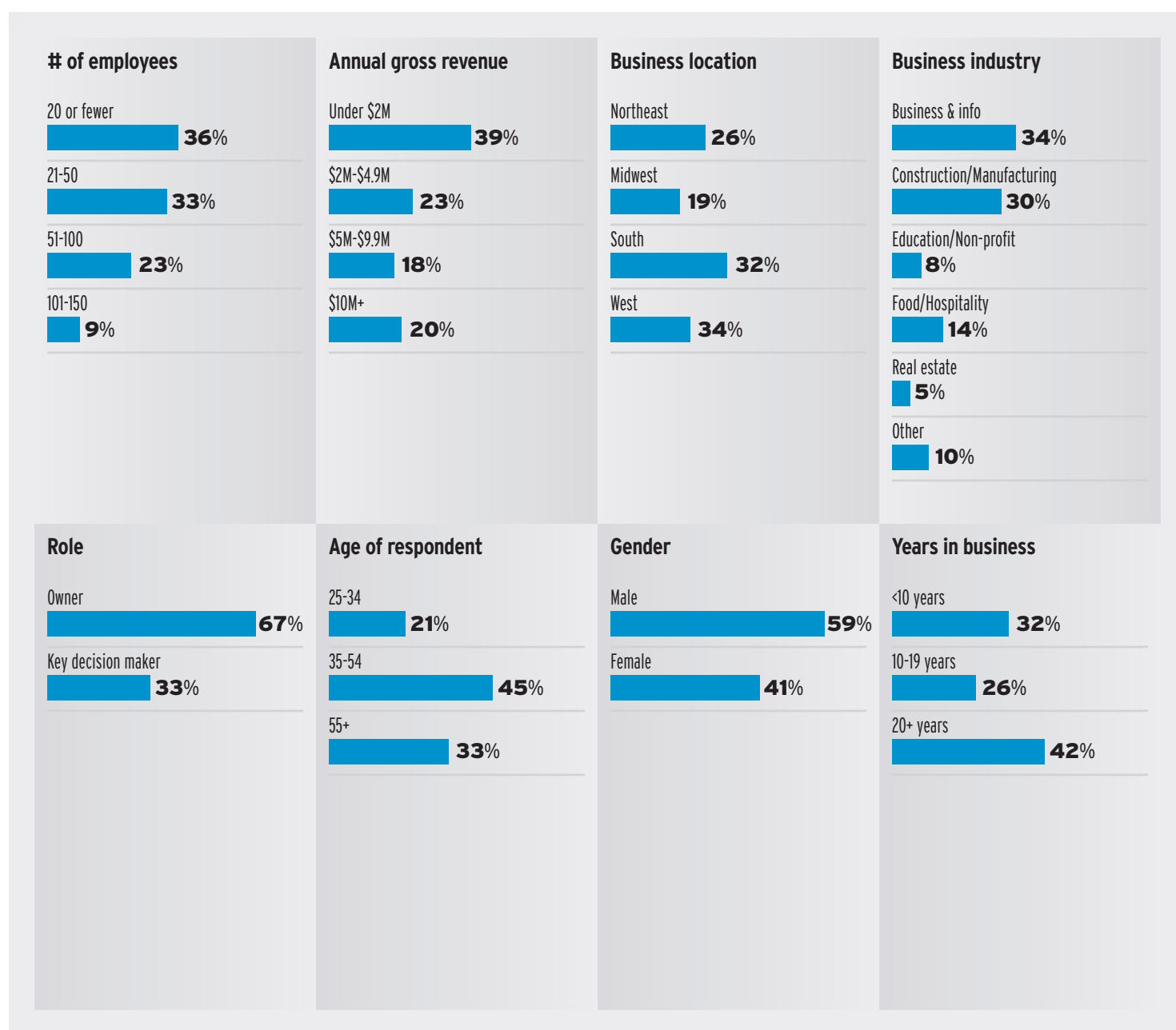
AUDIENCE	<ul style="list-style-type: none"> • Potential PEO clients • PEO “almost-clients”
METHOD	<ul style="list-style-type: none"> • 6 in-person focus groups with potential clients segmented by business size <ul style="list-style-type: none"> - Supplemented with 5 in-depth telephone interviews with larger potential clients • 5 in-depth phone interviews with “almost-clients”
OBJECTIVE	<ul style="list-style-type: none"> • Better understand the needs of potential clients and determine the optimal way to communicate how PEOs can meet their needs. • Establish why “almost-clients” did not move forward with the services offered by a PEO and confirm if key findings from the potential clients hold true and would impact this audience.

Quantitative Sample - Demographic Makeup

In order to qualify for the quantitative survey, each participant must have met the following requirements:

- At least 25 years old
- Key decision maker for hiring a professional services firm to help handle internal business functions
- Between 6 and 150 employees (specific quotas were set to maximize completes with the core target: 10-99 employees)
- Business revenue of at least \$500,000

The following represents the demographic makeup of the sample:



Core Objectives

1. Why do PEOs have the customers they have?
2. Why aren't more businesses using PEOs?
- 3a. What is the best way to engage potential clients?
- 3b. What can NAPEO do to increase PEO market share?

Core Objectives

1. Why do PEOs have the customers they have?

2. Why aren't more businesses using PEOs?

3a. What is the best way to engage potential clients?

3b. What can NAPEO do to increase PEO market share?

Quantitative Findings: Unaided awareness of PEOs

- Just under half of respondents (45%) say they are aware of PEOs. However, a follow-up question reveals a lack of true understanding among those that are aware of PEOs.
- Among business owners that have never used a PEO, less than 10% can accurately articulate what a PEO is and does.
- Awareness is significantly lower among smaller businesses (20 or less employees).

Aware of PEO - Professional Employer Organization

(n=501)

45%

22%

33%

**Yes, aware
of PEOs**

**Aware of
description**
but not PEO name**

**No, not aware
of description
or name**

% AWARE OF PEO NAME

COMPANY SIZE	20 or less employees	32%
	21-50 employees	52%
	51-100 employees	52%
	101-150 employees*	55%
PEO USE STATUS	Current users	100%
	Past users	100%
	Never users	30%

*Warning: Small sample size issues

**Any companies that offer a full range or comprehensive set of business and HR related functions including payroll, benefits, tax administration, workers' compensation, regulatory compliance and other human resource related services such as employee relations and employment issues?

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

Q: Are you familiar with any companies that offer a full range or comprehensive set of business and HR related functions including payroll, benefits, tax administration, workers' compensation, regulatory compliance and other human resource related services such as employee relations and employment?

What is a PEO?

(n=226 aware of PEOs)

Outside company that helps
with HR-related functions

42%

Other mentions

41%

Other

4%

Don't know

15%

OPEN-ENDED RESPONSES

- 14% Handles HR functions
- 13% Handles payroll
- 11% Handles benefits/401k/Insurance
- 4% Handles recruiting
- 4% Handles taxes
- 3% Handles employee relations
- 2% Handles workers' comp
- 2% Handles compliance issues
- 1% Handles employee training
- 1% Handles employee risk/safety
- 1% Handles legal matters

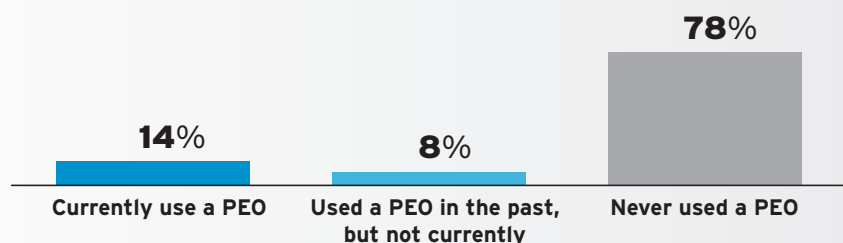
- 19% Helps/Takes care of companies
- 11% Employment management tasks
- 7% Good (general mention)
- 4% Helps companies get organized
- 1% Employee leasing

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

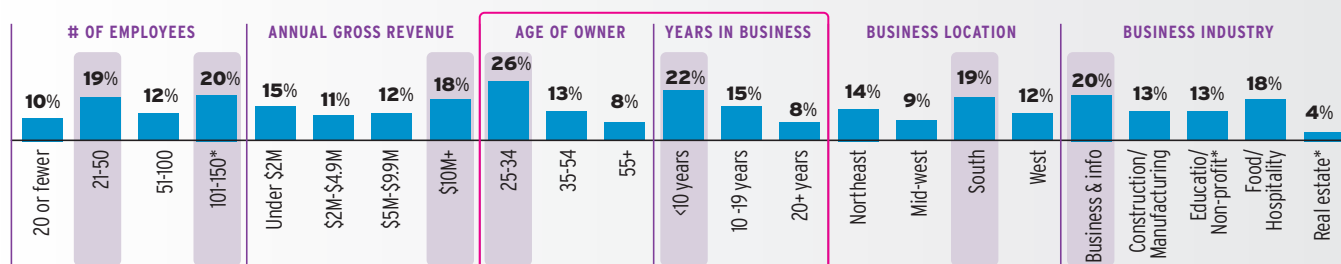
Quantitative Findings: A Profile of Current PEO Users

- Among all participants, 14% indicate that they currently use a PEO, with 8% indicating that they used a PEO in the past but not currently.
- Certain demographic groups are more likely to currently use a PEO, including:
 - **Younger business owners (25-34 years old)**
 - **Younger businesses (in business less than 10 years)**
 - Businesses with 21-50 employees and 101-150 (warning: small sample size)
 - Businesses with higher revenue (\$10M+)
 - Businesses located in the South
 - Businesses in the business & info industry (including accounting, finance, insurance, health services, legal services, management companies, personal services, technology and telecommunications) and the food, hospitality and retail trade industries.

PEO Use (n=501 total respondents)



PEO Use Demographic breakouts (n=501)



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

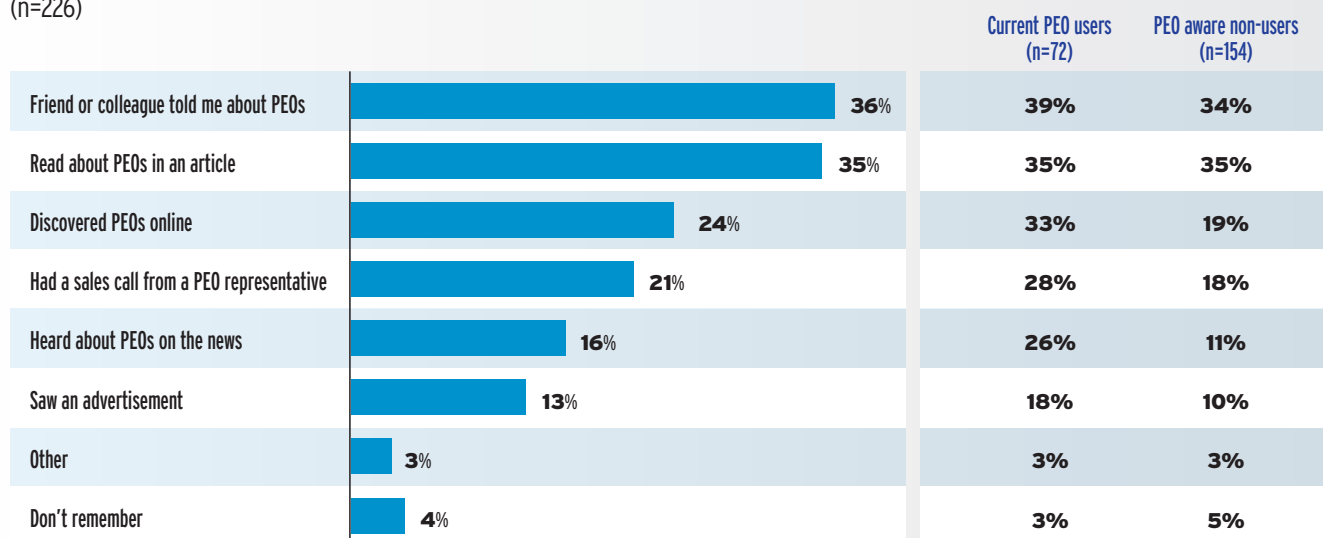
*Warning: Small sample size

Quantitative Findings:

How do Small Business Owners Learn about PEOs

- Participants aware of PEOs were most likely to have learned about them through a friend/colleague or to have read about them in an article.
- While non-users generally heard about a PEO through a friend/colleague or an article, current users also mention that they were likely to have discovered a PEO online, had a sales call with a representative, or heard about PEOs in the news.

Percent of respondents aware of PEOs
(n=226)



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

Qualitative Findings:

Why Did Current Clients Move Forward With a PEO?

To begin the discussion with current PEO clients, we asked them to recall their decision to use a PEO and what specifically caused them to move forward with the company.

- Current clients mention a multitude of ways they initially became familiar with PEOs from general internet searches of companies to help with a certain aspect of their HR, all the way to being targeted by PEO salesforce representatives.
 - Those searching for HR-related help generally did so as a way to free up their time and remove the burden associated with these functions.
- After becoming aware of PEO companies in general, nearly all clients indicated that they completed comprehensive internet research to better understand PEO services and the benefits of using this type of company followed by actually speaking with PEO company representatives.
- The decision to move forward was generally made when a sense of trust was built with the PEO to handle the company's business functions with the same care and investment as the owner themselves. Often, this trust was established by **direct communication with the PEO representative and peer/colleague recommendations and testimonials.**

Qualitative Findings:

Why Do Current Clients Stay With A PEO?

After establishing what initially drew current clients to a PEO and why they ultimately decided to move forward with the service, we wanted to uncover what made them stay with the PEO.

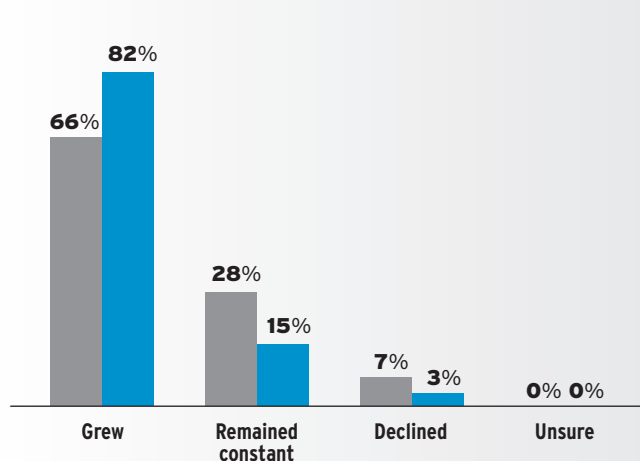
- Nearly all current clients immediately mention the time savings associated with using a PEO as the core reason they continue to use their services.
 - While most mentioned time savings as an initial reason to seek out help, they admit they did not realize the amount of time and brainpower required to run their HR functions in-house. It was only after moving forward with the PEO that they realized how much time could be saved.
- The peace-of-mind associated with using a PEO is also often mentioned as a reason they continue using their services.
- A few current clients also mention cost savings as a reason to continue using a PEO, but it is often not mentioned as a core driver for retaining the PEO services.

Quantitative Findings: Business Growth

- Current PEO users are significantly more likely to report business growth last year compared to non-users, 82% vs. 66%, respectively.
- Further, nine out of 10 current PEO users expect their business to grow next year compared to only three-quarters of non-users having the same optimism.

Past year - 2017

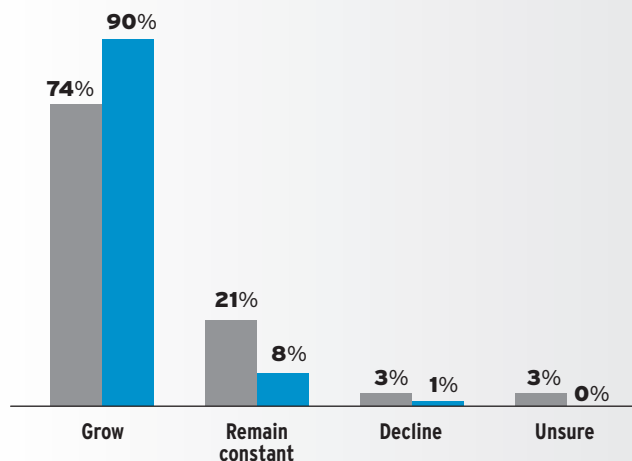
● Non-clients ● Current client



Q: In 2017, did your business grow, decline, or remain at about the same level compared to 2016?

Next year - 2018

● Non-clients ● Current client



Q: And, do you expect your business to grow, decline or remain at about the same level over the course of 2018?

Key Findings: Why Do PEOs Have the Customers they Have?

- Surface level awareness of PEOs appears headed in the right direction, with 45% of the sample aware of PEOs and another 22% aware of these types of companies. However, a true understanding of a PEO is much lower with less than 10% of those who have never used a PEO being able to articulate what a PEO is and does.
- PEO use sits at 14% among this sample of business owners and key decision makers, but the demographic profile of users is very promising for the future with the highest use among 25-34 year old business owners and those in business for less than 10 years.
- Initially, some business owners became aware of PEOs while searching for help to relieve some of the burden associated with HR-related functions while others mention specifically being targeted and approached by a PEO representative.
- The decision to move forward with a PEO was almost always based on a trust that the PEO would handle the functions with same care and investment. Current users indicate this trust was built by direct communication from the PEO and peer/colleague recommendations and testimonials.
- Although a few clients mention cost-savings as a reason they continue to use a PEO, nearly all agree that time savings and peace-of-mind are the key drivers for continued use.

Core Objectives

1. Why do PEOs have the customers they have?

2. Why aren't more businesses using PEOs?

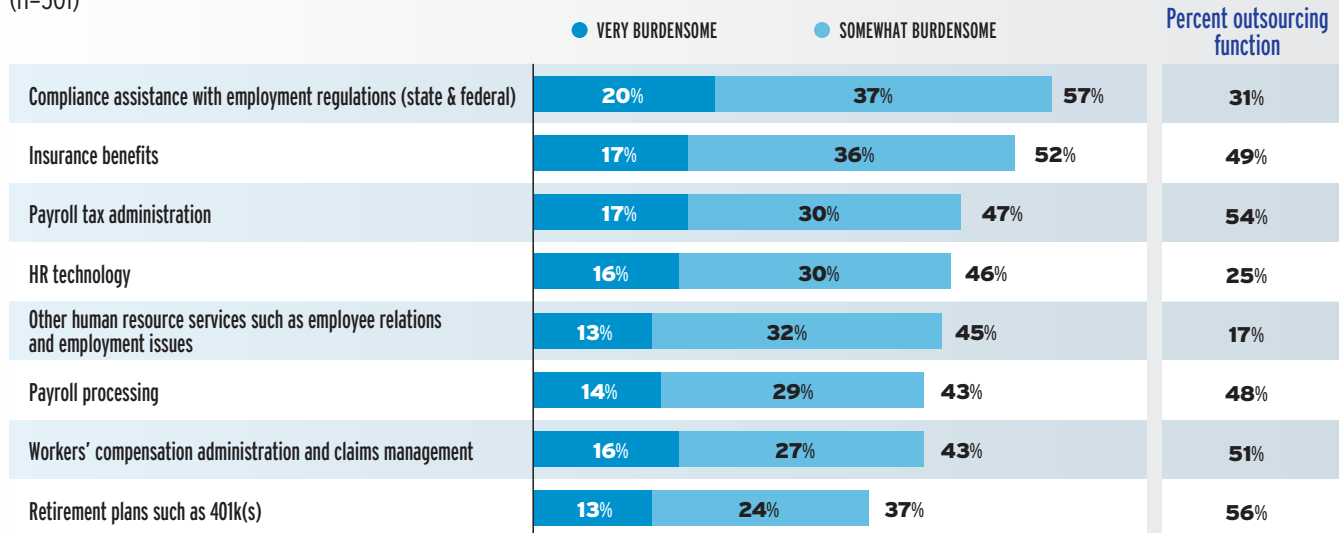
3a. What is the best way to engage potential clients?

3b. What can NAPEO do to increase PEO market share?

Quantitative Findings: Level of Burden

- There's a fair amount of burden associated with the various business functions listed in the survey, including a range of 37% - 57% saying each function is burdensome and an average of 46% across all eight of these items.
- With the exception of retirement plans, every two out of five business owners/decision makers will say these various items are at least somewhat burdensome.
- The complexity of the PEO industry and outsourcing in general is highlighted by the fact that only 48% of participants indicate they outsource payroll processing.
- Further, qualitative discussions revealed that the burden associated with compliance assistance and insurance benefits has increased as a direct result of the ACA.

Percent of total respondents (n=501)



Q: Which of the following business functions listed below does your company outsource to an external company and which are handled internally?

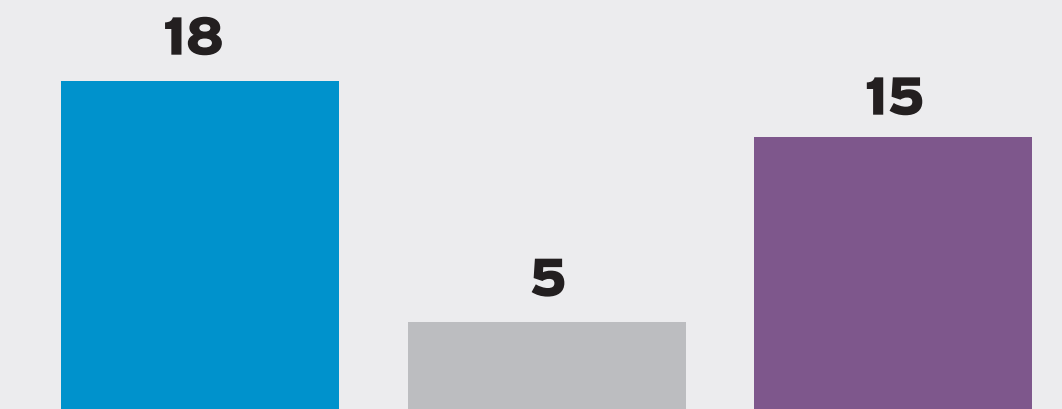
Q: Please rate each of the business functions listed below on how burdensome that function is for you and/or someone on your staff throughout the course of the year.

Qualitative Findings: Preference To Outsource Business Functions

In each focus group, participants were presented with two potential viewpoints and asked to select which one most represents their point-of-view. This graph represents how many participants identify with each view point.

- In general, participants are split on whether they prefer to handle all business functions internally or outsource some of these functions.
- The majority of participants volunteer that this is a difficult question to answer. They indicate a preference to outsource but express a reluctance to give up control and trust an outside firm.

- **Viewpoint 1:** I prefer to be involved in all business functions that relate to my company to keep my finger on the pulse of everything that is happening in my company.
- **Neutral/In-the-middle**
- **Viewpoint 2:** I prefer to outsource certain business functions to allow me to focus on the primary purpose of my business.

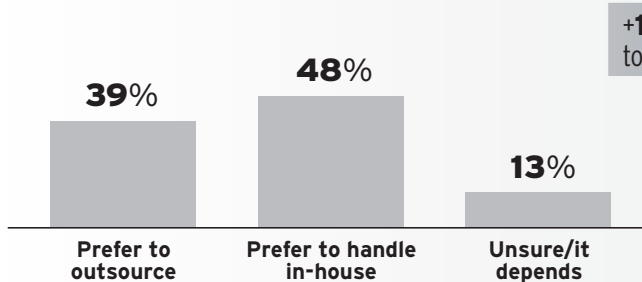


Quantitative Findings:

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 proven to be the same cost either way.
- If proven to be more cost effective to outsource, 20% of the in-house group drop out, but only half (11%) move to prefer to outsource, while the other half (9%) move to unsure.

Cost neutral - same cost to outsource or handle in-house
(n=501)



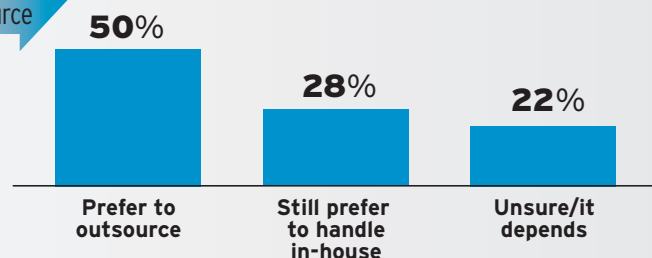
% PREFER TO OUTSOURCE

20 or less employees	38%
21-50 employees	40%
51-100 employees	41%
101-150 employees*	36%

*Warning: Small sample size

More cost effective to outsource than handle in-house
(n=501)

+11% prefer to outsource



% PREFER TO OUTSOURCE

20 or less employees	48%
21-50 employees	52%
51-100 employees	48%
101-150 employees*	55%

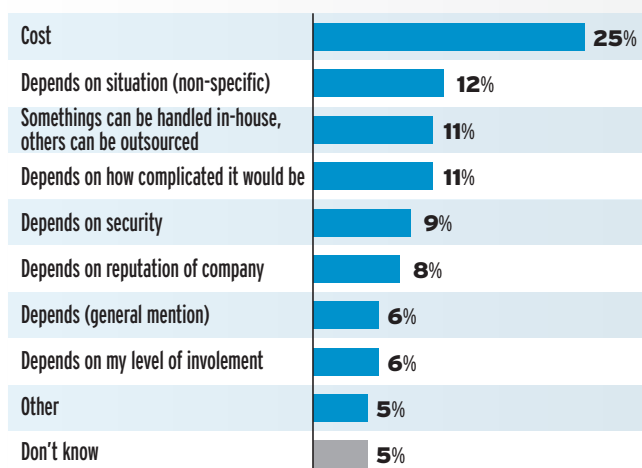
Q: Assuming the cost would be the same to you either way, would you prefer for your company to handle all human resource related functions, including benefit and regulatory issues, in-house or would you prefer to outsource those functions to a firm specializing in those functions?

Q: If you found it more cost effective to outsource your human resource related functions to a firm specializing in those functions, would you still prefer your company to handle those functions in-house?

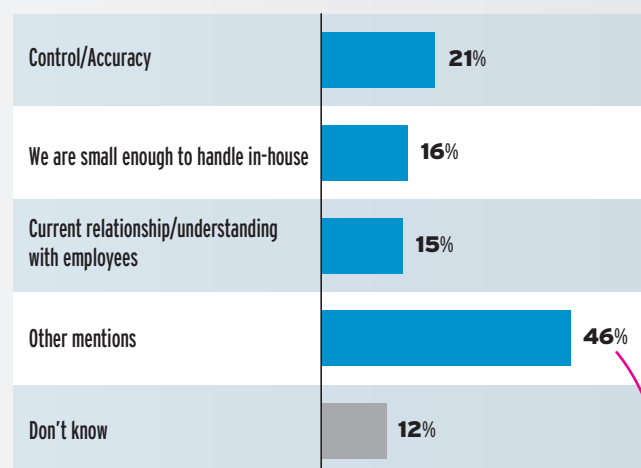
Quantitative Findings: Reasons Prefer Not To Outsource

- Those indicating “it depends” on their preference to outsource do so because of cost, the specific situation, complication issues, security concerns, reputation of the company, and their level of involvement with the processes.
- Those who prefer to handle functions in-house, do so because of concerns over control/accuracy, less of hassle, cost and relationship concerns.
- Control/Accuracy and current relationship/understanding with employees represent two themes we see throughout the research: 1) lack of trust in an outside firm and 2) concern for maintaining the employee experience they have built.

Reasons “it depends” on preference to outsource business functions
(n=65)



Reasons prefer to handle in-house
(n=240)



OPEN-ENDED RESPONSES

- 14% Easier/Less hassle
- 13% Preference (non-specific)
- 12% Cost/cheaper
- 5% Feel it is the best way
- 4% Security/Privacy

Q: Would you please elaborate on your answer “it depends”? On what factors or further information does your preference depend?

Q: Why would you prefer for your company to handle all human resource related functions internally?

Quantitative Findings: Clarity and Familiarity with PEO Description

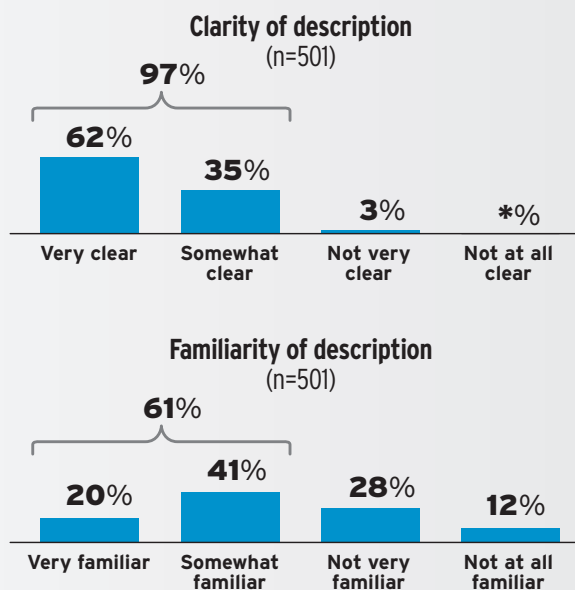
- Nearly all participants indicate that the PEO description clearly defines what a PEO is and does.
- Further, more than 60% of participants indicate at least some familiarity with the PEO description. However, unaided awareness indicates that this familiarity is not top-of-mind.

PEO Description:

A professional employer organization provides comprehensive human resources services to small and mid-sized businesses. They work hand-in-hand with small 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 small 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, 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.

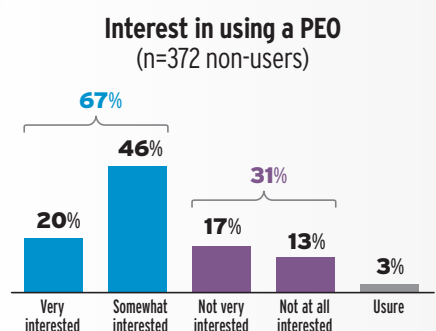


Q: After reading this definition, how well do you understand what a PEO is and does?

Q: How familiar would you say you are with companies that offer professional employer organization (PEO) services?

Quantitative Findings: Interest in Using a PEO Description

- After reading the PEO description, interest in using a PEO is high, with more than two-thirds of participants (not currently using a PEO) indicating they are at least somewhat interested. Interest in using a PEO goes up in proportion to the size of the business.
- However, while reading the description alone gets a majority (67%) into the consideration set, only one in five (20%) say they are very interested.
- The majority of participants who indicate they are not interested in using a PEO, do so because they say there is no need.



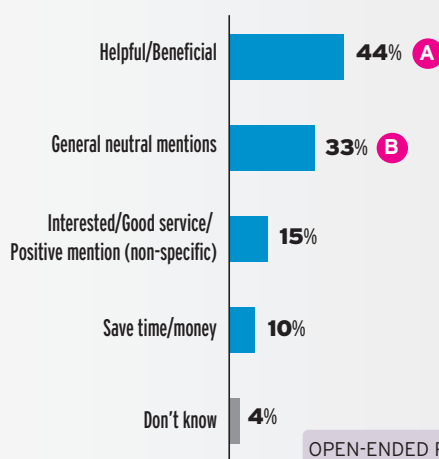
% (VERY/SOMEWHAT INTERESTED)

20 or less employees	63%
21-50 employees	66%
51-100 employees	71%
101-150 employees*	75%

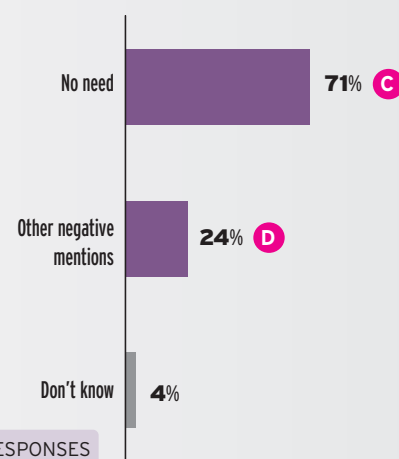
*Warning: Small sample size

Reasons interested/not interested

Reasons interested (n=248)



Reasons not interested (n=114)



OPEN-ENDED RESPONSES

- A**
- 19% Beneficial (non-specific)
 - 11% Reduce burden/stress
 - 11% Allow time to focus on business
 - 4% Legal help
 - 4% Makes things easier

- B**
- 19% Depends on cost
 - 16% Need more info
 - 4% Depends on services offered

- C**
- 26% Able to handle in-house
 - 22% No need (non-specific)
 - 16% Prefer to be "hands-on"
 - 13% Not applicable to industry

- D**
- 11% Cost prohibitive
 - 6% Loss of employee relationship
 - 4% Not interested (non-specific)
 - 4% Negative past experience

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

Q: Why do you say that you are [INSERT Q35 ANSWER] in regard to using PEO services in the future?

Qualitative Findings:

Description Clarity and Interest in Using a PEO

DESCRIPTION CLARITY & UNDERSTANDING

- Similar to the quantitative findings, the majority of focus group participants agree that the PEO definition clearly describes what a PEO is and does.
- However, in each group there was some confusion/concern around what is meant by “establishing a co-employment relationship in which both the PEO and the small business have an employment relationship with the worker.” This further exemplifies the concerns about the employee experience of hiring a PEO.
- A few other minor points of confusion include:
 - › Who is in control of the employees? Where does the control/responsibility end for the PEO and start for the owner?
 - › What is the definition of “small to mid-sized businesses”?
 - › Does the PEO actually put a person onsite for each client?

INTEREST IN USING A PEO

- Although not willing to fully commit to using a PEO, the majority of participants exhibited strong interest in learning about a PEO after reading the description.
 - › In fact, a number of participants were actually searching for PEOs on their phones after discussions concluded.
- Further, nearly all participants agree that the services provided by a PEO are valuable to a company rather than unnecessary.

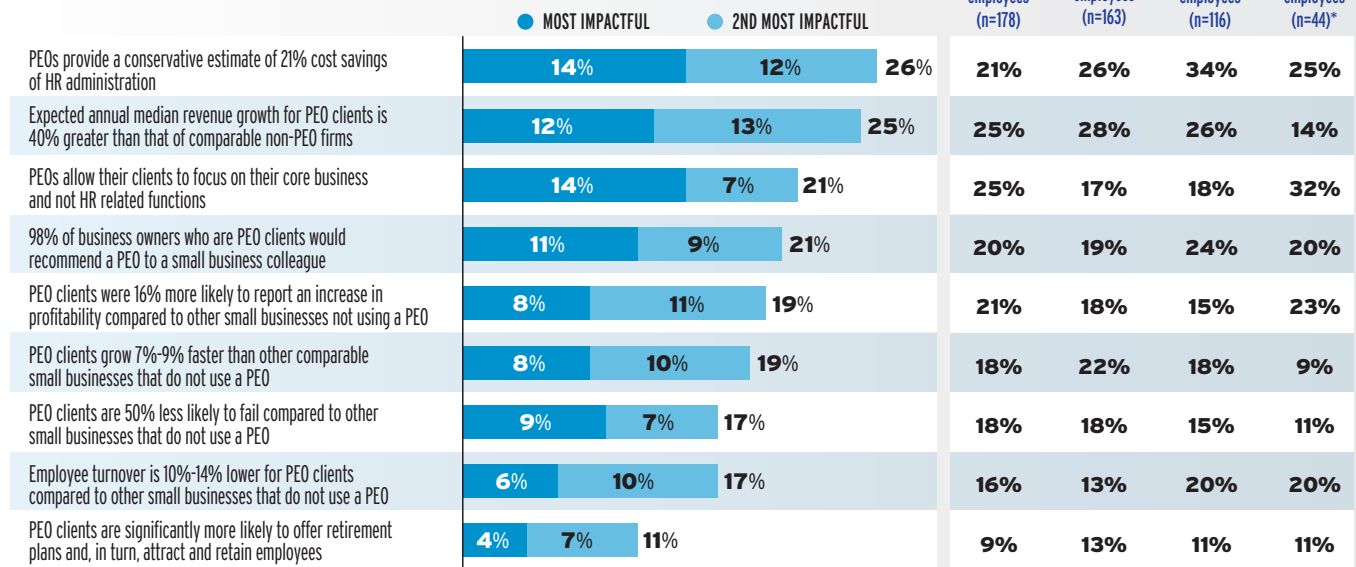
Quantitative Findings:

Impact Statement Evaluations - Forced Choice

- When forced to pick the top two most impactful statements, participants are most likely to select HR cost savings and median revenue growth followed by allowing clients to focus on their core business and 98% of PEO clients recommended their services.
- Medium sized businesses tend to focus on the HR cost savings and median revenue growth while larger business tend to focus on allowing clients to focus on their core business.

Impact Statements About PEOs

Percent of total respondents
(n=501)



*Warning: Small sample size

Q: And, which of the following benefits do you feel would be most impactful on your decision to use a PEO in the future?

Q: Which would be the second most impactful on your decision to use a PEO in the future?

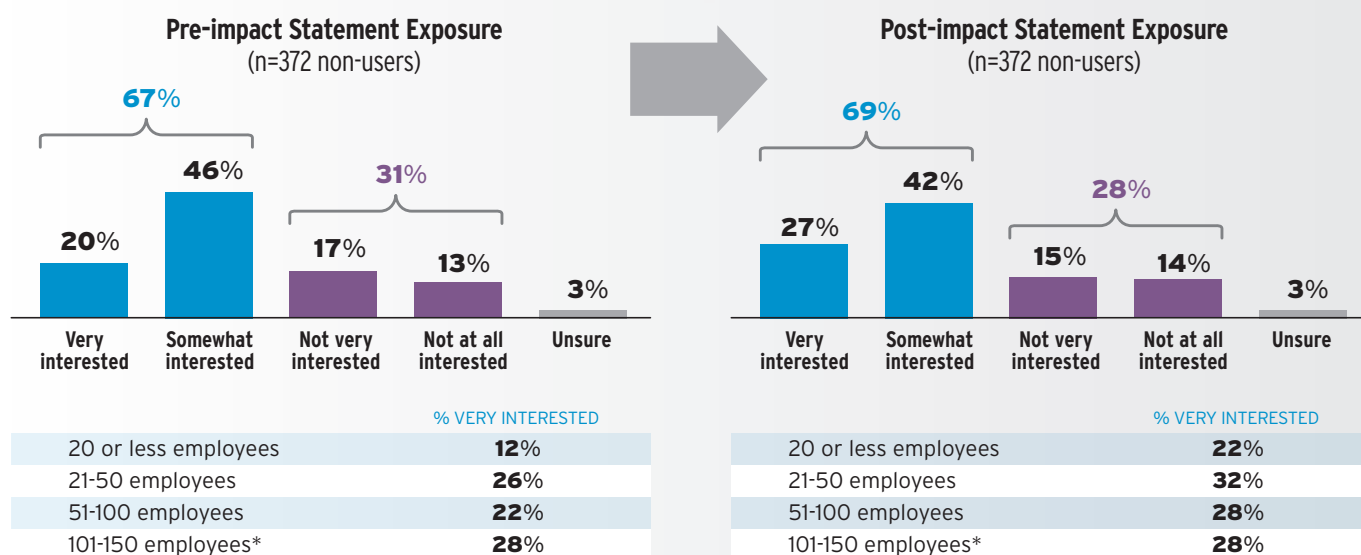
Qualitative Findings: Impact Statement Evaluations

The previous slide looked quantitatively at the impact of these statements, but a surface-level evaluation can sometimes be misleading...

- Qualitative discussions revealed that **“allowing clients to focus on their core business and not HR-related functions,”** was most impactful for business owners on their decision to use or consider using a PEO.
- The importance of referrals among business owners is exhibited by the statement **“98% of business owners who are PEO clients would recommend a PEO to a small business colleague,”** also rising to the top in terms of impact.
- The profit/revenue related impact statements are seen as very impactful among the 10-20 employee owners but less impactful for the medium to larger business owners.
 - › A qualitative discussion around these benefits revealed that, although owners were impressed by these substantial increases, some had difficulty believing such drastic improvements.
 - › Further, some also question how a PEO will directly affect their revenue, stating, “How would a company that knows nothing about my business, help me increase my revenue?” Rather, these medium to larger size business owners gravitate towards the cost savings impact statement, seeing it as more believable that a PEO could directly affect HR-related cost savings. After some natural discussions during the groups, most of the owners made the connection that freeing up their time would lead to increased revenue/business growth, but it was not immediately intuitive without starting with the time-freeing benefit.

Quantitative Findings: Interest - Pre Vs. Post Impact Statement

- In general, the impact statements did not move many respondents from “not interested” to “interested” in using a PEO. However, there was a significant shift in those saying “somewhat interested” to “very interested”.
- It appears the PEO description generated a strong interest on its own and the impact statements pushed that interest to a higher intensity.

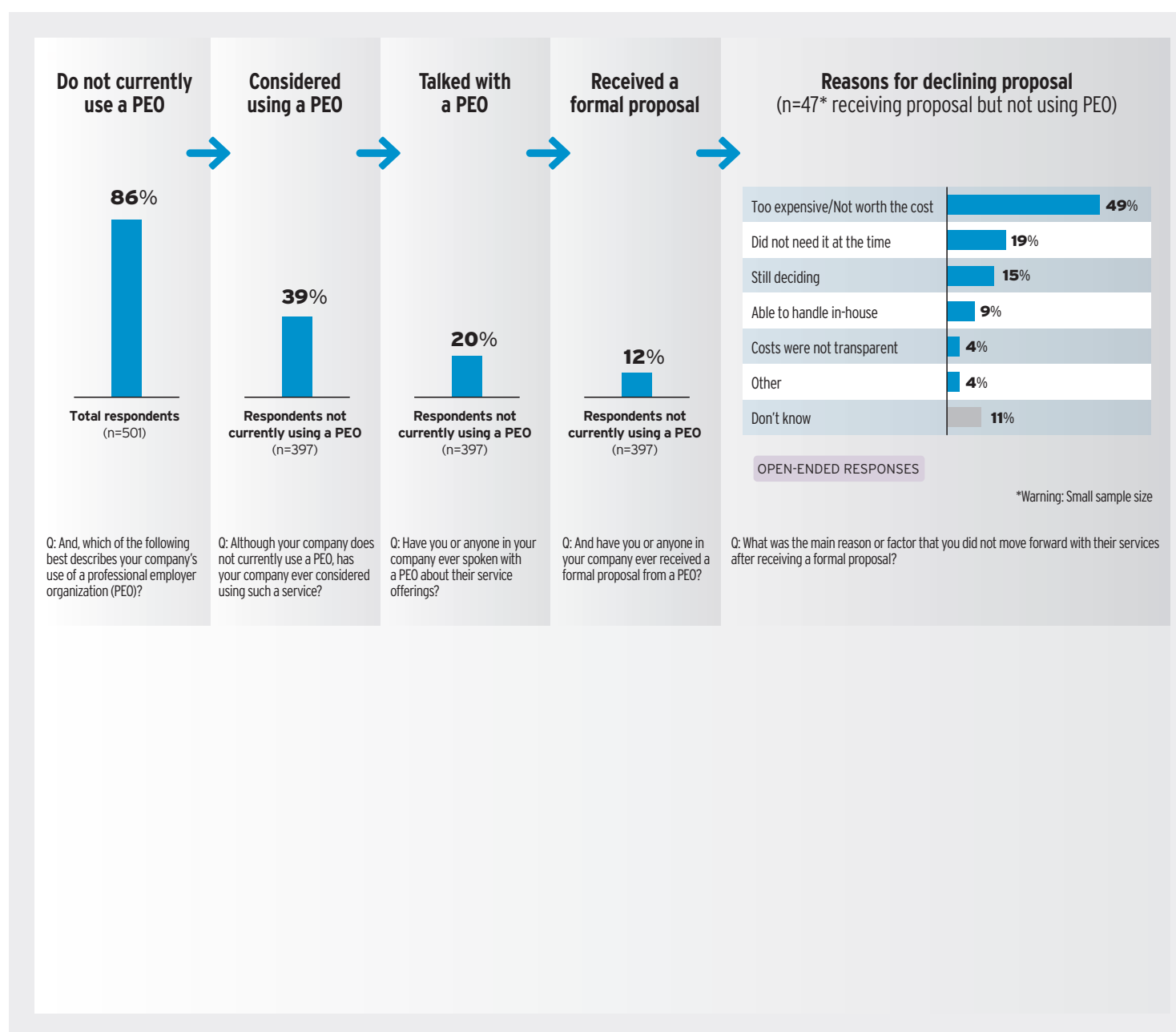


Q: Considering the definition of a PEO you just read, how interested are you in using this type of offering for your company?

Q: After hearing these potential benefits of using a PEO, how interested are you in using this type of offering for your company?

Quantitative Findings: PEO Consideration Funnel

- Among the 86% of participants who do not currently use a PEO, 39% indicated they have considered using a PEO with 20% actually talking with a PEO and 12% 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.



Qualitative Findings:

"Almost-Clients" Reasons for Not Moving Forward

In-depth interviews were conducted with "almost-clients" (those receiving a formal proposal from a PEO but not moving forward) to better understand why they decided to keep the current structure and not move forward with PEO services.

- "Almost-clients" often mention cost as the reason they did not move forward with using a PEO. However, in-depth discussions revealed that it was more of a concern around the transparency of costs, rather than the raw costs themselves. Specifically, this audience mentioned a concern over potential increases in cost once the PEO is "in the door". Some respondents indicated this was just an assumption they had, while others mentioned actually talking with current clients about increasing costs.
- All of these respondents decided to pursue a formal proposal from a PEO based on peer/colleague recommendations.
- Building a relationship of trust and guaranteeing that costs would not fluctuate could have pushed these respondents to accept the proposal from the PEO.

Qualitative Findings: Barriers to Using a PEO

- In general, providing the definition and impact statements of using a PEO increased the genuine interest and curiosity of participants who indicated they would likely seek out more information following the groups.
- However, there were a number of concerns or barriers that participants mentioned, including:
 - > **Transition for employees** - nearly all groups mentioned a concern for the well-being of their employees and the perception of transferring employee management to an outside firm would have on employees.
 - More specifically, multiple participants mention a concern for the transition period and if it would have an impact on employee morale.
 - > **Employee control** - "Who is in control of the employees?"
 - > **Cost/Cost structure** - "Is the cost structure transparent?", "Will the costs remain constant or fluctuate?"
 - > **Cultural impact of bringing in an outside firm**
 - > **Quality of services** - "Can one firm truly excel in all aspects of HR?"
 - > **Perception of increased risk** - "Putting all your eggs in one basket is concerning for any aspect of running a business."
 - > **Current employment changes** - "Would the PEO replace my employees currently handling the HR-related functions?"

Quantitative Findings: Perceived Value of Using a PEO

- Among total respondents, fair value for a PEO lies between 2.8% and 4.5% of total W-2 wages (assuming an average wage of \$50,000 per year) with 6.1% being the average point at which it is considered too expensive.
- Larger businesses (101-150 employees) indicate a much tighter fair value window of 3.0% to 3.8% and 4.9% considered too expensive.



*Warning: Small sample size

Q: Below are three questions regarding your perceived value of the PEO service offering described throughout this survey. For this exercise, please assume that this type of service would be offered at a percentage of your total W-2 wages. Please assume your employees are paid on average W-2 wages of \$50,000 per year. At what cost (percentage of your total W-2 wages) do you consider the service offerings of a PEO to be... a good value... getting expensive, but would still consider it... too expensive to consider.

Key Findings: Why Aren't More Businesses Using PEOs?

- As we saw in the previous section, awareness is trending in the right direction but true understanding of PEOs is still very low.
- While there is a fair amount of burden associated with the various HR-related business functions, owners do not immediately show a preference to outsource those business functions. However, there is room for optimism as they often express a desire to have that trust in another company.
- The PEO description generates strong interest in learning more about these types of companies and the impact statements work well to move those interested into a higher likelihood to use. Articulating this information in a concise and impactful way will be critical for moving potential clients along the buyer's journey, especially those owners not actively searching for help.
 - However, care needs to be taken when describing the nature of the co-employment relationship. Many owners mention this as somewhat confusing and an important area of concern. Owners do not want to feel they are losing control of the employee experience.
 - The revenue/profit benefit statements certainly have the "wow-factor" and rise to the top in terms of impact during the quantitative survey, but in-depth discussions revealed that the higher level statements (e.g. freeing up owners time and 98% client recommendations) are more believable and impactful, especially for larger size businesses.
- Although consideration of a PEO appears high, only about half of those considering have actually talked with a PEO, indicating a low likelihood to act on that consideration.
- Potential clients receiving a formal proposal but not moving forward mostly mention a concern around transparency of cost and fear of increasing costs as reasons for not moving forward.
- Although exposure to the PEO description and impact statements generates strong interest in using a PEO, there is a general concern about the potential negative impact that hiring a PEO may have on the employee experience.

Core Objectives

1. Why do PEOs have the customers they have?

2. Why aren't more businesses using PEOs?

3a. What is the best way to engage potential clients?

3b. What can NAPEO do to increase PEO market share?

Qualitative Findings: Business Owner Concerns

To begin each of the focus groups, participants were asked to share their top concerns in regards to running their business. This graph represents the order and frequency of the mentions.

- Financial and growth concerns were mentioned by almost all participants.
- A number of concerns related to the general well-being of employees were also mentioned in all groups, including recruiting/retaining quality employees, guaranteeing health insurance for employees, properly training employees and ensuring employee safety.

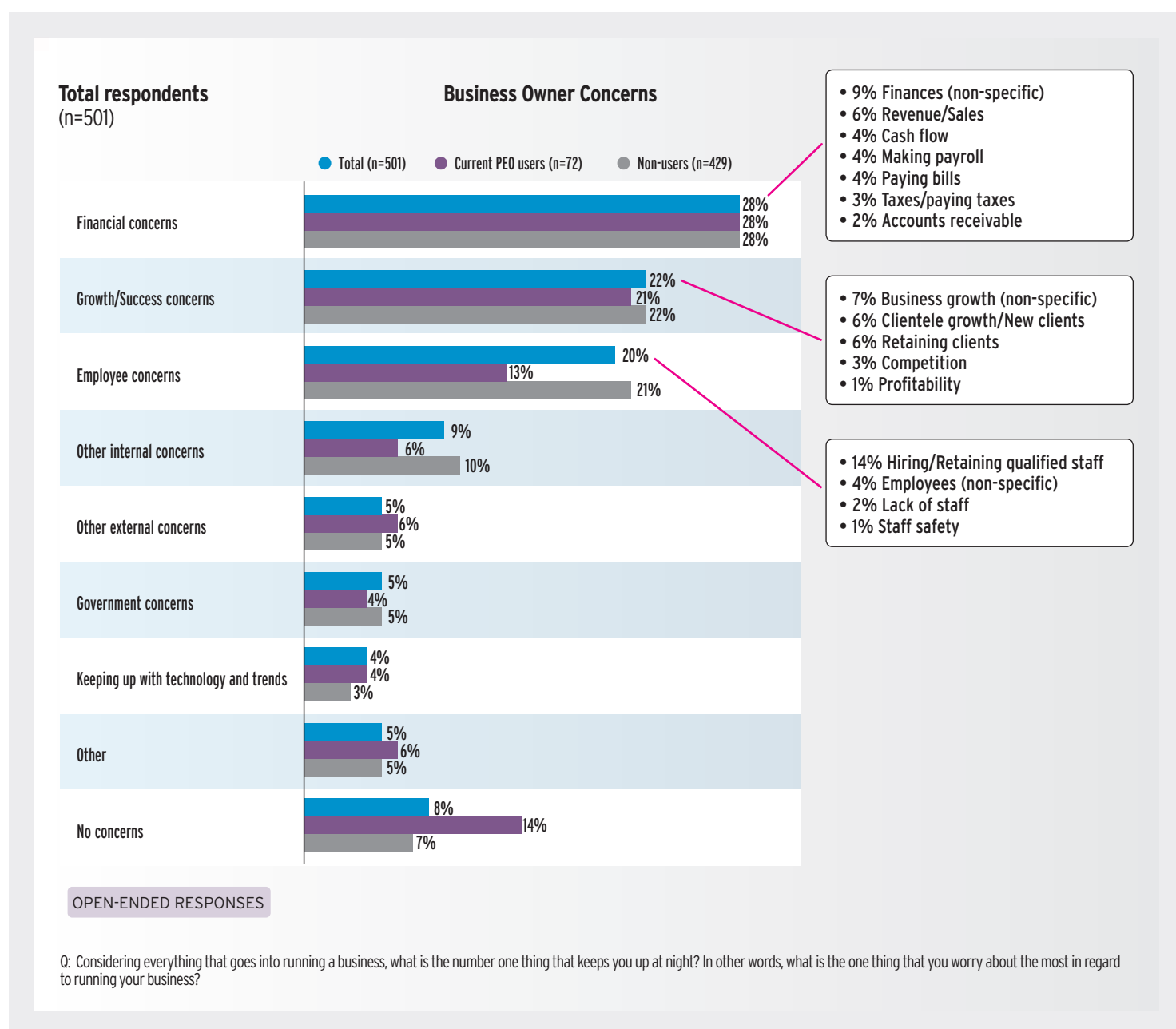
BUSINESS OWNER CONCERNS



Revenue/Profit generation
 General company growth
Recruiting/Retaining quality employees
Guaranteeing health insurance for employees
 Technology issues
Proper training for employees
Employee safety
 Taxes
 Staying in compliance with federal and state laws
 General paperwork concerns
 Accounts receivable/payable
 State of the economy

Quantitative Findings: Business Owner Concerns

- Business owners are most concerned with the financial aspects of their business, including growth aspirations, followed by employee-related concerns.
- Current PEO users are significantly less likely to mention employee-related concerns and significantly more likely to say they have no concerns compared to non-users.



Qualitative Findings:

Factors Considered When Hiring An Outside Firm

Participants in each focus group were asked to recall and discuss key decision factors they used when determining whether or not to hire an outside firm.

- Overwhelmingly, owners look for a company they trust to handle the function with the same investment and care they would exhibit themselves. The specific factors listed in the box are used to evaluate this trust in another company.
- The initial communications and relationship built by the outside firm are key elements considered in this decision as most participants voice concerns over how the overall experience will impact their employees.
- In order to build trust, it is all about the relationship, confidence in a seamless transition and overall uninterrupted employee experience.

FACTORS CONSIDERED

Referrals/Testimonials - the most trusted source of information for business owners is peer reviews and endorsements.

Ease of transition - the majority of participants across all groups indicate a strong concern over how their employees will handle the transition and generally select firms that instill confidence in a seamless transition.

Reputation and longevity - recognizable name and length of time in business.

Communication - are they upfront with their processes and able to easily communicate how they will provide their services.

Point-of-contact - is there a constant person to call with questions.

Services offered/not offered

Qualitative Findings: Communicating to Business Owners

During the focus group discussions, participants were presented with a list of potential sources of information and asked to discuss which sources they find most trustworthy.

- While participants gather information from a number of different sources, nearly all agree that the most impactful sources of information are **business associates/peers and trusted advisors**.
- Trade associations rank just below associates/peers and trusted advisors in terms of trustworthy sources of information.
- While qualitative discussions revealed a lack of trust in standard marketing techniques, such as email or online marketing campaigns, these tactics have been proven to be effective at elevating the awareness level.

TRUSTED SOURCES OF INFORMATION



Business associates and peers

**Trusted advisors such as accountant
or lawyer**

Trade associations

Trade magazines or websites covering
my industry

Blogs and/or social media published by experts
in my industry (e.g. consultants, advisors, etc.)

General business magazines (e.g. Inc., Fortune,
Forbes, Entrepreneur, etc.)

Business newspapers (e.g. Wall St. Journal,
Barron's, Investor's Business Daily, etc.)

Quantitative Findings:

Trusted Sources of Information

- Overwhelmingly, participants are most likely to trust advisors (such as accountants or lawyers) or business associates/peers - this is true among all business sizes. Further, these trusted sources of information were confirmed by qualitative discussions.
- Local and vertical trade associations and magazines show moderate trust among the participants.

Trusted Sources of Information

Total respondents (n=501)		20 or less employees (n=178)	21-50 employees (n=163)	51-100 employees (n=116)	101-150 employees (n=44)*
Trusted advisors such as my accountant or lawyer	50%	49%	53%	47%	48%
Business associates and peers	48%	46%	44%	54%	55%
Trade associations	22%	24%	24%	14%	23%
Business newspapers	21%	17%	23%	22%	25%
Trade magazines or websites covering my industry	21%	15%	23%	24%	27%
General business magazines	18%	13%	21%	20%	23%
Blogs and/or social media published by experts in my industry	15%	18%	12%	13%	16%
Do not find any of these sources useful or trustworthy	5%	6%	4%	5%	5%

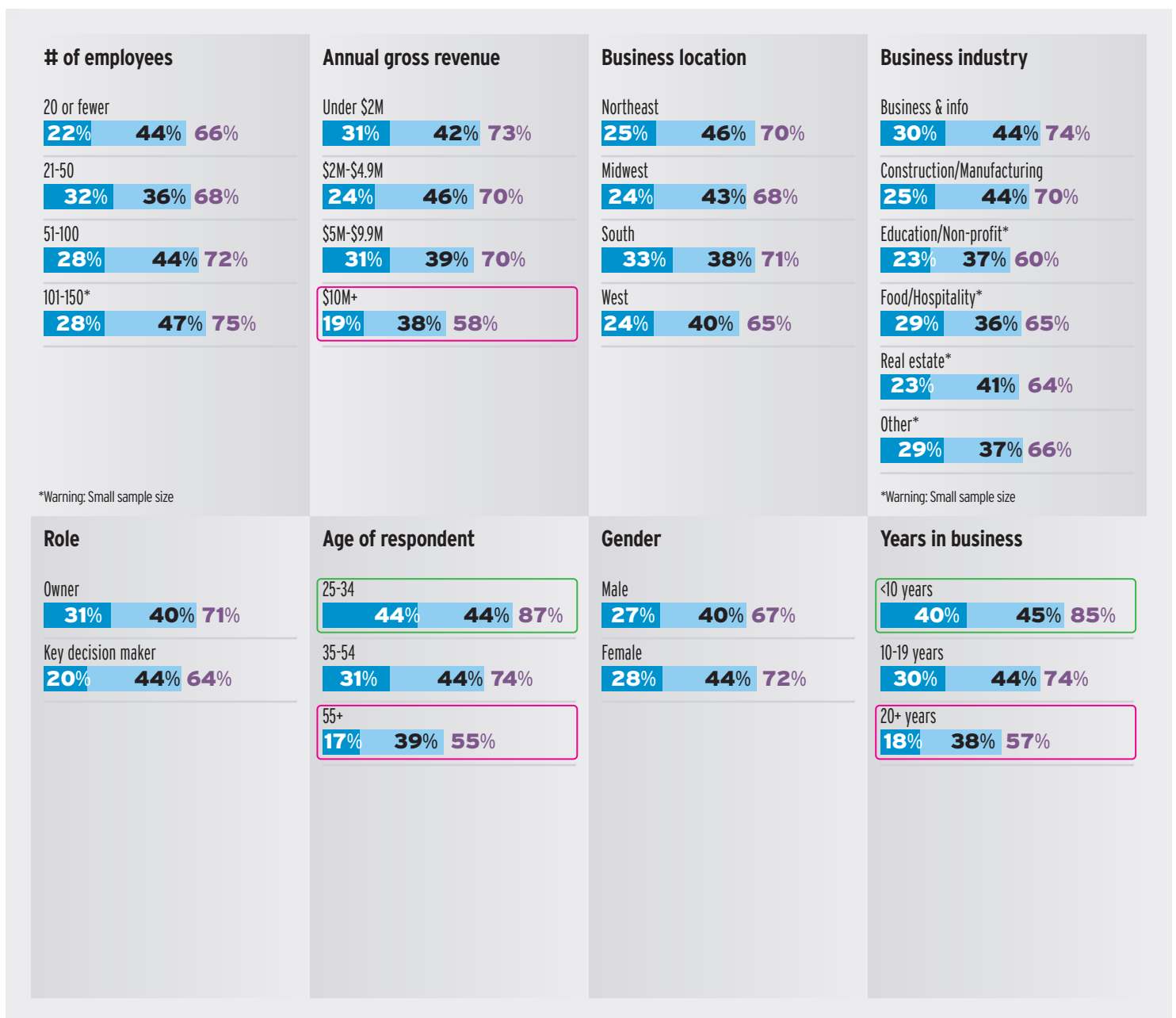
Q: Considering everything that goes into running a business, what is the number one thing that keeps you up at night? In other words, what is the one thing that you worry about the most in regard to running your business?

Quantitative Findings:

Demographic Profile Of Interested Non-Users

- The quantitative landscape shows that younger business owners (25-34 years old) and newer businesses (less than 10 years) are significantly more likely to be interested in using a PEO after being exposed to the description and impact statements.

● VERY INTERESTED ● SOMEWHAT INTERESTED ● TOTAL INTERESTED



Finally, to close out the focus groups, we asked participants about their perceptions and connotations regarding the name of the industry.

- Initially, the name Professional Employer Organization – or PEO – does not generate any strong positive or negative reactions. A few participants feel that it accurately describes the industry, but the majority did not have an opinion one way or the other.
- Further, the majority of participants have difficulty articulating any connotations with the name as they are often hearing it for the first time.
- This lack of negative perceptions or any real associations provides an opportunity to control the story built around the name.
- Although no overwhelming concerns emerged during the focus groups, a few of the participants questioned the use of “Professional” in the name and whether or not that meant PEOs are only applicable for professional industries.

Key Findings:

What Is The Best Way To Engage With Potential Clients?

- Across all research, business owners exhibited a strong relationship and general concern for their employees. This relationship is a top consideration for all their business decisions, including outsourcing business functions.
- When outsourcing business functions, owners mention a multitude of factors they consider but most often the decision came down to building trust through recommendations/testimonials, exhibiting confidence in a seamless transition, reputation/longevity of the firm and direct/transparent communication from the firm's representatives.
- While trusted advisors and peer/colleague recommendations provide strong influence on conversion to PEO use, trade associations and local chambers represent industry-specific opportunities. Further, standard marketing tactics should play a role in elevating awareness and putting PEOs top-of-mind among those looking for help.

Strategic Recommendations

A. Focus future communications around the well-being of the businesses' employees.

- Owners continually mention a concern for their employees, including the effect of a transition, as a barrier to outsourcing more of their business functions or using a PEO. Communications should focus on alleviating the concern with a seamless transition process that always focuses on the well-being of the employees.
- Further, utilize the research findings that show increased employee satisfaction among PEO clients.

B. Future marketing efforts need to be “triaged” for the different categories of small and mid-sized business owners:

- Those businesses seeking help - simply amplifying awareness and understanding will help PEOs become top-of-mind when firms start looking for help with HR related functions.
- Those businesses who don't know there is a better way (“If it ain't broke - don't fix it”) - this group shows strong interest in using a PEO once they are aware of the benefits, but they will be much harder to reach and impart an urgency to change the status quo.
- Those businesses still not interested - some business owners remain uninterested in using a PEO after becoming aware of the benefits.

C. Outreach to trusted advisors and word-of-mouth marketing initiatives will likely result in the greatest impact, but also increasing ties and communications with trade and local associations will help align PEOs with industry verticals.

- Although participants indicate that standard marketing techniques, such as email or online marketing campaigns, are often ignored and not trusted, these tactics should play a role in driving awareness of PEOs, especially among those seeking help.

D. The impact statements will likely not move many uninterested business owners, but they should play a role in moving owners from “interested” to “likely” to use a PEO. However, care needs to be taken on which benefits to emphasize as the complete list is likely too much for unaware owners to digest.

- While the revenue/profit statements are very impressive and eye-catching, the higher level statements about freeing up time will likely have a larger impact with the status quo owner group.
- Further, the cost savings benefits are much more likely to be believable compared to the revenue/profit statements.

E. While raw costs will always be an issue with some potential clients, business owner value expectations are in line with average industry costs. Presenting costs in a transparent manner and alleviating concerns around potential increases in cost will be crucial once “in-the-door” with the potential client.

Core Objectives

1. Why do PEOs have the customers they have?
2. Why aren't more businesses using PEOs?
- 3a. What is the best way to engage potential clients?
- 3b. What can NAPEO do to increase PEO market share?

Next Steps: What Can NAPEO Do to Increase Market Share?

NEXT STEPS...

- Create an actionable marketing communication strategy based on the key research findings to help elevate the awareness and associations with the PEO industry.
- Provide tools and resources on how to interpret and use the research findings to effectively communicate with potential clients.
- Utilize messages gleaned from the research to inform broad-based industry promotion efforts going forward.
- Assist the industry with speaking in a common language by providing standard messages that can be modified as needed.



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