

NAPEO Market Research

Tracking Survey Report

Conducted by Povaddo in December 2021



Tracking Survey Key Findings

Since February of 2018, NAPEO has worked with noted research firm Povaddo to conduct an annual tracking survey of 500 key small and mid-size business owners and decision-makers to understand their attitudes and the impact of the association's marketing efforts. The most recent survey, conducted in December of 2021, shows continued progress and significant gains in many key areas.

Over the course of 2021, unaided awareness and aided familiarity of professional employer organizations (PEOs) remained relatively flat, but both measures have seen a significant increase since the 2018 tracking survey (+13 percentage points and +9 percentage points, respectively). Further, there was a significant increase of interest in using PEOs in 2021 among non-users (+13 percentage points). The percentage of decision-makers currently using PEOs continues to increase (+3 percentage points over last year and +10 percentage points since 2018). Awareness and familiarity continue to be strongest among younger decision-makers (25-34 years old) and newer businesses (been around for 10 years or less), but there was positive movement among older decision-makers and more established businesses in 2021. While decision-makers continue to be most likely to learn about PEOs from friends/colleagues, those reporting that they learned about PEOs online continues to increase (+5 percentage points over last year and +12 percentage points since 2019).

Similar to previous years, PEO clients are significantly more likely than non-PEO clients to report their businesses grew in 2021 (64% versus 45%, respectively) and PEO clients are significantly more bullish about the year ahead compared to non-PEO clients. More specifically, when asked about expected revenue, profitability, and number of employees for 2022, PEO clients have significantly higher expectations for all categories compared to non-PEO clients.

The initial impact of the pandemic throughout 2020 caused decision-maker concerns to shift from personnel/employee-focused to economic/financial-focused. In 2021, concerns have shifted back to personnel/employee-focused along with new concerns such as inflation and material shortages. In fact, decision-makers report that material shortages related to supply chain issues and worker shortages are the most challenging aspects of running a business today. When asked which business functions are most burdensome for business owners, decision-makers continue to report that insurance benefits, HR technology, and compliance issues are most burdensome.

A MaxDiff exercise was utilized to understand which benefit statements are most compelling for decision-makers. Similar to previous years, the return-on-investment statement continues to be viewed as the most compelling, followed by median revenue growth and taking administrative tasks off the plate of the business owner. A new benefit statement added this year (69% of PEO users reported growth in 2020, versus 28% of non-PEO users)—which was derived from last year's survey—also performs among the top four benefit statements.

Trusted advisors (i.e., accountants, lawyers, etc.) and business associates/peers continue to be the most trusted sources of information, and both see an additional increase in importance in 2021 (+5 percentage points and +7 percentage points, respectively). As such, NAPEO plans to have Povaddo run in-depth exploratory research with this audience in 2022.

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

Approach

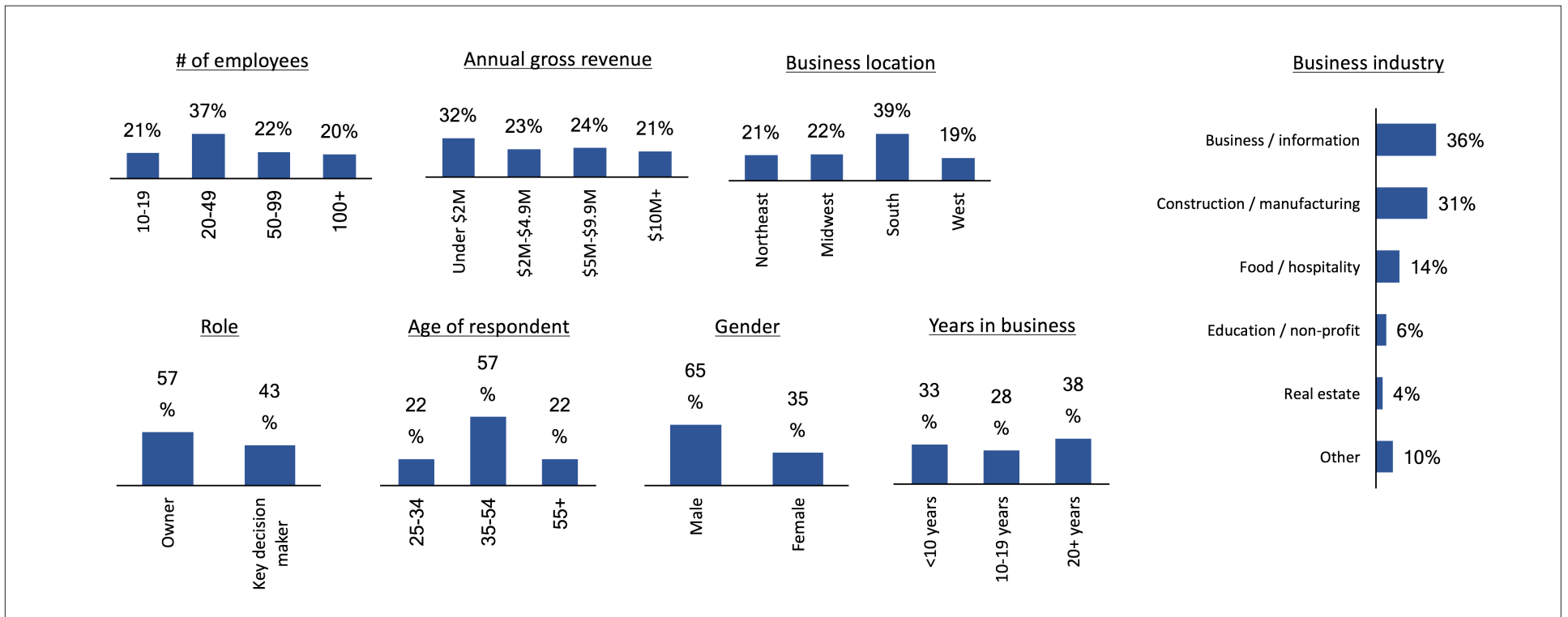
- Method: online
- Sampling: 501 interviews
 - 57% business owners
 - 43% key decision-makers
- Field dates: December 8 – 23, 2021
- Margin of error: $\pm 4.4\%$ for total sample

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

*MaxDiff calculation explained on page 17.

Demographic Makeup

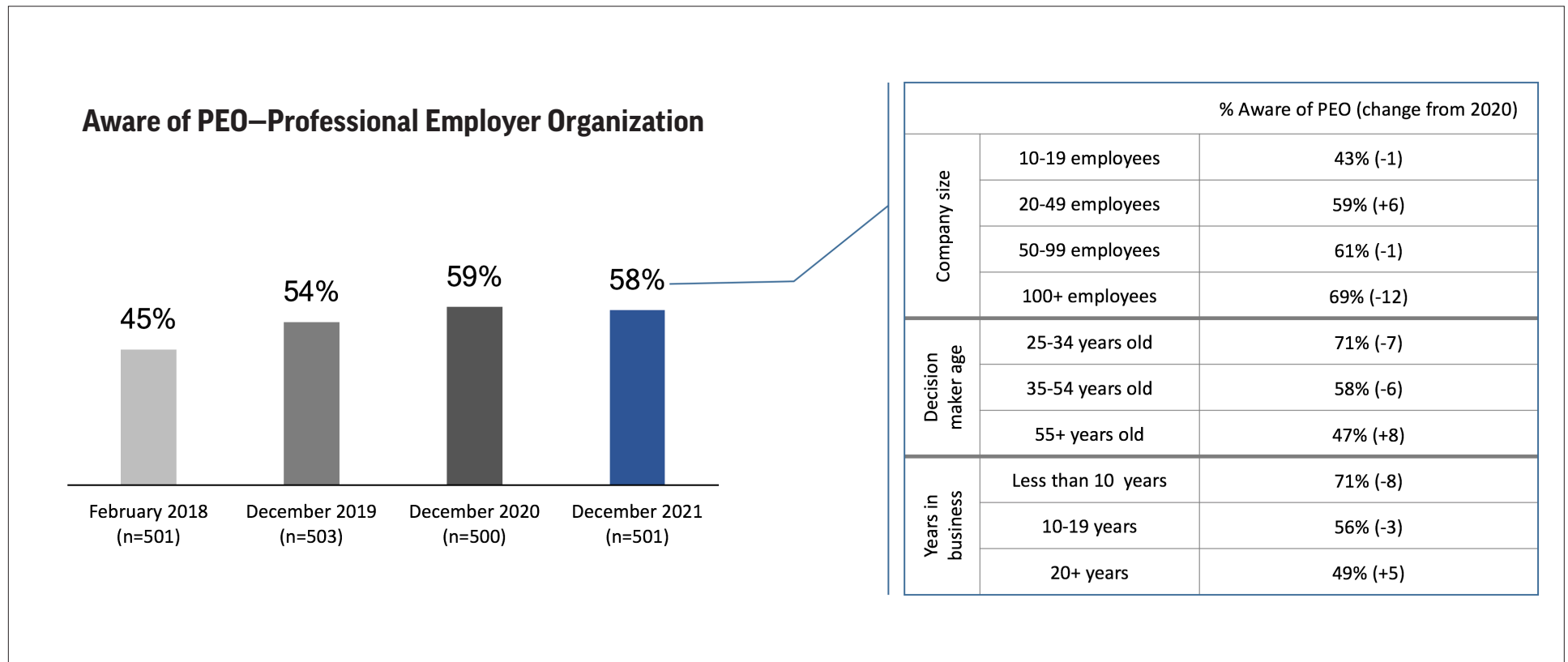


Key Metrics Tracking Summary

- In 2021, awareness and familiarity held steady or decreased slightly, while reported PEO usage and interest in using increased over the past year:
 - Unaided awareness of PEOs held steady at 58% among decision-makers (-1 percentage point over the past year and +13 percentage points since 2018).
 - Aided familiarity also decreased slightly in 2021 to 70% saying they are very or somewhat familiar with PEOs (-2 percentage points over the past year and +9 percentage points since February 2018).
 - However, there is a significant increase for interest in using a PEO in 2021 among non-users (76% interested, +13 percentage points over the past year).
 - And, PEO use is up 3 percentage points to 24% 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 is an increase in key metrics in 2021 among the older decision-makers and businesses that have been around longer.
- While decision-makers continue to be most likely to learn about PEOs from friends/colleagues, those who reported discovering a PEO online continues to increase (+5% YOY and +12% since 2019).

Unaided Awareness of PEOs

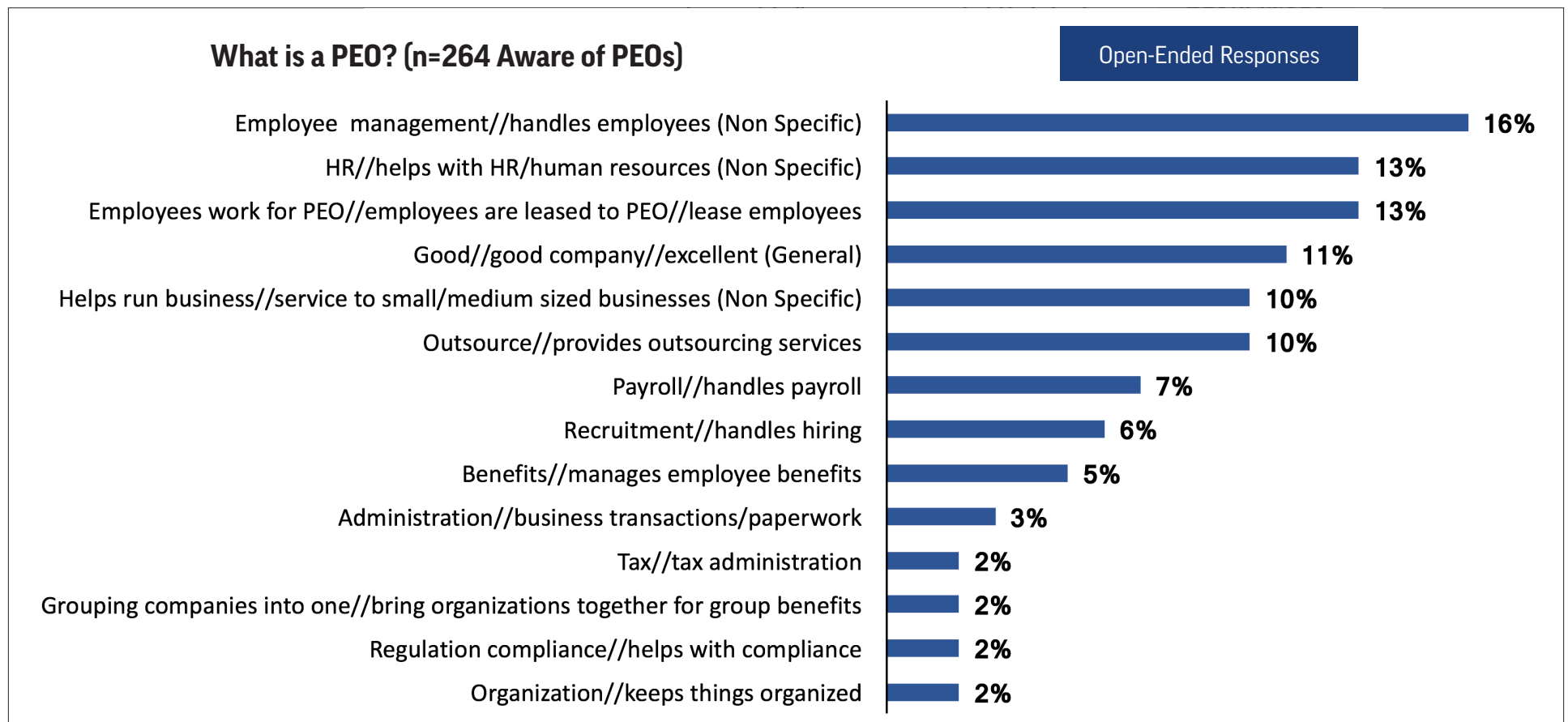
- Awareness of PEOs remained static at 58% in 2021 (down 1 percentage point), but overall has increased 13 percentage points since February 2018.
- After seeing significant increases in awareness among businesses with 100+ employees and companies that have been in business less than 10 years in 2020, both groups realized a regression in awareness in 2021.



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

Unaided Understanding of PEOs

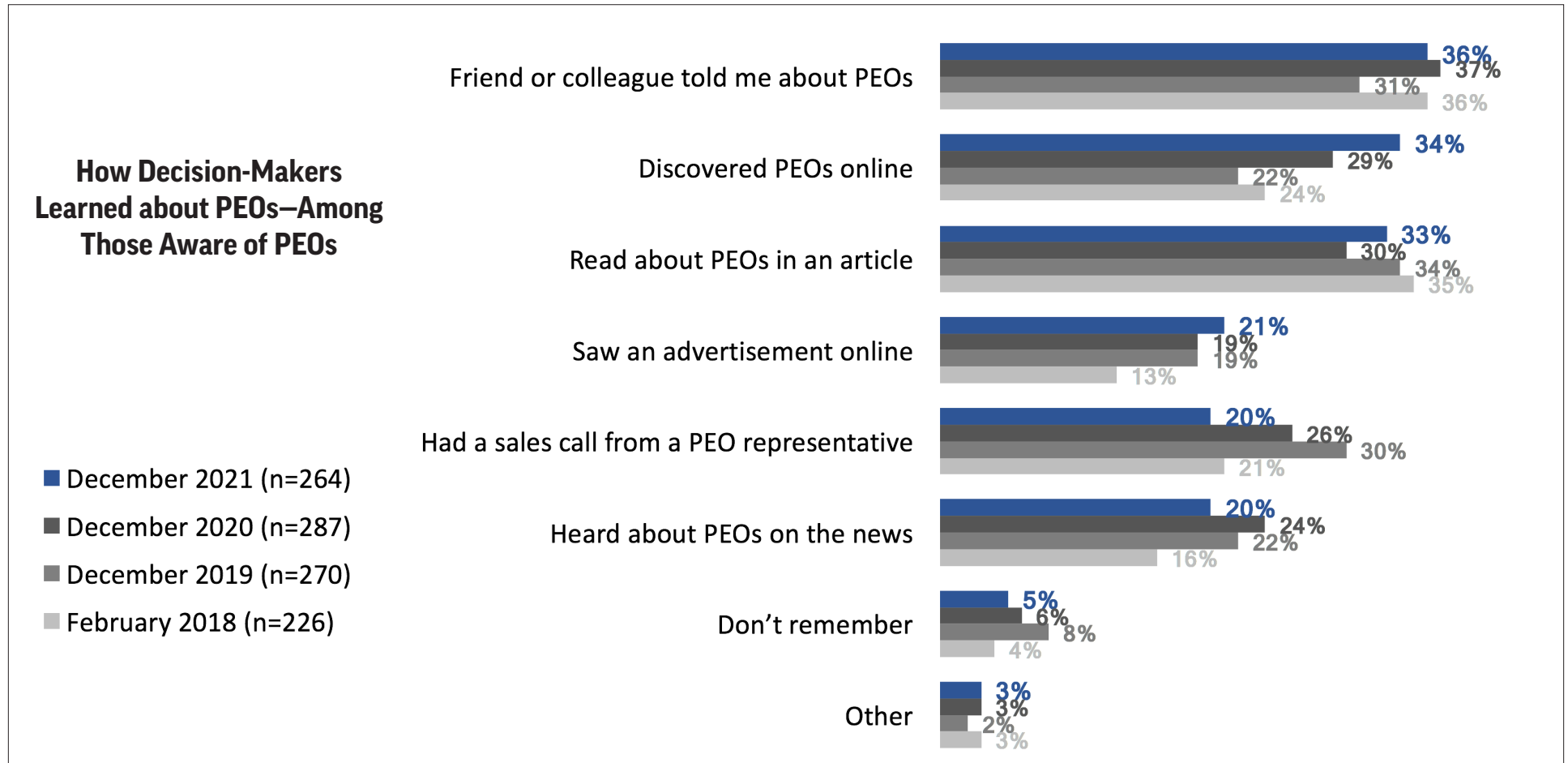
- Similar to 2020, about 25% (up from <10% in February 2018) of all decision-makers accurately describe what a PEO is and does (not shown graphically).
- Compared to last year, there is an increase in unaided responses mentioning “employee management” (+6%) and “employees work for the PEO/employees are leased to the PEO” (+5%).



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 from a friend or colleague, discovering them online, or by reading about them in an article.
- There continues to be an increase in business owners learning about PEOs by discovering them online (+5% YOY and +12% since 2019).



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.*

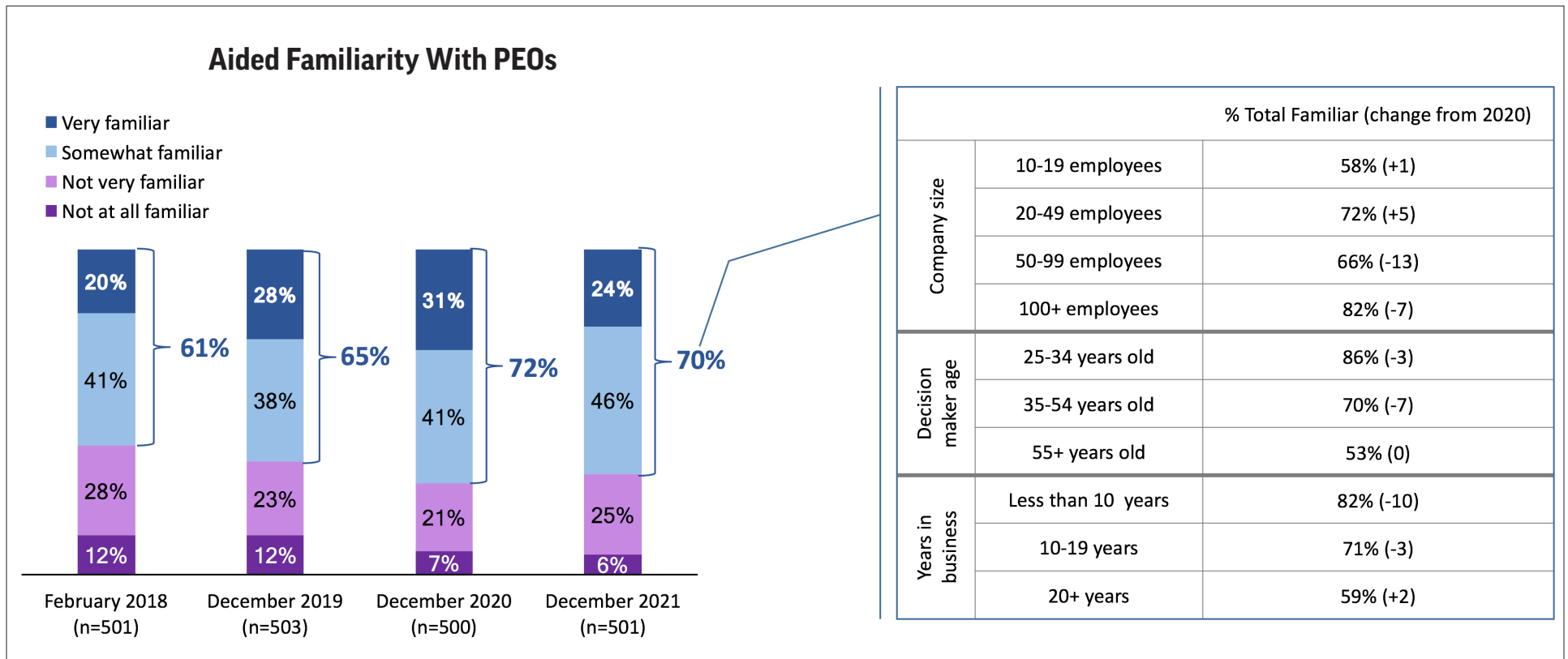
A professional employer organization (PEO) provides comprehensive HR solutions for small and mid-sized businesses: paying wages and taxes and assisting with compliance with state and federal rules and regulations. In addition, many PEOs also provide workers with access to 401(k) plans, health, dental and life insurance, dependent care, and other benefits not typically provided by small businesses. PEOs enable clients to cost-effectively outsource the management of human resources, employee benefits, payroll processing, and workers' compensation. This enables the businesses that use a PEO to focus on their core mission, to improve productivity and profitability, and to grow.

PEOs do this by establishing a co-employment relationship in which both the PEO and the business have an employment relationship with the employee. 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. The PEO client company maintains responsibility for the day-to-day supervision of their staff and all of the management responsibilities.

* This description was updated in 2021.

Aided Familiarity With PEOs

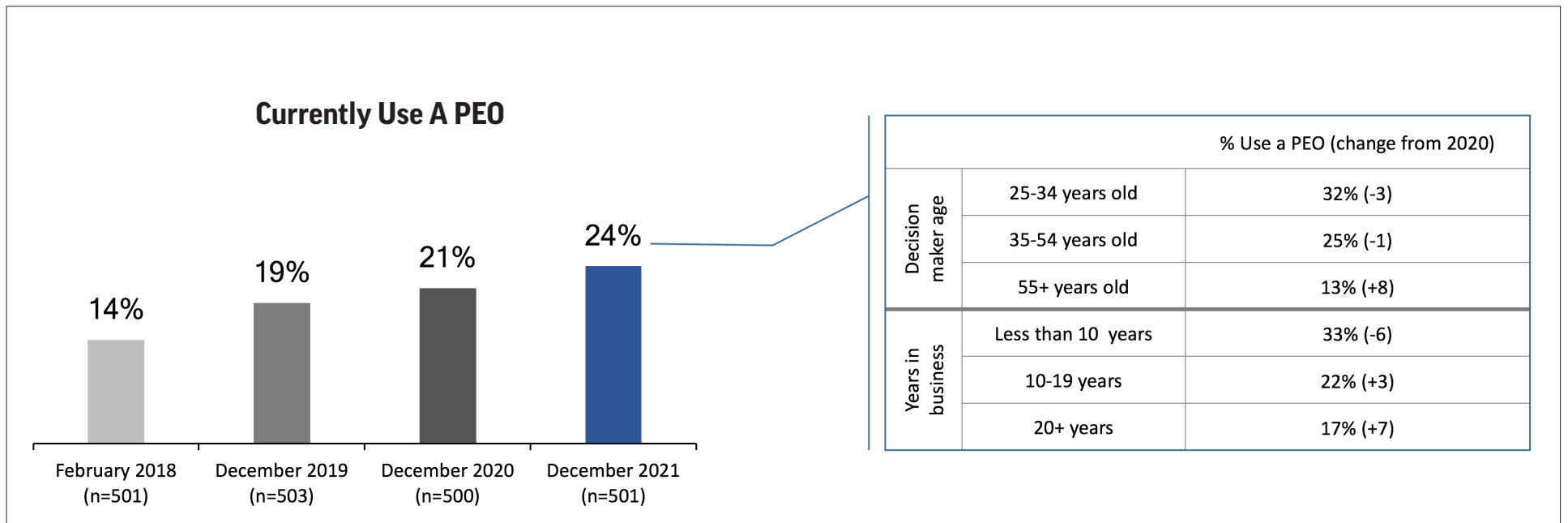
- Seven-in-ten (70%) key decision-makers say they are very or somewhat familiar with PEOs, down 2 percentage points over the past year but an increase of 9 percentage points since 2018.
- After a significant increase of aided familiarity in 2020 among businesses with 50-99 employees, businesses with 100+ employees, and companies that have been around for less than 10 years, there is regression in aided familiarity among these segments in 2021.



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

PEO Use

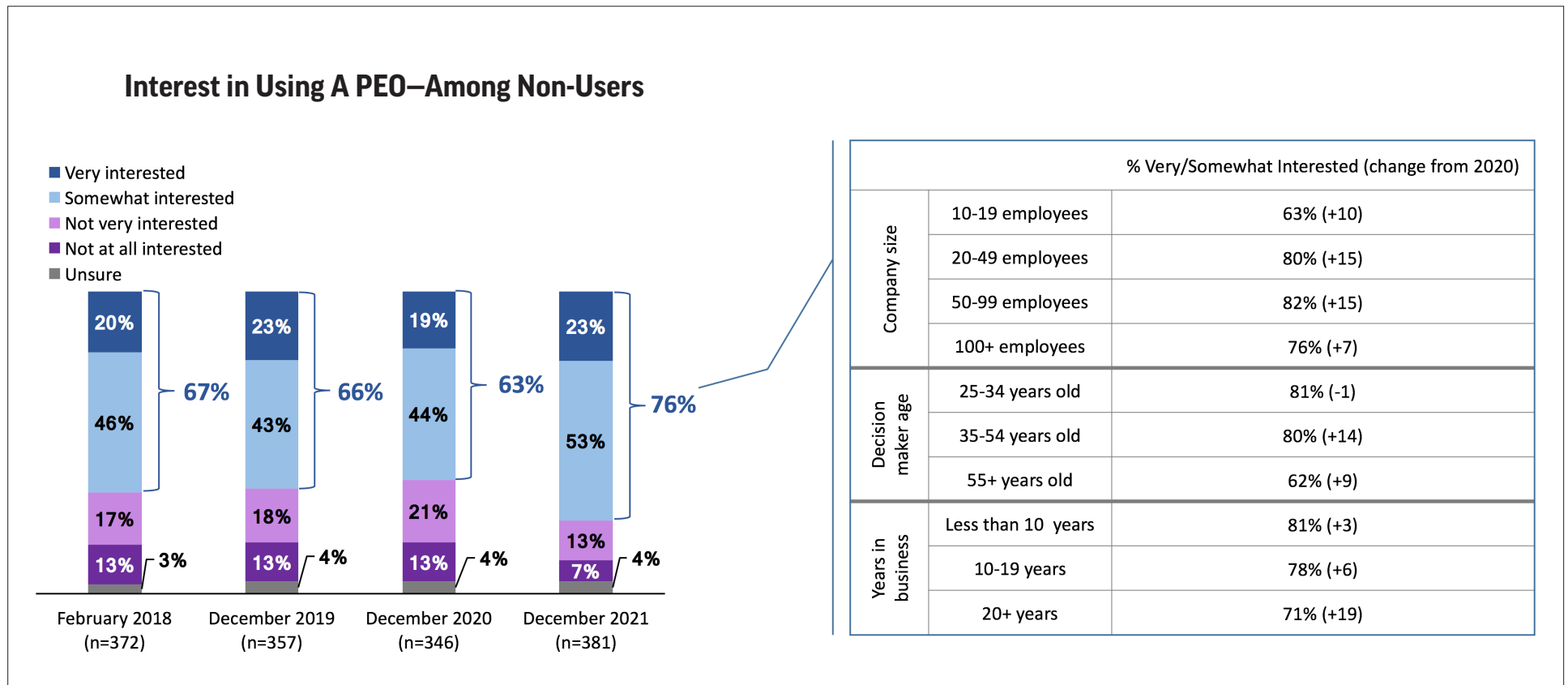
- Current use of PEOs increased 3 percentage points over the past year and 10 percentage points since February 2018 among this sample of decision-makers.
- Although younger business owners (25-34 years old) and newer businesses (less than 10 years in business) continue to be the strongest base of PEO users, there is an increase in use for older business owners and older businesses in 2021.



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

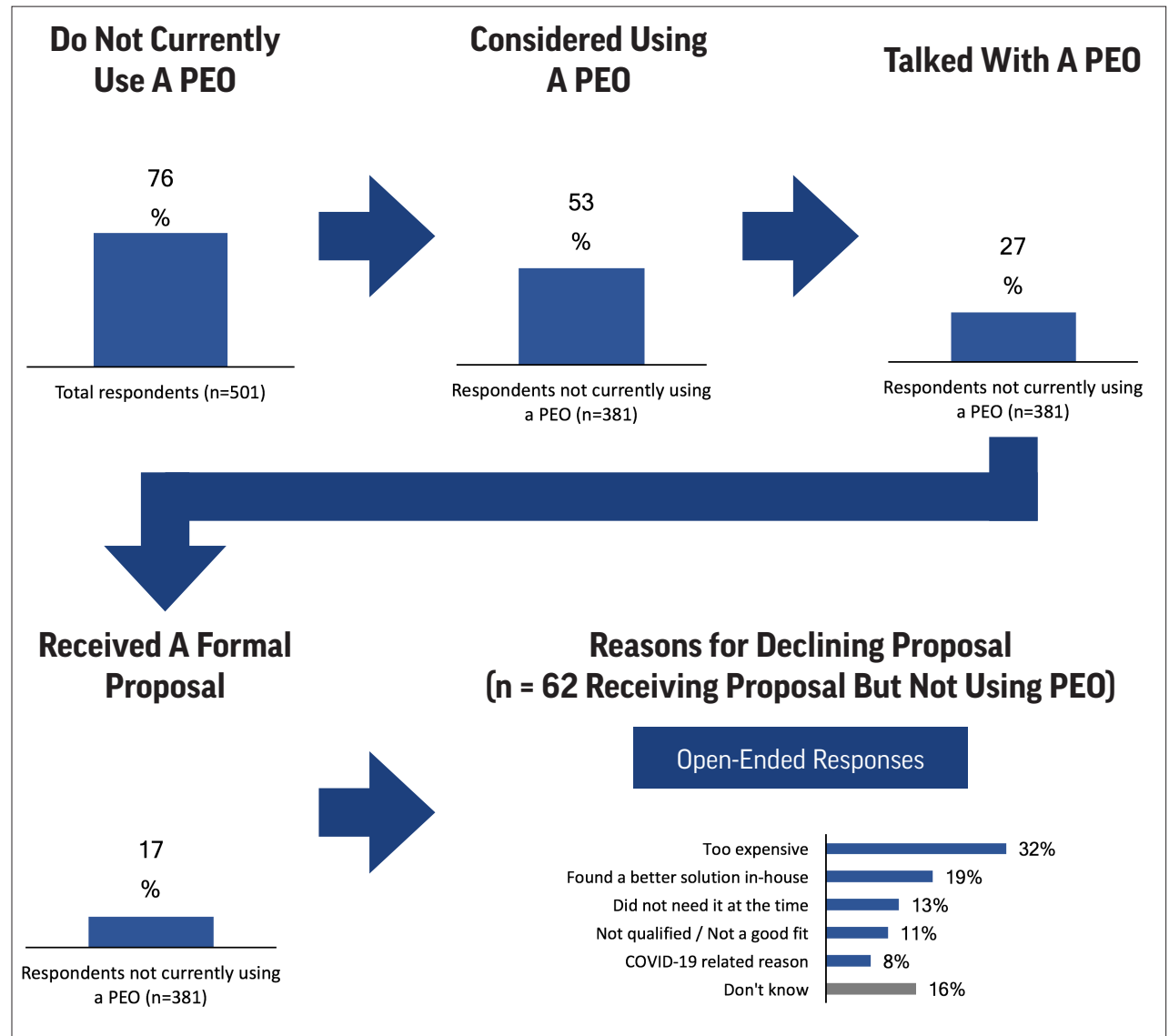
- Interest in using a PEO significantly increased over the past year among non-users (76% total interested; an increase of 13 percentage points over 2020).
- Interest has significantly increased among nearly all demographic groups, including all business sizes and length of time being in business.



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 76% of participants who do not currently use a PEO, a majority (53%) say they have considered using a PEO with 27% actually talking with a PEO and 17% 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.



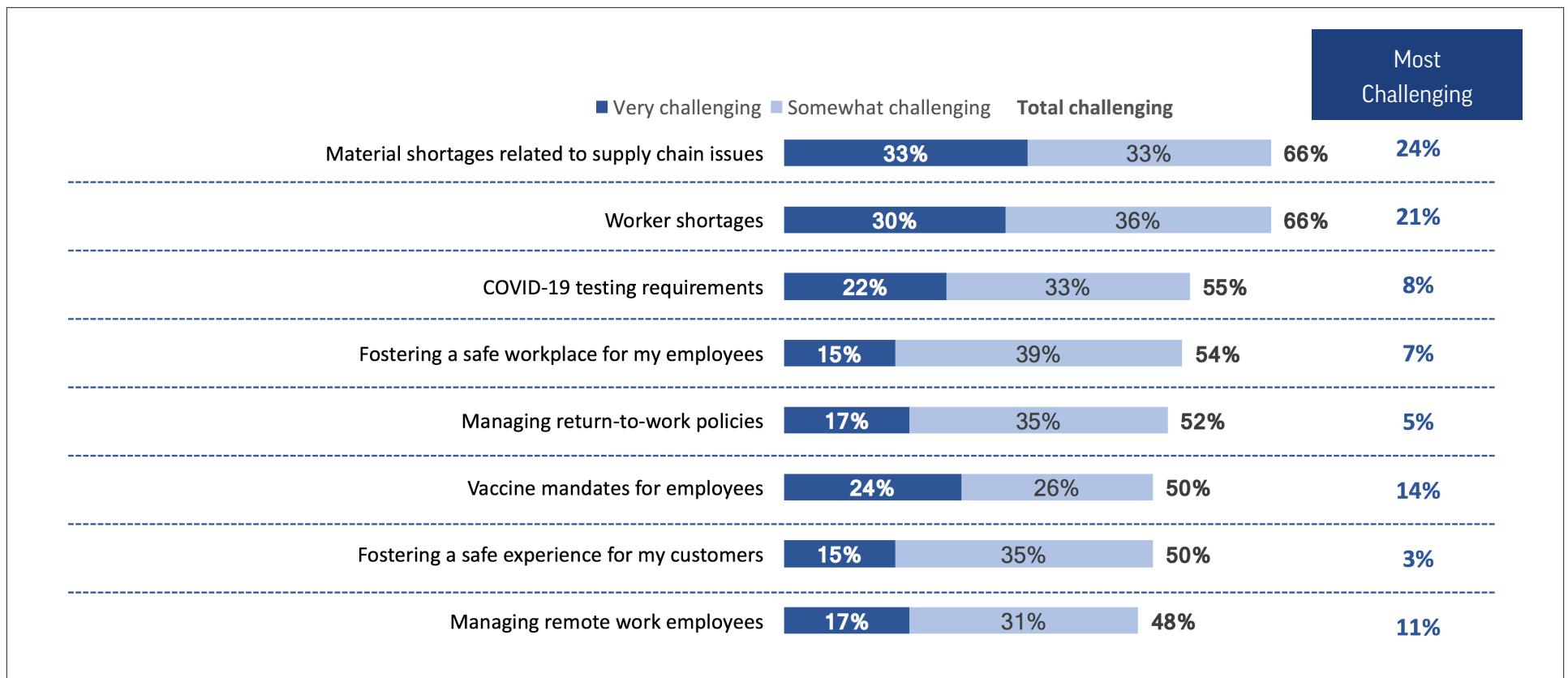
- Q: And, which of the following best describes your company's use of a professional employer organization (PEO)?
- Q: Although your company does not currently use a PEO, has your company ever considered using such a service?
- Q: Have you or anyone in your company ever spoken with a PEO about their 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?

Business Owner Challenges, Concerns, & Benefit Statements Summary

- Business owners and key decision-makers report that material shortages related to supply chain issues and worker shortages are the most challenging aspects of running a business in 2021.
- The initial impact of the pandemic throughout 2020 caused business owner concerns to shift from personnel/employee focused to economic/financial focused. Throughout 2021, concerns have shifted back to personnel/employee focused along with new concerns such as inflation and material shortages.
- The return-on-investment benefit statement continues to be viewed as the most compelling across all decision-makers followed by median revenue growth and taking administrative tasks off the plate of the business owner.
 - Benefit statements that focus on performance during the pandemic of PEO users versus non-users perform particularly well among businesses with 100+ employees.
- A new benefit statement added this year (69% of PEO users reported growth in 2020, versus 28% of non-PEO users)—which was derived from last year’s survey – also performs among the top four benefit statements.

Challenging Aspects of Running A Business

- Two-thirds (66%) of key decision-makers agree that material shortages related to supply chain issues and worker shortages are very or somewhat challenging.
- In fact, participants report that these were the two most challenging issues for their business in 2021.
- Nearly a quarter (24%) also report that vaccine mandates for employees has been very challenging, but not nearly as challenging as material and worker shortages.

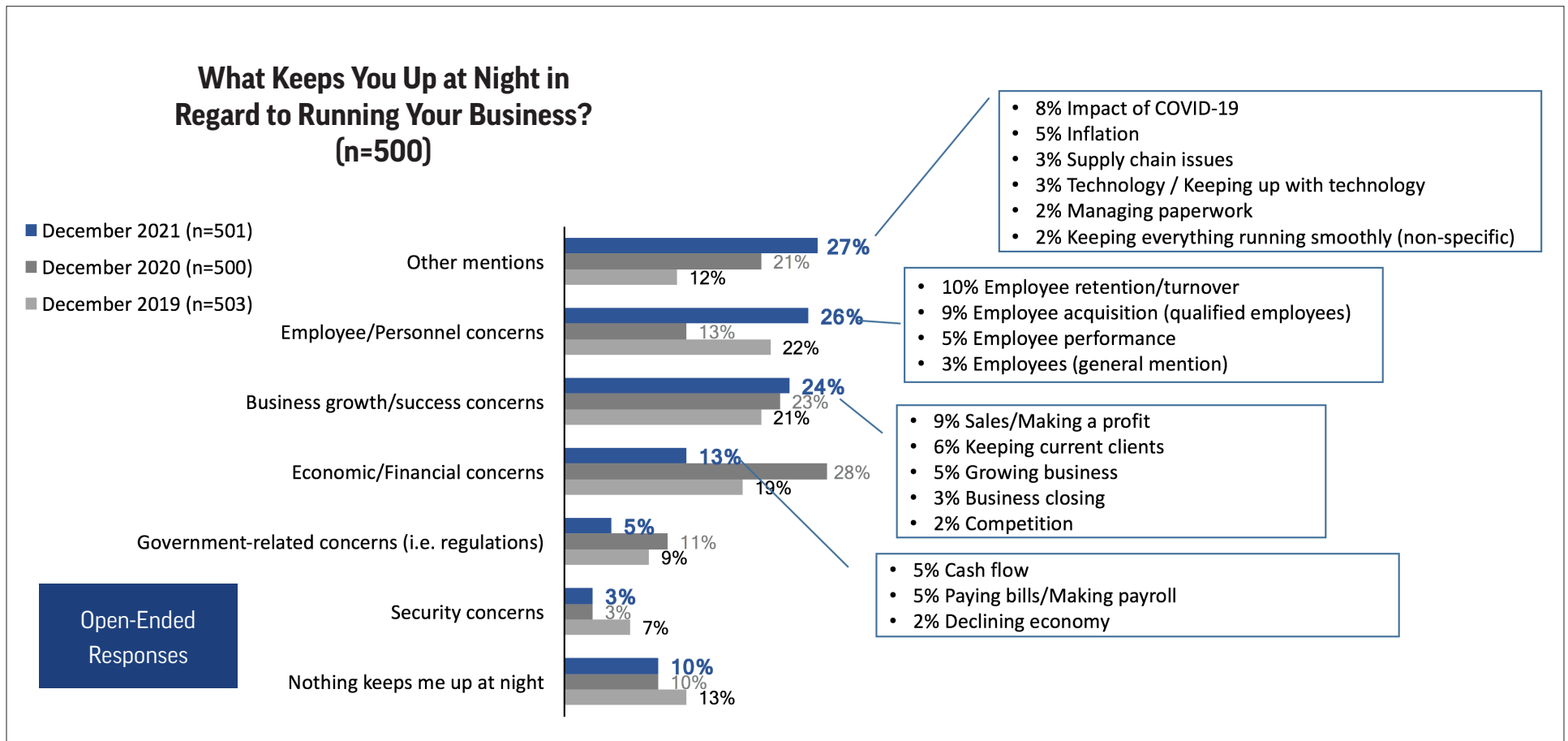


Q: Now thinking specifically about running your business, how challenging are each of the following issues?

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

Top Concerns for Business Owners

- After seeing a shift from personnel concerns to economic/financials in 2020, there is a significant resurgence in concerns for personnel/employees in 2021.
- This is coupled with a significant increase in “new” concerns for 2021, including inflation, supply chain issues, and overall impact of COVID-19.



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?

PEO Benefit Statements Tested

1. PEO clients grow 7%-9% faster than other comparable businesses that do not use a PEO.
2. Employee turnover is 10%-14% lower for PEO clients compared to other businesses that do not use a PEO.
3. PEO clients are 50% less likely to fail compared to other businesses that do not use a PEO.
4. Expected annual median revenue growth for PEO clients is 40% greater than that of comparable non-PEO firms.
5. PEO clients were 16% more likely to report an increase in profitability compared to other small businesses not using a PEO.
6. 98% of PEO clients would recommend a PEO to a small business colleague.
7. The annual return on investment, or overall cost savings, from using a PEO is estimated at 27.2%.
8. A PEO saves you time by taking administrative tasks off your plate, allowing you to focus on your core business.
9. With a PEO, you are able to offer Fortune 500-level benefits to your employees at an affordable cost, helping you to attract and retain employees.
10. A PEO provides the peace-of-mind of having a team of experienced HR and employment experts to help you comply with government regulations.
11. 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.
12. PEO clients were 91% less likely to have temporarily closed and 60% less likely to have permanently closed due to the pandemic.
13. Businesses partnering with a PEO are 82% more likely to be operating normally, in spite of the pandemic.
14. 69% of PEO users reported growth in 2020, versus 28% of non-PEO users.

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.):

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. The scores are ratio-level data, i.e., a benefit or function with a score of 10 is twice as compelling as a benefit or function with a score of 5.

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 checked="" 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...

Most Compelling Benefits of Using A PEO

Benefit of Using a PEO	Most Compelling Benefit (MaxDiff*)	Statistically Higher Score Than All Other Groups							
		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 estimated at 27.2%.	8.8	8.4	8.7	9.2	9.1	8.8	8.8	8.3	
Expected annual median revenue growth for PEO clients is 40% greater than that of comparable non-PEO firms.	8.5	8.3	8.7	8.3	8.8	8.7	8.6	7.8	
A PEO saves you time by taking administrative tasks off your plate, allowing you to focus on your core business.	8.1	7.7	7.7	9.4	8.8	7.5	8.7	7.7	
69% of PEO users reported growth in 2020, versus 28% of non-PEO users.	8.0	7.5	8.2	7.8	7.8	8.3	8.0	7.4	
PEO clients were 16% more likely to report an increase in profitability compared to other small businesses not using a PEO.	7.5	7.1	7.7	7.3	7.6	7.5	7.7	7.2	
With a PEO, you are able to offer Fortune 500-level benefits to your employees at an affordable cost, helping you to attract and retain employees.	7.5	7.5	7.5	7.6	7.4	7.1	8.4	7.3	
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	8.0	7.2	8.1	8.1	7.0	7.5	8.0	
PEO clients grow 7%-9% faster than other comparable businesses that do not use a PEO.	6.8	6.4	6.8	6.9	6.8	7.0	6.8	6.2	
Businesses partnering with a PEO are 82% more likely to be operating normally, in spite of the pandemic.	6.7	6.8	6.9	6.2	5.9	7.2	6.2	7.1	
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.	6.6	7.0	6.3	7.1	6.4	6.4	7.0	6.7	
PEO clients were 91% less likely to have temporarily closed and 60% less likely to have permanently closed due to the pandemic.	6.6	7.0	6.7	6.1	6.2	6.9	5.6	7.8	
98% of PEO clients would recommend a PEO to a small business colleague.	6.0	6.1	6.3	5.1	6.1	6.1	5.6	6.3	
Employee turnover is 10%-14% lower for PEO clients compared to other businesses that do not use a PEO.	5.9	6.3	5.8	5.7	5.5	5.9	5.9	6.1	
PEO clients are 50% less likely to fail compared to other businesses that do not use a PEO.	5.6	5.9	5.6	5.2	5.5	5.7	5.3	6.0	

*MaxDiff calculation explained on slide 18.

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).

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).

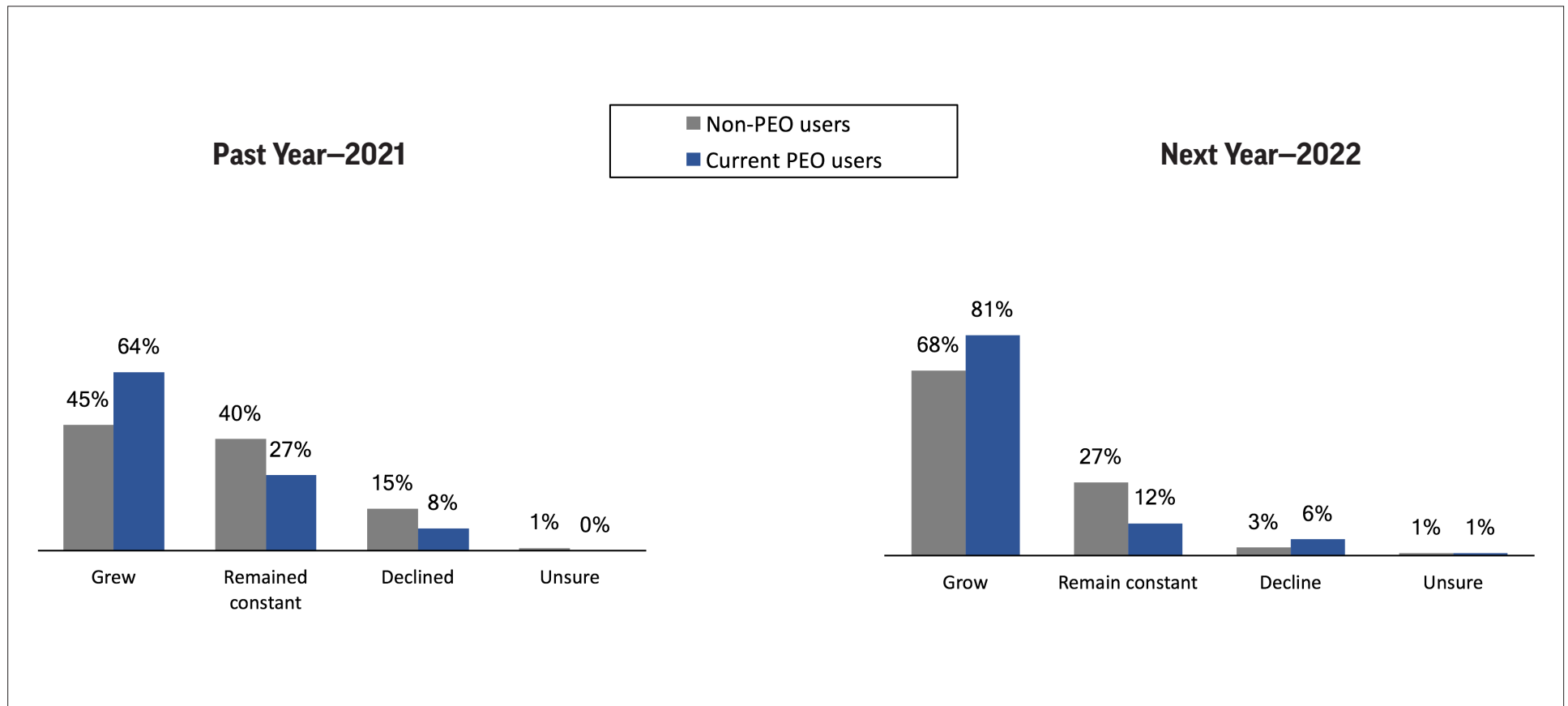
Decision-Maker Perceptions

Summary

- PEO clients are significantly more likely than non-PEO clients to report their business grew in 2021 (64% vs. 45%, respectively) and PEO clients are also significantly more bullish about the year ahead (2022) than non-PEO clients (81% vs. 68%, respectively).
- When asked specifically about revenue, profitability and expected number of employees for 2022, PEO clients have significantly higher expectations for all categories compared to non-PEO clients. More specifically, 71% of PEO clients expect an increase in number of employees in 2022 versus only 47% of non-PEO clients expecting the same.
- The most trusted sources of information continue to be trusted advisors such as accountants and lawyers, and business associates/peers with significant increases in importance for both in 2021 (+5% and +7%, respectively).
- Decision-makers most often agree that insurance benefits, HR technology, and compliance issues were the most burdensome core business functions in 2021. The burden of different business functions has remained mostly consistent over the years, but HR technology is becoming more burdensome over the past few years.

Past Business Growth & Future Expectations

- Current PEO users are significantly more likely to report business growth in 2021 compared to non-users, 64% vs. 45%, respectively.
- Further, current PEO users are also significantly more likely to report expected business growth next year (2022).

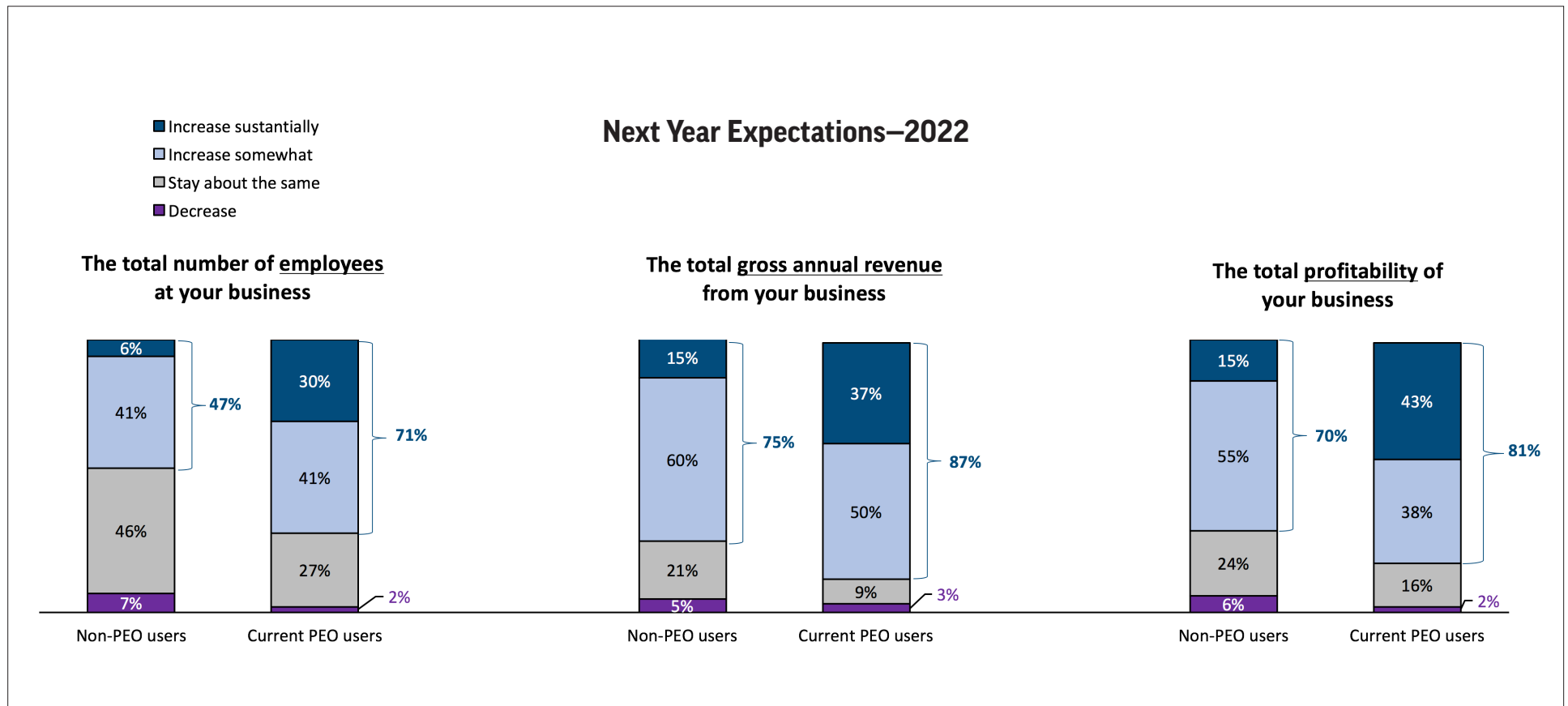


Q: In 2021, did your business grow, decline, or remain at about the same level compared to 2020?

Q: And, do you expect your business to grow, decline or remain at about the same level over the course of 2022?

Future Expectations

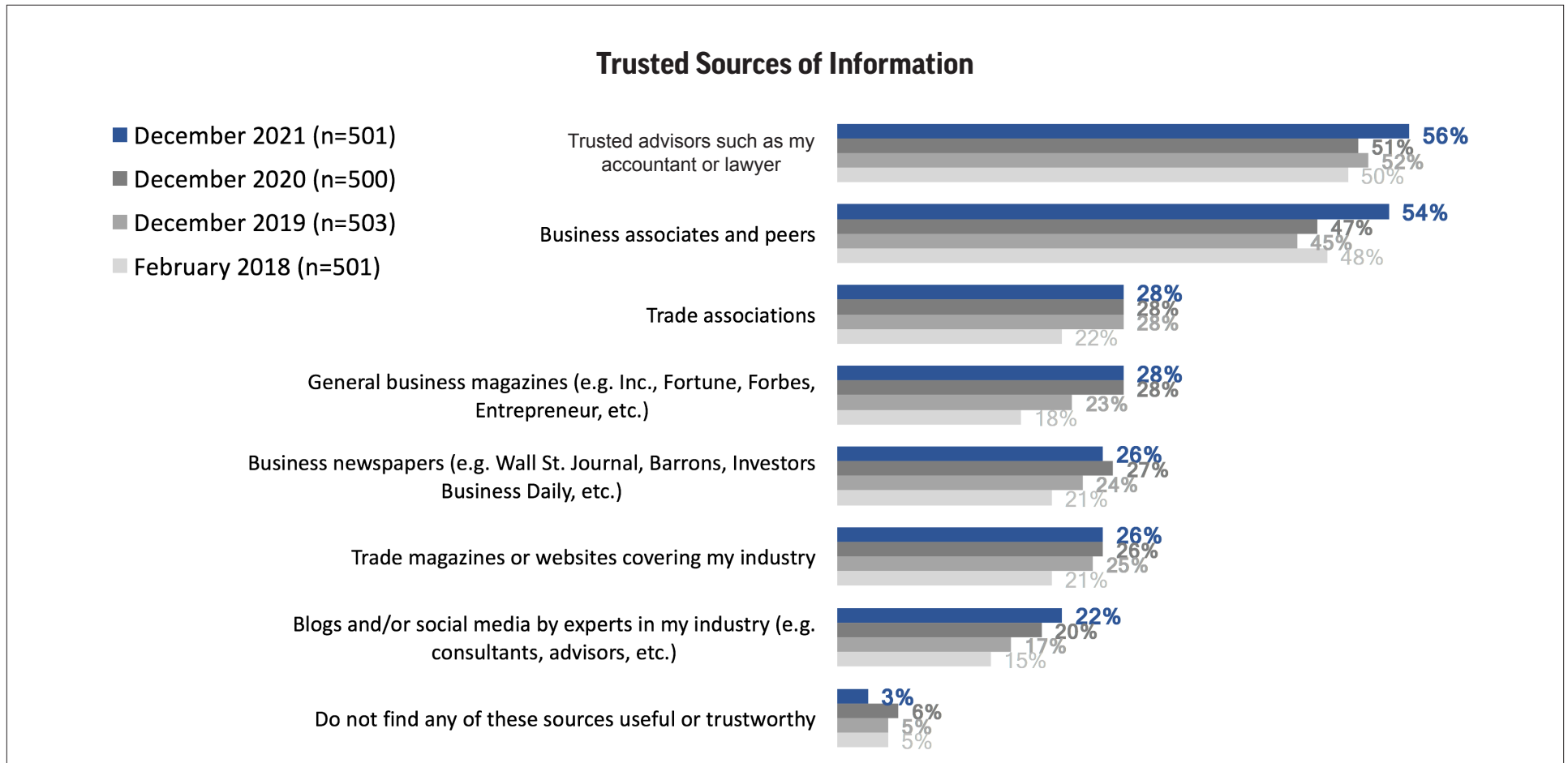
- Current PEO users are significantly more likely than non-PEO users to report an expected increase in their gross annual revenue, profitability and especially the total number of employees at their business in 2022.



Q: Now thinking specifically about the different aspects of your business listed below, please indicate whether you expect each of these to increase or decrease over the next 12 months.

Trusted Sources of Information

- Trusted advisors (e.g. accountant, lawyer, etc.) and business associates/peers continue to be the most trusted sources of information for business owners with significant increases in importance in 2021 (+5% and +7%, respectively).



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

- Insurance benefits, HR technology, and compliance issues were seen as most burdensome business functions in 2021.
- The burden of the different business functions has remained relatively consistent over the years, but HR technology has started to become more burdensome over the past few years.

Business Function	Most Burdensome Score (MaxDiff*)	Statistically Higher Score Than All Other Groups							
		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)	18.9	18.7	17.8	21.6	20.7	19.4	17.9	17.0	
HR technology (including applicant tracking, performance management, employee on-boarding, online benefit enrollment, employee self-service, etc.)	17.6	15.4	17.6	19.9	17.6	17.4	17.3	18.5	
Compliance assistance with employment regulations (state and federal)	16.9	15.3	17.7	16.4	15.9	17.7	17.8	15.5	
Workers' compensation administration and claims management	14.9	14.6	15.3	14.2	14.3	14.6	15.7	15.2	
Payroll tax administration	13.1	15.1	13.0	11.5	13.3	13.2	13.0	12.9	
Payroll processing	9.5	10.4	9.5	8.7	9.1	9.5	9.6	9.9	
Retirement plans such as 401k(s)	9	10.6	8.9	7.8	9.1	8.2	8.6	10.9	

*MaxDiff calculation explained on slide 18.

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 4 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).