

NAPEO Annual Tracking Survey [2024]

Key Findings Report

December 31, 2024

EXECUTIVE SUMMARY: KEY METRICS TRACKING

1. In 2024, measures of awareness, familiarity, and PEO use are in line with or have increased slightly compared to findings from 2023. While awareness, familiarity, and PEO use in 2024 remained largely consistent with findings in 2022 and 2023 (a year of marked growth in these areas), this consistent upward trend underscores the significant increase in awareness and use of PEOs since we began tracking in 2018 and a significant increase in both measures following the COVID-19 pandemic.
2. Unaided awareness of PEOs is reported at 67% among decision makers in 2024, an increase from 2023 (58%) but consistent with previous years' findings (65% in 2022). This is an increase of 22 percentage points since tracking began in 2018, indicating growth in awareness overall.
3. Aided familiarity of PEOs (reported familiarity of PEOs after being presented with a description of PEOs and their offerings) remains constant in 2024 with about four-in-five decision makers saying they are very or somewhat familiar with PEOs after reading about them (78%, +17 points since tracking began in 2018).
4. About one-third (33%) of decision makers report using a PEO and those who do not use a PEO report heightened interest. This stabilization in PEO use likely indicates true market growth as well as some continued confusion regarding the industry due to increased availability of a variety of PEO and non-PEO outsourced HR offerings. However, of those who do not currently use a PEO, almost nine-in-ten (88%) indicate interest in using one in the future.
5. Confusion regarding the PEO industry – specifically what is and is not a PEO as well as what services PEOs offer – continues to surface among business decision makers. While more than three-quarters (76%) of decision makers who report unaided awareness of PEOs associate them with HR services, many associate PEOs with services outside of typical industry offerings.
6. Cost emerges as a major factor when it comes to PEOs. According to PEO users, costs associated with PEOs *and* savings PEOs bring to their companies are two of the most important factors when it comes to working with PEOs. Cost is also a main reason non-PEO users either report they are not interested in using a PEO or a reason they have declined a proposal. Additionally, decision makers who outsource business functions report saving the company money is a top reason they outsource.
7. While younger decision makers between 25–34 years old have the most traction when it comes to familiarity and current use of PEOs, decision makers who are 35+ are catching up. Aided familiarity with PEOs increased among decision makers over 55 years old (61%, +2 points over the past year) and PEO use has increased among respondents between 35–54 years old (37%, +7 points over the past year) and those over 55 years old (19%, +6 points over the past year).
8. The business climate in 2024 remains positive and decision makers' outlooks for 2025 is bullish. Seven-in-ten decision makers report their business grew in 2024 (71%) and over four-in-five expect their business to grow over the course of 2025 (83%). In addition, most decision makers believe their gross annual revenue (88%), total profitability at their business (84%) and total number of employees (66%) will increase in the coming year.
9. In line with previous years, PEO clients (83%) are significantly more likely than non-PEO clients (65%) to report their business grew in 2024. PEO clients (88%) are also more bullish about the year ahead (2025) compared to non-PEO clients (81%).
10. Employee-related concerns continue to be top of mind for business decision makers. Employee-related issues make up the top 5 most challenging issues decision makers report facing when running their business and are top concerns keeping decision makers up at night.

Methodology

APPROACH

- Sample: n=502 Business Decision Makers
 - 64% business owners
 - 36% key decision makers
- Data Collection Method: Online
- Field Dates: Nov 21 – Dec 9, 2024
- Margin of error: $\pm 4.4\%$

OBJECTIVE

- The core of this study is to track awareness, understanding and use of PEOs to help assess the impact of the industry's overall marketing efforts.
- Further, this research uncovers/confirms core concerns among business decision makers to help industry leaders understand which core PEO services are considered most burdensome for businesses to handle in-house.

SCREENING CRITERIA

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

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

*Percentages may not add up to 100% due to rounding.

About this study

Age

25-34 years old	23%
35-54 years old	55%
55+ years old	23%

Gender

Male	63%
Female	37%

Number of Employees

10-19	21%
20-49	37%
50-99	22%
100+	20%

Business Industry

Construction / Utilities / Contracting	19%
Retail Trade	12%
Food & Hospitality	9%
Manufacturing	9%
Accounting, Finance & Insurance	7%
Health Services	7%
Technology	6%
Real Estate & Housing	4%
Business & Information	4%
Personal Services	4%
Transportation	3%
Education	2%
Legal Services	2%
Other	9%

Owner / Decision Maker

Business Owners	64%
Key Decision Makers	36%

Years In Business

<10 years	41%
10-19 years	32%
20+ years	27%

Outside investment

Yes	52%
No	46%
Unsure	2%

Region

West	21%
Midwest	21%
Northeast	16%
South	42%

PEO Use

PEO User	33%
PEO Non-User	67%

Annual Gross Revenue

Under \$2M	32%
\$2M-\$4.9M	23%
\$5M-\$9.9M	24%
\$10M+	21%

*Percentages may not add up to 100% due to rounding.

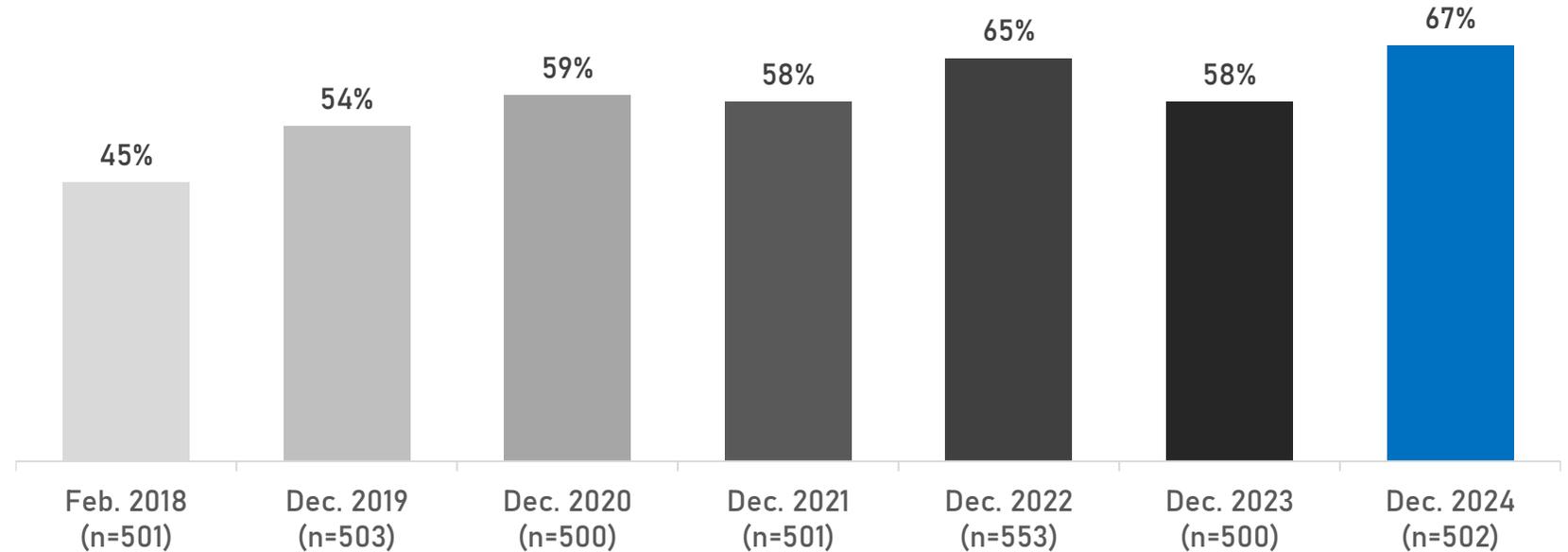
Core Tracking Metrics

UNAIDED AWARENESS OF PEOs

- Unaided awareness of PEOs increased to 67% in 2024 (+9 points since 2023) but is in line with measures of unaided awareness in previous years (65% in 2022). This is an increase of 22 points since tracking began in 2018, indicating significant growth in awareness of the industry overall.

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

● Aware of PEO – Professional Employer Organization



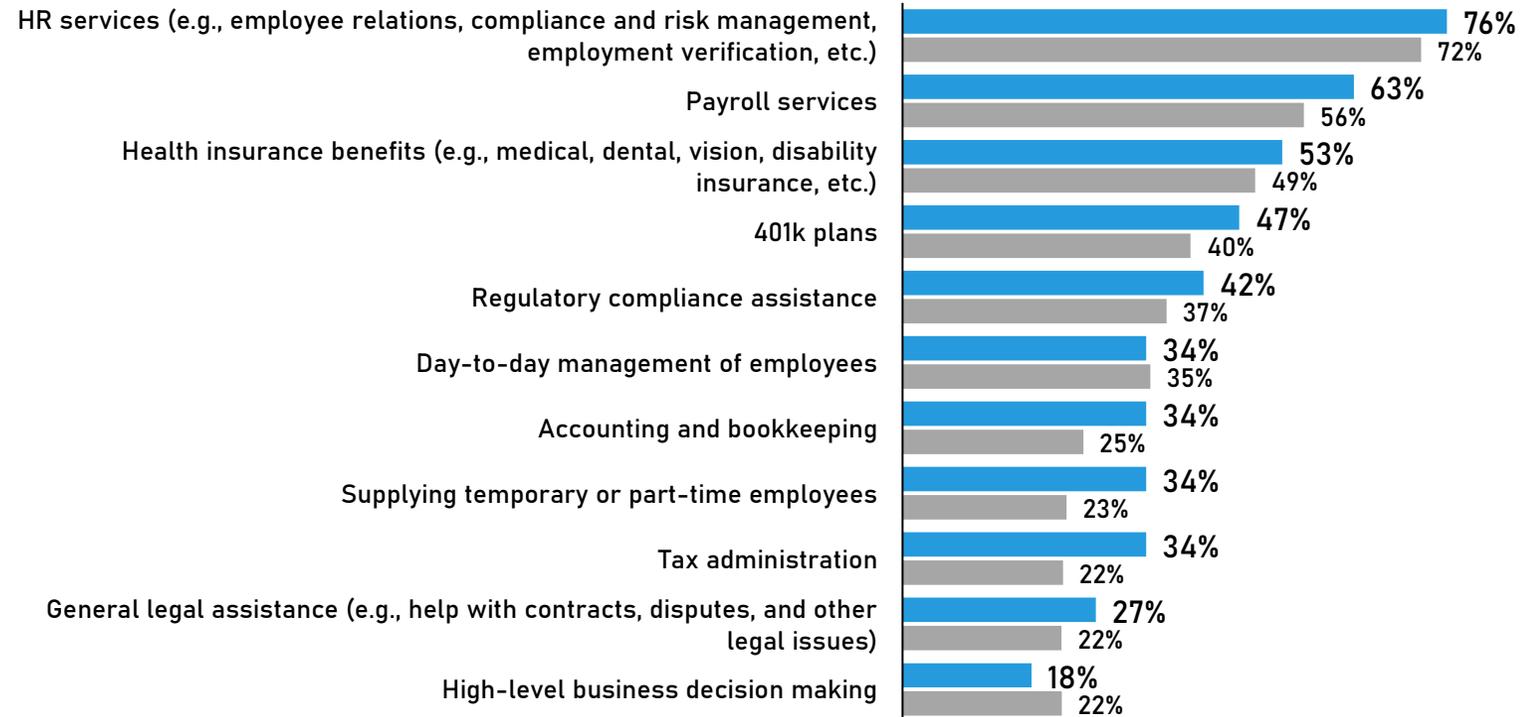
Base: Total Sample, n=502

UNAIDED UNDERSTANDING OF PEOs

- Of those who are aware of PEOs, more than three-quarters (76%) of decision makers associate them with HR services and over half associate them with payroll services (63%) and health insurance benefits (53%).
- However, confusion regarding PEOs is observed to be increasing as one-third of those aware of PEOs associate them with services outside of their typical offerings including day-to-day management of employees (34%), accounting and bookkeeping (34%), supplying temporary or part-time employees (34%), and tax administration (34%).

Q. Which of the following services do you associate with a PEO? Please check all that apply.

- 2024
- 2023

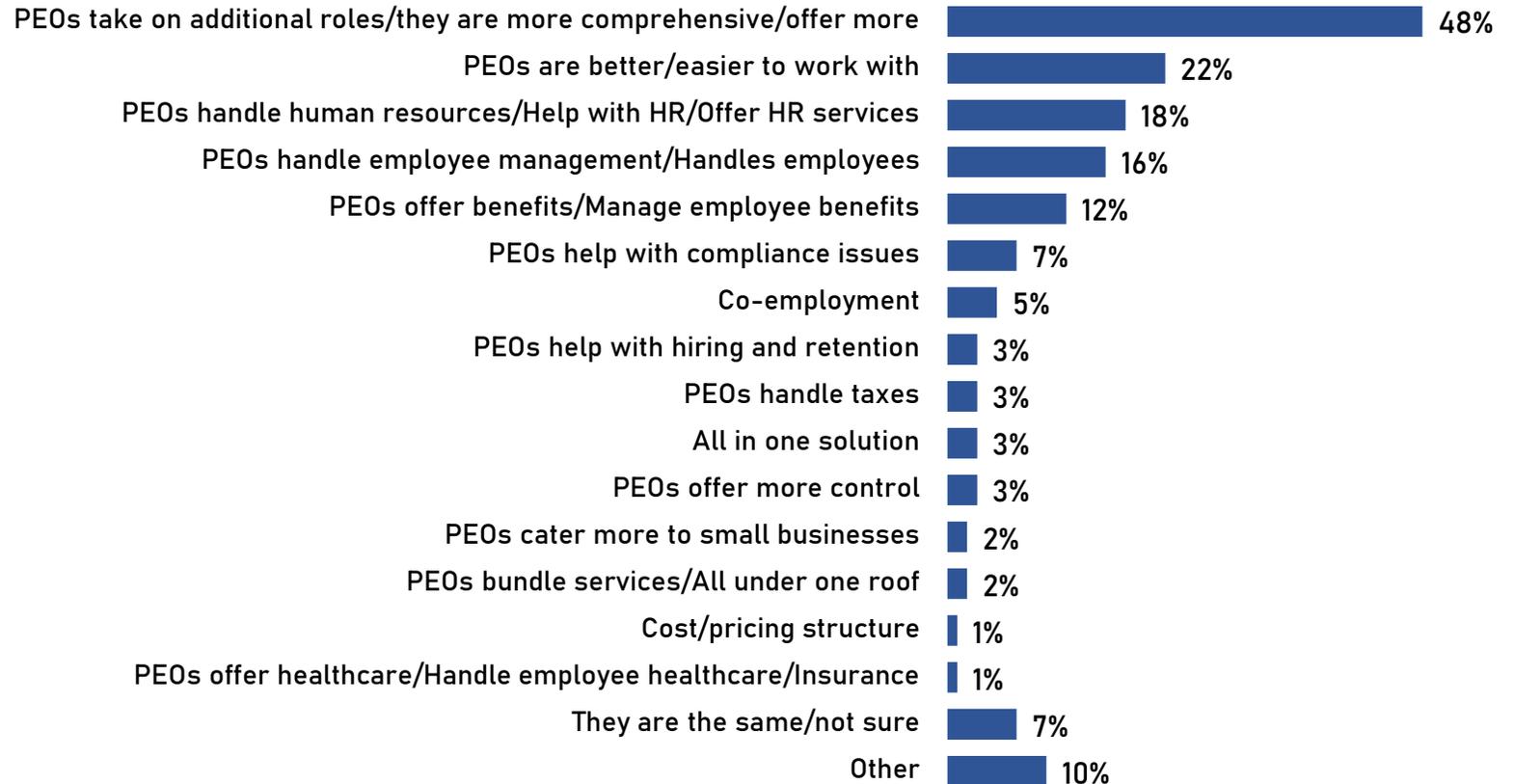


Base: Aware of PEOs, n=341, "Other", "None of the above" not shown

DIFFERENTIATING PEOs FROM PAYROLL

- Almost half (48%) of decision makers who report awareness of PEOs believe PEOs take on additional roles, are more comprehensive, and/or offer more compared to payroll companies.
- Additionally, one-in-five respondents (22%) think that PEOs are a better solution and/or are easier to work with compared to payroll companies. And almost one-in-five (18%) associate PEOs with HR services.
- Only one-in-ten respondents (5%) mention co-employment as the differentiating factor between PEOs and payroll companies.

Q. In your own words, how does a professional employer organization (PEO) differ from a traditional payroll company? [Open ended responses]



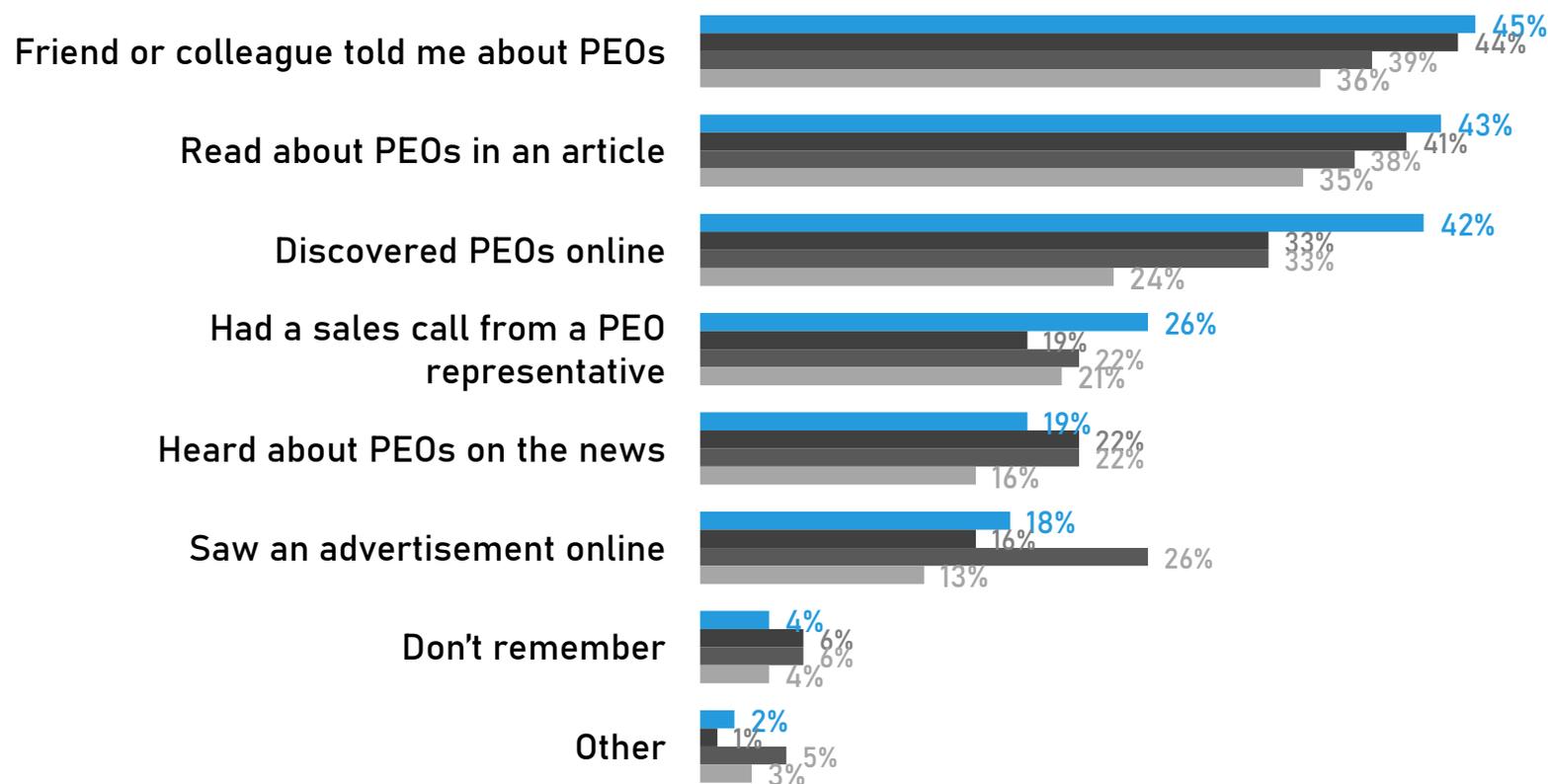
Base: Aware of PEOs, n=341, "None" answer not shown

HOW DO DECISION MAKERS LEARN ABOUT PEOs

- Decision makers continue to report learning about PEOs most often from a friend or colleague (45%), reading about them in an article (43%), or by discovering them online (42%).
- Word of mouth and reading articles in which PEOs are mentioned have continued to steadily gain traction in recent years as important information sources to learn about PEOs.
- Discovering PEOs online has become one of the dominant sources informing decision makers about PEOs this year, with 42% reporting this, an increase of 9 percentage points since 2023.

Q. And how did you learn about professional employer organizations (PEOs)?

● 2024 ● 2023 ● 2022 ● 2018



Base: Aware of PEOs, n=341

PEO DESCRIPTION

Respondents were presented this PEO description before answering questions in slides 9-13.

Professional employer organizations (PEOs) provide human resource services to small and mid-size businesses—paying wages and taxes under the PEO's EIN, offering workers' comp and risk management services, and providing compliance assistance with employment-related rules and regulations.

In addition, PEOs provide HR technology systems and access to 401(k) plans, health, dental, and life insurance, dependent care, and other benefits. In doing so, PEOs help businesses take care of employees by enabling them to offer Fortune 500-level benefits at an affordable cost and providing access to experienced HR professionals.

PEOs also help business owners and executives save time by taking administrative and HR-related tasks off their plates, allowing them to focus on the success of their businesses.

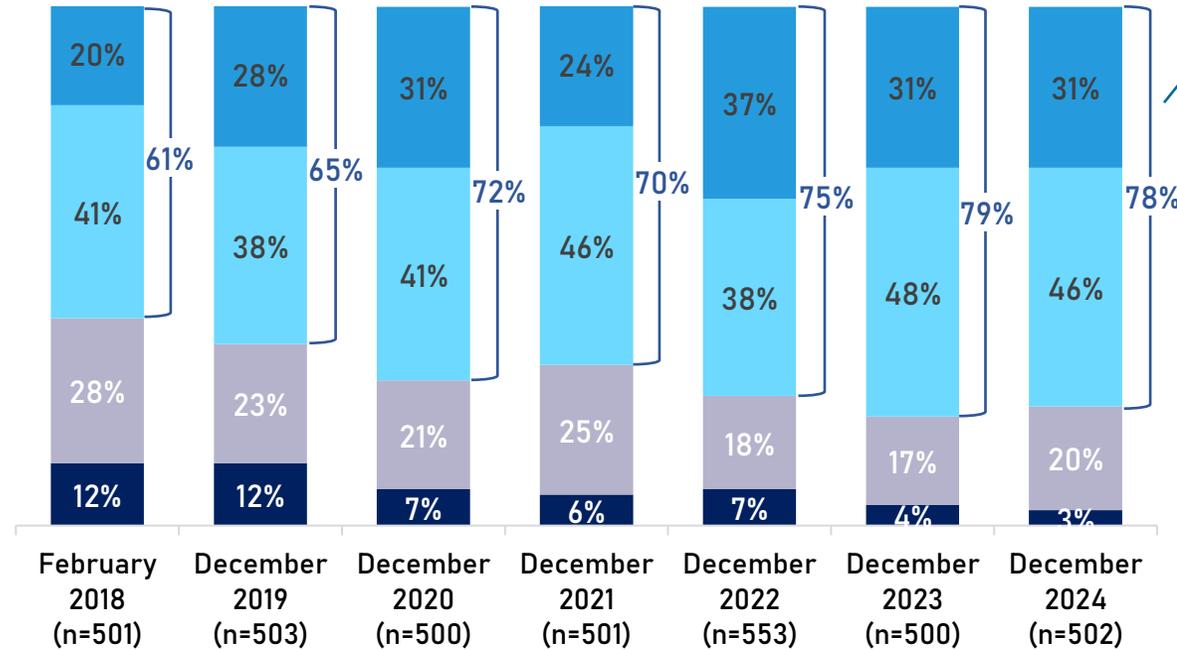
*This description was updated in 2024

AIDED FAMILIARITY WITH PEOs

- Four-in-five (78%) decision makers say they are familiar with PEOs after exposure to the PEO description, in line with familiarity in 2023 (79%) and an increase of 17 percentage points since tracking began.
- Aided familiarity with PEOs is highest among younger decision makers (25-34 years old: 90%), newer businesses (less than 10 years: 83%), and businesses with 50 or more employees (50-99 employees: 87%, 100+ employees: 82%).
- Aided familiarity with PEOs increased the most among companies with 50-99 employees (+8 percentage points).

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

- Very familiar
- Somewhat familiar
- Not very familiar
- Not at all familiar



Base: Total Sample, n=502

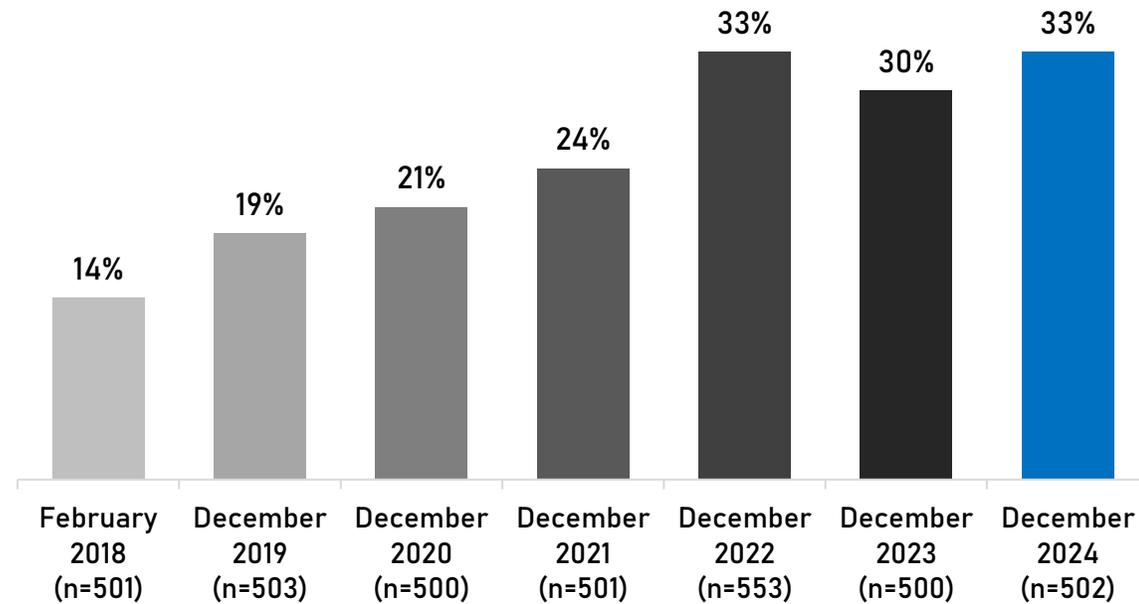
		% Total Familiar (change from 2023)
Company size (No. of employees)	10-19	70% (+3)
	20-49	75% (-7)
	50-99	87% (+8)
	100+	82% (-6)
Decision maker age	25-34	90% (-5)
	35-54	79% (-3)
	55+	61% (+2)
Years in business	<10	83% (-6)
	10-19	80% (-2)
	20+	65% (0)

PEO USE

- One-in-three decision makers (33%) report currently using a PEO, in line with reported use in 2023 (30%) and 2022 (33%) and more than double the reported PEO use in 2018 (14%) among this sample.
- Younger decision makers (25-34 years old: 39%), larger companies (100+ employees: 46%), and companies in business for less than 10 years (38%) continue to be the strongest base of reported PEO users, although decision makers 35+ indicate growth in PEO usage (35-54: 37%, 55+: 19%).

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

● Currently use a PEO



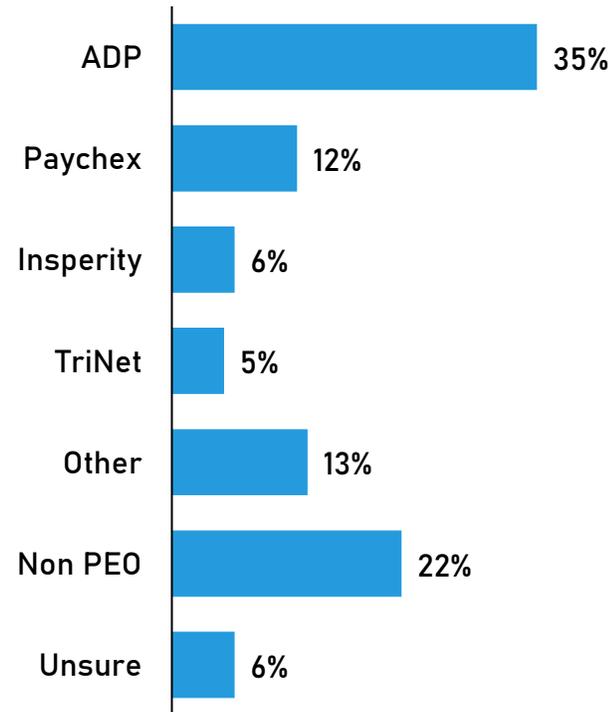
Base: Total Sample, n=502

		% Use a PEO (change from 2023)
Company size (No. of employees)	10-19	18% (+3)
	20-49	30% (+7)
	50-99	42% (+2)
	100+	46% (+1)
Decision maker age	25-34	39% (-10)
	35-54	37% (+7)
	55+	19% (+7)
Years in business	<10	38% (+2)
	10-19	33% (-2)
	20+	25% (+7)

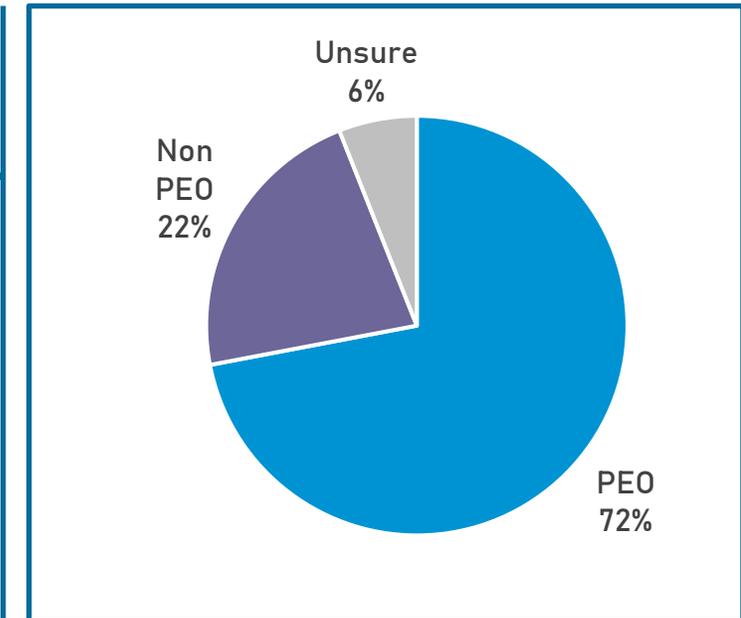
PEOs REPORTEDLY USED

- PEOs that are reported to be used most by decision makers who currently or formerly use(d) a PEO include ADP (35%), Paychex (12%), Insperity (6%), and TriNet (5%).
- Confusion regarding what is and is not a PEO is still prevalent with 22% of respondents reporting they use a company that is not actually a PEO and 6% unsure of the name of the service they use. While this confusion has declined slightly in 2024 with 72% reporting an actual PEO (+10 points from 2023), uncertainty regarding the industry is still evident overall.

Q: Please indicate the name of the PEO you currently or previously use(d). [Open ended responses]



Total Responses: PEOs vs. Non PEOs

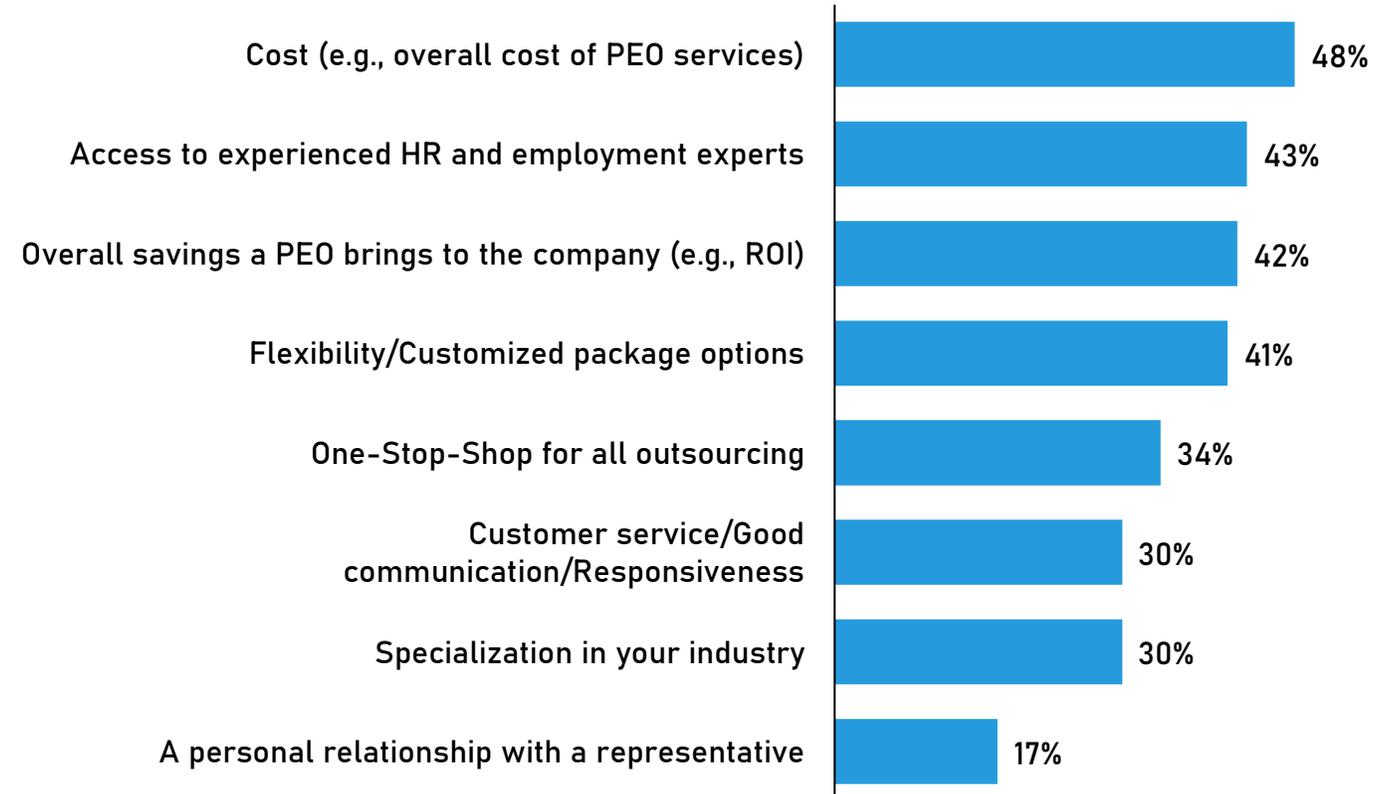


Base: Current/previous PEO users, n=251, answers 1% or below aggregated as other

MOST IMPORTANT FACTORS WHEN WORKING WITH A PEO

- According to current PEO users, the most important factors when it comes to working with a PEO are the costs associated with PEO services (48%), access to experienced HR and employment experts (43%), overall savings a PEO brings to the company (42%), and flexibility/customized package options (41%).
- It is notable that cost-related factors (cost of PEOs and overall savings a PEO brings to the company) are two of the top three most important factors when it comes to working with a PEO.

Q: What are the three MOST important factors to you when it comes to working with a PEO?



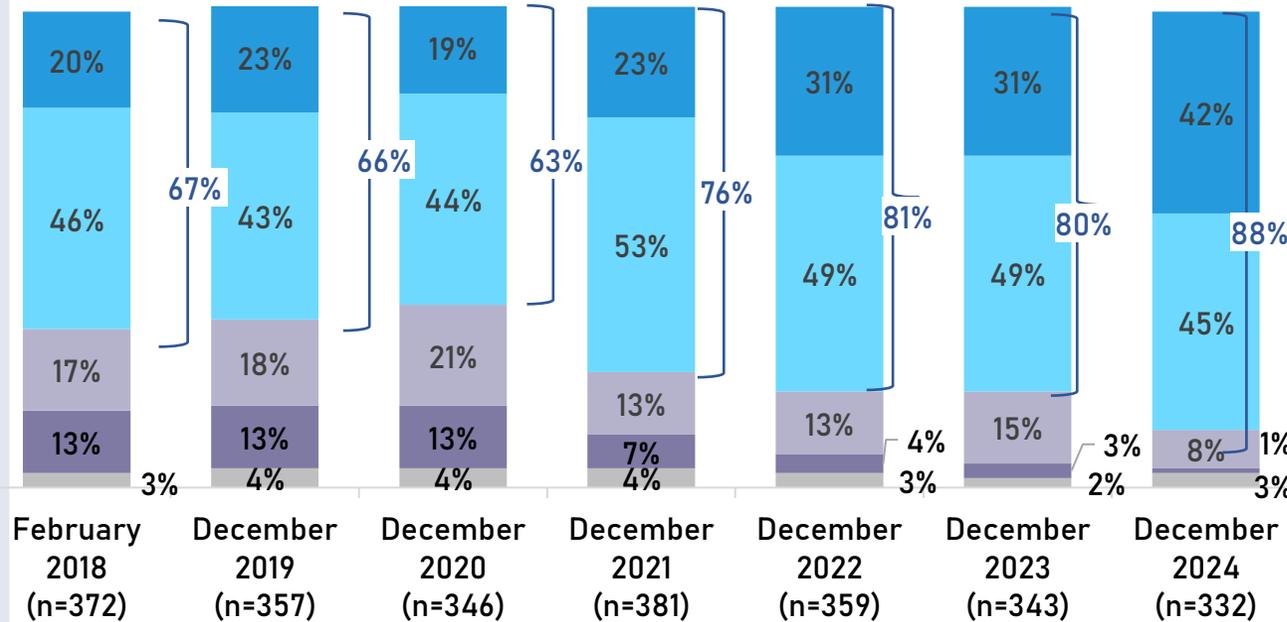
Base: Current PEO users, n=170

INTEREST IN USING A PEO AMONG NON-USERS

- Almost nine-in-ten (88%) non-users indicate interest in using a PEO in the future, an increase of 8 percentage points since 2023 (80%).
- While interest is high and has increased across all demographic groups compared to the previous year, decision makers in companies with 50-99 employees show the most interest overall and most increased interest (95%, +15 points since 2023), followed by younger decision makers between the ages of 25-34 (94%, +11 points since 2023), and companies that have been in business less than 10 years (95%, +6 points since 2023).

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

- Very interested
- Somewhat interested
- Not very interested
- Not at all interested
- Unsure



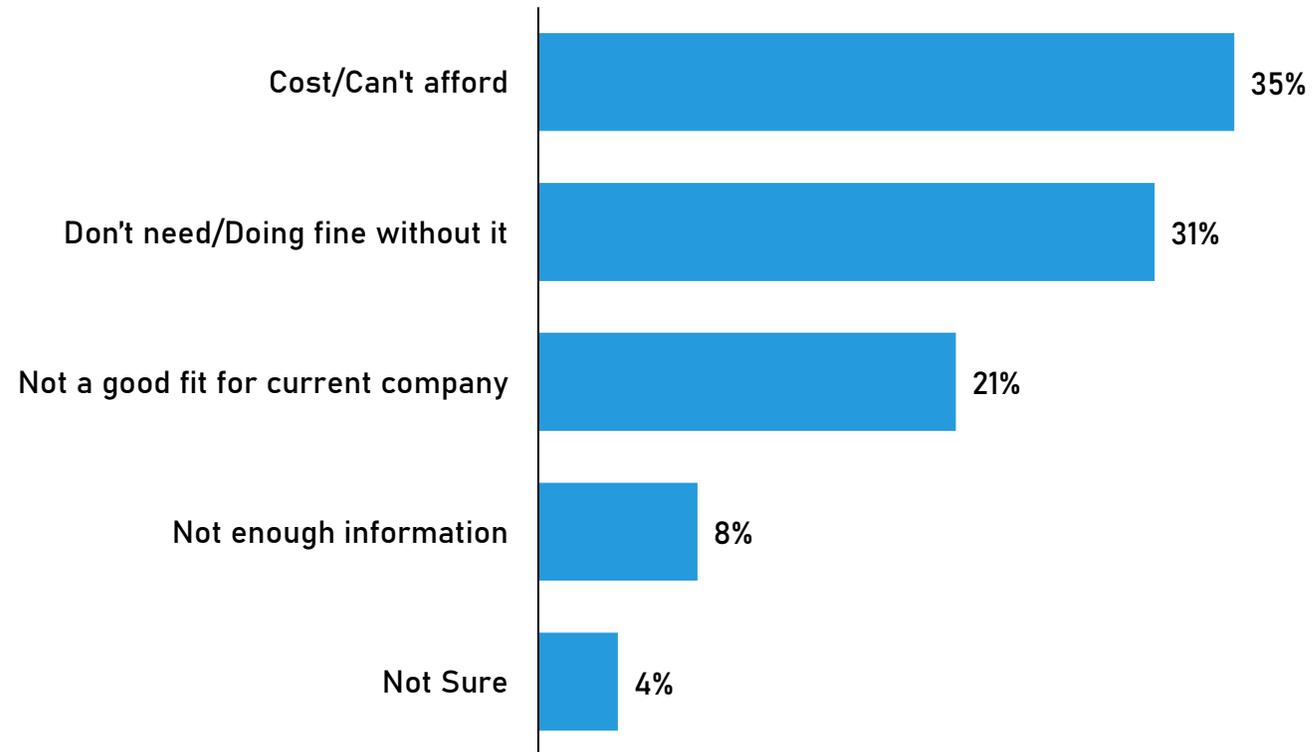
Base: Total Sample, n=332

		% Total Interested (change from 2023)
Company size (No. of employees)	10-19	75% (+7)
	20-49	93% (+6)
	50-99	95% (+15)
	100+	86% (+6)
Decision maker age	25-34	94% (+11)
	35-54	90% (+5)
	55+	78% (+9)
Years in business	<10	95% (+6)
	10-19	90% (+7)
	20+	76% (+7)

REASONS FOR DISINTEREST IN PEOs AMONG NON-USERS

- Among the few (n=37) non-PEO users who are not currently interested in using a PEO, roughly one-third cite cost as reason for their lack of interest (35%).
- In addition, 31% of respondents say that they do not need PEOs while another one-fifth say PEOs are not a good fit for their company (21%).

Q: For what reason(s) are you [not very interested / not at all interested / unsure] in/about using a PEO for your company? [Open ended responses]

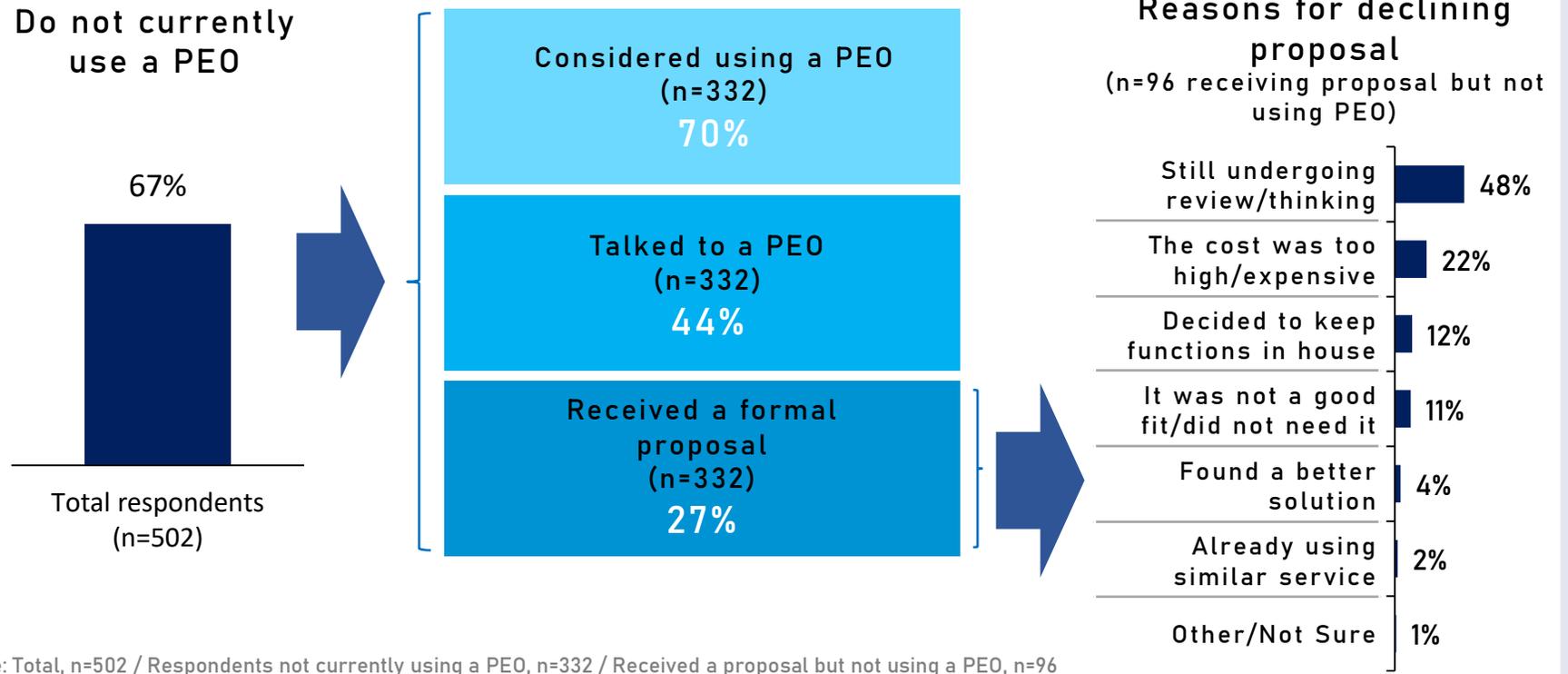


Base: Non-users who are uninterested/unsure, n=37. Please note that sample size is very small and advise caution during analysis.

PEO CONSIDERATION FUNNEL

- Among the 67% of decision makers who do not currently use a PEO, a majority (70%) say they have considered using a PEO with 44% actually talking with a PEO and 27% receiving a formal proposal from a PEO.
- Among those who received a proposal but did not move forward, almost half (48%) were still undergoing review or thinking about the offer, while about one-quarter (22%) report that the cost was too high.
- Companies that have been in business for 19 years or less (76%) are significantly more likely to have considered using a PEO than those at companies in business 20+ years (56%).

- 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?



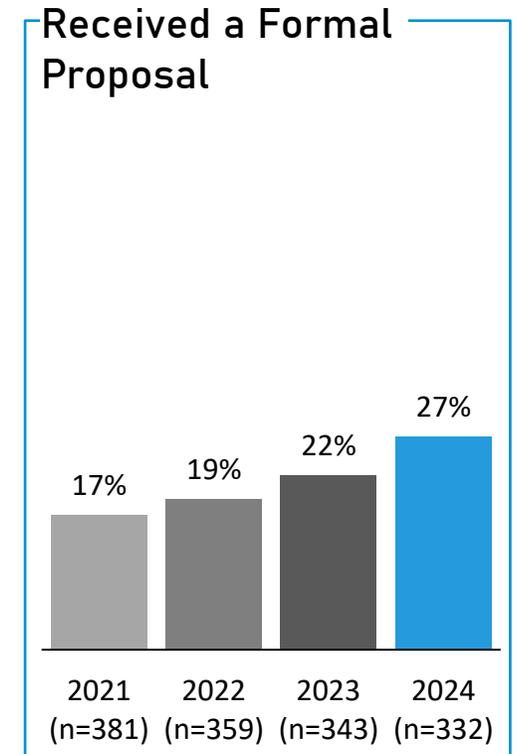
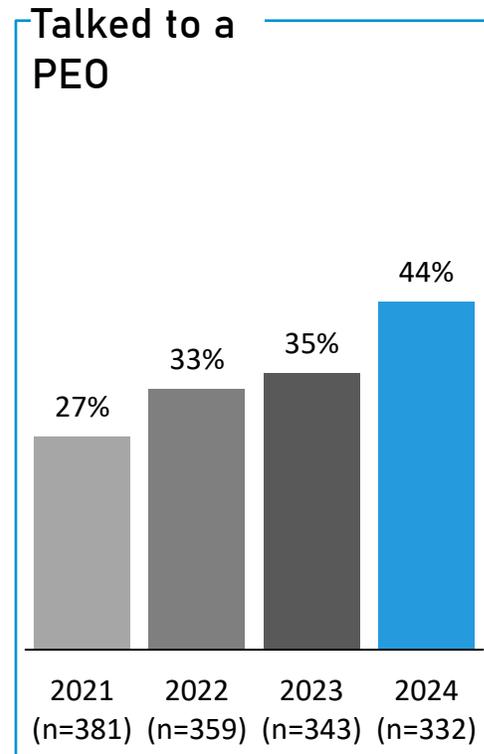
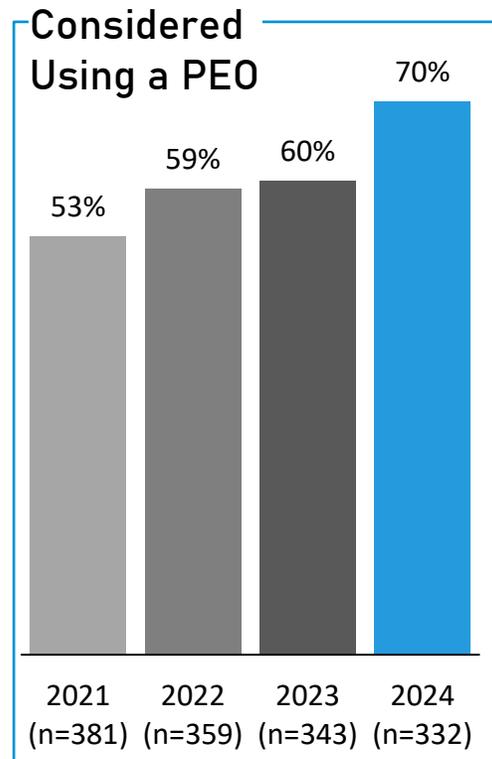
Base: Total, n=502 / Respondents not currently using a PEO, n=332 / Received a proposal but not using a PEO, n=96

PEO CONSIDERATION FUNNEL - TRACKING

- In 2024, more decision makers have considered using a PEO (70%), have talked to a PEO (44%), and have received a formal proposal from a PEO (27%) compared to previous years.
- This upward trend is in line with a slight increase in awareness, use of PEOs, and interest in PEOs among non-users in 2024.

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?

● Yes



Base: Respondents not currently using a PEO

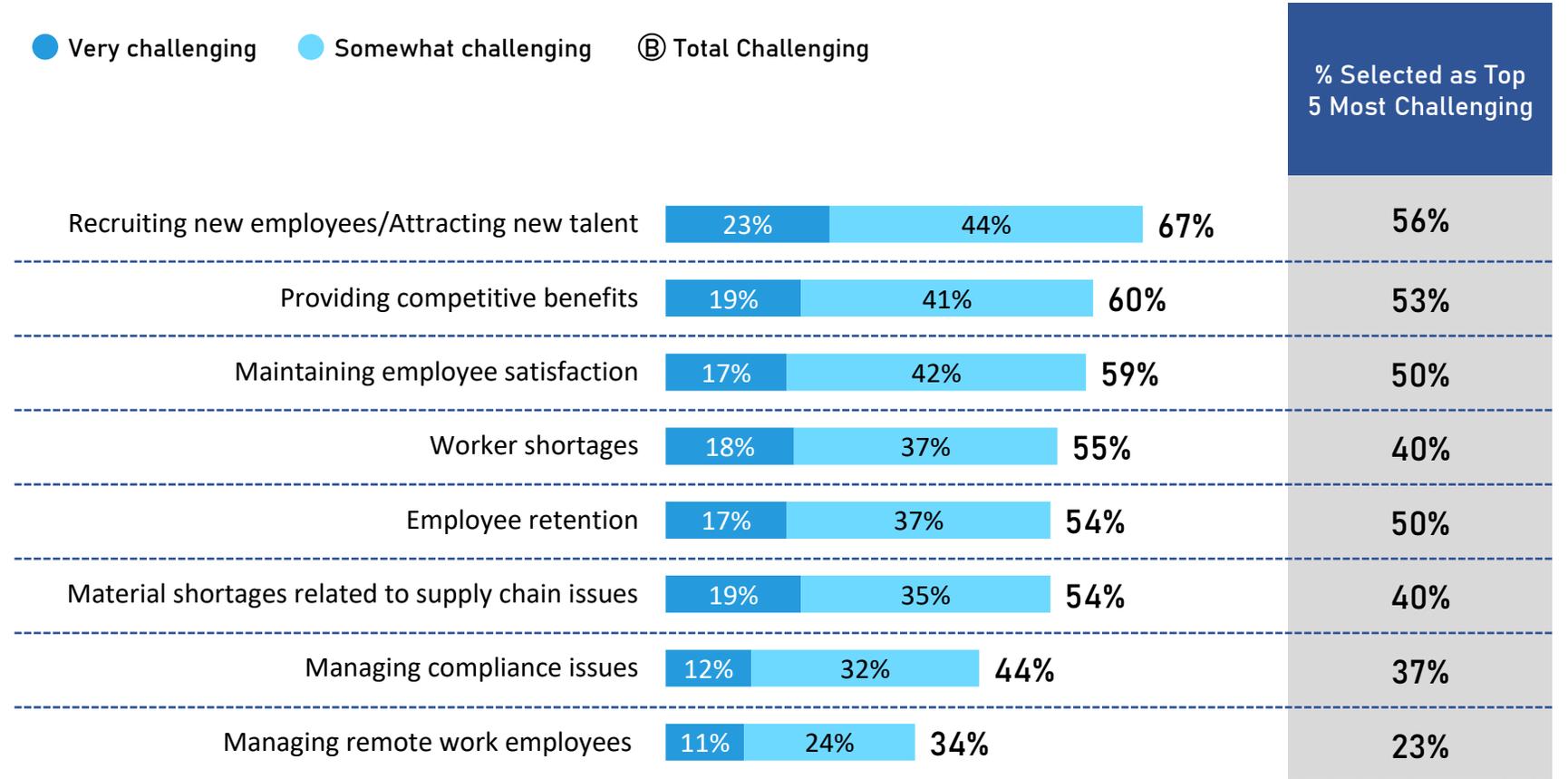
Challenges and Perceptions

CHALLENGING ASPECTS OF RUNNING A BUSINESS

- The top five challenging issues decision makers face when running their business are employee-related issues including recruitment, providing competitive benefits, maintaining employee satisfaction, worker shortages, and employee retention.
- Material shortages related to supply chain issues are also a challenge according to BDMs with over half (54%) reporting this as challenging overall, in line with employee retention.

Q: Now thinking specifically about running your business, how challenging are each of the following issues?
 Q: And now, what are the top 5 MOST challenging issues for you?

● Very challenging ● Somewhat challenging ⊕ Total Challenging



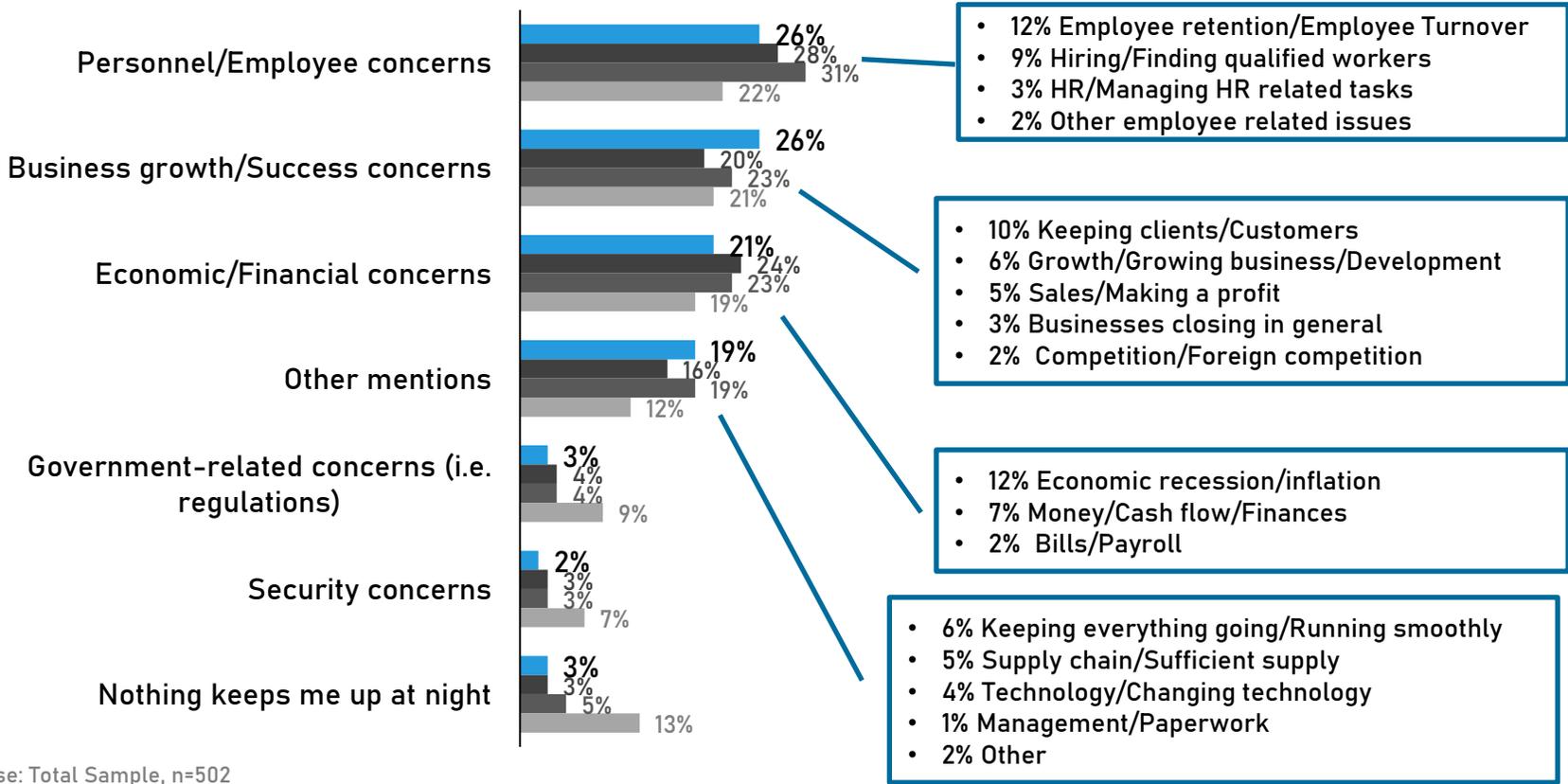
Base: Total Sample, n=502

TOP CONCERNS FOR BUSINESS OWNERS

- What keeps business owners up at night regarding their business has evolved over the years: while personnel/employee trends are still top of mind, these concerns have been steadily declining in recent years while business growth/success concerns have increased to the same level as employee-related concerns for the first time since 2021.
- It is notable that currently only 3% of decision makers report that nothing keeps them up at night, in line with previous years but a 10-point decrease from 2021.

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? [Open ended responses]

● 2024 ● 2023 ● 2022 ● 2021



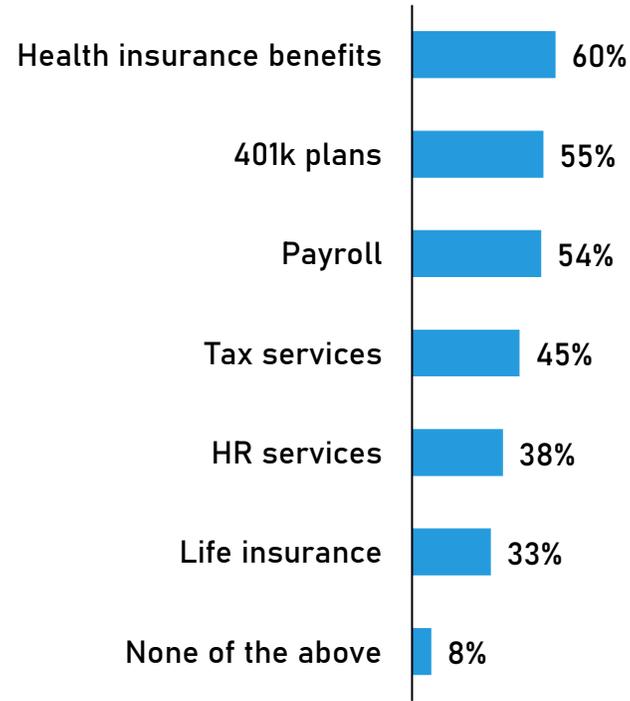
Base: Total Sample, n=502

OUTSOURCED BUSINESS FUNCTIONS

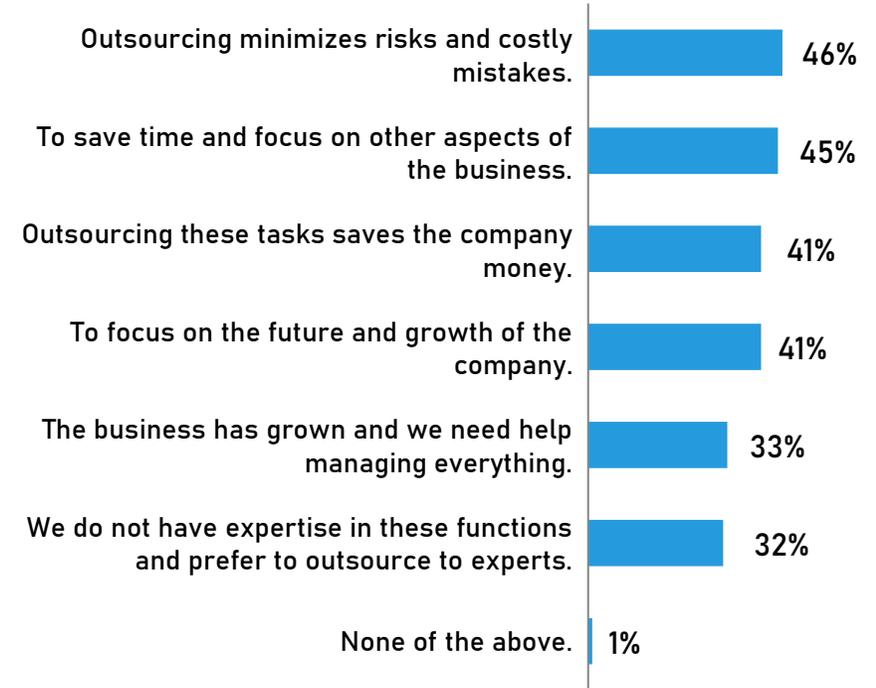
- Over half of decision makers say they currently outsource health insurance benefits (60%, +2 points since 2023), 401k plans (55%, +8 points since 2023), as well as payroll (54%, +1 point since 2023).
- Decision makers outsource business functions for many reasons, although the top two reported reasons are that outsourcing minimizes risks and costly mistakes (46%) and outsourcing helps them save time and focus on other aspects of their business (45%).

Q: Which of the following business functions does your business currently outsource?
Q: What are the main reasons why your company outsources these business functions?

Business Functions Currently Outsourced
(n=502)



Reasons for Outsourcing Business Functions
(n=464 currently outsource)



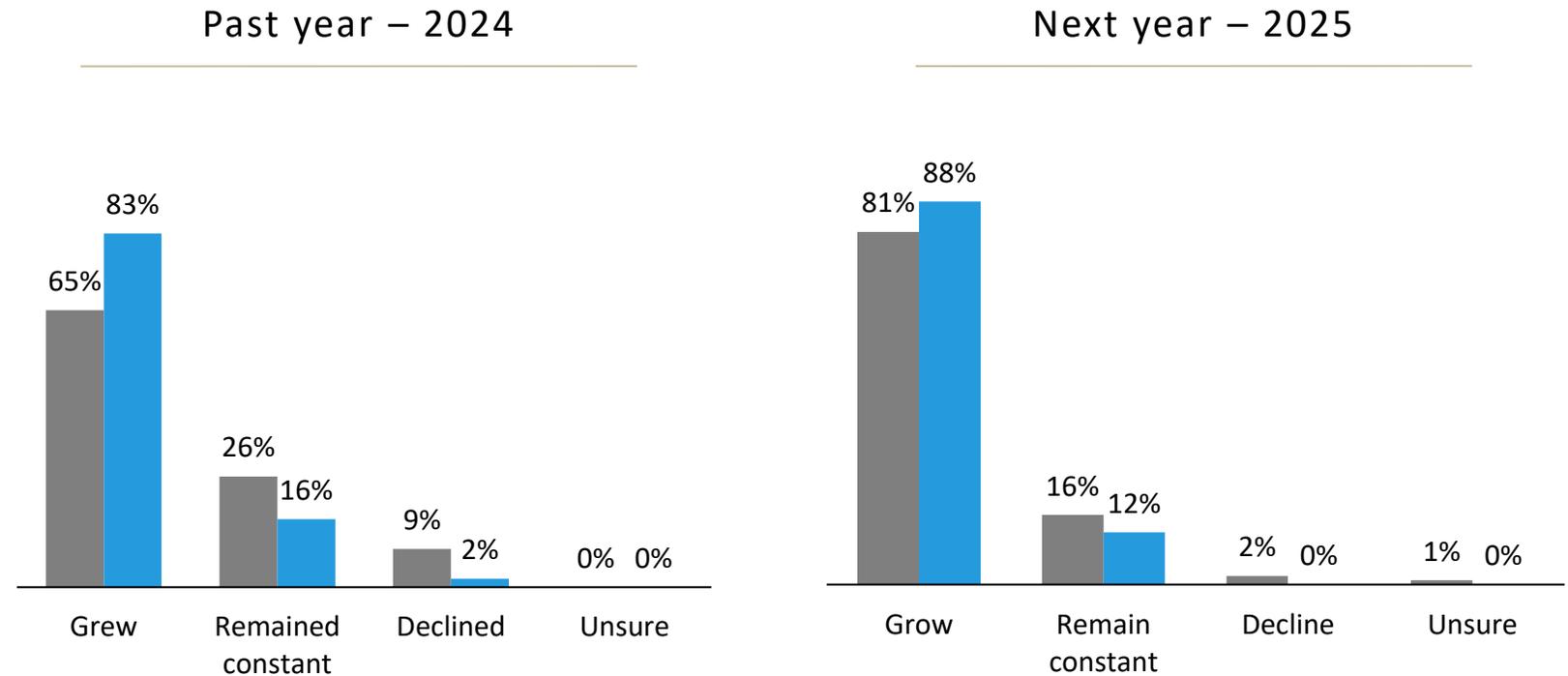
PAST BUSINESS GROWTH & FUTURE EXPECTATIONS

- Current PEO users (83%) continue to be significantly more likely to report business growth in 2024 compared to non-users (65%).
- Furthermore, current PEO users (88%) also continue to be significantly more likely than non-users (81%) to report expected business growth in the next year.

Q: In 2024, did your business grow, decline, or remain at about the same level compared to 2023?

Q: And do you expect your business to grow, decline or remain at about the same level over the course of 2025?

● PEO users (n=170) ● PEO non-users (n=332)



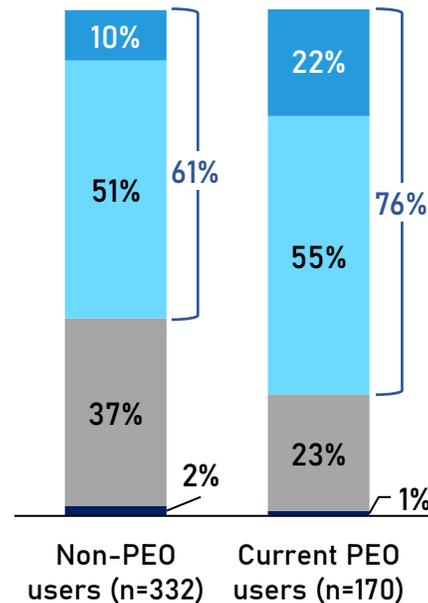
FUTURE EXPECTATIONS

- Current reported PEO users are significantly more bullish than non-PEO users when it comes to their businesses' growth in the next 12 months.
- Expected growth remains high when it comes to expected gross annual revenue (non-PEO users: 84%, Current PEO users: 95%) and profitability (non-PEO users: 80%, Current PEO users: 94%). However, while roughly three-in-four (76%) current PEO users expect their businesses to grow in total number of employees in the coming year, six-in-ten (61%) non-PEO users expect this growth.

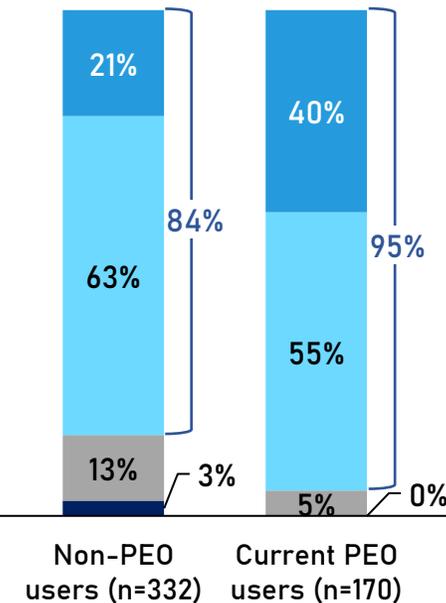
Q: Now thinking specifically about the different aspects of your business listed below, please indicate whether you expect each of these to increase or decrease over the next 12 months.

- Increase substantially
- Increase somewhat
- Stay about the same
- Decrease

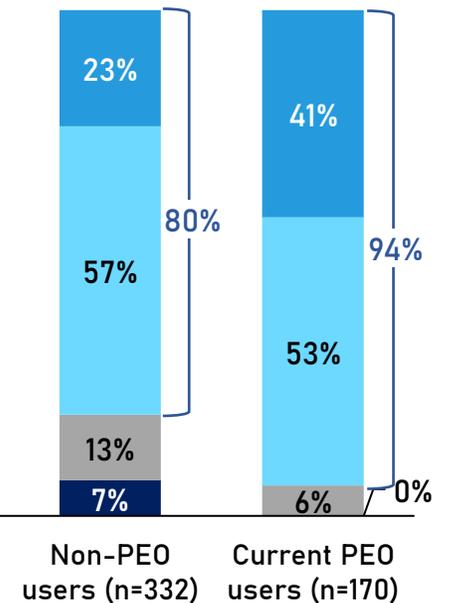
The total number of employees at your business



The total gross annual revenue from your business



The total profitability of your business



IMPACT OF OUTSIDE INVESTMENTS

- Decision makers with outside investors in their companies are significantly more bullish regarding their businesses' growth, both in the past year (79%) and in the coming year (89%), compared to those who do not have outside investments (Past year: 63%, Coming year: 76%).
- Interestingly, decision makers with outside investors in their companies are significantly more familiar with the term PEO (74%) and are significantly more likely to use a PEO (43%) than those with no outside investments (Familiar: 60%, Use: 23%).
- Thus, companies with outside investors who do not currently use a PEO may be promising potential PEO clients.

Q: In 2024, did your business grow, decline, or remain at about the same level compared to 2023?

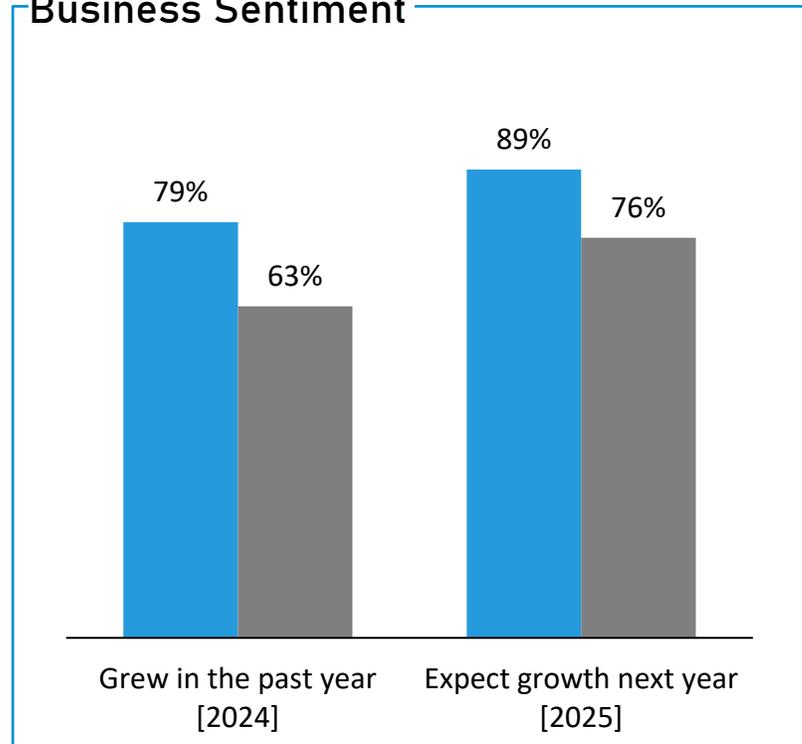
Q: And do you expect your business to grow, decline or remain at about the same level over the course of 2025?

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

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

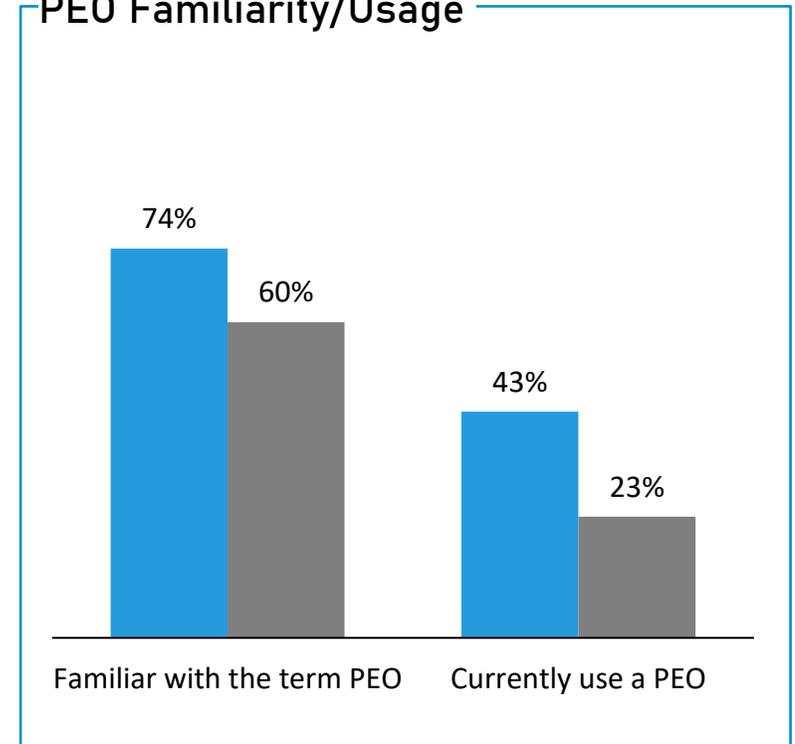
● Have outside investors (n=269) ● Do not have outside investors (n=224)

Business Sentiment



Base: Total Sample, n=502

PEO Familiarity/Usage



Thank you

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