

Strategic HR: Power Your Business With a PEO

Professional employer organizations (PEOs) use the latest thinking and tech to create incredible advantages for small and midsize businesses (SMBs).

Entrepreneurs start a business to solve a problem, serve a market, and build a legacy. They don't start a business because they love labor laws and administrative processes. That is where professional employer organizations (PEOs) come in. PEOs take on the burden of time-consuming HR tasks and reduce the legal risks associated with employment so that founders can focus on their passions.

"Being freed from back-office concerns and paperwork means founders can really focus on productivity in their own business—on profitability, or growth, or employee engagement—in ways that they probably couldn't if they didn't have the help of a PEO," explains Casey Clark, CEO and president of the

National Association of Professional Employer Organizations (NAPEO), a trade association that serves as the voice of the PEO industry and a source for PEO education.

According to a NAPEO research report, "PEOs: Good for Business and Their Employees," 70 percent of SMBs that work with a PEO report increased revenue, and 66 percent report greater profitability since becoming a PEO client. The study also finds that the annual median revenue growth of a PEO client is twice that of a comparable business that is not partnering with a PEO. With stats like that, it is no surprise that 98 percent of PEO clients would recommend working with a PEO to a small-business colleague, according to NAPEO's findings.

PEO industry revenue has more than quadrupled since 2012, and about 17 percent of businesses with 10 to 100 employees use a PEO, according to NAPEO data. That said, lack of awareness about PEOs, as well as misconceptions about how they work, hold some SMBs back from realizing the benefits of a PEO partnership. Even Clark was unaware of PEOs' full value to business owners, he says, before taking his role as NAPEO.

The advent of technology, specifically artificial intelligence (AI), enables PEOs to create even more value for businesses by speeding up HR processes, improving the employee experience with personalized and predictive recommendations, and empowering business leaders to make smarter, data-backed decisions. But AI

can create more questions, too, as SMB owners navigate offerings and consider their own strategy for leveraging AI without losing the “human” in “human resources.”

With this in mind, let’s explore how top-tier PEOs combine expertise and technology to create business-changing benefits for SMBs, as well as how business and HR leaders can approach choosing a PEO partner.

PEOs are an investment in your people

“We know our clients care deeply about their employees. They want to provide a quality place to work—a place where their people feel productive, uniquely valued, inspired, and have a sense of belonging,” says Brian Michaud, president of smart compliance solutions and human resources outsourcing (HRO) services at ADP, a top provider of online payroll and HR solutions for SMBs. “Our clients want to do right by their people, and we help them do that in a number of different ways.”

Doing right by your people includes maintaining a professional working environment with clear policies and procedures, paying employees on time, providing competitive and cost-effective benefits, making it easy to get questions answered, and offering training and upskilling opportunities to advance people’s careers. A PEO should be able to help with each of these objectives, which together contribute to a favorable employee experience, a term the workplace consulting firm Gallup defines as “the journey an employee takes with your organization.” This journey includes every interaction an employee has with and at your company, starting with the recruitment process. A PEO’s proven systems, processes, and experts typically enable SMBs to offer a better employee experience than they would be able to otherwise.

“Our research shows that employees at businesses that use a PEO have significantly higher levels of job satisfaction and

continue to believe that their employers are committed to their success,” Clark explains. Generally, partnering with a PEO makes HR simpler and more seamless for employees—a hallmark of a high-caliber employee experience and a driver of workplace productivity.

“As an employer, you want things to be easy for your employees, because the more time they’re spending on payroll, benefits, and their 401(k), the less time they’re helping your clients,” Michaud says.

Transforming the role of HR

“There is one thing that stays constant with employee expectations and experience: They want to feel valued and heard,” explains Paul J. Sarvadi, chairman and CEO of Insperity, a PEO offering comprehensive, customizable, and scalable HR solutions to fast-growing companies.

“Employers have the tools through a PEO to foster a people-first



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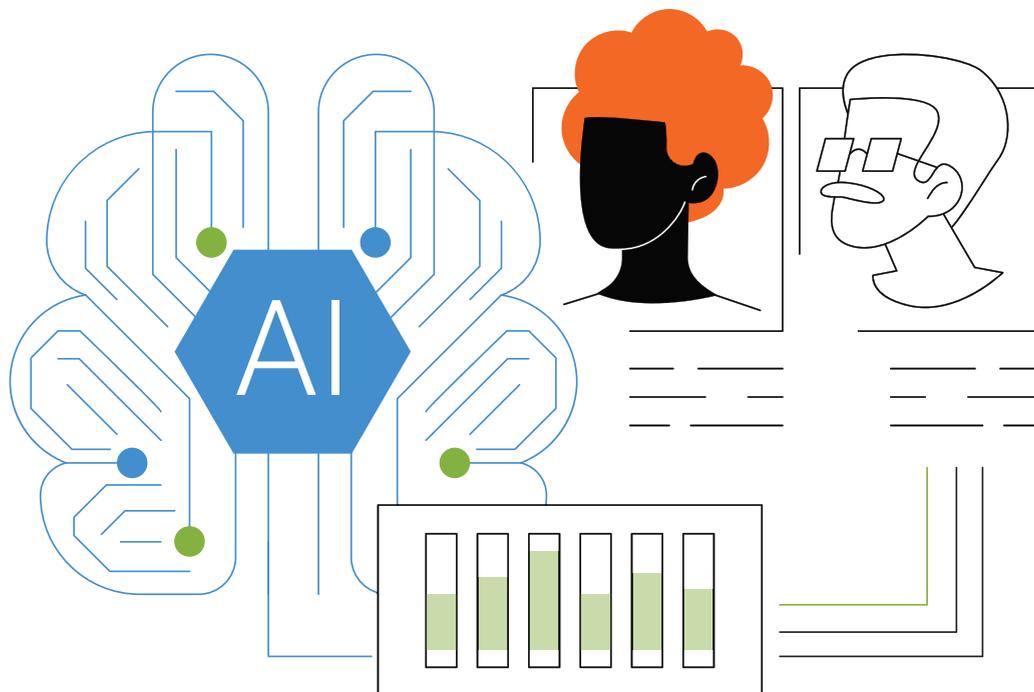
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environment and a strong sense of belonging,” Sarvadi continues.

Employees with a strong sense of belonging are 21 percent less likely to leave an organization, according to one 2023 survey.

“Using a PEO saves companies time trying to understand the latest compliance issues but also benefits employers by reducing costs associated with employee turnover. Through recruiting, performance management, and strategic HR support, businesses are armed with the tools and resources that foster a people-first workplace culture that values employee growth and satisfaction,” Sarvadi explains.

Compliance issues have become even more complicated with the rise of hybrid and remote work. Employer-related violations, such as recordkeeping, regulations, assurances, etc., for remote workers can come with penalties as high as \$1,240 per worker, per year, according to the U.S. Fair Labor Standards Act (FLSA). A PEO can help companies navigate the labor laws in every state they operate, ensuring a company's growth isn't hindered by compliance risks.

“Business leaders want to concentrate on their product or service, and they are not typically keeping a keen eye on the regulatory environment. A PEO will monitor employer-related state and federal laws and guide the organization through any changes, including supporting the internal HR team to manage liabilities as an employer,” Sarvadi explains.

Chad Parodi, VP and managing director of PEO and Insurance at Paychex, a PEO offering SMBs a simple approach to payroll, HR, and benefits, notes that proactive advice from a dedicated HR professional and subject-matter specialists “helps team members with HR responsibilities so they aren't going it alone—they have robust support from the PEO's expertise and productivity tools.”

More than half (51 percent) of SMB leaders say training and skill-building is a top HR challenge, according to Paychex research on business leaders' priorities. PEOs offer professional training and tools for SMB employees to help HR teams develop and execute effective training programs. “This can help to attract new talent and maximize the potential of your existing workforce,” Parodi explains. “Ongoing

training is essential for achieving business goals and boosting employee satisfaction. Personal development opportunities demonstrate your commitment to your employees' growth and long-term success.”

Big-business benefits to improve recruitment and the employee experience

One of the most common reasons SMBs explore a PEO working relationship is affordable access to comprehensive benefits to attract top-tier talent and take good care of their employees. Ninety-eight percent of small businesses offering health insurance are concerned that health care costs will become unsustainable within the next 5 to 10 years, according to a survey by the NFIB Research Center.

“A PEO's buying power in workers' compensation and health insurance may make these purchases more affordable for small businesses, leading to cost savings,” Parodi explains. “Access to Fortune 500-level benefits and professional administrative services can make your company more competitive and may enhance employee satisfaction.”

FINALLY, SOMEONE IN YOUR CORNER

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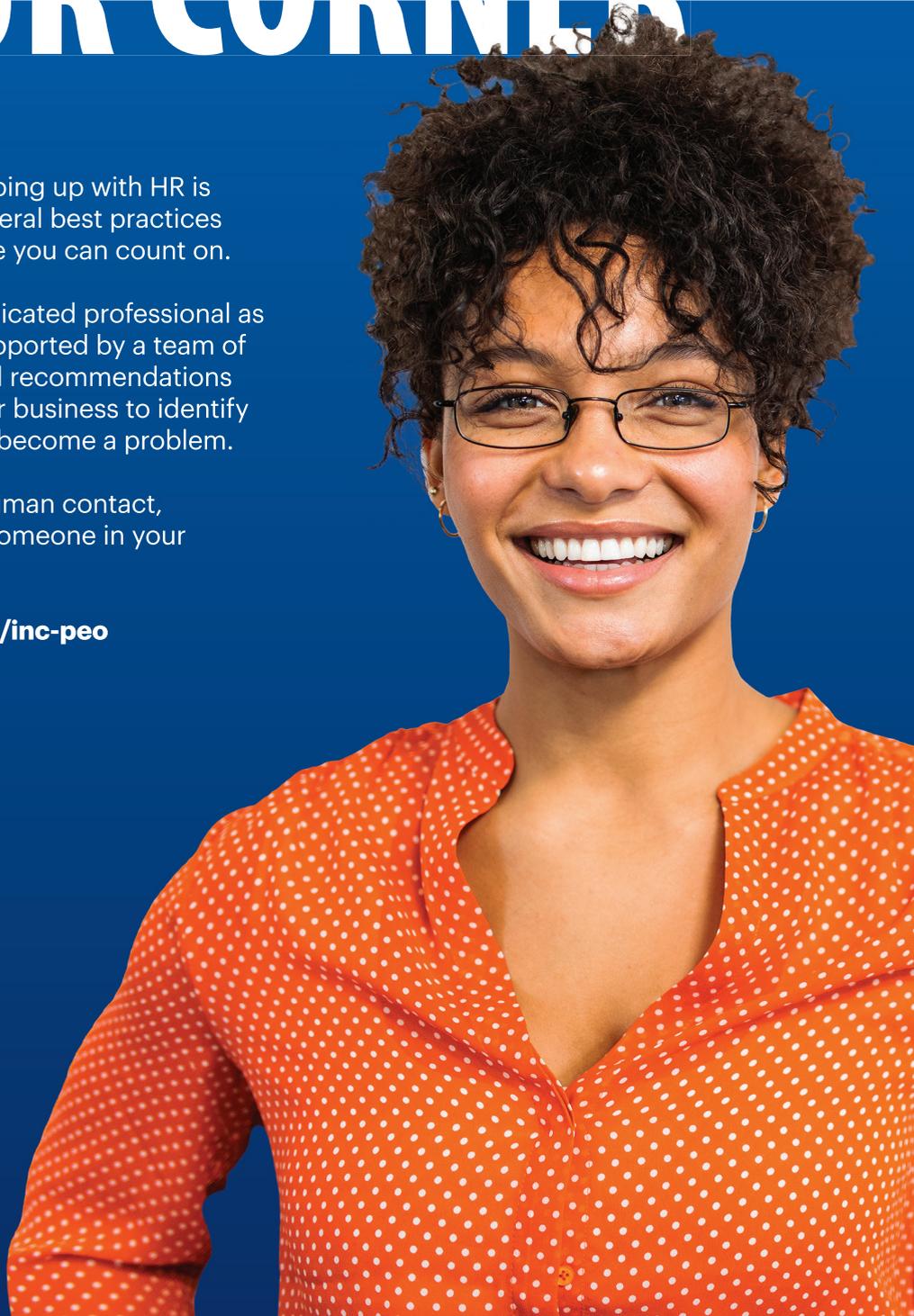
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STATE OF THE WORKPLACE 2024

First-of-its-kind SMB research conducted by TriNet*

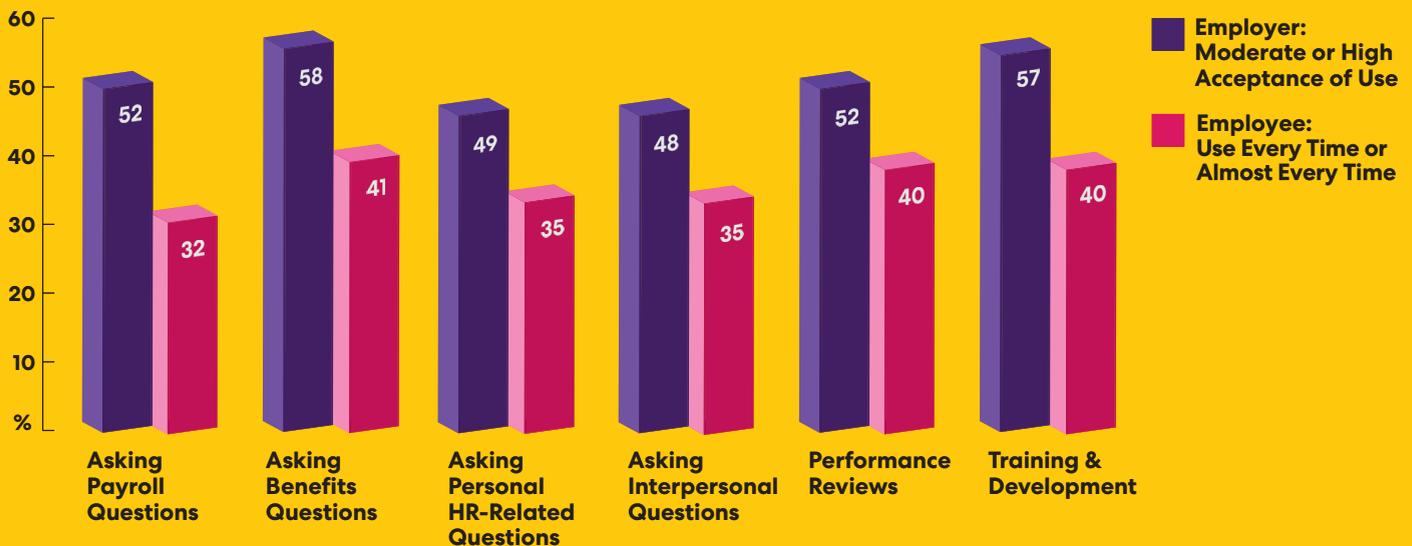
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U.S. WORKERS IN SMALL AND MEDIUM-SIZE BUSINESSES ARE USING AI AT WORK

In a tech takeover like no other, it's clear AI is reshaping the U.S. workforce—and not just in individuals' professions, but even in HR.

A staggering 75% of full-time employees in small and midsize businesses are now harnessing AI on the job. And with employer acceptance of AI use far outpacing actual employee usage, we expect this trend to grow.

CURRENT AI USE FOR HR TASKS



HR IS ALWAYS ON

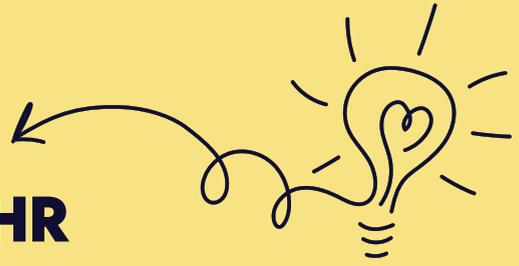
The use of tech and AI has never been more necessary than today, with more than half of employers and almost half of employees agreeing that HR needs to be always on.

HR can be a leader in the AI space with the right technology and service solutions.

51%
EMPLOYERS

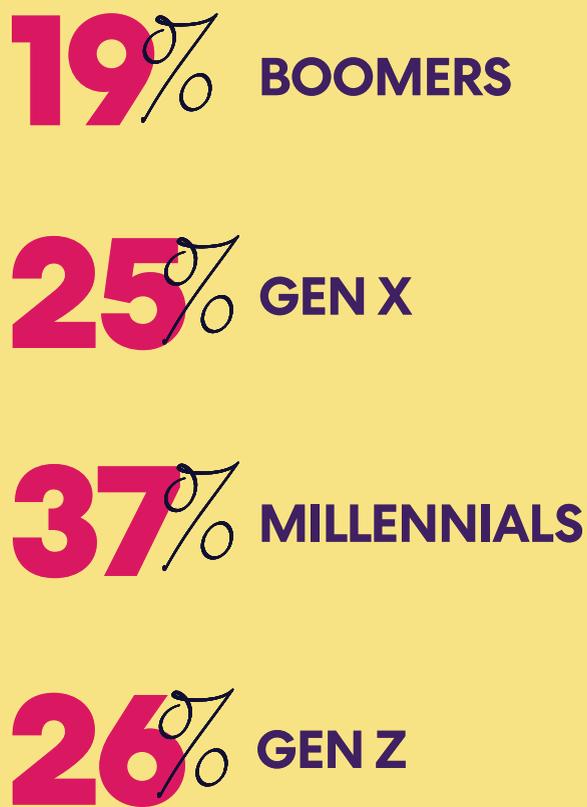
44%
EMPLOYEES

* TriNet surveyed 630 full-time employees and 588 HR decision-makers, in the USA, working for companies with 5-500 employees.



AI ENTHUSIASTS IN HR

Roughly one-third of employees prefer using an AI assistant for general HR tasks—and this varies significantly throughout generations.



Quicker response times

The #1 reason employees choose using an AI assistant over talking to an HR administrator

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“Beyond your typical health benefits, PEOs allow small and medium-size businesses to offer robust retirement plans, life insurance, adoption assistance, commuter benefits, and more that they could not afford to extend otherwise,” Sarvadi says.

He believes employees are looking to employers to provide a more holistic approach to compensation and benefits, including benefits for physical, mental, and financial health.

“It may seem like insurmountable expectations for small businesses, but with the power of a PEO, business leaders can keep their finger on the pulse of their workforce and provide the environment top talent craves,” he says.

PEOs leverage AI to further improve the employee experience

Lisa Reeves, chief product officer of TriNet, a provider of comprehensive human resources solutions for SMBs, explains that PEOs not only help SMBs provide their workforces with competitive benefits; they also help educate employees so that they can choose the best options for

themselves and their families and use their benefits effectively.

“For decades there’s been an arms race in offering the best benefits to employees, resulting in billions spent on this category, yet far too often the last mile has been neglected. Employees have these expensive and amazing benefits, but they don’t understand them or know how to use them,” Reeves explains.

Sixty-six percent of employees want help navigating their health insurance benefits, according to a 2021 survey by Voya Financial. To meet that demand, TriNet invests in personalized HR administration and benefit solutions. For example, the company has introduced a marketplace that allows customers to choose from a network of business solutions selected to help clients address business and workforce needs. TriNet also launched an AI-powered benefits decision support tool, powered by Healthee, to deliver a personalized benefits enrollment experience to customers’ employees. The platform helps employees make informed benefits decisions by using AI to identify the best-fitting and most cost-effective plans based on the individual needs and

preferences of the employee. When PEOs have AI built into their platforms, tools, and workflows, they make it easier for SMBs to realize the game-changing advantages of automation and machine learning.

Many PEOs are leveraging AI to automate routine tasks like payroll and employee-time tracking, “freeing HR professionals to focus on strategic

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initiatives and building company culture," Sarvadi says.

Across industries, organizations are using AI as an enabler of human potential. Think of doctors and their teams leveraging AI to ingest and analyze scans to check for something out of the ordinary they may have missed with the human eye. HR teams can use AI features to double-check their work, too. For example, ADP Assist, ADP's AI tool, validates payroll information, flagging potential errors for SMBs.

"We keep that technology easy, smart, and human to provide better experiences for clients and their employees," Michaud says.

Eighty-five percent of HR and business leaders at companies with 5 to 500 employees say their organizations are already using AI, and 98 percent expect to use AI in the next 12 months, according to a Paychex survey. Most commonly, they use AI to automate workflow, grow sales, manage business intelligence and analytics, screen résumés or applications, and as a virtual assistant, according to the research.

Parodi believes HR is well-suited to play a leading role in ethical AI use at their organization.

"HR is uniquely positioned to manage AI's integration, addressing the organization's technical, cultural, and motivational aspects. A proactive approach is crucial to harness AI's potential while addressing its challenges," he explains.

"HR is interesting," Reeves says, "because it's both very transactional and operational, as well as personal, human, and sensitive. Obviously, the former lends very well to automation. The latter must get delivered in a human and personal manner but can be enhanced greatly with technology."

Reeves gives an example: If managers have access to reliable workforce analytics, they can have more informed and effective conversations with their

HR for today's needs and tomorrow's success

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teams. She believes the continued advancement of HR technology will create more personalized experiences for employees, as well as more opportunities for business and HR leaders to use data to improve decision making.

Choosing a PEO for your business—and maximizing your return on investment

PEOs typically partner with companies that have 5 to 500 employees. Beyond that, if you are a business owner who wants to be a good employer and cares about your people, a PEO could be for you, Michaud explains.

He cautions small-business owners to be aware of the difference between a PEO and a company that offers a number of HR services.

“There are companies that will bundle pieces together. They will say, we will be your HR support; we’ll do your payroll and provide you with a benefits

broker, but it’s not the same thing. A PEO is unique in that it shares liability with its clients and affords you access to programs not available for non-PEO clients,” he notes.

Another advantage is that most PEOs tailor their offerings to fit each client’s unique goals, challenges, and culture, scaling their service as the client grows. They work as an extension of the SMB’s team—the go-to expertise for questions about payroll, benefits, compliance, training, and more. While PEOs may provide similar capabilities, no two are the same.

“If you experience one PEO, you’ve experienced one PEO, so it’s accurate to say that each different member of our organization differentiates their approach, their focus, or their level of service. When an SMB is looking to partner with a PEO, they should really look for one that fits their business,” Clark advises.

Parodi suggests requesting a preview of the platform. “This helps to ensure

the technology integrates seamlessly into your business operations and meets your needs effectively,” he says. Once you have chosen a partner, be clear about your expectations and goals and maintain open communication. “Every PEO is going to be really good at helping their clients understand how to maximize return on your investment in your partnership,” Clark says.

According to NAPEO research, the average annual return on investment from using a PEO, based on cost savings alone, is 27.2 percent. These savings are realized across five areas: HR personnel costs, health benefits, workers’ compensation, unemployment insurance, and other external expenditures in areas related directly to HR services, such as payroll services.

The PEO advantage: for SMB owners, HR leaders, and employees

The typical business owner has a dream, but the burdens of becoming an employer can hinder their ability to focus on that dream.

“That’s why PEOs are so valuable, because you not only have technology, but you have experts that are navigating HR for you and helping you devise the right strategy so you can go back out and concentrate on your dream,” Michaud explains.

From NAPEO’s perspective, PEOs exist to “knock down barriers to entry and remove obstacles that are impeding growth for small and midsize businesses all across the country,” Clark explains. A PEO saves business owners time and reduces business risk; creates new opportunities for HR to make a measurable business impact, for example, by improving recruitment, retention, and productivity; and enables small and nimble companies to effectively compete with much larger ones.

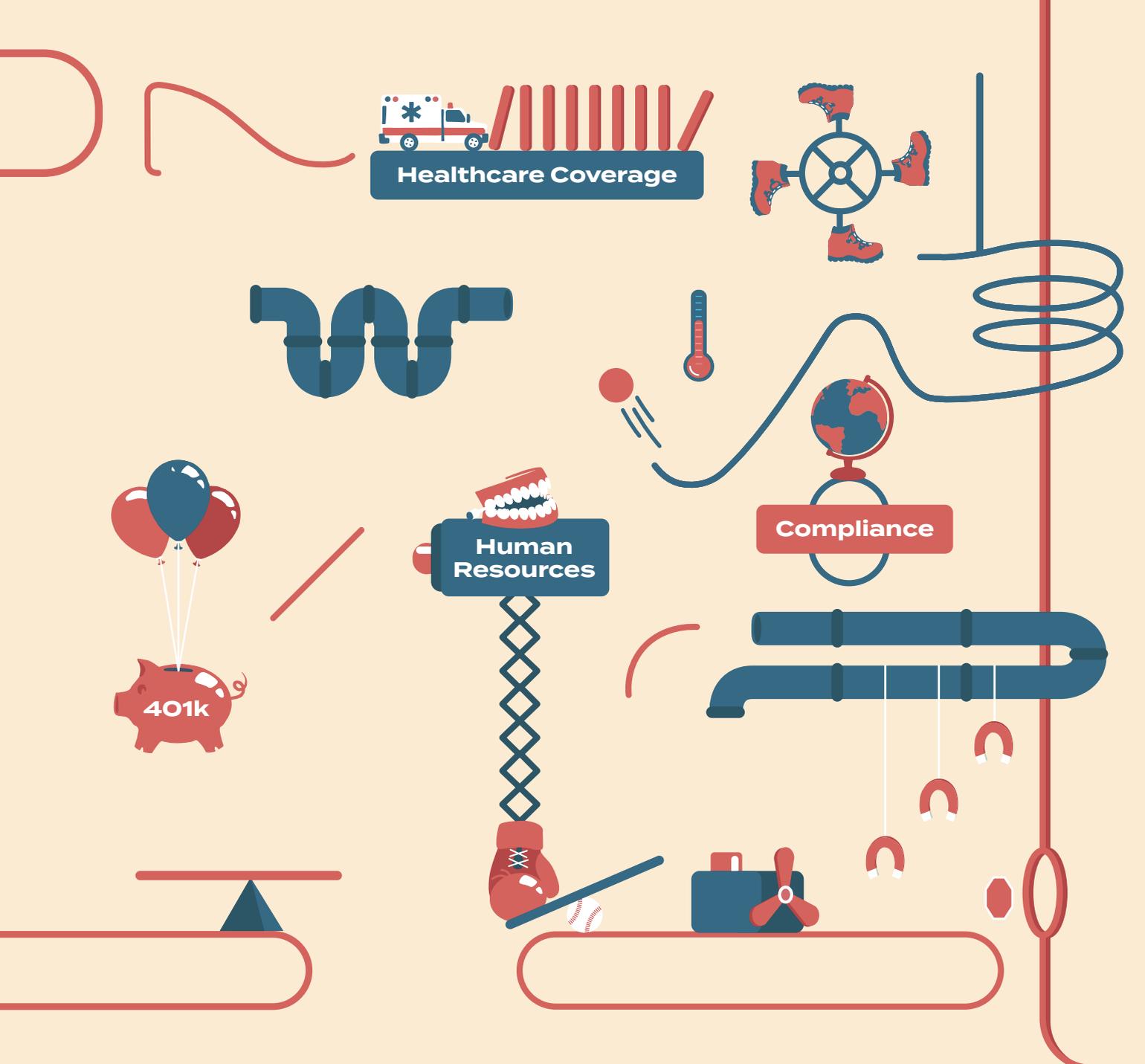
“And so, the future is bright for PEOs and for the businesses that benefit from working with one,” Clark says. ■

Define Your Precise Needs

Ask your small-business colleagues for input and conduct thorough research.

Consideration criteria includes:

- The types of services provided
- The quality, cost, and range of offered benefits
- The PEO’s culture and values and whether they align with yours
- The level of service provided to business leaders, HR, and employees
- Whether the PEO offers an app for HR users and employees
- Security measures
- Liability and how much risk will be shared with or absorbed by the PEO
- If the PEO has been designated a certified PEO by the IRS
- The user experience of the PEO platform and if it integrates with existing processes



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