

# Key Findings of The State of the PEO Industry 2016: Markets, Value, and Trends

*This report on the state of the PEO industry in 2016 is the fourth in NAPEO's series of white papers designed to help the general public and small business owners better understand the economic impact and value of the PEO industry. It explores three main topics: the market for PEO services, the value that PEOs create for their clients, and trends currently shaping the PEO industry. It uses a variety of sources, including external data (from governmental and non-governmental sources), econometric analysis, and interviews with industry experts by the authors. It also draws on key articles, laws/regulations, surveys, and reports.*

## Quick Summary

### The Market for PEO Services

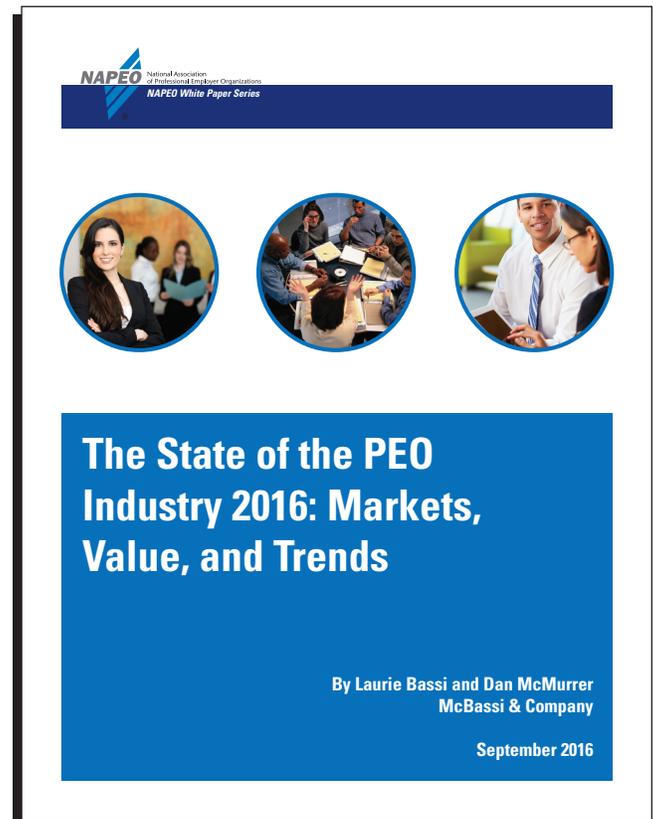
- There are 1.1 million businesses in the United States that have between 10 and 99 employees, which represents the target market for most PEOs (the average PEO client has 22.5 employees).
- In 2015, up to 14 to 16 percent of small businesses (with 10 to 99 employees) were PEO clients.
- As of 2013 (the most recent year for which data are available), the number of small businesses in the U.S. was still 7 percent below its pre-recession peak.
- Small business optimism has recovered significantly since the recession, but is still approximately 4 percent below its 42-year average, according to the National Federation of Independent Business (NFIB).
- Healthcare, taxes, and regulation—exactly the issues that PEOs help clients address—are consistently reported as the top concerns of small businesses.

### The Value PEOs Create for Their Clients

- PEO clients grow 7 to 9 percent faster, have 10 to 14 percent lower rates of employee turnover, and are 50 percent less likely to go out of business than other comparable small businesses.
- PEOs provide access to a broader array of HR services at a cost that is almost \$450 lower per employee.
- PEO clients are more likely to provide employer-sponsored retirement plans and other employee benefits, which helps them attract and retain their employees.

### Trends Shaping the PEO Industry

- Factors currently fueling the growth of the PEO industry include the growing complexity of state-level HR mandates, the Affordable Care Act (ACA), and the Small Business Efficiency Act (SBEA).
- The HR environment is becoming increasingly complex in many states, with more changes likely on the horizon.
- Technology-heavy HR Software-as-a-Service (SaaS) companies represent a potential disruption to the PEO industry.
- Recent valuations in the PEO marketplace now slightly exceed their pre-recession peak, although the premium in valuation that publicly traded PEOs commanded 20 years ago has (or soon will have) disappeared.
- The PEO industry may be entering a new, more mature phase from an investment perspective, reflecting a more conservative approach among institutional investors.



**National Association of Professional Employer Organizations**  
707 North Saint Asaph Street • Alexandria, VA 22314  
703/836-0466 • [www.napeo.org](http://www.napeo.org)