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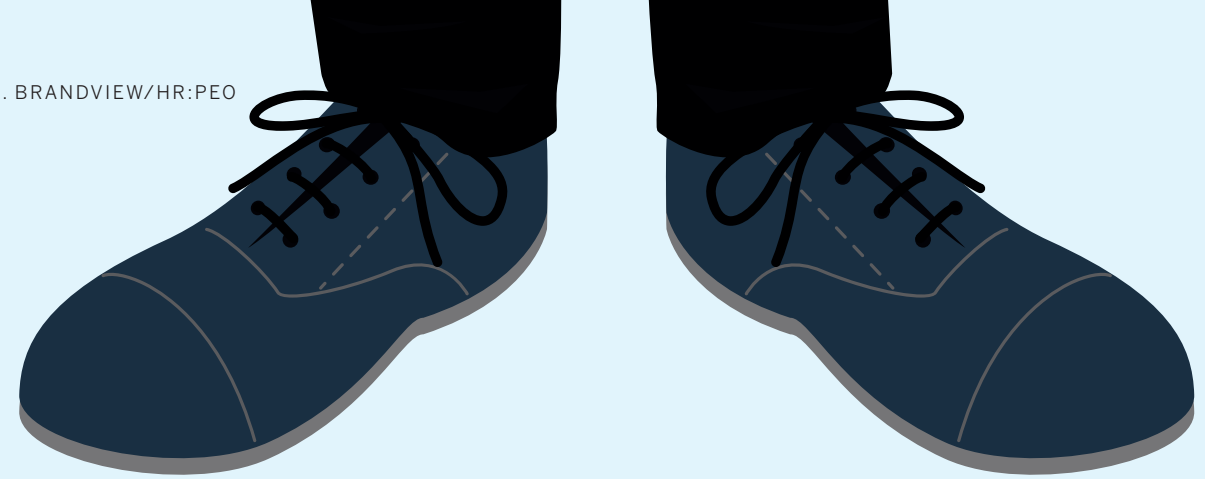
69% of PEO small business clients
reported growth in 2020

vs. **28%** of small business overall



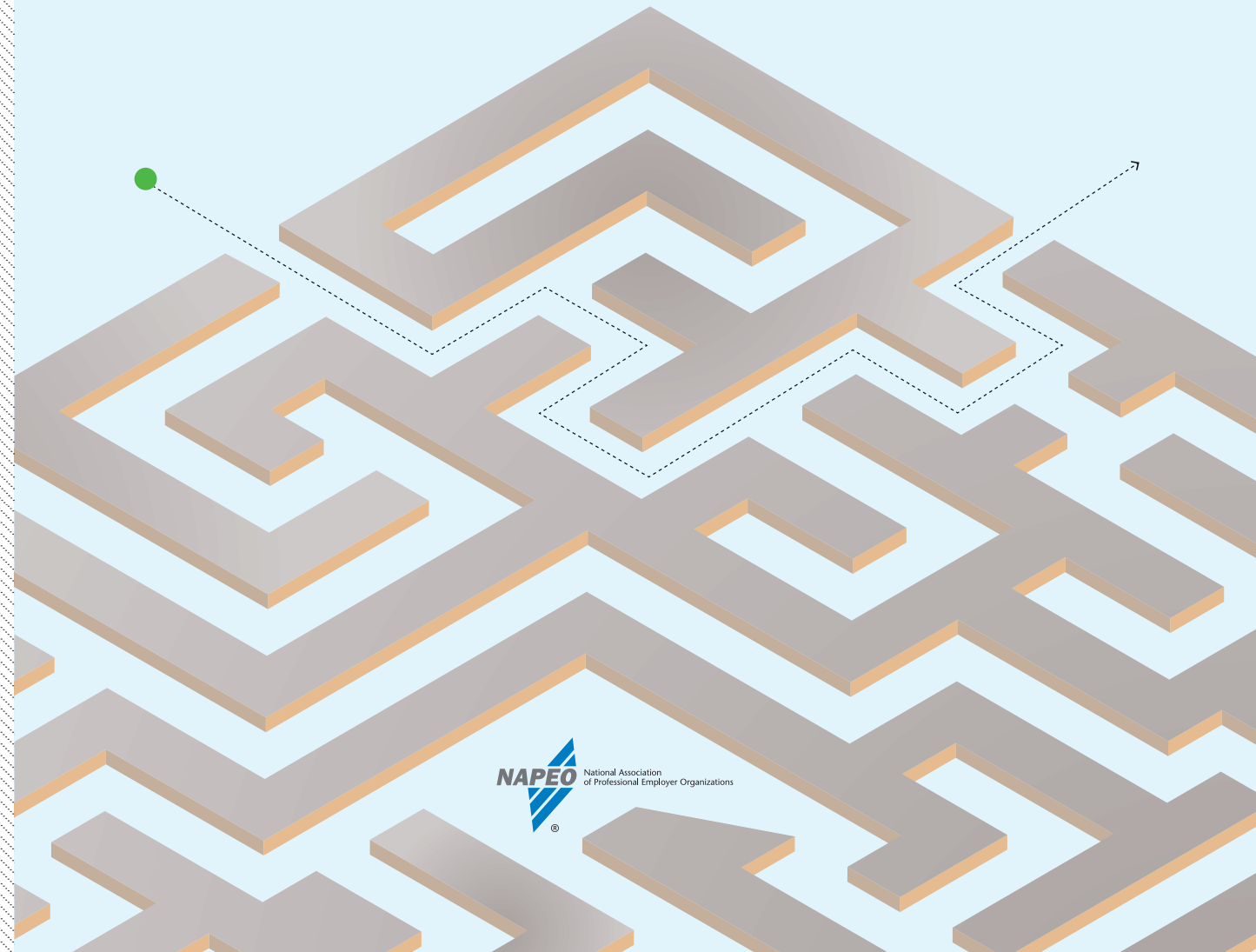
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PEOS SIMPLIFY THE PATH FORWARD FOR SMBS

Professional employer organizations played a pivotal role in helping many small businesses survive the pandemic and position themselves for what comes next.



As the COVID-19 pandemic created one of the most serious business disruptions in recent memory, many small and midsize businesses (SMBs) struggled to stay afloat. An onslaught of new laws, regulations, and programs compounded the challenges they faced. Five states (California, Hawaii, Minnesota, New Jersey, and New York) alone accounted for almost 2,400 new pieces of pandemic-related legislation affecting businesses.

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—Pat Cleary
President and CEO
National Association of
Professional Employer
Organizations (NAPEO)

Every state enacted some new laws and programs, and there were dozens more at the federal level.

“An overload of information that was frequently changing was one of the most notable HR-related concerns among small and midsize businesses during the pandemic,” says Chad Sorenson, president of HR Florida State Council, the state affiliate for the Society for Human Resource Management (SHRM).

Trying to keep employees safe while still maintaining a functioning business was an overriding concern for SMBs, which often lack the cash reserves or access to additional funding that large companies have. “A small interruption can have lasting repercussions, and this held true during the pandemic,” he says.

PEO clients outperformed their peers

There was an eye-popping disparity in performance between SMBs that were clients of a professional employer organization (PEO) during the early months of the

pandemic and those that were not. PEO clients were 91 percent less likely to have temporarily closed and 60 percent less likely to have permanently closed, according to a September 2020 McBassi & Company report for the National Association of Professional Employer Organizations (NAPEO). PEO clients were also 119 percent more likely to have received Paycheck Protection Program (PPP) loans and 72 percent more likely to have received them in the first round of funding.

Pat Cleary, NAPEO’s president and CEO, says growth is the most compelling metric demonstrating PEOs’ positive impact on their SMB clients during the pandemic. “Just 28 percent of all small businesses reported growth in 2020, but it was 69 percent for PEO clients,” he says, citing NAPEO-commissioned research conducted by Povaddo. “We all wish it hadn’t taken a pandemic, of course, but last year absolutely proved the value of PEOs to small businesses in the most dramatic fashion imaginable.”

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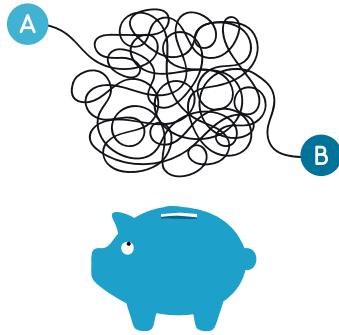
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In the 35 years I've been in business, I've never seen such a series of severe HR issues come up in such a short period of time.

*-Paul Sarvadi
Chairman and CEO
Insperity*

SMB leaders using outsourced HR services from PEOs rely heavily on them for refined information specific to their industry. "PEOs have more resources to parse the influx of data and recommend solutions and actions," Sorenson notes. In contrast, SMBs with in-house HR must do it all themselves or rely on outside counsel and consultants to help navigate changing directions and individualized processes.

A tidal wave of S.O.S. calls

PEOs were inundated with requests for help from SMBs during the early days of the pandemic, and in many cases, they reached out to their clients proactively. NAPEO served as a clearing house for information and solutions.

"For us it was all about speed as an organization," Cleary says. "We had to be first to market with what the PEOs needed to help their clients. In some cases, that meant getting a webinar together literally within a day of new legislation or a significant rule change." Webinar attendance skyrocketed, from an average of 100 to 300 pre-pandemic to 1,000 to 1,500 for the initial series of webinars on the Paycheck Protection Program (PPP).

The pandemic raised awareness of just how important it is for SMBs to have a sophisticated HR function, and that is exactly what a PEO provides. "It sits there, ready to go for whatever challenges arise," says Paul Sarvadi, chairman and CEO of Insperity. "In the 35 years I've been in business, I've never seen such a series of severe HR

issues come up in such a short period of time. So much of what happened during the pandemic landed in the HR department."

SMBs needed immediate help in transitioning employees to a work-from-home environment, restructuring in response to the economic contraction, converting employees to new ways of accessing their health care benefits, and navigating PPP and other programs created by the CARES Act. Social unrest later in the year added to the emotional strain employees felt, and many SMBs turned to their PEOs for help with issues around diversity and inclusion.

Increased awareness of PEO value

The frequency, length, and nature of the interactions Insperity PEO had with its clients during the early months of COVID-19 changed dramatically. Beginning in March 2020, the number of interactions tripled, and their length doubled. "Now our conversations were more frequently with the business owner or CEO, and that level of interaction has continued," Sarvadi says. "Awareness of all we can do for them as a PEO and the range of issues where we can offer advice has increased at the top level of our client organizations."

The pandemic highlighted and in some cases accelerated foundational shifts already underway in the employment landscape. Three big ones are remote work, changed expectations around benefits, and increased penetration of digital technology and automation. As society and the economy continue to reopen, PEOs can help SMBs deal with these issues more effectively.

PEOs are evolving from a scale play enabling SMBs to mirror the cost-effectiveness and benefits offerings of larger companies to a more expansive concept that can provide solutions



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to “the HR hierarchy of needs,” says Teresa Carroll, president of Oasis, a Paychex company.

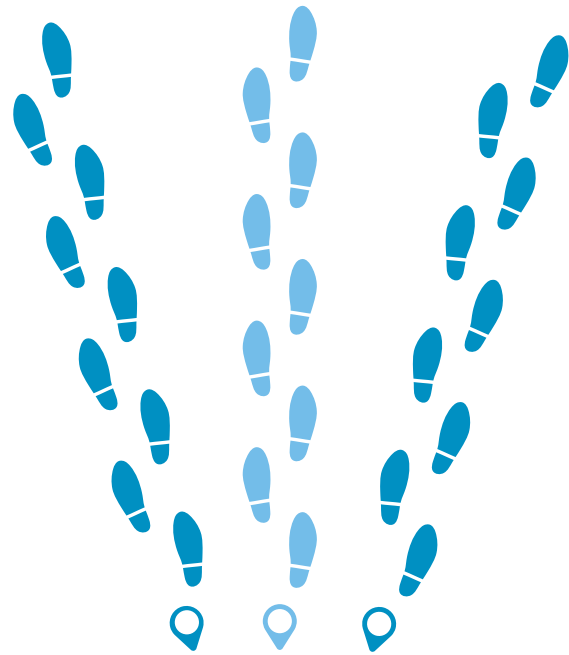
Payroll and compliance support are the foundation of that hierarchy, but it also includes benefits and insurance options, talent attraction and retention, performance management, employee relations and development, and even culture development.

“PEOs have the scale and sophistication needed to meet clients wherever they are on this HR hierarchy of needs,” Carroll says. “We can help with the differing expectations around benefits in multi-generational workforces, leveraging digital transformation and automation to control costs, succession planning, and much more.”

Opportunity sprung from challenge

As challenging as the pandemic has been for many SMBs, it has also created an important opportunity for them to rethink their talent strategy. “Operating in old ways won’t work in a new world,” Carroll stresses. SMBs need to find ways to support not just the physical and financial wellness of their employees, but also their mental and social wellness. Among millennials and younger generations of workers, there is a strong expectation of personalized self-service for HR services and a hankering for a mobile-first approach. “The labor market was already shifting before COVID, and that shift is accelerating,” she says. “PEOs can help SMBs with brilliantly simple solutions to these challenges.”

Meeting challenges for its SMB clients is always at the top of the agenda for FrankCrum, says Anna Leo Holder, the PEO’s vice president of client services and operations. “The biggest difference in the challenges brought on by the COVID pandemic versus those in ‘normal’ times was the speed and degree



THE PEO INDUSTRY FOOTPRINT IN 2021

PEOs deliver comprehensive HR solutions to SMBs by providing a broad array of cost-effective service offerings and expertise through a co-employment agreement with the client company and its worksite employees (WSEs).

Typically, the PEO handles payroll and withholding for WSEs and reporting, collection, and deposits of employment taxes with local, state, and federal authorities. Many PEOs also provide complete HR and benefit packages, including 401(k) plans; health, dental, and life insurance; dependent care; and other benefits not typically provided by small businesses.

Without day-to-day responsibility for many HR functions, SMB leaders are freed up to concentrate on growing their businesses and, as in the case of the recent pandemic, to focus their time and energy on

meeting critical challenges. As awareness of what PEOs have to offer has grown among SMBs, so has the industry itself. It grew **7.6 percent** annually from 2009 to 2020 (**7 percent** higher than the compounded annual growth rate in the overall economy during the same period), according to a May 2021 report by McBassi & Company.

At the close of 2020, **487** PEOs were providing HR services to 4 million WSEs at **173,000** client companies with combined annual wages of **\$216 billion**. More than 15 percent of all U.S. businesses with **10 to 99** employees are PEO clients.

IN 2021 OUR PEO CLIENTS RANKED US OVER

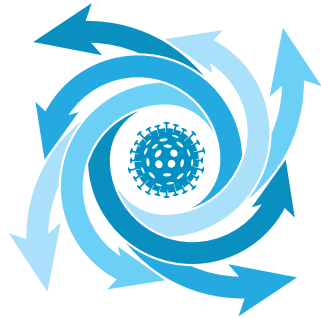
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The biggest difference in the challenges brought on by the COVID pandemic versus those in 'normal' times was the speed and degree to which change occurred. It was unprecedented.

-Anna Leo Holder
Vice President of Client Services
and Operations
FrankCrumm

to which change occurred. It was unprecedented," she says.

With many of its clients just fighting to survive, the PEO's consultants spent "countless hours" counseling clients on employee furlough options to ensure the continuity of employee status and benefits and dealing with the CARES Act and PPP loans, Holder says. She views the positive client feedback received throughout the process as an affirmation that the PEO value proposition is stronger than ever.

The likelihood that remote work will remain a part of the workforce equation going forward bodes well for PEOs, Holder says. "Though you often hear how nimble small businesses can be, they can have trouble adapting to changing conditions as quickly as businesses with extensive resources," she notes.

Remote work's challenges for employers include performance management, communication, technology, security, distractions, and workplace health and safety. Helping them meet remote work challenges is "an opportunity for us to showcase just how much better running a business can be when you have a PEO partner in your corner," Holder says.

Competition for talent on the rise

As offices and worksites reopen, businesses will face unique challenges around talent acquisition, says Kristen Appleman, SVP at ADP TotalSource. Lingering fears about health and safety may make some employees hesitant to return to a physical workspace. Others have adopted new lifestyles or are pursuing career changes.

"We have to help our SMB clients figure out how they want their employees to engage," Appleman says. "Some will want everyone back onsite, some are fine with remote work, many will likely adopt a hybrid approach. All are okay, but we must help them identify and attract the type of talent that understands their culture and expectations."

During the pandemic, ADP TotalSource quickly became adept at using technology to communicate with clients in their favored channels. That meant chat and text capabilities, access to HR and payroll professionals outside normal business hours, more webinars, and a single place where clients could access COVID-related tasks and information. Appleman believes SMBs can benefit by adopting similarly flexible strategies for talent acquisition and retention.

"This kind of multichannel approach will give SMBs access to a greater diversity of employees, especially among the younger generations," she says. "There's a fresh new wave of talent coming in Generation Z, and their expectations around mobility and technology are pronounced. Employers must provide the training and tools needed to assimilate them into the organization with a sense of belonging or risk the high costs of churn-and-burn hiring."

In the months and years to come, the value that PEOs provide to SMBs is only going to increase, Cleary predicts. "With a new administration in Washington, businesses can expect the flow of regulations and programs to continue or even increase," he says. "Word is spreading among the small business community about the tremendous source of help PEOs have been to their clients throughout the pandemic. The numbers speak for themselves, and we believe more and more SMBs are listening." ■



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