



2022 NAPEO MARKET RESEARCH
TRACKING SURVEY REPORT

December 2022

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 understand which core PEO services are seen as most burdensome for business owners to handle in-house.

APPROACH

Method: online

Sampling: n=553 business decision makers

64% business owners

36% key decision makers

Field dates: December 8, 2022 – January 5, 2023

Margin of error: ±4.2%

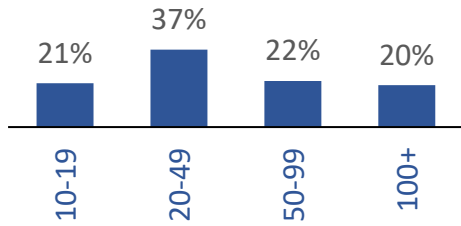
SCREENING CRITERIA

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

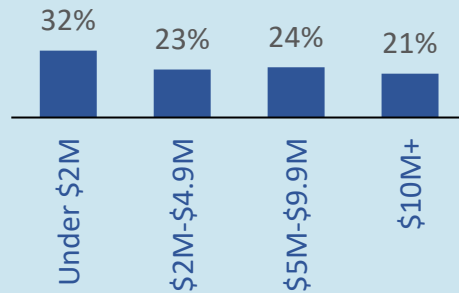
- At least 25 years old
- Business decision maker for hiring a professional services firm to help handle internal business functions
- At least 10 full-time employees
- Annual business revenue of at least \$500,000

DEMOGRAPHIC MAKEUP

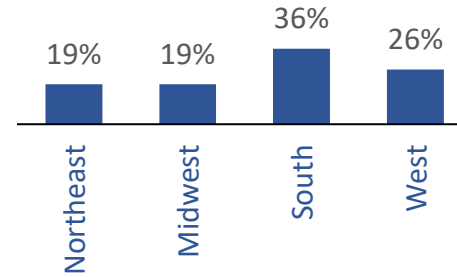
NUMBER OF EMPLOYEES



ANNUAL GROSS REVENUE



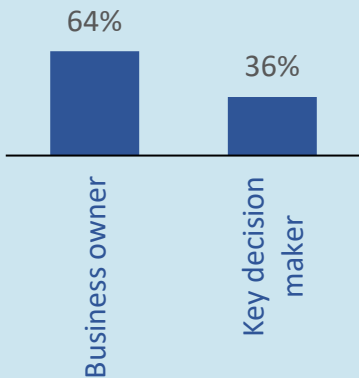
BUSINESS LOCATION



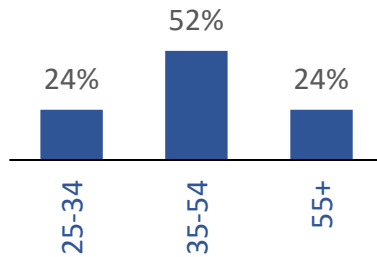
BUSINESS INDUSTRY



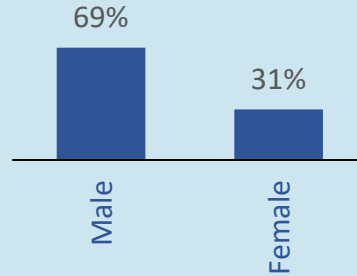
ROLE



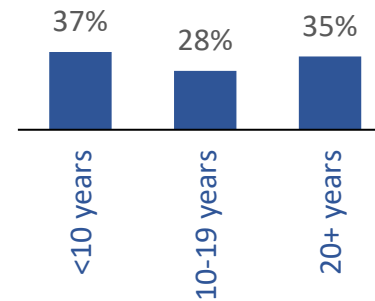
AGE OF DECISION-MAKER



GENDER



YEARS IN BUSINESS



Base: Total sample, n=553

KEY METRICS TRACKING

In 2022, all measures of awareness and familiarity increased, some significantly, as did reported PEO usage and interest in use among non-users.

- Unaided awareness of PEOs increased significantly to 65% among decision makers in 2022 (+7 points over the past year and +20 points since tracking began in 2018).
- Aided familiarity increased to 75% with three-in-four decision makers saying they are very or somewhat familiar with PEOs (+5 points over the past year and +14 points since tracking began 2018).
- One-third (33%) of decision makers in this sample report using a PEO, a significant increase of nine points over the past year. This increase in PEO use most likely reflects a combination of true market growth as well as confusion regarding what a PEO is and does due to the increased familiarity with and availability of outsourced business function offerings in the current market.
- Of those who do not currently use a PEO, eight-in-ten indicate interest in using one in the future (81%, +5 points over the past year).

While unaided awareness holds steady among younger decision makers (74%) and newer businesses (69%), there continues to be an increase in unaided awareness among middle-aged decision makers (63%, +5 points), older decision-makers (62%, +15 points), and businesses that are more established (10-19 years: 71%, +15 points; 20+ years: 57%, +8 points) over the past year.

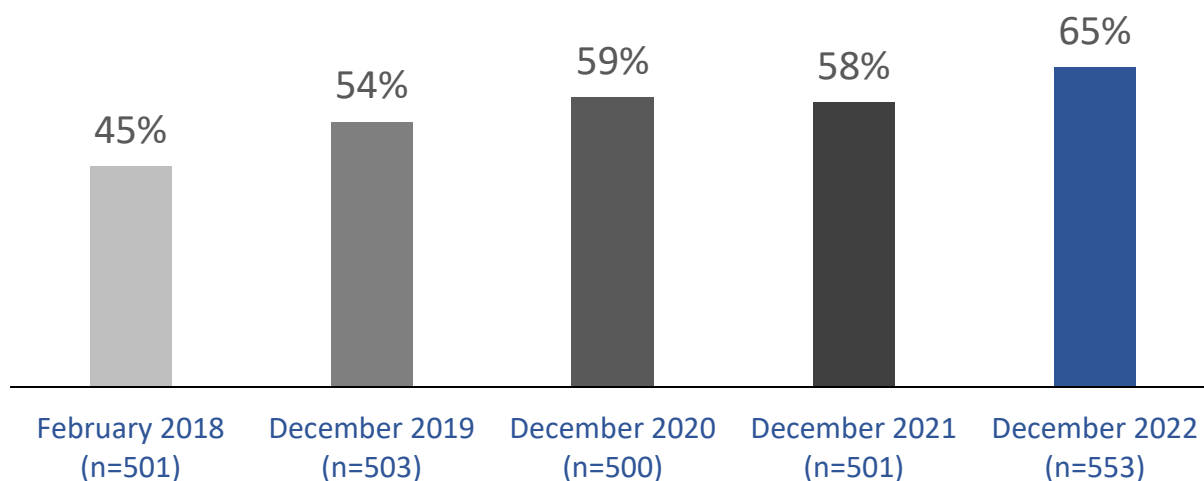
Decision makers are most likely to learn about PEOs from friends/colleagues (39%), reading about them in an article (38%), or discovering them online (33%).

UNAIDED AWARENESS OF PEOs

Unaided awareness of PEOs significantly increased to 65% in 2022 (+7 points over the past year and +20 points since 2018). Notably, unaided awareness of PEOs increased by more than 10 percentage points over the past year among decision makers with 100+ employees (82%, +13 points), decision makers 55 and older (62%, +15 points), and decision makers who've been in business for 10-19 years (71%, +15 points).

Decision makers of businesses with 20 or more employees (68-82%) have significantly higher unaided awareness of PEOs compared to decision makers of businesses with between 10 and 19 employees (38%).

AWARE OF PEO – PROFESSIONAL EMPLOYER ORGANIZATION



% Aware of PEOs (change from 2021)

Company size (# of employees)	10-19 employees	38% (-5)
	20-49 employees	68% (+9)
	50-99 employees	71% (+10)
	100+ employees	82% (+13)
Decision maker age	25-34 years old	74% (+3)
	35-54 years old	63% (+5)
	55+ years old	62% (+15)
Years in business	Less than 10 years	69% (-2)
	10-19 years	71% (+15)
	20+ years	57% (+8)

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

UNAIDED UNDERSTANDING OF PEOs

Similar to previous years, while some decision makers accurately describe what a PEO is and does, confusion regarding the services provided by PEOs and their functions is evident among those who claim familiarity with PEOs.

Compared to last year, there is an increase in unaided responses mentioning “outsource/provides outsourcing services” (19%, +9 points) and “recruitment/handles hiring/retain employees” (17%, +11 points).

WHAT IS A PEO? (N=364 AWARE OF PEOs) | OPEN-ENDED RESPONSES



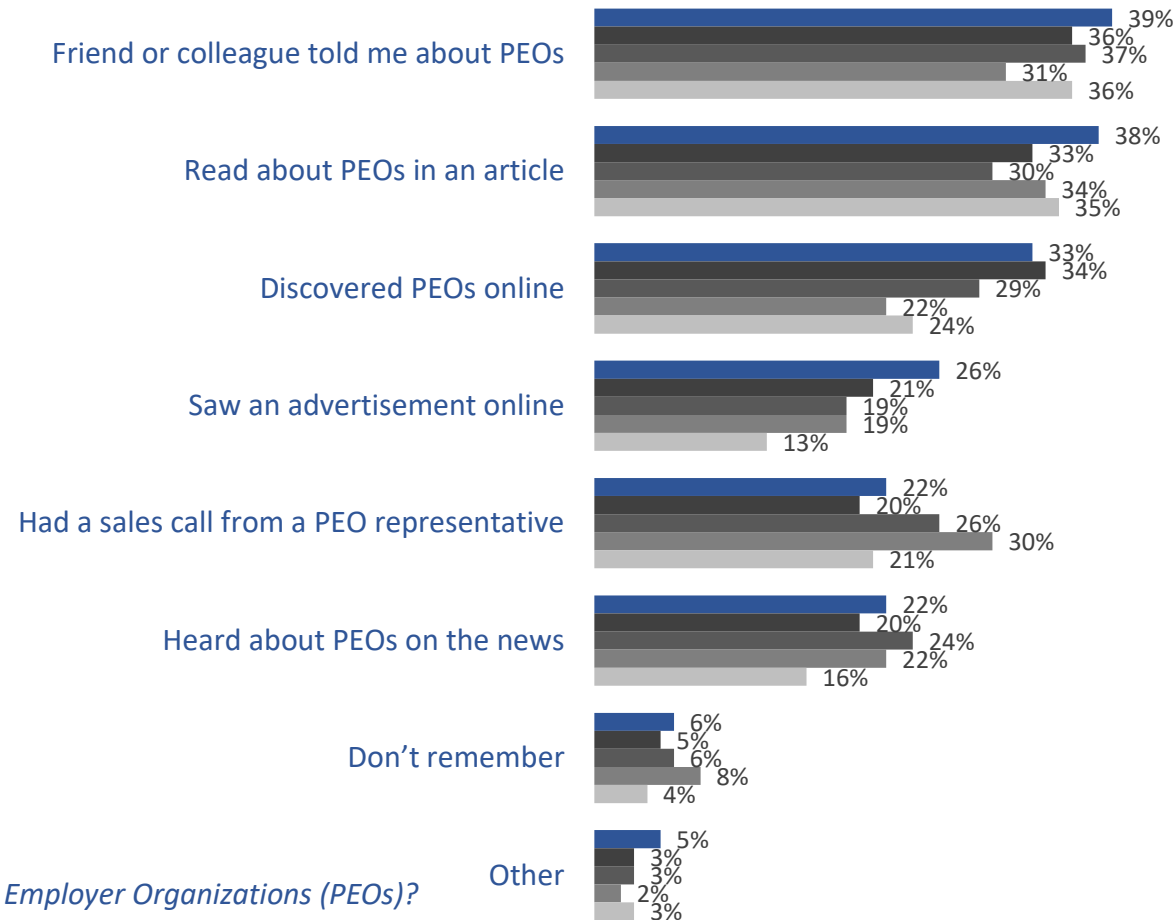
Q: In your own words, what is a Professional Employer Organization (PEO) or what does a PEO do?

HOW DO DECISION MAKERS LEARN ABOUT PEOs

Decision makers continue to report learning about PEOs most often from a friend or colleague (39%), reading about them in an article (38%), or by discovering them online (33%).

HOW DECISION MAKERS LEARNED ABOUT PEOs (N=364 AWARE OF PEOs)

- December 2022 (n=361)
- December 2021 (n=264)
- December 2020 (n=287)
- December 2019 (n=270)
- February 2018 (n=226)



Q: And how did you learn about Professional Employer Organizations (PEOs)?

PEO DESCRIPTION

Respondents were presented this PEO description before answering questions in slides 10-15.*

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.

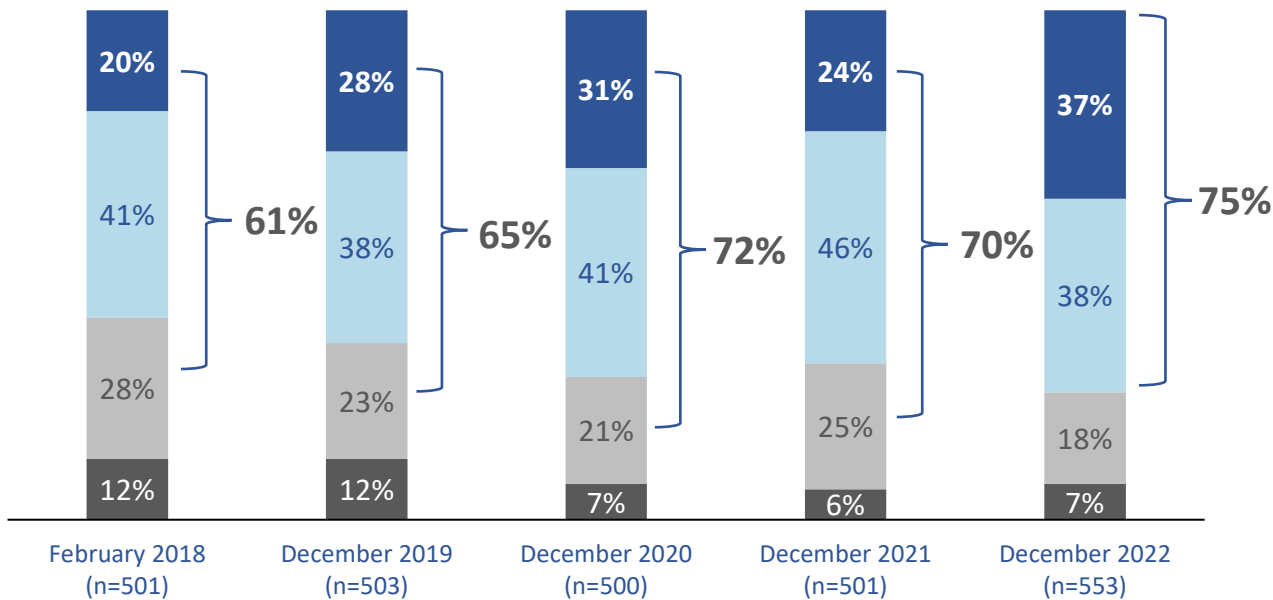
**This description was updated in 2021.*

AIDED FAMILIARITY WITH PEOs

Three-in-four (75%) decision makers say they are very or somewhat familiar with PEOs after exposure to the PEO description, an increase of 5 percentage points over the past year and an increase of 14 percentage points since tracking began.

AIDED FAMILIARITY WITH PEOs

■ Very familiar ■ Somewhat familiar ■ Not very familiar ■ Not at all familiar



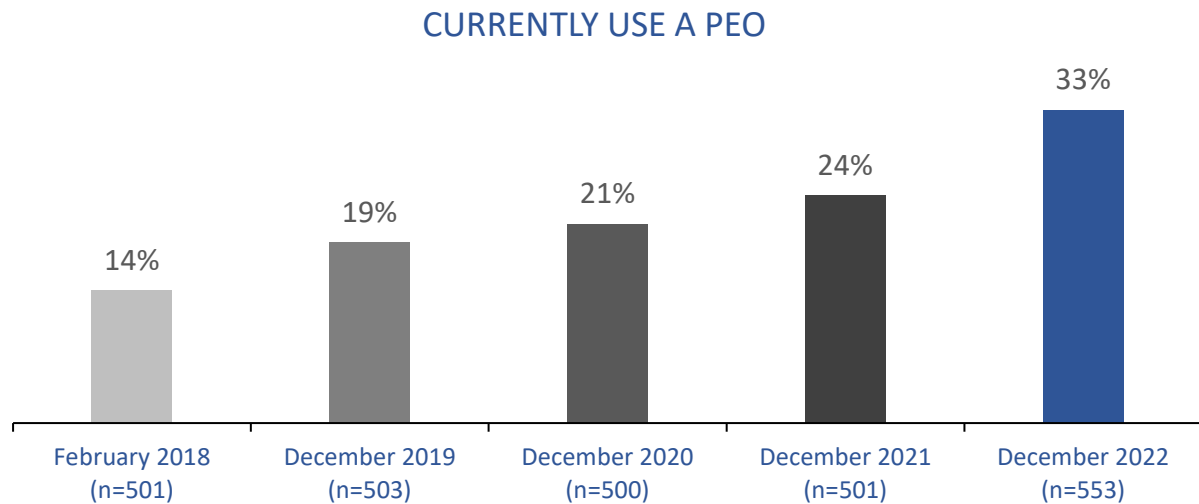
Q: How familiar would you say you are with companies that offer professional employer organization [PEO] services?

		% Total Familiar (change from 2021)
Company size	10-19 employees	60% (+2)
	20-49 employees	75% (+3)
	50-99 employees	78% (+12)
	100+ employees	88% (+6)
Decision maker age	25-34 years old	87% (+1)
	35-54 years old	79% (+9)
	55+ years old	56% (+3)
Years in business	Less than 10 years	85% (+3)
	10-19 years	79% (+8)
	20+ years	61% (+2)

One-in-three decision makers (33%) report currently using a PEO, more than double the reported PEO use in 2018 (14%) among this sample of decision-makers. This number may be inflated due to confusion regarding what a PEO is and does among the rising availability of outsourced business function offerings in the current market; however, reported use increased among nearly all key demographic subgroups over the past year.

Younger decision makers (42%, +10 points in the past year) and decision makers at companies in business for less than 10 years (40%, +7 points) continue to be the strongest base of reported PEO users, while subgroups showing the most growth include decision makers 35-54 years old (38%, +13 points), those in business 10-19 years (39%, +17 points), and those at businesses with more than 50 employees (40-52%, +12-16 points).

Reported PEO usage is highest among the largest businesses (100+ employees).



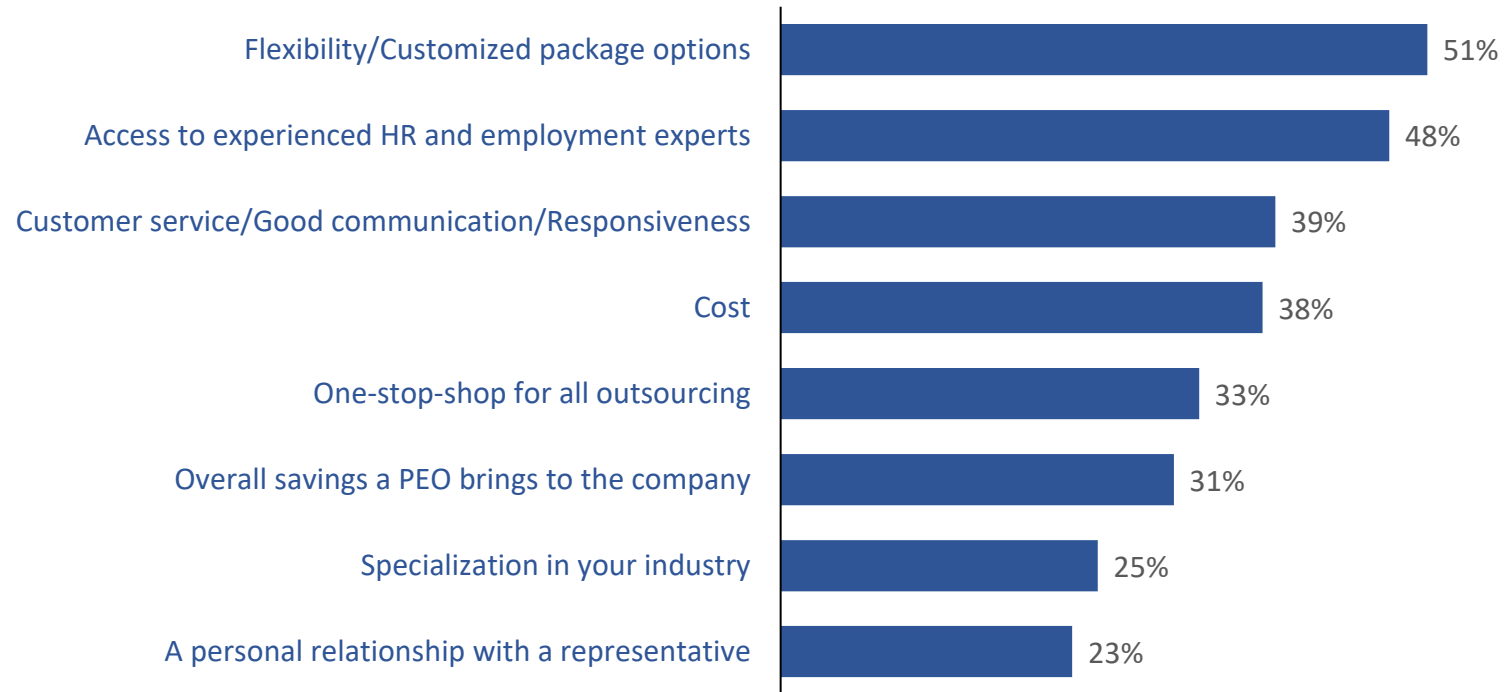
Q: And, which of the following best describes your company's use of a professional employer organization [PEO]?

		% Use a PEO (change from 2021)
Company size	10-19 employees	16% (0)
	20-49 employees	28% (+9)
	50-99 employees	40% (+12)
	100+ employees	52% (+16)
Decision maker age	25-34 years old	42% (+10)
	35-54 years old	38% (+13)
	55+ years old	15% (+2)
Years in business	Less than 10 years	40% (+7)
	10-19 years	39% (+17)
	20+ years	22% (+5)

MOST IMPORTANT FACTORS

According to current PEO users, the most important factors when it comes to working with a PEO are flexibility (51%) and access to experienced HR and employment experts (48%), followed by customer service (39%) and cost (38%).

MOST IMPORTANT FACTORS WHEN WORKING WITH A PEO | (N=194 CURRENT PEO USERS)



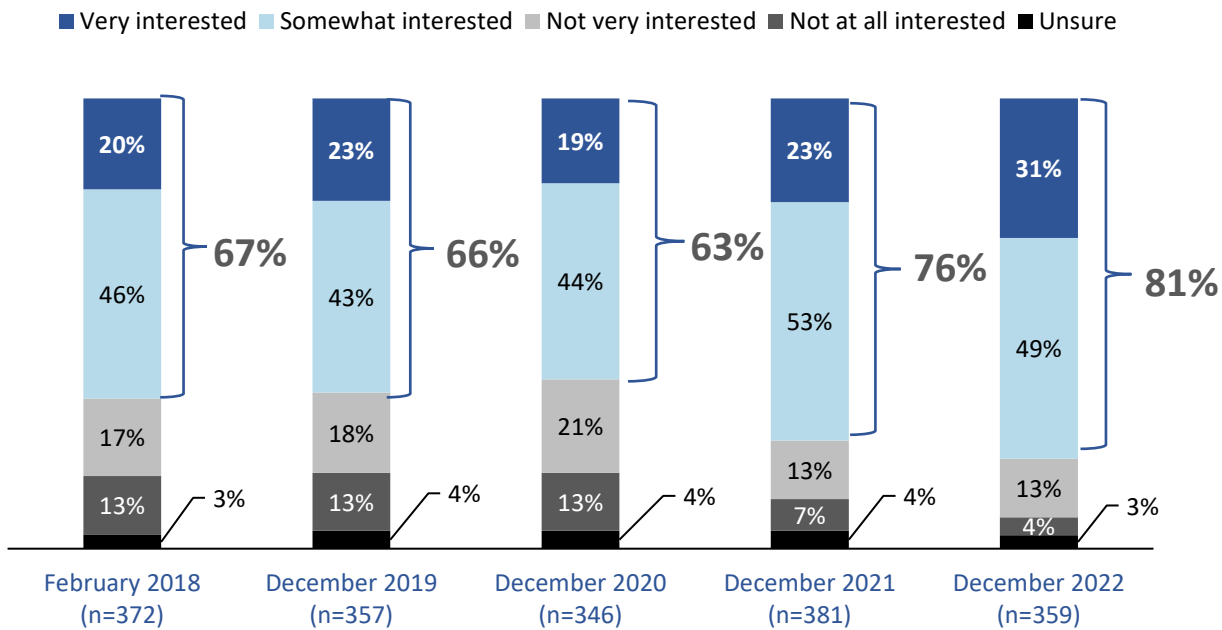
Q: What are the three MOST important factors to you when it comes to working with a PEO?

INTEREST IN USING A PEO AMONG NON-USERS

Interest in using a PEO continues to increase with eight-in-ten non-users indicating interest (81%, +5 points over the last year).

Interest increased among almost all key subgroups. Decision makers at companies that have been in business for less than 20 years (84-92%) are significantly more likely than those at companies that have been in business for 20+ years (70%) to be interested in using a PEO in the future.

INTEREST IN USING A PEO (AMONG NON-USERS)



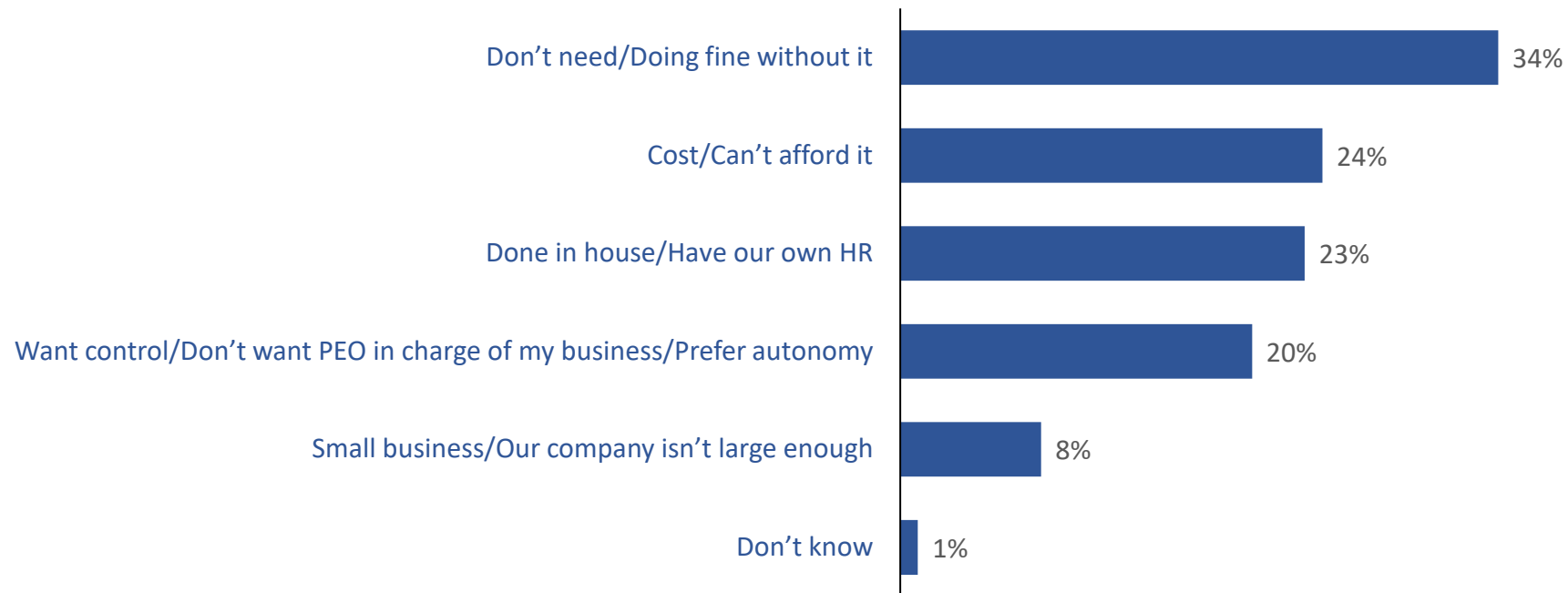
Q: Considering the definition of a PEO you just read, how interested are you in using this type of offering for your company?

		Total Interested (change from 2021)
Company size	10-19 employees	73% (+10)
	20-49 employees	80% (0)
	50-99 employees	91% (+9)
	100+ employees	82% (+6)
Decision maker age	25-34 years old	85% (+4)
	35-54 years old	85% (+5)
	55+ years old	71% (+9)
Years in business	Less than 10 years	92% (+11)
	10-19 years	84% (+6)
	20+ years	70% (-1)

REASONS FOR DISINTEREST IN PEOs AMONG NON-USERS

Among the few (n=64) non-PEO users who are not currently interested in using a PEO, one-third cite a lack of need for the service (34%). One-fourth each say cost is an issue or HR is done in-house. Additionally, two-in-ten cite a preference for autonomy.

WHY ARE YOU NOT INTERESTED IN A PEO? (N=64 NON-USERS WHO ARE UNINTERESTED/UNSURE) | OPEN-ENDED RESPONSES

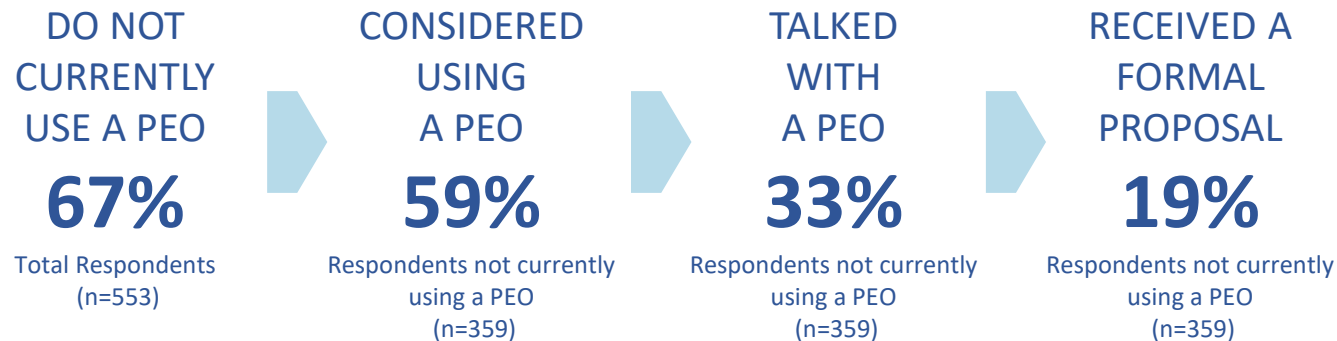


Q: For what reason(s) are you [not very interested / not at all interested / unsure] in/about using a PEO for your company?

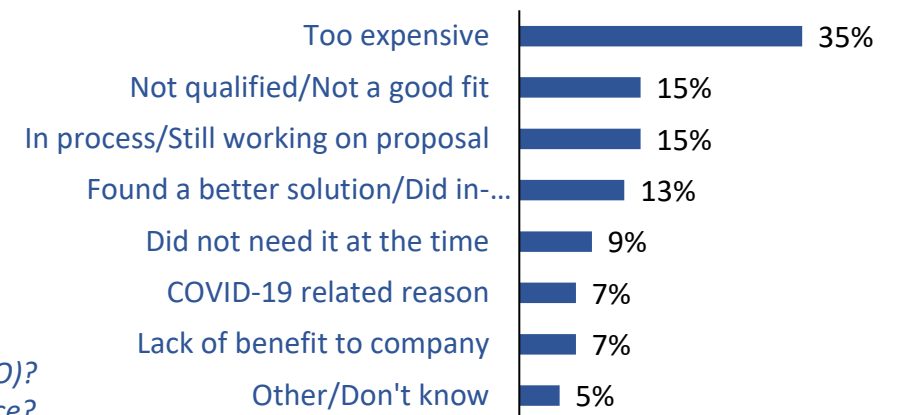
PEO CONSIDERATION FUNNEL

Among the 67% of decision makers who do not currently use a PEO, a majority (59%) say they have considered using a PEO with 33% actually talking with a PEO and 19% receiving a formal proposal from a PEO.

Among those that received a proposal but did not move forward, overall cost (35%) was most often mentioned as the reason they did not proceed.



REASONS FOR DECLINING PROPOSAL (N=82 RECEIVING PROPOSAL BUT NOT USING PEO) | OPEN-ENDED RESPONSES



- 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?

DECISION MAKER CHALLENGES AND PERCEPTIONS

Decision makers report that personnel/employee issues [recruiting employees (69%), providing competitive benefits (65%), and maintaining employee satisfaction, (61%)] and material shortages related to supply chain issues (67%) were some of the most challenging aspects of running a business in 2022.

Prior to 2020, business owner concerns centered around employee acquisition and retention; however, the COVID-19 pandemic shifted concern to center economic/business growth and financial stability. Now, in 2022, as businesses emerge from the pandemic, overall employee concerns, especially related to recruitment and retention among worker shortage issues, emerge as major concerns for decision makers.

Similar to last year, PEO clients (77%) are significantly more likely than non-PEO clients (63%) to report their business grew in 2022. PEO clients (85%) are also significantly more bullish about the year ahead (2023) than non-PEO clients (73%).

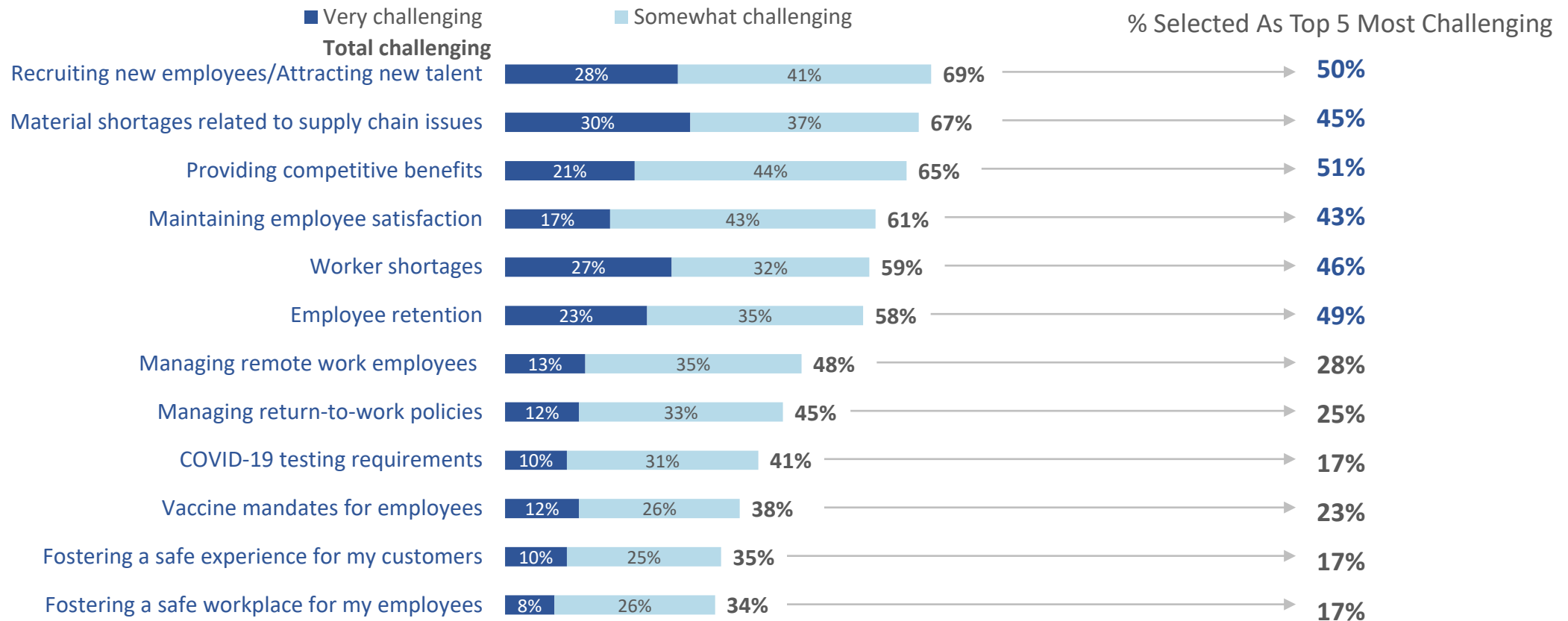
The most trusted sources of information continue to be business associates and peers (67%, +13 points over the past year) as well as trusted advisors such as accountants and lawyers (59%, +3 points over the past year).

Health insurance benefits (66%), 401k plans (60%), and payroll (54%) are outsourced most often by decision makers, with half of respondents (50%) saying a main reason for outsourcing is 'to save time and focus on other aspects of the business.

CHALLENGING ASPECTS OF RUNNING A BUSINESS

Five of the six most challenging issues decision makers face when running their businesses are employee-related issues (recruitment, providing competitive benefits, maintaining employee satisfaction, worker shortages, and employee retention).

Material shortages related to supply chains continue to be a challenge for two-thirds of decision makers (67%).



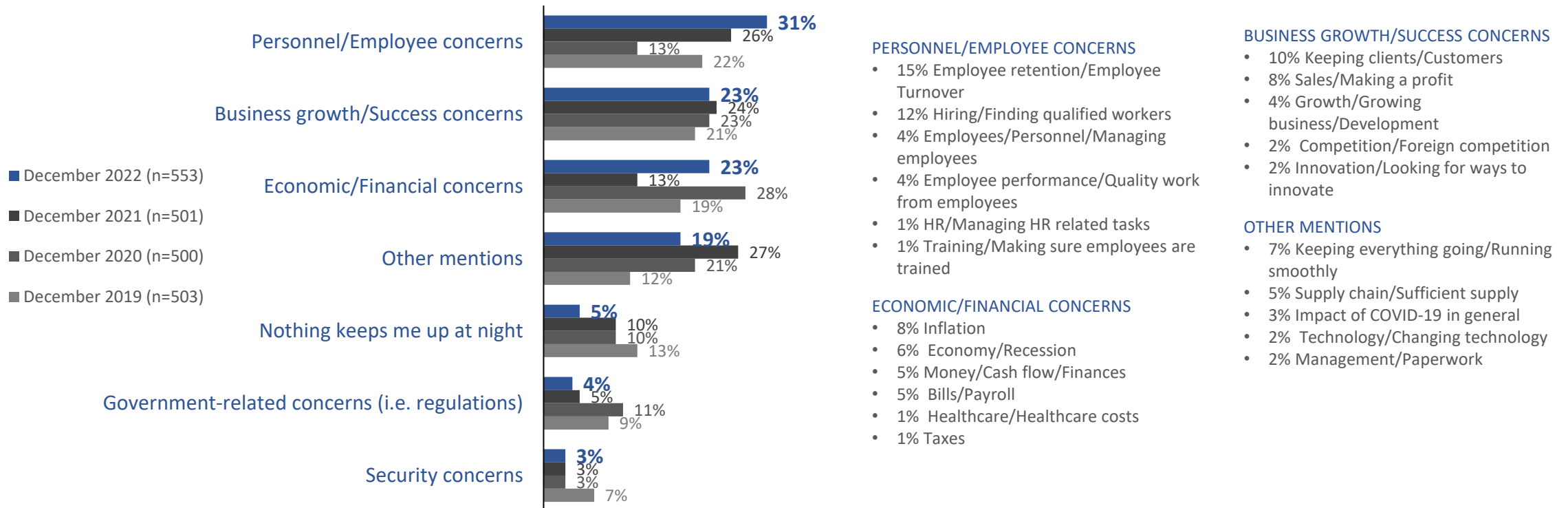
Q: Now thinking specifically about running your business, how challenging are each of the following issues? (Base: Total sample, n=553)

Q: What are the top 5 MOST challenging issues for you? (Base: Total sample, n=553)

TOP CONCERNS FOR BUSINESS OWNERS

What keeps business owners up at night regarding their business has evolved over the years: pre-Pandemic, personnel/employee issues is what kept decision-makers up at night most often. Once the Pandemic hit, concerns shifted to economic and financial issues including business success (literally for many). Those concerns remain for one-fourth of decision makers in 2022, but employee recruitment and retention issues, which have been amplified by the Pandemic, have once again made personnel/employee concerns the most often cited business issue that keeps decision makers up at night.

WHAT KEEPS YOU UP AT NIGHT IN REGARD TO RUNNING YOUR BUSINESS? (N=553) | OPEN-ENDED RESPONSES



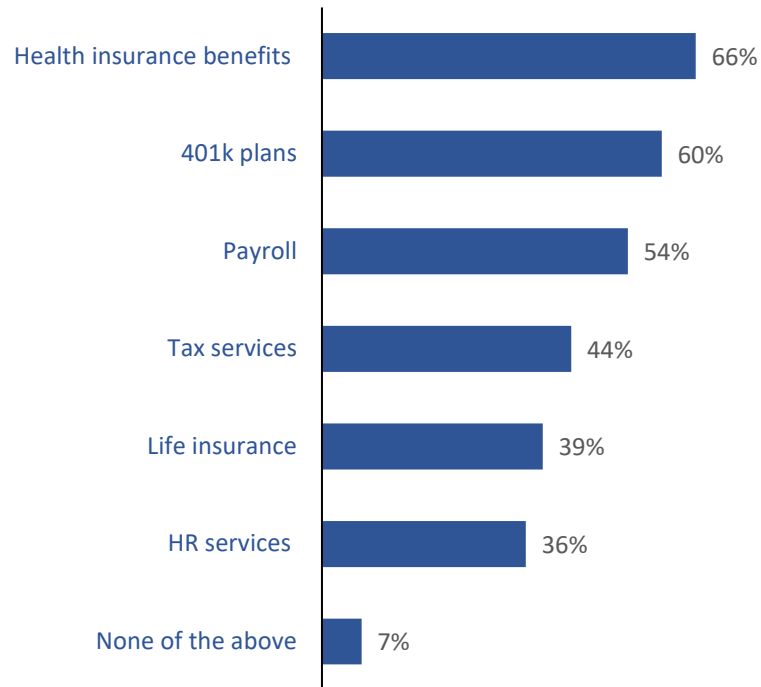
Q: Considering everything that goes into running a business, what is the number one thing that keeps you up at night? In other words, what is the one thing that you worry about the most in regard to running your business?

OUTSOURCED BUSINESS FUNCTIONS

Over half of decision makers say they currently outsource health insurance benefits (66%), 401k plans (60%), and/or payroll (54%).

Decision makers outsource for many reasons, but saving time and focusing on other aspects of their business is the most reported reason (50%).

BUSINESS FUNCTIONS CURRENTLY OUTSOURCED (N=553)



REASONS FOR OUTSOURCING BUSINESS FUNCTIONS (N=507 CURRENTLY OUTSOURCE)



Q: Which of the following business functions does your business currently outsource? Check all that apply. [New question for 2022]

Q: What are the main reasons why your company outsources these business functions? Check all that apply. [New question for 2022]

TRUSTED SOURCES OF INFORMATION

Similar to previous years, business associates and peers (67%, +13 points since 2021) and trusted advisors such as their accountant or lawyer (59%, +3 points since 2021) are decision makers' most trusted sources of information.

TRUSTED SOURCES OF INFORMATION



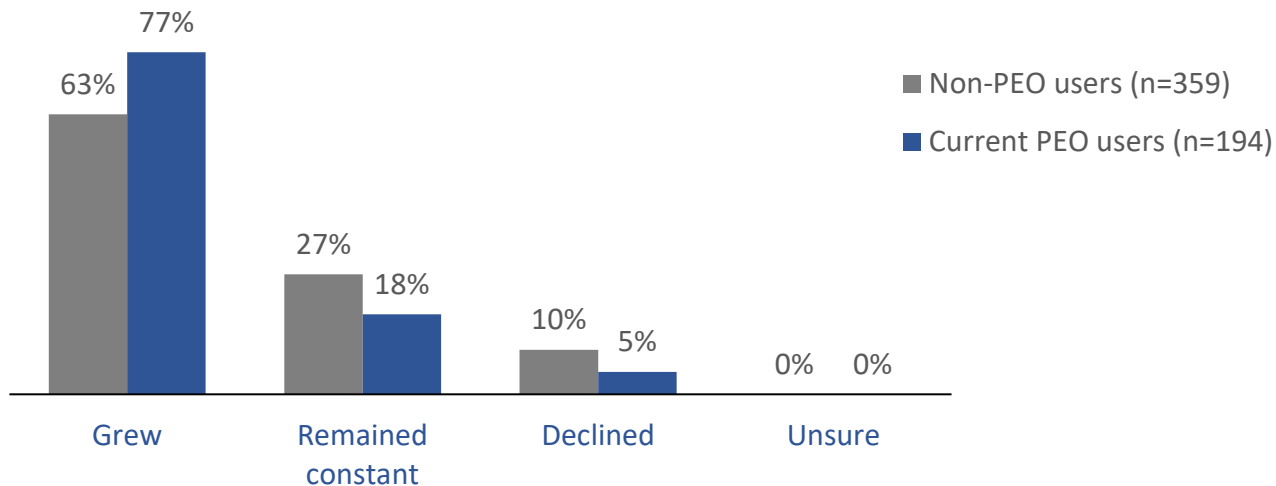
Q: Regarding information and insights on managing your business better, what do you find are the most useful and trustworthy sources? Base: Total sample, n=553

PAST BUSINESS GROWTH & FUTURE EXPECTATIONS

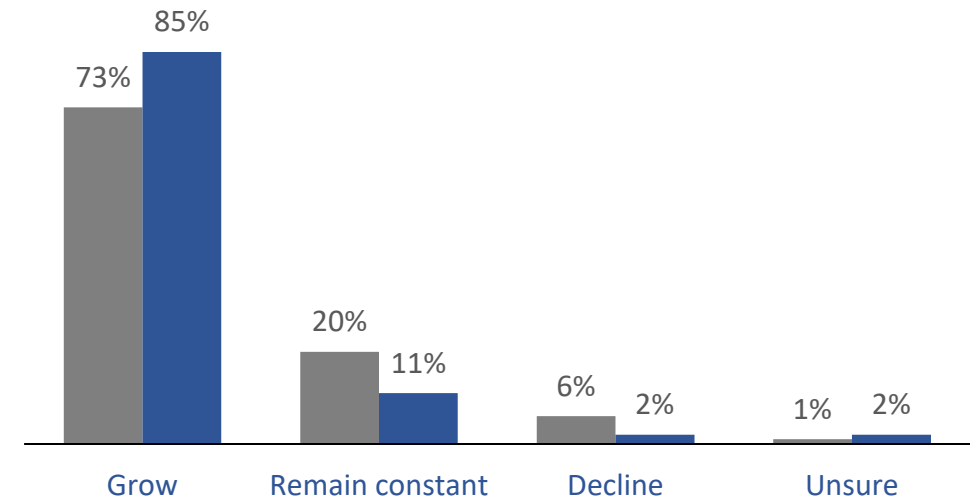
Current PEO users (77%) continue to be significantly more likely to report business growth in 2022 compared to non-users, (63%).

Further, current PEO users (85%) also significantly continue to be more likely than non-users (73%) to report expected business growth in the next year.

PAST YEAR – 2022



NEXT YEAR – 2023



Q: In 2022, did your business grow, decline, or remain at about the same level compared to 2021?

Q: And, do you expect your business to grow, decline or remain at about the same level over the course of 2023?

FUTURE EXPECTATIONS

Current reported PEO users are significantly more bullish than non-PEO users about 2023 when it comes to their businesses' growth in the next 12 months.

Expected growth remains high when it comes to gross annual revenue and profitability among both reported PEO users and non-users; however, while more than three-fourths (78%) of current PEO users expect their businesses to grow in total number of employees in the coming year, only half (52%) of non-PEO users expect this growth.

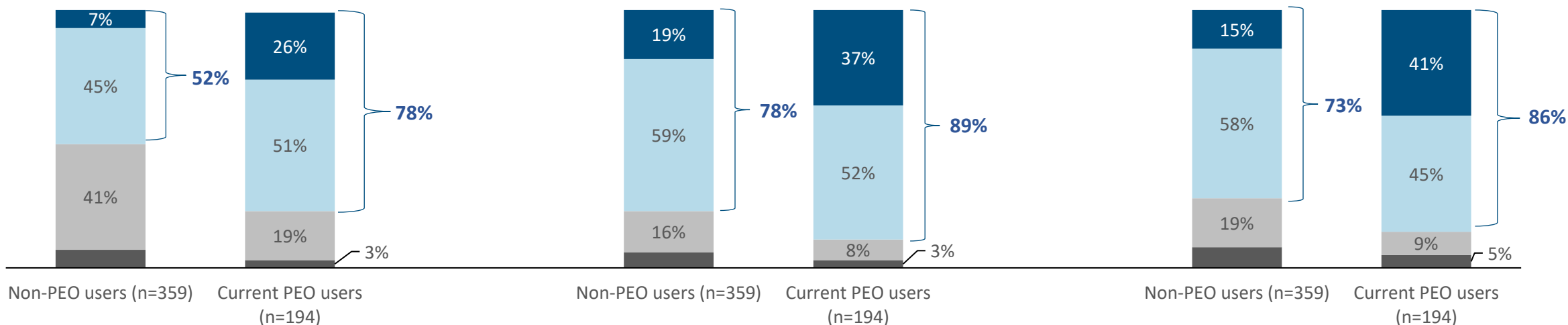
NEXT YEAR EXPECTATIONS – 2023

■ 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



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.

Survey and Report by Povaddo 2023