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

Note—Percentages throughout report may not sum to exactly 100% due to rounding.
**DEMOGRAPHIC MAKEUP**

### NUMBER OF EMPLOYEES
- 10-19: 21%
- 20-49: 37%
- 50-99: 22%
- 100+: 20%

### ANNUAL GROSS REVENUE
- Under $2M: 32%
- $2M-$4.9M: 23%
- $5M-$9.9M: 24%
- $10M+: 21%

### BUSINESS LOCATION
- Northeast: 19%
- Midwest: 19%
- South: 36%
- West: 26%

### BUSINESS INDUSTRY
- Construction/manufacturing: 26%
- Technology: 11%
- Retail trade: 9%
- Health/personal services: 9%
- Business/information: 7%
- Food/hospitality: 7%
- Education/non-profit: 6%
- Accounting/finance/insurance: 6%
- Management of companies: 3%
- Real estate/ housing: 3%
- Transportation: 3%
- Other: 11%

### ROLE
- Business owner: 64%
- Key decision maker: 36%

### AGE OF DECISION-MAKER
- 25-34: 24%
- 35-54: 52%
- 55+: 24%

### GENDER
- Male: 69%
- Female: 31%

### YEARS IN BUSINESS
- <10 years: 37%
- 10-19 years: 28%
- 20+ years: 35%

*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 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%).

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

- Outsource/Provides outsourcing services: 19%
- Recruitment/Handles hiring/Retain employees: 17%
- HR/Helps with HR/Human resources: 17%
- Business services/Helps run business/Service to small/medium...: 15%
- Payroll/Handles payroll: 12%
- Benefits/Manages employee benefits: 9%
- Full-service human resources/Takes over all HR-related tasks: 8%
- Employee management/Handles employees: 8%
- Employees work for PEO/Lease employees/Co-employment: 7%
- Administration/Business transactions/Paperwork: 5%
- Grouping companies into one/Bring organizations together for...: 5%
- Regulation compliance/Helps with compliance: 4%
- Enhances employee productivity/Raises efficiency of employees: 4%
- Professional/Professional company: 4%
- Healthcare/Handles employee healthcare/Insurance: 3%
- Good/Good company: 3%
- Advocate for employees/Makes sure employee environment is...: 3%
- Organization/Keeps things organized: 2%
- Tax/Tax administration: 2%
- Other: 1%

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

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

- **Friend or colleague told me about PEOs:** Decreased from 39% in December 2021 to 31% in December 2022.
- **Read about PEOs in an article:** Increased from 38% in December 2020 to 34% in December 2022.
- **Discovered PEOs online:** Increased from 33% in December 2020 to 34% in December 2022.
- **Saw an advertisement online:** Increased from 26% in December 2019 to 29% in December 2022.
- **Had a sales call from a PEO representative:** Increased from 21% in December 2020 to 22% in December 2022.
- **Heard about PEOs on the news:** Increased from 26% in December 2020 to 28% in December 2022.
- **Don’t remember:** Decreased from 8% in December 2021 to 6% in December 2022.
- **Other:** Remained at 5% across all months.

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

Q: How familiar would you say you are with companies that offer professional employer organization [PEO] services?
Q: And, which of the following best describes your company’s use of a professional employer organization [PEO]?

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).
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)**

- Flexibility/Customized package options: 51%
- Access to experienced HR and employment experts: 48%
- Customer service/Good communication/Responsiveness: 39%
- Cost: 38%
- One-stop-shop for all outsourcing: 33%
- Overall savings a PEO brings to the company: 31%
- Specialization in your industry: 25%
- A personal relationship with a representative: 23%

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

<table>
<thead>
<tr>
<th>Company size</th>
<th>Total Interested (change from 2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-19 employees</td>
<td>73% (+10)</td>
</tr>
<tr>
<td>20-49 employees</td>
<td>80% (0)</td>
</tr>
<tr>
<td>50-99 employees</td>
<td>91% (+9)</td>
</tr>
<tr>
<td>100+ employees</td>
<td>82% (+6)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Decision maker age</th>
<th>Total Interested (change from 2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-34 years old</td>
<td>85% (+4)</td>
</tr>
<tr>
<td>35-54 years old</td>
<td>85% (+5)</td>
</tr>
<tr>
<td>55+ years old</td>
<td>71% (+9)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years in business</th>
<th>Total Interested (change from 2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10 years</td>
<td>92% (+11)</td>
</tr>
<tr>
<td>10-19 years</td>
<td>84% (+6)</td>
</tr>
<tr>
<td>20+ years</td>
<td>70% (-1)</td>
</tr>
</tbody>
</table>
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.

**REASONS FOR DISINTEREST IN PEOs AMONG NON-USERS**

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

- Don’t need/Doing fine without it: 34%
- Cost/Can’t afford it: 24%
- Done in house/Have our own HR: 23%
- Want control/Don’t want PEO in charge of my business/Prefer autonomy: 20%
- Small business/Our company isn’t large enough: 8%
- Don’t know: 1%
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.

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.'
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%).

### CHALLENGING ASPECTS OF RUNNING A BUSINESS

<table>
<thead>
<tr>
<th>Issue</th>
<th>% Selected As Top 5 Most Challenging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruiting new employees/Attracting new talent</td>
<td>50%</td>
</tr>
<tr>
<td>Material shortages related to supply chain issues</td>
<td>45%</td>
</tr>
<tr>
<td>Providing competitive benefits</td>
<td>51%</td>
</tr>
<tr>
<td>Maintaining employee satisfaction</td>
<td>43%</td>
</tr>
<tr>
<td>Worker shortages</td>
<td>46%</td>
</tr>
<tr>
<td>Employee retention</td>
<td>49%</td>
</tr>
<tr>
<td>Managing remote work employees</td>
<td>28%</td>
</tr>
<tr>
<td>Managing return-to-work policies</td>
<td>25%</td>
</tr>
<tr>
<td>COVID-19 testing requirements</td>
<td>17%</td>
</tr>
<tr>
<td>Vaccine mandates for employees</td>
<td>23%</td>
</tr>
<tr>
<td>Fostering a safe experience for my customers</td>
<td>17%</td>
</tr>
<tr>
<td>Fostering a safe workplace for my employees</td>
<td>17%</td>
</tr>
</tbody>
</table>

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)
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.

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?

PERSONNEL/EMPLOYEE CONCERNS
- 15% Employee retention/Employee Turnover
- 12% Hiring/Finding qualified workers
- 4% Employees/Personnel/Managing employees
- 4% Employee performance/Quality work from employees
- 1% HR/Managing HR related tasks
- 1% Training/Making sure employees are trained

BUSINESS GROWTH/SUCCESS CONCERNS
- 10% Keeping clients/Customers
- 8% Sales/Making a profit
- 4% Growth/Growing business/Development
- 2% Competition/Foreign competition
- 2% Innovation/Looking for ways to innovate

ECONOMIC/FINANCIAL CONCERNS
- 8% Inflation
- 6% Economy/Recession
- 5% Money/Cash flow/Finances
- 5% Bills/Payroll
- 1% Healthcare/Healthcare costs
- 1% Taxes

OTHER MENTIONS
- 7% Keeping everything going/Running smoothly
- 5% Supply chain/Sufficient supply
- 3% Impact of COVID-19 in general
- 2% Technology/Changing technology
- 2% Management/Paperwork
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)

<table>
<thead>
<tr>
<th>Business Function</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health insurance benefits</td>
<td>66%</td>
</tr>
<tr>
<td>401k plans</td>
<td>60%</td>
</tr>
<tr>
<td>Payroll</td>
<td>54%</td>
</tr>
<tr>
<td>Tax services</td>
<td>44%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>39%</td>
</tr>
<tr>
<td>HR services</td>
<td>36%</td>
</tr>
<tr>
<td>None of the above</td>
<td>7%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>To save time and focus on other aspects of the business.</td>
<td>50%</td>
</tr>
<tr>
<td>Outsourcing minimizes risks and costly mistakes.</td>
<td>44%</td>
</tr>
<tr>
<td>Outsourcing these tasks saves the company money.</td>
<td>39%</td>
</tr>
<tr>
<td>To focus on the future and growth of the company.</td>
<td>36%</td>
</tr>
<tr>
<td>We do not have expertise in these functions and prefer to outsource to experts.</td>
<td>33%</td>
</tr>
<tr>
<td>The business has grown, and we need help managing everything.</td>
<td>33%</td>
</tr>
<tr>
<td>None of the above</td>
<td>1%</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>TRUSTED SOURCES OF INFORMATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business associates and peers</td>
</tr>
<tr>
<td>Trusted advisors such as my accountant or lawyer</td>
</tr>
<tr>
<td>Trade associations</td>
</tr>
<tr>
<td>Trade magazines or websites covering my industry</td>
</tr>
<tr>
<td>Business newspapers (e.g. Wall St. Journal, Barron's, Investor's Business Daily, etc.)</td>
</tr>
<tr>
<td>General business magazines (e.g. Inc., Fortune, Forbes, Entrepreneur, etc.)</td>
</tr>
<tr>
<td>Blogs and/or social media by experts in my industry (e.g. consultants, advisors, etc.)</td>
</tr>
<tr>
<td>Do not find any of these sources useful or trustworthy</td>
</tr>
</tbody>
</table>

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
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.

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

**PAST YEAR – 2022**

- Non-PEO users (n=359)
  - Grew: 63%
  - Remained constant: 27%
  - Declined: 10%
  - Unsure: 0%

- Current PEO users (n=194)
  - Grew: 77%
  - Remained constant: 18%
  - Declined: 5%
  - Unsure: 0%

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

**NEXT YEAR – 2023**

- Non-PEO users (n=359)
  - Grew: 73%
  - Remained constant: 20%
  - Declined: 6%
  - Unsure: 1%

- Current PEO users (n=194)
  - Grew: 85%
  - Remained constant: 11%
  - Declined: 2%
  - Unsure: 2%
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

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Increase substantially</th>
<th>Increase somewhat</th>
<th>Stay about the same</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>The total number of employees at your business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-PEO users (n=359)</td>
<td>41%</td>
<td>19%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Current PEO users (n=194)</td>
<td>26%</td>
<td>16%</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>The total gross annual revenue from your business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-PEO users (n=359)</td>
<td>52%</td>
<td>59%</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Current PEO users (n=194)</td>
<td>19%</td>
<td>52%</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>The total profitability of your business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-PEO users (n=359)</td>
<td>41%</td>
<td>58%</td>
<td>19%</td>
<td>5%</td>
</tr>
<tr>
<td>Current PEO users (n=194)</td>
<td>45%</td>
<td>73%</td>
<td>15%</td>
<td>9%</td>
</tr>
</tbody>
</table>

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.