

# POWER FROM YOUR PEOPLE

THERE'S A MUCH EASIER AND MORE EFFECTIVE WAY  
TO MANAGE VIRTUALLY EVERY FACET OF HUMAN RESOURCES—  
ONE YOU CAN'T AFFORD TO IGNORE. >>>>





What if there were one simple thing you could do to boost your growth rate by 7 to 9 percent, reduce employee turnover by 10 to 14 percent, and cut your risk of going out of business in half? And what if, as an added bonus, that one simple thing could also free up a big chunk of your time, time that you could then devote to important strategic issues, or spend with key clients and vendors?

That may sound improbable—and maybe even magical—but more and more owners of small and midsize businesses are discovering that when they retain the services of a “professional employer organization” (PEO) they do, in fact, realize such a positive impact on their businesses that it can seem almost like magic.

The numbers cited above come from an economic analysis commissioned by the National Association of Professional Employer Organizations (NAPEO), a trade organization that represents many PEOs. One of its goals is to educate companies about the PEO model, which is a form of outsourcing but with a novel twist that provides several advantages to small and midsize companies that sign on as clients.

With roots in payroll processing and HR outsourcing services, PEOs today can provide a wide range of payroll, benefits, regulatory, compliance, and other HR services—including strategic consulting. And they now provide those services to about 180,000 small and midsize companies that collectively employ more than 3 million workers and generate \$156 billion in annual revenues.

Despite that impressive footprint, many business owners remain unaware of PEOs and the advantages they can provide. “I’d been on the HR policy beat in Washington for many years, including a decade at the National Association of Manufacturers and also spent time lobbying on HR issues, and I really hadn’t heard about PEOs before I took this job almost five years ago,” admits Pat Cleary, president and CEO of NAPEO. “But once I understood the concept, I was an instant convert. It was one of the best business

models I’d ever seen, and I still feel that way today—more so, if anything.”

Asked his thoughts on the main factor behind the higher growth, survival, and employee-retention rates enjoyed by companies using a PEO, Cleary doesn’t hesitate: “Focus. If you’re a small business owner, and you

can focus on your business and your people and provide them with a really good suite of benefits, good things are going to happen. Your turnover is going to be lower and your growth is going to be higher because you’ve got the time to focus your energies there. To me, it’s an arithmetic issue. There are 168 hours in the week, and you’ve got to spend some of them sleeping and eating. The more of the rest of them you can devote to issues strategic to your business—as opposed to administrative headaches—the greater your opportunities for growth and success are going to be.”

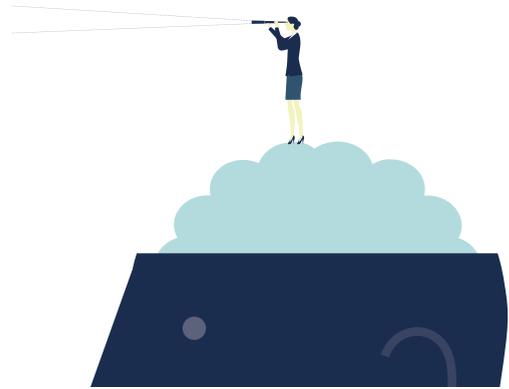
**“If you’re a small business owner, and you can focus on your business and your people and provide them with a really good suite of benefits, good things are going to happen. Your turnover is going to be lower and your growth is going to be higher.”**

**—Pat Cleary, President and CEO, NAPEO**

#### **UNDERSTANDING THE MODEL**

Today, outsourcing options abound. What sets PEOs apart is a unique concept: “co-employment.” Your employees remain your employees, but they also become employees of the PEO. That allows PEOs to aggregate their clients’ employee bases into a large group, which in turn enables the PEO to go to market and negotiate much better rates for benefits than a typical small company would be able to realize.

There’s no need to worry about loss of control, because your employees remain yours in every way that matters. A client service agreement will spell out which



responsibilities and risks belong to the PEO, and which ones remain with the client company. “When you work with a PEO, it stands side-by-side with you as the owner, and you actually offload some forms of risk,” says Paul J. Sarvadi, chairman and CEO of Houston-based Insperty. That can extend from compliance issues around hiring to potential legal risks around termination. Because PEOs are experts in all aspects of human resources, having a PEO in your corner can help you with any number of workforce-management issues even as its collective buying power allows you to offer richer benefits packages than you could afford to provide on your own.

Even businesses that are currently outsourcing one or

two HR functions, such as payroll, through a conventional outsourcer have a lot to gain by consolidating other HR administrative functions with a PEO. That’s been the case for Frank Klavon, who has owned the Glass Doctor of Broward County (Florida) franchise for a dozen years. After working with a payroll provider for several years in a relationship he considered difficult and unresponsive, he decided to explore other options. He was also looking for help dealing with rising workers’ compensation costs. He got that, and more, when he signed on with FrankCrum, a Clearwater, Florida-based PEO, about six years ago.

FrankCrum now handles Klavon’s payroll quickly and

## CHOOSING A PEO

**PEOs come in all shapes and sizes, with some focusing on specific industry verticals and/or geographic regions and others offering broad coverage on a national basis. While individual needs and circumstances should be considered when choosing a PEO, the NAPEO offers a set of general guidelines that can help you get started:**

- 1.** Assess your workplace to determine your human resource and risk management needs.
- 2.** Make sure the PEO is capable of meeting your goals. Meet the people who will be serving you.
- 3.** Ask for client and professional references.
- 4.** Ascertain that the PEO has a demonstrated history of adherence to the industry’s professional performance practices, including responsible financial management of its business. Check to determine whether the PEO’s financial statements are independently audited by a CPA, its risk management practices have been independently certified by the Certification Institute, or its operational, financial, and ethical practices have been independently accredited by ESAC.
- 5.** Check to see whether the company is a member of NAPEO.
- 6.** Investigate the PEO’s administrative and management expertise and competence. What competence does its internal staff have?

- Does the PEO’s corporate staffing allocation follow the priorities of its marketed services? Does senior staff have professional training or designations?
- 7.** Understand how the employee benefits are funded. Is the PEO fully insured or partially self-funded? Who is its third-party administrator (TPA) or carrier? Confirm that the TPA or carrier is authorized to do business in your state.
- 8.** Understand how the employee benefits are tailored, and make sure they fit the needs of your employees.
- 9.** Review the client service agreement (CSA) carefully. Confirm that each party’s responsibilities and liabilities are clearly laid out. What guarantees are provided? What provisions permit you or the PEO to cancel the terms of the contract?
- 10.** Make sure the PEO you are considering meets all applicable state requirements.



efficiently and provides workers' compensation coverage for his employees at a lower rate than he'd been paying before. Additionally, FrankCrum manages the employee onboarding process and handles government reporting and forms. "I'm in the customer service business myself, and I appreciate the ease of working with FrankCrum," Klavon says. "I consider this a very successful relationship."

In fact, FrankCrum considers that kind of personalized service to be its hallmark competitive differentiator. "FrankCrum is distinctly different because of our long-term ability to treat every client company like it is our most important client, regardless of size and need," says Frank W. Crum, Jr., president and CEO. "A designated account manager is assigned to each client to ensure the best possible experience and ongoing access to our team specialties based on the changing needs of the business."

of regulatory compliance issues, such as ACA (Affordable Care Act)," he says. "Most SMB owners don't have the resources needed to handle all those demands. That is another advantage of having a PEO."

Still another is the boost in confidence that a PEO client's business partners may get knowing that the company has enlisted the expertise of a PEO. Many of Bison's clients, for example, use a form of financing called "receivables funding" to help smooth out cash flow. "We end up developing close relationships with these factoring companies because we have to provide them with our clients' insurance certificates," Owens says. "And in that process these factoring companies end up feeling a lot more secure about the lending relationship, because they can see that their clients are focused on their core businesses rather than administrative and back-office responsibilities," he says.

---

## Even businesses that are currently outsourcing one or two HR functions, such as payroll, through a conventional outsourcer have a lot to gain by consolidating other HR administrative functions with a PEO.

---

It is not unusual for small businesses that turn to a PEO to experience a net reduction in costs. "Because a PEO aggregates many small businesses, it not only allows them to obtain better insurance rates but can also provide access to offerings that might not be available to them at all on an individual basis," explains Jay Starkman, CEO of Engage PEO, headquartered in Hollywood, Florida. "The PEO provides better services, streamlined with the expertise that only a company focused on those things can bring. Small businesses often see a net cost savings when they look at what they were really spending on those areas separately."

Wesley Owens, founder, president, and CEO of Bison PEO in Peachtree Corners, Georgia, points out that the value of a PEO increases in lockstep with the administrative responsibilities that require a business owner's attention. "Along with all the traditional HR, payroll, and tax issues, there is now an increasing body

### UP AND RUNNING

Another major advantage of PEOs is that they can provide a company with instant HR infrastructure, which can be a huge boon to a busy entrepreneur struggling to wear many hats. "What I call 'regularly scheduled business interruptions' are removed from their operations," says Insperity's Sarvadi. "They now have Fortune-500 level employee benefits that can help them attract and retain key people, and their overall business risk is reduced, since being an employer is one of the biggest areas where business owners take risks."

While the advantages PEOs offer make sense for any SMB, they may be especially relevant to growth-oriented businesses on the hunt for equity investment or debt financing to drive continued expansion. Increasingly, Sarvadi says, venture capitalists, investors, and lenders take a more favorable view of companies that have had the foresight to sign on with a PEO. "Obviously, if you are



going to invest in a business, you look for anything that would improve that business's likelihood and degree of success. It has taken some time for VC and private equity firms to fully grasp how dramatically a PEO can boost results, but it's becoming more widely understood now. I think they also view the risk-reduction aspects of using a PEO as an important factor."

Elliot Geidt, a principal at Redpoint, a Silicon Valley-based venture capital firm that has funded more than 430 companies (including Justworks, a New York City-based PEO), has seen an increase in the number of his portfolio companies using PEOs. "I like this move, because it enables my management teams to focus on building their core product versus focusing on administrative tasks," he says. "And, a startup that uses a PEO can offer 'big company' benefits, which is important for retaining talent. I should also mention that PEOs are often the lowest-cost option for benefits, so my investment dollars go further."

comprehensive PEO accreditation program, ESAC, that provides assurance, through bonding and regular financial audits, of a PEO's payment of the full range of PEO employer responsibilities, including both federal and state employment taxes as well as contributions to employee retirement plans and payment of health and workers' compensation premiums.

Meanwhile, the Employer Services Assurance Corporation (ESAC) is something of a "gold standard" in terms of accreditation. It was developed by NAPEO and launched in 1995 as an independent, non-profit organization providing PEO accreditation and financial assurance. A number of states also license and regulate PEOs, so with ESAC and CPEO there are now three paths to accreditation.

Mark Sinatra, CEO of Staff One HR, a Dallas-based PEO and Inc. 5000 winner in 2015, was formerly with a private investment firm that focused on making long-term investments in middle market companies. He is also a firm believer that being a PEO client is seen as a big plus in the

## While the advantages PEOs offer make sense for any SMB, they may be especially relevant to growth-oriented businesses on the hunt for equity investment or debt financing to drive continued expansion.

Isaac Oates, CEO and founder of Justworks, says he sees just those dynamics in action among his clients on a daily basis. "We've received positive feedback from customers who report an increased ability to grow their companies and meet their business goals with Justworks. Our mission is to free entrepreneurs to focus on what really matters—building their business and creating a great place to work," he says.

### SEALS OF APPROVAL

The PEO market is booming, with a broad mix of both regional and national companies offering differing lists of services. The market has matured to the point where many PEOs can point to at least one form of accreditation, which provides would-be clients with a high level of confidence.

The Small Business Efficiency Act of 2014 included a requirement that the IRS establish a voluntary certification program for PEOs, and the agency began accepting applications to become a certified professional employer organization (CPEO) in July of this year. While the IRS program focuses on ensuring a PEO's payment of its clients' federal employment taxes, there is a more

eyes of lenders and investors, especially "Since the PEO is the employer of record for remitting payroll and employee-related fiduciary obligations, accreditation ensures that such fiduciary obligations, [e.g., 401(k) and employee benefit contributions, workers' compensations premiums, etc.], particularly payroll taxes, are being met accurately and on time," he says. "A payroll lien is the only way a lender can be forced into a secondary lien position, so having an accredited PEO providing those services to a business provides that extra layer of security to a lender." And from the business's perspective, it smooths out what would otherwise be a lot of lumpy cash obligations, such as big quarterly tax payments and workers' compensation deposits, which can often disrupt a company's cash flow. Having regular, predictable costs for an array of services and benefits that you'd otherwise struggle to provide—if you could provide them at all—is another major advantage of using a PEO. At one time, PEOs may have qualified as a well-kept secret. But that's changing. The benefits are too numerous to ignore. Odds are good that if you aren't using a PEO today, other companies in your industry are. That can put you at a competitive disadvantage, which is one more reason why you should carve out a little time to see what a PEO can do for you. ■