



2019 Human Resource Outsourcing (HRO)

TRENDS REPORT

Industry Trends for HR Service Providers, PEOs and ASOs



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INTRODUCTION

Welcome to the fourth annual Human Resource Outsourcing (HRO) Trends Report. In late 2018, PrismHR surveyed HR service provider professionals about the state of their business and overall industry trends.

New for this year, the Trends Report includes research on the HR needs and priorities from 150 small and medium-size businesses (SMBs). Comparing the HR needs of SMBs with the HRO trends survey results reveal some interesting insights. Read on to learn how SMBs' views of HR compare to HROs.

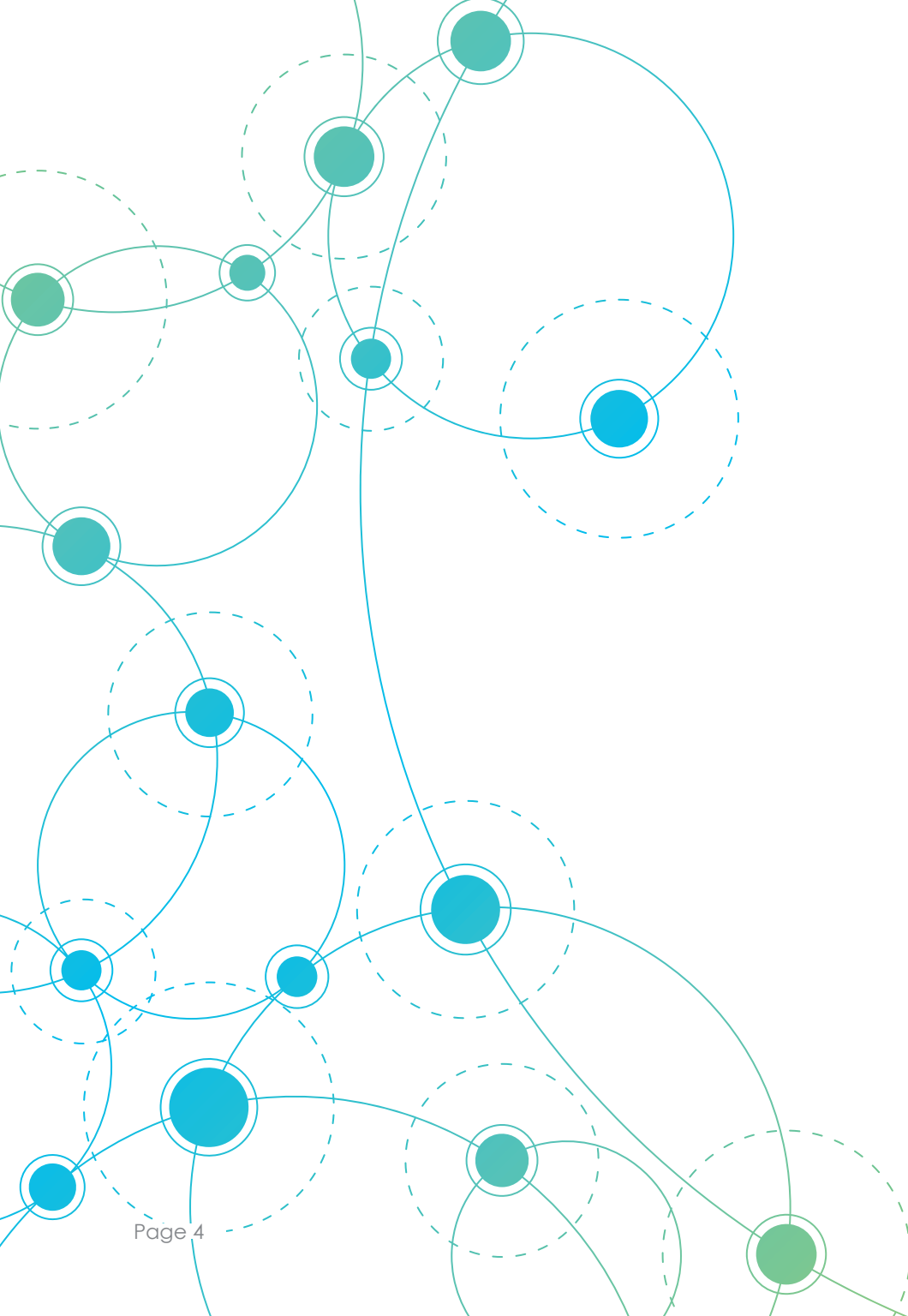
The 2019 HRO Trends Report includes data from 455 HRO professionals representing 182 HR outsourcers of all sizes. 44% of respondents are an executive/owner profile, and 23% are managers. A full profile of respondents can be found at the end of this report.

How well do you know your clients?

A common theme that comes up repeatedly in this study is the significance of client engagement.

Good client engagement can keep HROs informed on what's really important to clients. It can improve client retention and can help HROs hone their sales message. Staying engaged with SMB clients helps HROs educate them on HR challenges they should be addressing and deepens the client-HRO relationship.

Client engagement is critical to HRO business success. Read on to learn how the survey results demonstrate this principle.



INDUSTRY TRENDS

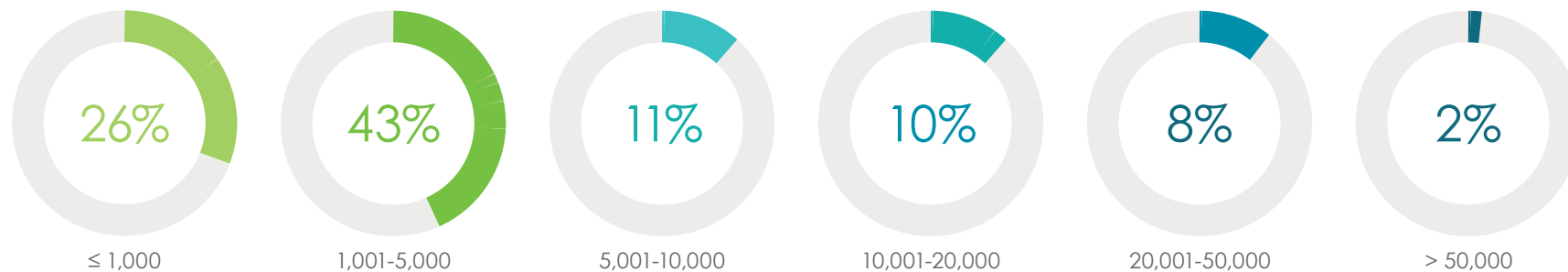
Worksite Employees

The majority of HROs responding to the survey (69%) service 5,000 worksite employees or less, and this is consistent with previous years' surveys. It will be important to monitor how this may change going forward as industry dynamics change. The National Association of Professional Employment Organizations (NAPEO) recently reported that consolidations in the human capital management sector continued to accelerate in 2018 as PEOs experienced a sustained interest from institutional and strategic investors*.

How will industry acquisitions affect the typical size of HROs? Will it cause a shift in the average size of HROs while reducing the total number of HROs in the industry overall?



Worksite Employees Served by HROs

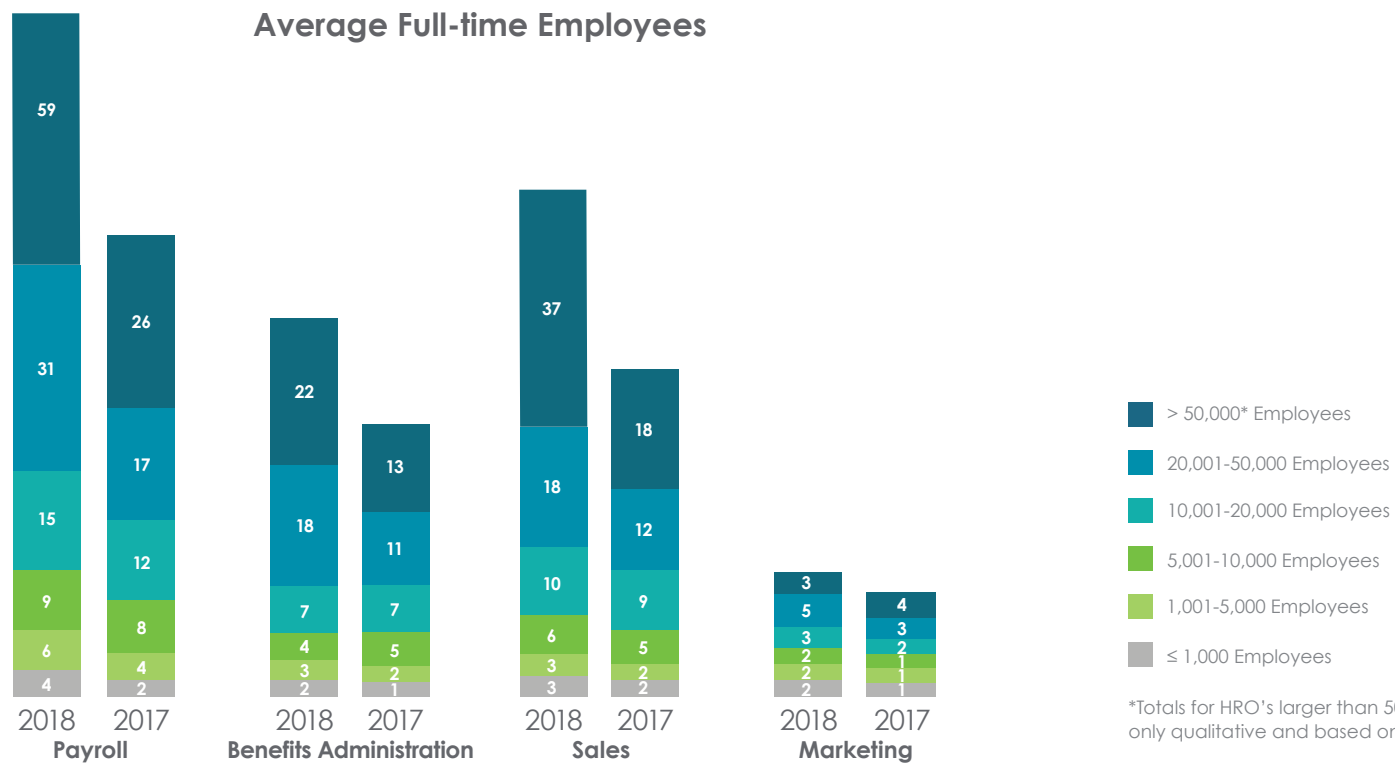
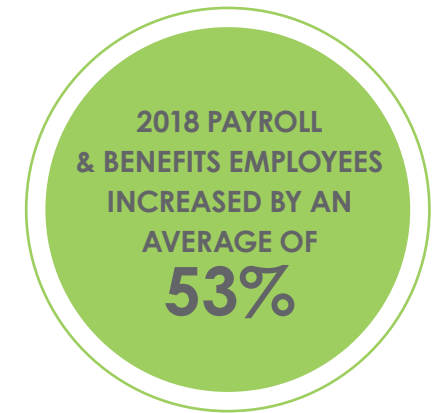


*PEO Insider: Trends & Innovations—Transforming the PEO Industry

HR Outsourcing Organizations

60% of respondents work at HROs that employ less than 30 full time employees. Increases in certain employee functions may be an indicator of current growth and optimism about future growth.

Hiring more payroll and benefits administration employees can often indicate that HROs are growing, and HROs increased their average number of payroll and benefits administration employees an average of 53% in 2018. Similarly, hiring more sales and marketing employees can reflect an optimism about future growth, and HROs increased their average number of sales & marketing employees an average of 45%.



Services Provided

The services HROs provide to their clients has seen little change over the years. HROs provide PEO services to an average of 72% of their worksite employees, ASO services to an average of 21%, and Payroll Only services to an average of 7%. This ratio of core services has remained consistent for each of the four years of this survey.

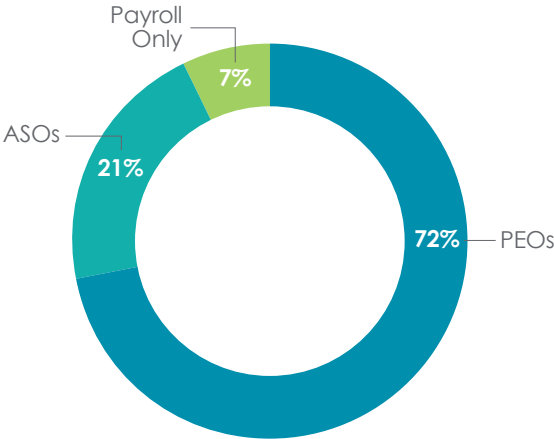
Beyond the core services, HROs identified HR Consulting, Benefits Administration and Time Tracking as their top three most often provided ancillary services. This too is consistent with previous years' findings.

This trend could be partly attributed to resource constraints. HROs are themselves small businesses in many cases, and the resources required to add a new service to their offering can be daunting. HROs who look into ways to augment internal resources, such as leveraging their HR technology partner to automate service, could significantly grow their business.

Are you seeing the need to offer a wider range of services to your clients? Are you talking with your platform provider to see if they can help make that possible with your existing resources?

TOP 3 ANCILLARY SERVICES OFFERED:

1. HR CONSULTING
2. BENEFITS ADMINISTRATION
3. TIME TRACKING



Top Ancillary Services Offered

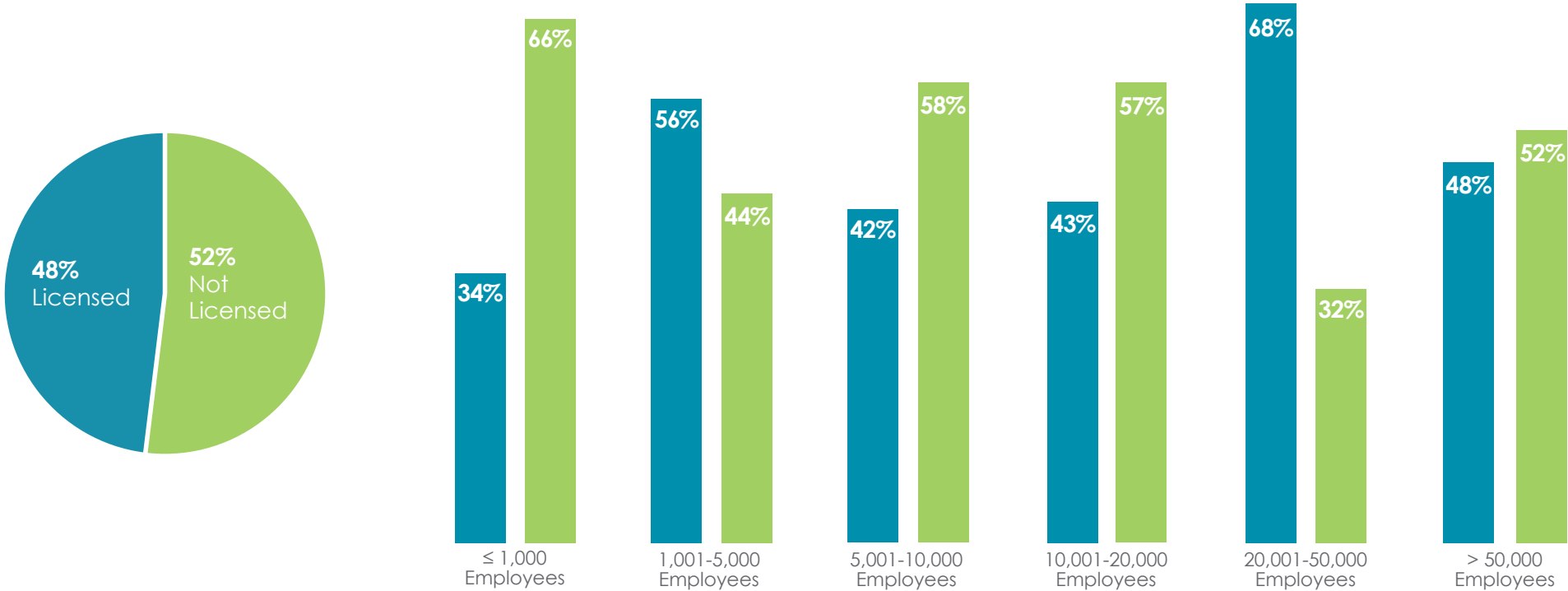


Insurance Licensing

Nearly half of HROs are licensed to sell insurance, and it's logical that the likelihood of being licensed increases as the HRO organization size increases.

In addition, organizations who predominantly offer PEO services are 60% more likely to be licensed to sell insurance than those who predominantly offer ASO or Payroll only.

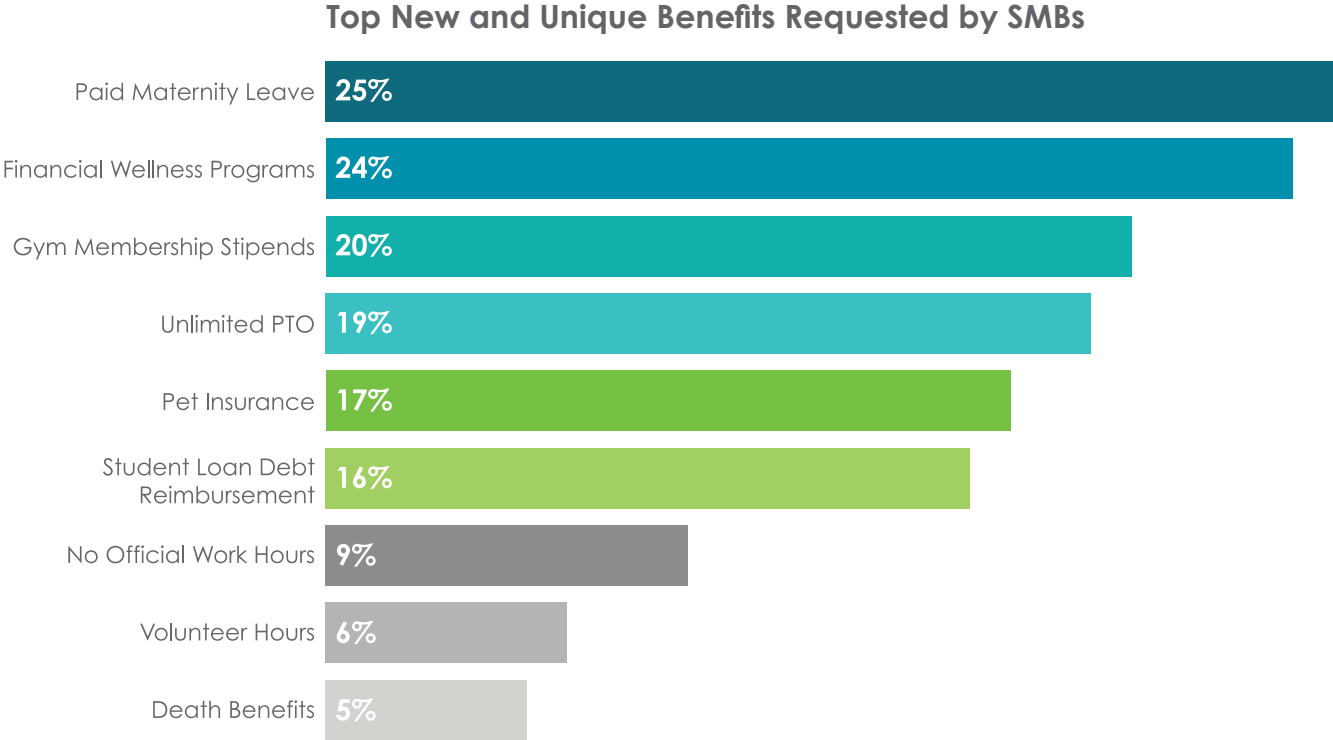
HROs Licensed to Sell Insurance



Benefit Trends

The top unique benefits HROs are being asked to offer are paid maternity leave, financial wellness programs, and gym membership stipends. Being cognizant of the benefits SMBs are asking for can give you a competitive edge. In addition, offering unique benefits can give SMBs a recruiting edge which in turn helps to illustrate further the value that HROs bring to their SMB clients.

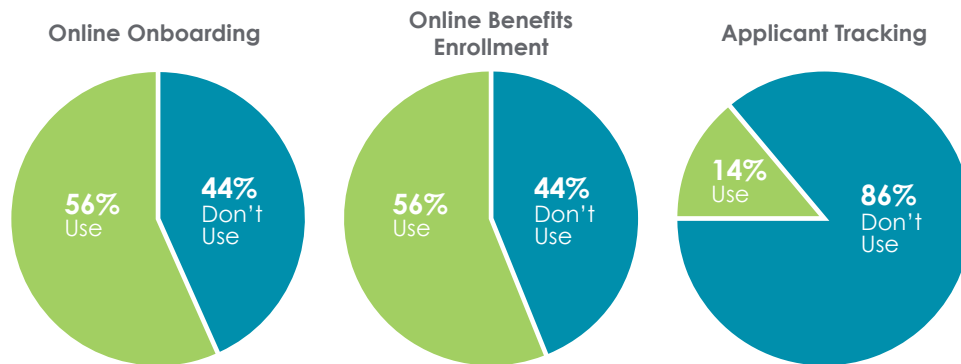
What benefits are you offering to SMBs that set you apart from your competition?



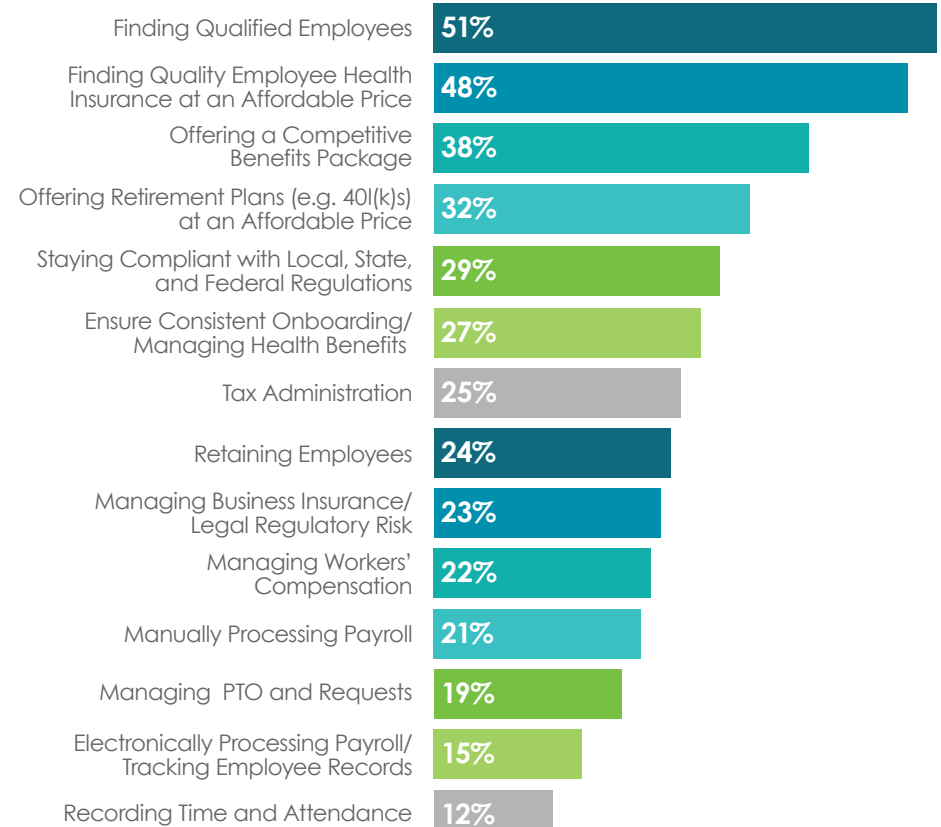
Technology

A significant number of HROs use both online onboarding and benefits enrollment technology, but far fewer are using Applicant Tracking Systems (ATS). This contrasts with the results of the SMB research which tells us that 51% of small and medium-sized businesses (SMBs) believe that finding qualified employees is their top HR challenge. This may indicate a missed market opportunity for HROs. ATS makes it significantly easier for SMBs to find and quickly hire qualified employees by allowing them to post their jobs to a wider audience and to process applicants more efficiently. Are you educating your clients about the value of Applicant Tracking Systems? Is this an untapped growth opportunity for your business?

HR Technology SMBs Use According to HROs



SMB's HR Challenges



Operational Efficiency

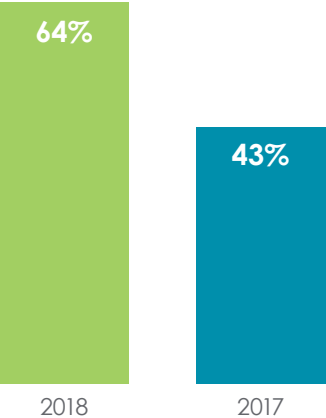
The number of HROs consolidating onto a single platform increased by 49% from last year. There are many variables that could be contributing to this increase, including accelerated industry acquisitions cited by NAPEO*.

In addition, 67% of HROs see their profit margins increasing in the next 2-3 years, and improved efficiencies are a key driver of improved profit margins.

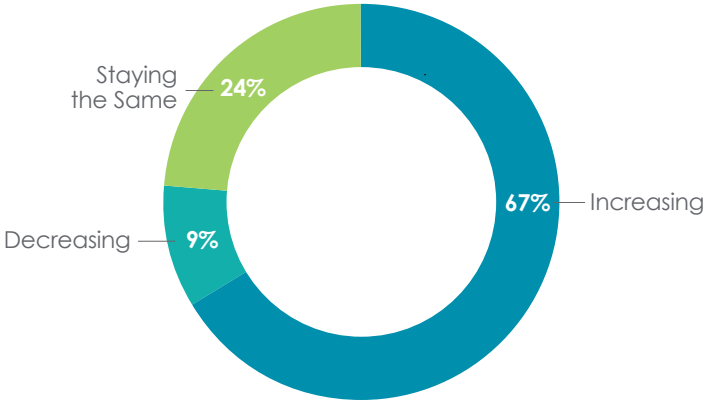
Can we connect the efficiencies gained from platform consolidation to the increase in margins? How many platforms is your organization utilizing, and could you be improving your bottom line with system consolidation?



HROs Using a Single Software Platform



Where HROs See Their Profit Margins in the Next 2-3 Years



*PEO Insider: Trends & Innovations—Transforming the PEO Industry



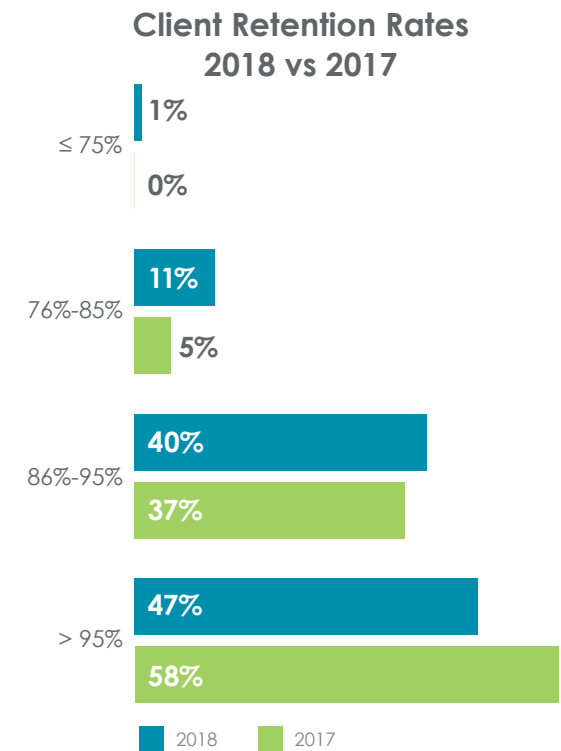
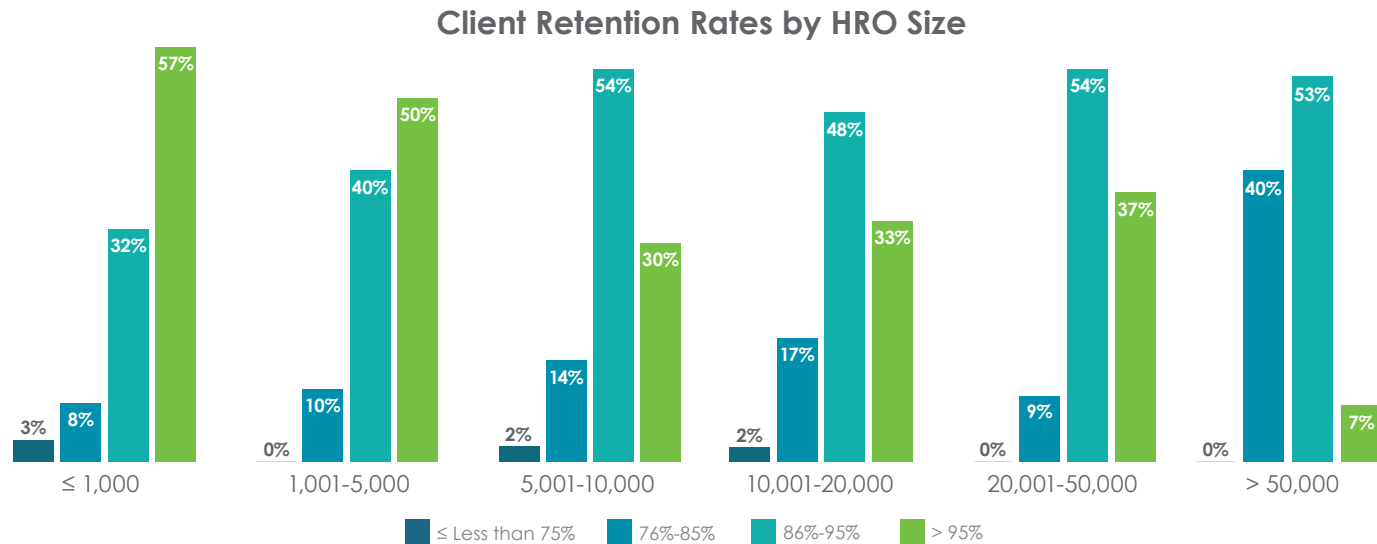
GROWTH TRENDS

Client Retention

While there has been a dip in client retention rates overall, smaller HROs (<5,001 WSEs) are improving retention. Part of the reason for this could simply be that smaller HROs have fewer customers with whom they need to stay engaged.

Moreover, Price/Budget and Perceived Lack of Value are two of the top three reasons cited for client attrition. Very often, clients don't just leave because of the price they pay, but because they don't understand the value of the HRO's services. This reinforces the need for HROs to stay closely engaged with their clients, continuously communicating with them and ensuring their needs are being met in real time.

How well do you know your clients' current state of mind? Do you know the ones who are thinking of leaving and why? This data shows that HROs shouldn't wait until it's too late to find out.



SMB Challenges

56% of HROs state that "Finding Qualified Employees" is a top challenge for SMBs, and a majority of SMBs agree. However, SMBs do not prioritize "Retaining Employees" as a top challenge, while 38% of HROs believe that is a top challenge for SMBs.

Why do SMBs not feel that retaining employees is as much of a challenge for them as HROs do? It could likely be that any one SMB may not have enough turnover to see it as a problem. It's incumbent on the HRO to help their clients understand the cost of employee attrition and how high retention rates mean less need for recruitment, helping to mitigate their clients' number one challenge.

Top 3 HR Challenges

According to SMBs

- 1 Finding qualified employees
- 2 Finding affordable, quality health insurance
- 3 Offering a competitive benefits package

According to HROs

- 1 Finding qualified employees
- 2 Offering a competitive benefits package
- 3 Retaining employees

Growth

Growth in Worksite Employees

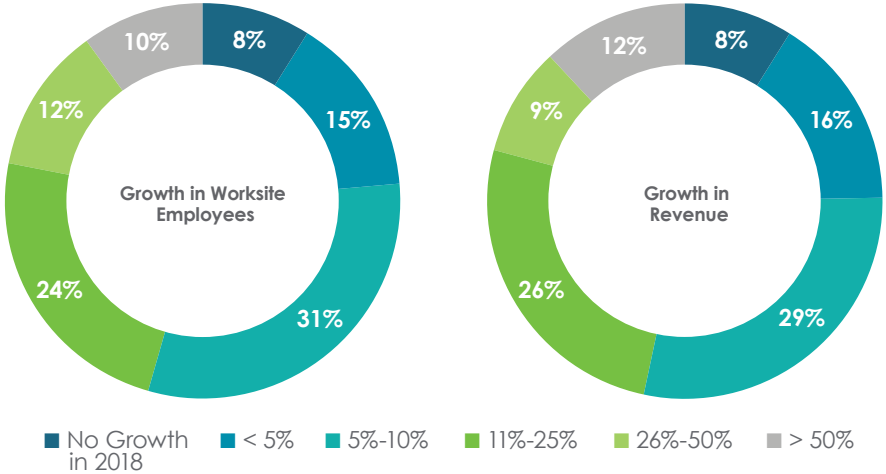
22% of HROs say they grew their worksite employee count by at least 26% in 2018, which is a 38% increase from last year.

Revenue Growth

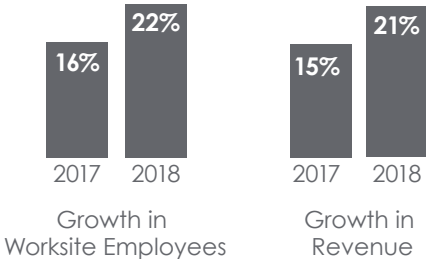
21% of HROs said they grew revenue by 26% or more in 2018, which is a 40% increase from last year.

A strong economy is likely the key reason behind this growth. However, the acquisition trends noted may also be a contributing factor, and it could also be a result of the increase we noted in sales and marketing resources by HROs.

HROs Growing More Than 26%



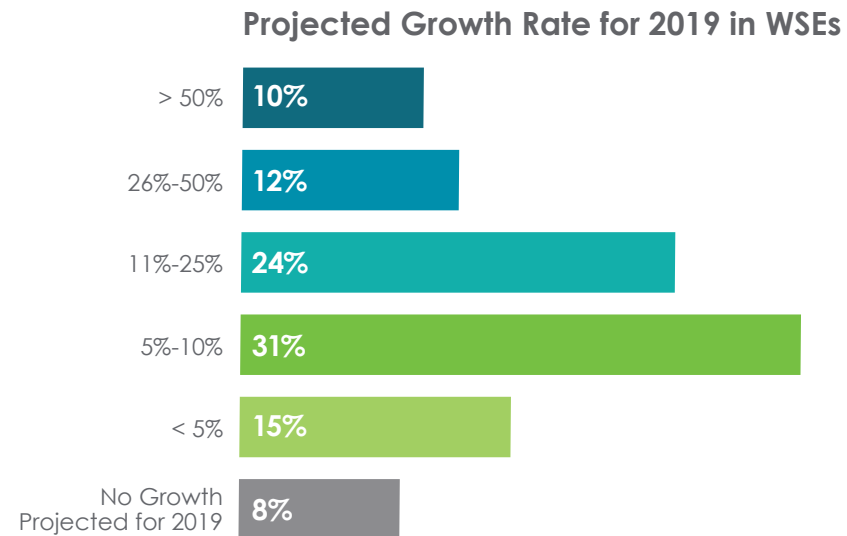
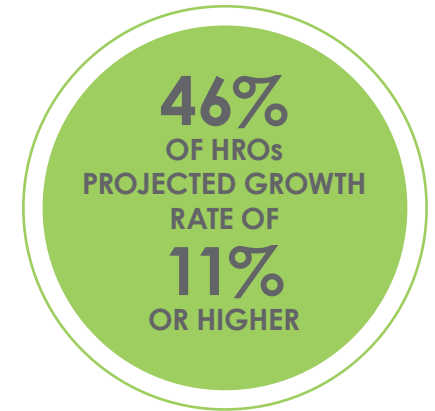
>26% Growth 2017 vs 2018



Projected Growth

When it comes to future growth expectations, HROs generally plan to grow in 2019 by about the same amount they grew in 2018.

Just as 22% of HROs said they grew by 26% or more in 2018, 22% of HROs also say they expect to grow WSEs by 26% or more in 2019.



Challenges to Growth

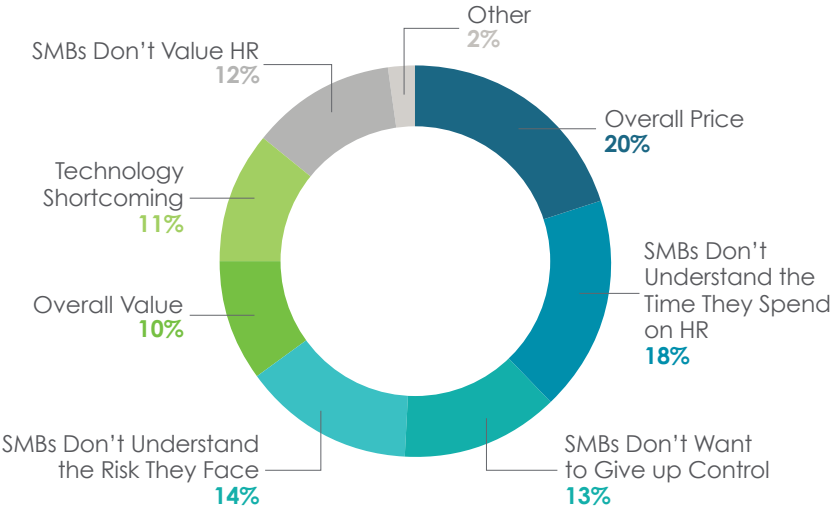
SMBs generally tend to be satisfied with their HR as it stands. This can make it difficult to convince SMBs that HROs can provide additional value.

This may be why there is no one dominant challenge to getting new business for HROs. HROs need to help SMBs understand what their HR problems truly are, how to prioritize them and how to overcome them. The key to winning here is knowing what challenges SMBs are experiencing and articulating well how you can help solve them.

Overall HR Satisfaction



Top Challenges to Getting New Business

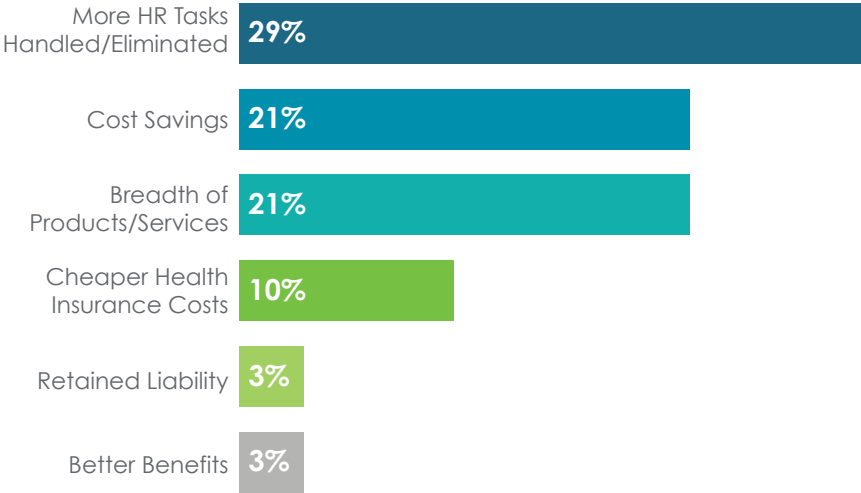


Reasons HROs Win Business

The top reason HROs win new business is that they are able to take on more HR tasks for SMBs. Do you interview your new clients to find out why they chose you? Are their reasons consistent with these findings? Understanding why your clients work with you is key to gaining even more new clients in the future.



Top Reasons HROs Believe They Win Business

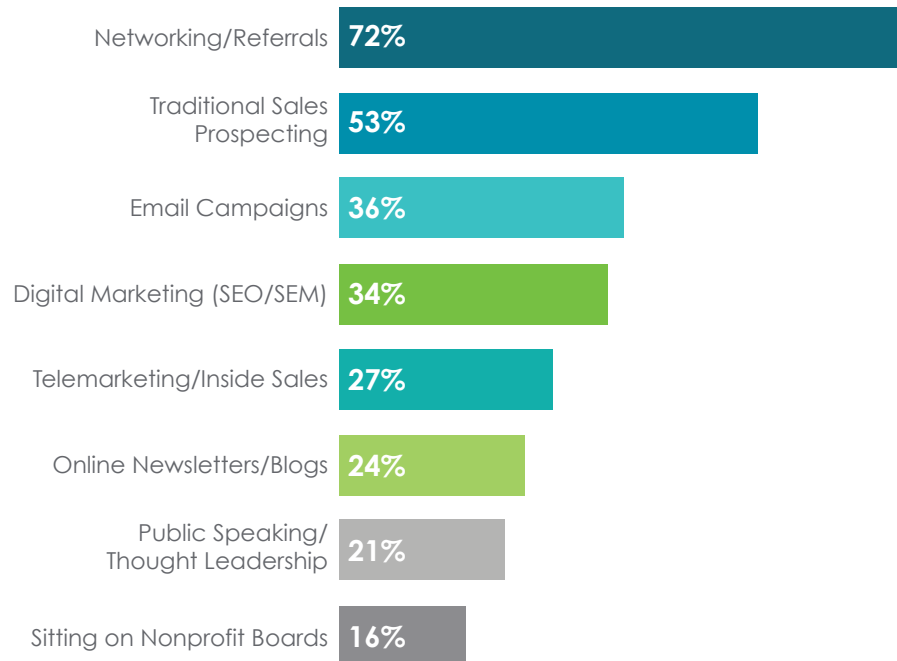


Marketing Tactics

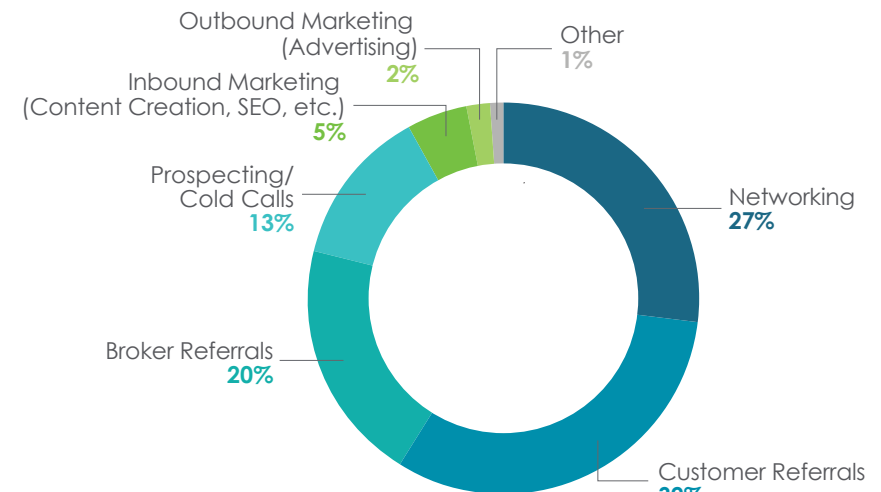
The main source of new clients for HROs is networking and referrals from customers and brokers, so it's not surprising to also see that the majority of HROs primarily use networking and referrals as marketing tactics to generate new business. But as we noted, when HROs bring on customers primarily through referrals and networking, they lose some control over the sales process, and they have limited visibility into their prospect pipeline.

HROs should consider formalizing their referral program to bring more consistency and control to their sales process. And they should look into broadening their marketing tactics beyond referrals to gain greater visibility into their pipeline. Additional marketing tactics such as digital marketing or thought leadership efforts can also help to move more prospects through the sales process and convert more of them to customers.

Top Marketing Tactics



Sources of New Clients

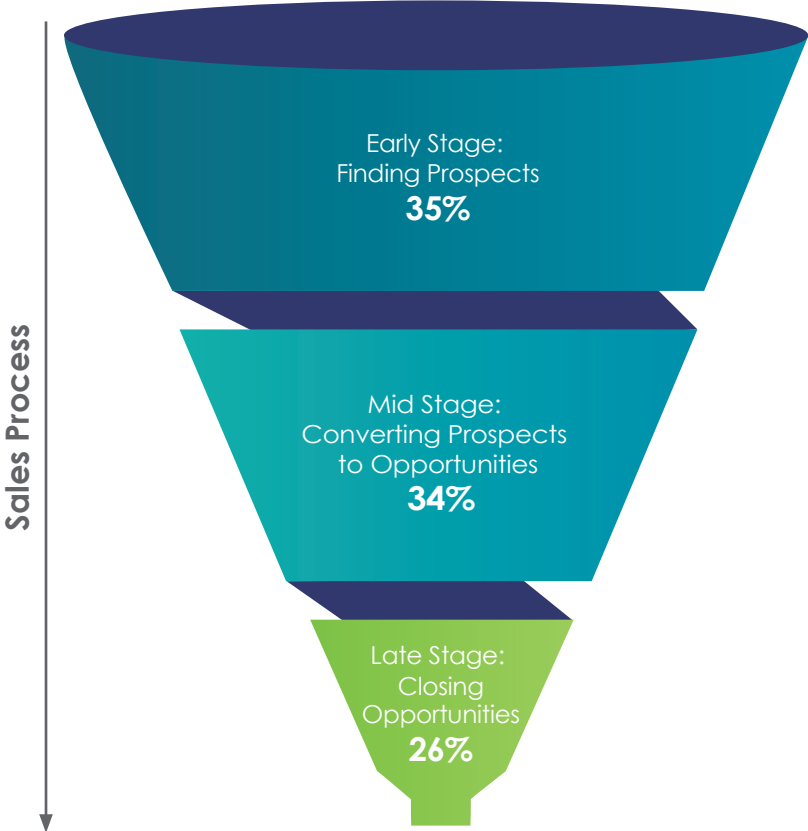


Barriers to New Business

The leading source of new customers for HROs by far is referrals and networking. The data also shows that HROs have challenges at all stages of the sales funnel. Without a formal referral program in place, it can be very challenging to forecast sales and new business because it's tough to predict when the next customer referral will come.

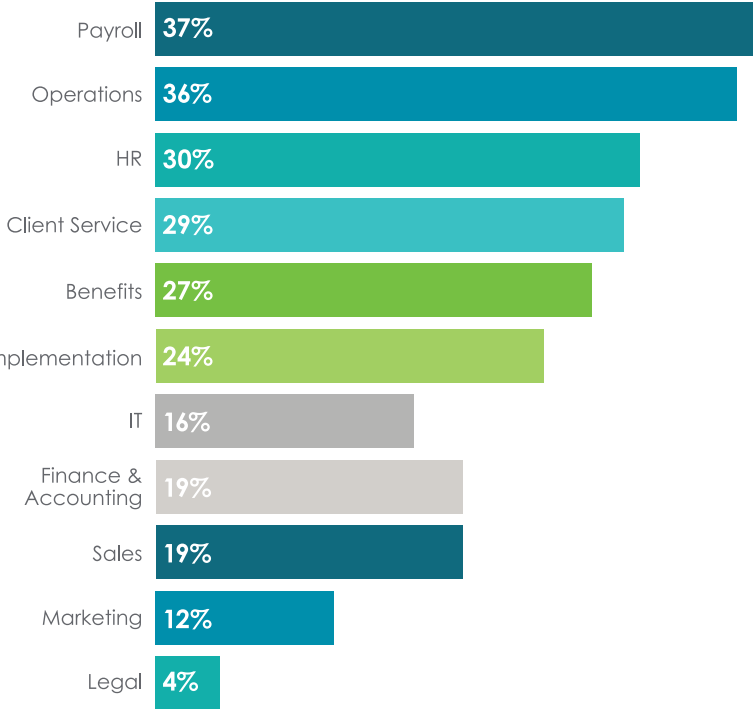
HROs could have better visibility into their prospect pipeline if they broadened the way they marketed to prospects.

Barriers to Closing New Business

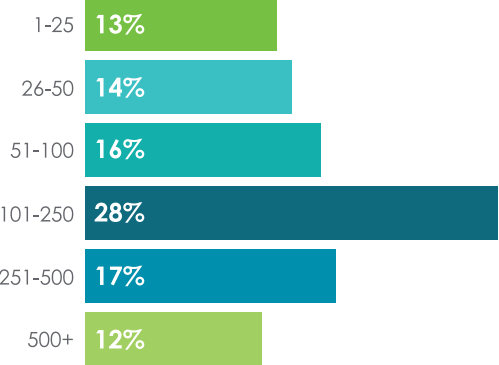


HRO SURVEY RESPONDENT PROFILE

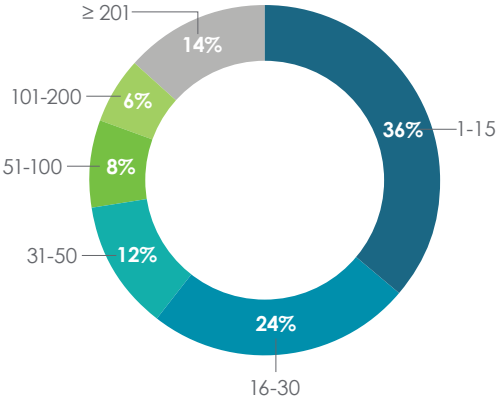
Responsibilities



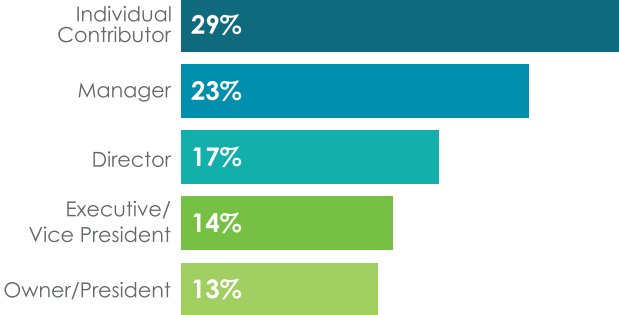
Number of Clients



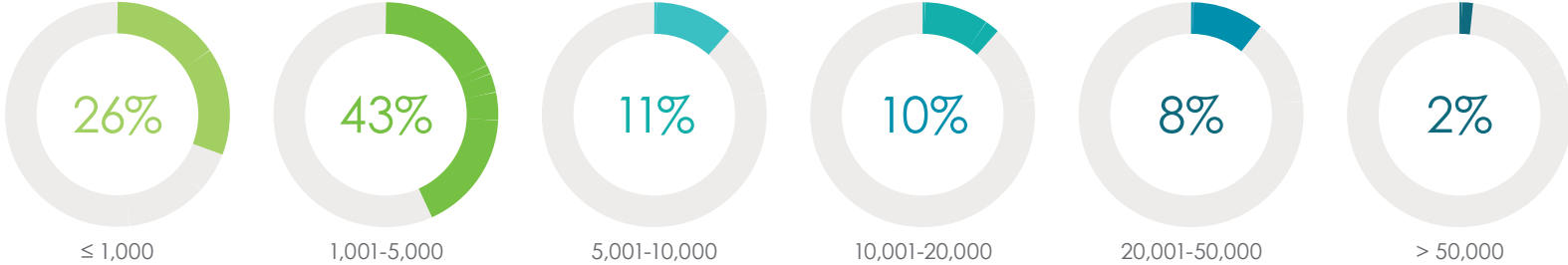
Full-time Employees



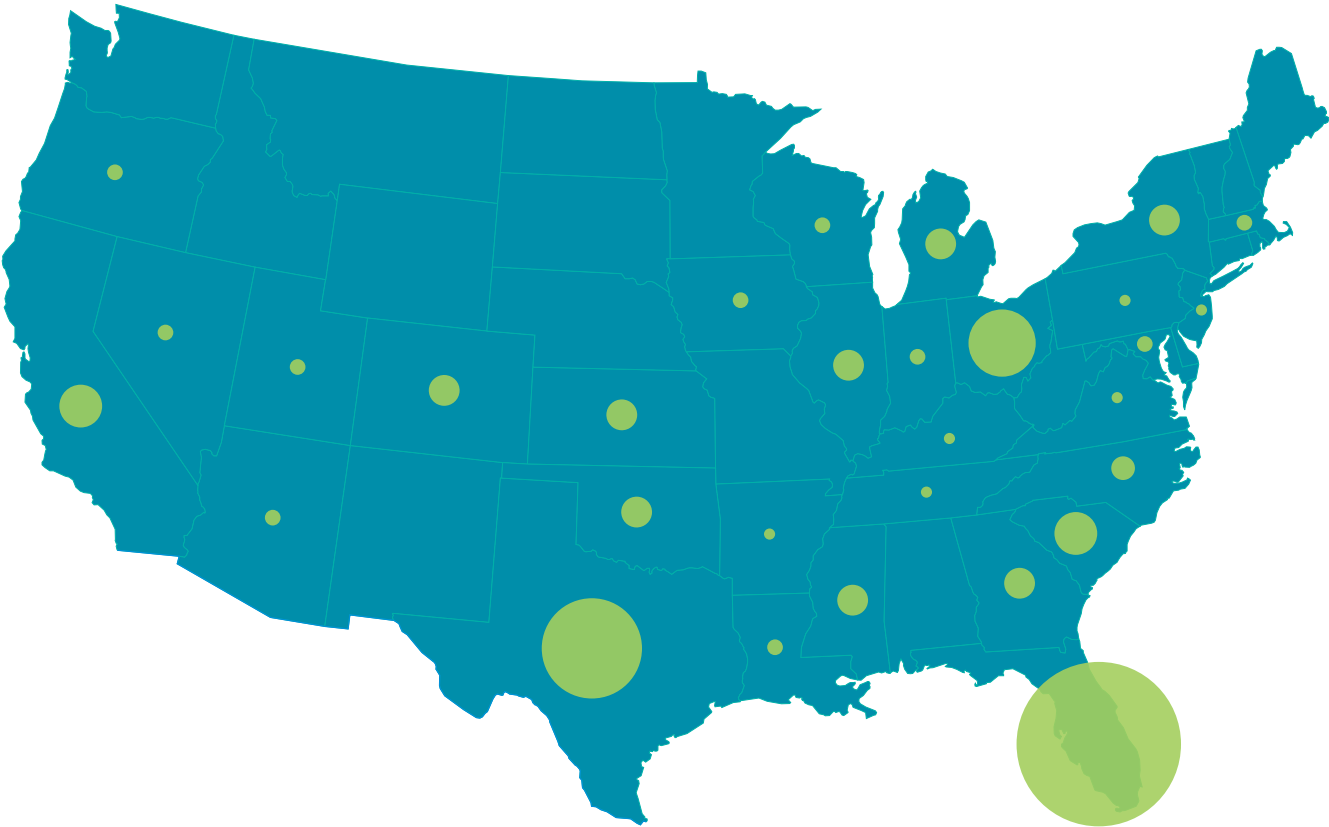
Respondent



Worksite Employees Served



HR SERVICE PROVIDER LOCATIONS



ABOUT

About this Report

The 2019 Human Resource Outsourcing (HRO) Trends Report is the result of nearly 455 responses from more than 182 different organizations within the Human Resource Outsourcing industry. The responses were collected through the PrismHR Annual Trends Survey. Respondents come from a variety of roles within their HR service provider, ranging from payroll, benefits and HR to finance, IT and operations, providing a diverse perspective on the HR outsourcing industry.

About PrismHR

PrismHR creates industry-leading software and services that empower human resource outsourcing (HRO) service providers such as Professional Employer Organizations (PEOs) and Administrative Service Organizations (ASOs) to deliver world-class HR, benefits and payroll to small and medium sized businesses. PrismHR powers more than 88,000 organizations, delivering payroll, benefits and HR to more than 2.2 million worksite employees annually and processing greater than \$57 billion in payroll each year. For more information, **visit <https://www.prismhr.com>**.