

The Value Add of a Professional Employer Organization (PEO)



Rob Parsons

Host
Manager,
Content and Brand
Paychex, Inc.



Alice Ziegler

PEO Area Director, Paychex

Announcer:

Welcome to season four of Paychex PULSE, an HR Podcast, where HR professionals can find great insights on today's top issues and be inspired to build and lead effective teams in a healthier workplace.

Rob Parsons:

Hi, everyone. Welcome to the Paychex PULSE podcast, Rob Parsons here. We're joined by Alice Ziegler, Area Director of PEO at Paychex. And today, we're going to be talking about PEOs, which is why Alice is just the perfect guest. With more than 22 years working with Paychex's clients, she has seen, firsthand, why a PEO is often the very best option for helping businesses recruit, develop, and retain the people they need to drive success. Alice, welcome to the podcast.

Alice Zeigler:

Thank you, Rob. I'm glad to be here.

Rob Parsons:

It's exciting. And I think, right out of the gate... And this is something that took me a while to learn. What exactly is a PEO? Before coming to Paychex, I'd never even heard of such a thing.

Alice Zeigler:

Sure. The easiest way to think about a PEO is that it's an HR solution that outsources certain administrative tasks, as well as gives companies access to Fortune 500 benefits and HR expertise. The acronym PEO stands for "Professional Employer Organization," which can be a little confusing, because it makes people think staffing. It makes them think that we are somehow involved in their Hiring and firing. And that's not really the case. It's, really, a relationship, that's more of a partnership, between our client companies and, for example, Paychex that allows us to, then, help them with those HR functions, and then give them access to benefits.

Rob Parsons:

So I've heard the term "Co-employment." Are we really just taking the overhead, the hassle away, and as a business owner, I get to focus on the work, and the work that needs to get done?

Alice Zeigler:

Yeah, absolutely. That's the simplest way to think of it. So really, co-employment is, really, just how the government looks at it, that they see the PEO as the employer of record. So things like tax liability, payroll, administration of state unemployment, the things that are liabilities associated with the employer-employee relationship, the PEO is fully responsible for. But the day-to-day operation, how you direct your employees, what they do in order to make your company successful, that still remains all the responsibility of our clients. Like you said, it just takes away some of the burden of that employer-employee relationship, and allows them to focus, really, on what they do best.

Rob Parsons:

So it sounds ideal to me, but I assume there's going to be some kind of cost. So what kind of ROI... What kind of value? How do I look at that, or how should I? If I'm looking into PEO, how should I look at that value equation? How should I calculate that or think about that?

Alice Zeigler:

Yeah. So it's somewhat intangible in the sense that there are a lot of components that, I think, a business owner doesn't really think about in their relationship with their employees. So NAPEO, which is just the National Association of PEOs, they've done some research and show that businesses grow, on average, 7.6% faster than a company that doesn't use a PEO. So why is that the case? And so their savings and things, like HR cost. So on average, a company would save about \$1,700 a year in HR costs by partnering with the PEO. How does that occur? It occurs because they're not having to spend time on either internal talent or on external consultants in order to give them advice, in order to be compliant and have a great operating HR department. In addition, things like benefit costs, on average, are about 30% lower with the PEO than they would be if they were doing business outside of a PEO.

Alice Zeigler:

Again, how does that occur? It occurs because the benefit strategy that we employ helps a business owner, maybe, think about benefits in a little bit different of a way than they might be used to today. So things they might not have access to as a small to medium size employer in the US, they would have access to with the PEO, because of the large scale of the partners and the clients that we have under that umbrella. And then, the last piece is really... When it comes to things like turnover. So on average, businesses experience about 30% lower unemployment costs with the PEO. And that's really because we help them with hiring and retaining, and motivating employees, things that all contribute to employee engagement, which helps reduce those turnover costs, and then lower their unemployment expenses.

Rob Parsons:

That's great. And we all know the high cost of turnover. We all know how hard it is to hire and retain employees in this environment. And as I'm talking to you, I'm seeing that there's a lot of advantages, particularly for a smaller organization, to get access to world-class HR, and all that that entails, all that that encompasses. You touched on it in your previous answer, but could you dig in a little bit on all the areas that world-class HR could help my business?

Alice Zeigler:

Yes, absolutely. So we just talked about hiring and retaining employees. We can also assist with things, like offering cost-effective, very competitive benefit offerings. We simplify operations through HR, like all-in-one HR, keeping benefits and payroll, and technology, linking it all together. We really help businesses, in my opinion, overall, save time for their revenue generating tests, rather than focusing on the HR pieces. And then, last but not least, we help them keep up with the regulatory and legislative compliance. So just the ever-changing laws that are around us here, in the U.S., we help businesses stay abreast of that. And so they know what to expect, prior to it actually coming about.

Rob Parsons:

That's such a huge factor. One question I have, say I'm an HR professional at a company, does the PEO just automatically replace me?

Alice Zeigler:

No. And that's a common misconception. So no, our goal as a PEO is, really, to partner with you, in a true sense. As an HR professional, and I can say this from my experience being at Paychex for 22 years, what we do is, we sit down with the HR manager, with the CEO, with the CFO, and ask them, "What are your goals? What are you hoping to accomplish? What are some of the challenges that you're having today?" And then, what we do is support those efforts and initiative. So we really see that HR manager as our connection to the company. They create the culture, they're focused on the strategy. And then, we're just helping them with implementing those pieces. So it's not a replacement, rather... A support, or a building up of the strategy they already have in place.

Rob Parsons:

It's almost like, you're just... You're my team. You just come on, and you're my team, instead of me having to hire people and train them up. There you go. I've got a already built HR team at my beck and call.

Alice Zeigler:

Exactly right. It's a pretty unique relationship, because it really is a true partnership. We want to be side-by-side with you and your business, and make sure that we're helping you achieve your goals.

Rob Parsons:

It sounds appealing. I don't see any negatives here. How do I tell if a PEO is right for me? Because obviously, it can't be perfect for everybody, Alice, can it?

Alice Zeigler:

I'm a little biased here, so I think it's a great solution, but you have to think about it this way. Even in a large business... So one of my larger clients has over 50,000 work site employees, and you would think, hey, that would never be a fit for a PEO, because they could hire and staff an internal team that would be able to handle it. The challenge is, they're in all 50 states. And so when you look at that and say, "How do I keep up day-to-day?" The staff that they would need to have in order to support that, just from the compliance standpoint, is completely overwhelming. Then you think about, how do you manage turnover? They would need to have entire teams just to do that, but we have the resources already built in. So that's on the very large size.

Alice Zeigler:

Now, you take it down to the small size. I have customers that have five or 10 employees. They still have those same compliance requirements. They still have that same challenge of finding amazing talent and being able to recruit away from some of the big players out there. So we're able to help support and prop them up. And so I'd say, the value proposition is a little bit different, depending on the client size, depending on the industry. What we do and how we support them is different, but that's really the unique component of a PEO, is how customized we can be to make sure we are really meeting a business need.

Rob Parsons:

We've talked a lot about... And I'm hearing, there's a lot of expertise, a lot of HR expertise, there's benefits, access to benefit packages and solutions. How does technology come into play? When I bring on board a PEO, do I get a technology solution to go along with that, or do they just use whatever systems I have in place, my Excel spreadsheets, or whatever I'm dealing with right now?

Alice Zeigler:

Please tell me you don't still use Excel spreadsheets to manage your workforce. But if you do, yes, we will help you with that. So it really depends on the PEO. So not all PEOs are created equal, some do things a little bit different than others. But in general, technology is a component of it. I think, as we all know, technology is only a piece. It doesn't replace everything. And so what technology does is, really, connect it to make it a seamless experience so that you're not having to interface with different platforms. It puts it all in one solution, bundled in together. But the bigger piece that we use, specifically at Paychex, is the fact that we're able to take that technology to derive insights from the analytics it gives us. So we can see what is the employee engagement, what are your turnover, what are some of your trends? Do people quit, at a certain time of year, from you? So the technology really gives us data back, that we're able to advise you on some good strategies to help you achieve your growth initiatives.

Rob Parsons:

I love that. I've heard so often. And in my mind, it's really stuck... Getting technology in place is, really, just the beginning. Now, it's implementing it, and becoming really good at using that technology. And you really just hit the nail on the head there, on just one of the areas where we can help with that.

Alice Zeigler:

Yeah, absolutely. You have to think about it too, from, even, an employee experience. A lot of companies out there have different platforms for employees to request time off, to view their check stub, to see where their handbook is. They're trying to figure out, do I create an internal intranet? Do I purchase a software or a technology for my employees to use? When you partner with the PEO, the majority of the time, that's already built in. So, it's one place for your employees to go, where they know whether they want to communicate about something going on in the workforce, like some challenge that they're having, or whether or not they just want to request a day off from work. They have one place to go. It makes it so easy and so streamlined throughout everything that the employee touches with your business.

Rob Parsons:

I love that. I love making it easier employee experience. We've been hearing a lot about it. It's a very real challenge, and I love how A PEO can help solve for that.

Alice Zeigler:

Absolutely. You have to think too. We have such a diversity in the workforce, now, generationally. So you have people who are used to going one way. You have people, like my children, who are very tech-savvy, and want to have everything online. And so the PEO really allows a communication channel throughout all of those levels and generation, and diversity of our workforce.

Rob Parsons:

That's great, Alice. We're up against it for time now. Do you have any last thoughts for our listeners?

Alice Zeigler:

Yeah. What research shows us is that only about 14% of American businesses actually use a PEO today. But with the ROI that they have in place, I would really encourage anyone listening to take a look at it, to evaluate your business, just, in the course, like you would do with your CPA or your financial advisor, and really understand that a PEO could help you in a multitude of different areas. So whether that challenge is finding great talent, whether that is keeping great talent, which is such a challenge in today's environment, or whether that's just really engaging a workforce to what they want to do today, I think the PEO provides a unique solution to tie all those things together while, in addition, providing ROI and savings in a lot of cases. So, it really is a terrific option for people to take a look at.

Rob Parsons:

It certainly sounds like... It feels like a very underutilized tool. So, thank you so much for joining the podcast, Alice, that was just great information.

Alice Zeigler:

You're welcome. Thanks for having me.

Speaker 1:

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Speaker 2:

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