



The Power of PEOs for SMBs

Simplify compliance, improve the employee experience, and drive significant ROI with HR outsourcing.

Between the increasing complexity of human resources (HR) compliance, an unpredictable economic and geopolitical climate, and the challenging task of finding and retaining employees, it's no wonder small and midsize businesses (SMBs) are outsourcing HR to professional employment organizations (PEOs).

PEOs provide HR services, including payroll, benefits, compliance, and others, freeing up business leaders' time and increasing HR efficiency. Research from the National Association of Professional Employer Organizations (NAPEO), a PEO trade association and provider of PEO education, finds businesses that partner with a PEO grow two times faster than

those that don't. While PEO adoption is soaring, misconceptions about the industry are still common. Understanding the full breadth of advantages will ensure your company does not miss out on what could be a game-changing partnership benefiting your employees as much as the bottom line.

Easing compliance complexities

According to economists Laurie Bassi and Dan McMurrer, the PEO industry's revenue, including wages, was \$414 billion in 2024 and is projected to grow at an average annual rate of 7.5 percent. A key growth driver is the increasingly complicated world of HR compliance. "Impacting the workforce in general is

a continued move to state policies as opposed to federal policy when it comes to employment law. This makes the patchwork quilt of regulation, and all the things that a business owner needs to be in compliance with, more complex," explains NAPEO president and CEO Casey Clark.

Remote work also makes employee law more complicated, as companies are more likely to employ people in different states. Muhammad Fahmy, senior vice president, ADP TotalSource, a leading full-service provider of HR services, says that in addition to providing peace of mind, PEOs alleviate the daily headache of HR administration.

"For the individuals at an SMB responsible for handling HR, payroll and tax, workplace safety, hiring, and employee benefits, a PEO like ADP becomes a trusted business adviser to help you handle these tasks properly. From getting payroll right for your employees to knowing how to handle everyday situations, such as employee conflicts, leaves of absences, or discrimination claims or managing time off, ADP's PEO works with SMBs to handle situations like a professional and in accordance with



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federal and state compliance.”

Entrepreneurs more confidently scale their teams with an HR partner, without sacrificing control of their business, notes Clark. “The truth is that every business that works with a PEO retains all of the responsibilities for their operations. PEOs run backend administration, but in no way does the business owner have to cede any control over their business,” he says.

Improving the employee experience

No company succeeds without the right people. PEOs help SMBs create more engaging environments for employees and improve the employee experience from the very beginning. “For SMBs, partnering with a PEO gives their business a more professional feel—which begins when you onboard an employee on the ADP app, before a new hire’s first day—and continues throughout the employee’s tenure,” Fahmy says.

Today’s workers have extremely high expectations for benefits, expecting “offerings that support their personal,

physical, mental, and financial well-being,” Fahmy explains. A PEO can secure more affordable benefits for SMBs, going beyond the basics to offer personalized benefits, such as pet wellness or mental health perks, he adds. A PEO is an HR resource for SMBs, allowing employees to get their HR questions answered quickly. A 2021 report by the ADP Research Institute found that employees with a single HR contact are five times more likely to recommend their company as a great place to work, which positively contributes to retention. In fact, SMBs that partner with a PEO have a 12 percent lower turnover rate than those that don’t, according to NAPEO.

Outsourced HR support delivers ROI

A common misconception is that PEOs are too expensive for small companies. In reality, business owners often conclude they can’t afford not to use a PEO. “The typical ROI for a client that uses a PEO is 27 percent. So, not only is it giving you comfort that you’re in compliance and providing the right kind of benefits so you can

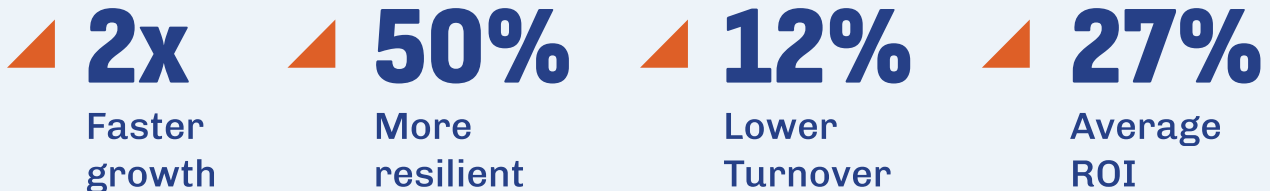
retain employees at a higher rate—you’re saving money on these core functions as well,” Clark says. The evolution of AI and technology will only add to the value of PEOs, enhancing capabilities across talent management and employee engagement, for example, by using predictive modeling to spot employees at risk of churning so companies can provide proactive support.

“So many businesses that should consider a PEO don’t because they often see the change as daunting or they haven’t yet been exposed to the full value proposition for the business,” Fahmy observes, adding that the risk avoidance and business benefits gained from intentional HR far outweigh the cost.

NAPEO research finds that 98 percent of PEO customers say they would recommend a PEO to a friend. It’s clear that SMBs recognize the benefits of HR outsourcing once they give it a try. To find a PEO in your area and leverage the comprehensive benefits of HR outsourcing, visit NAPEO’s PEO finder at <https://napeo.org/intro-to-peos/find-a-peo>. ■

In uncertain times, PEOs deliver stability.

From shifting regulations to talent shortages and fast-changing tech, running your business in today’s landscape is anything but simple. That’s why more small and mid-sized businesses are turning to PEOs for expert support—and seeing real results:



Human Resources ▲ Payroll ▲ Benefits ▲ Compliance



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