



PRISMHR

# 2017 Human Resource Outsourcing (HRO) Trends Report

Industry Trends for HR Service Providers, PEOs and ASOs

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This report can be used to evaluate your own business, identify ways to improve your processes, compare growth and performance metrics, and find potential areas to expand your services.

# INTRODUCTION

Welcome to the 2017 Human Resource Outsourcing (HRO) Trends Report. In late 2016, PrismHR surveyed HR service provider professionals about key business issues and trends. The results indicate that HR service providers, including Professional Employer Organizations (PEOs) and Administrative Service Organizations (ASOs), continue to grow and offer more services to help streamline the HR functions for small and medium-sized businesses (SMBs). In fact, HR service providers reported 27% growth for 2016.

## HR service providers reported **27% growth for 2016.**

Read on to learn about more trends and insights in the HR outsourcing industry, including HRO service trends, market trends, growth trends, and much more. The data from this report can be used to evaluate your own business, identify ways to improve your processes, compare growth and performance metrics, and find potential areas to expand your services.

More than 360 HR professionals from over 160 HRO organizations provided their insight and perspective on the HR outsourcing industry. You can learn more about the respondents of the survey at the end of this report. The HRO Trends Report summarizes those findings to provide insight into the HR outsourcing industry and market.

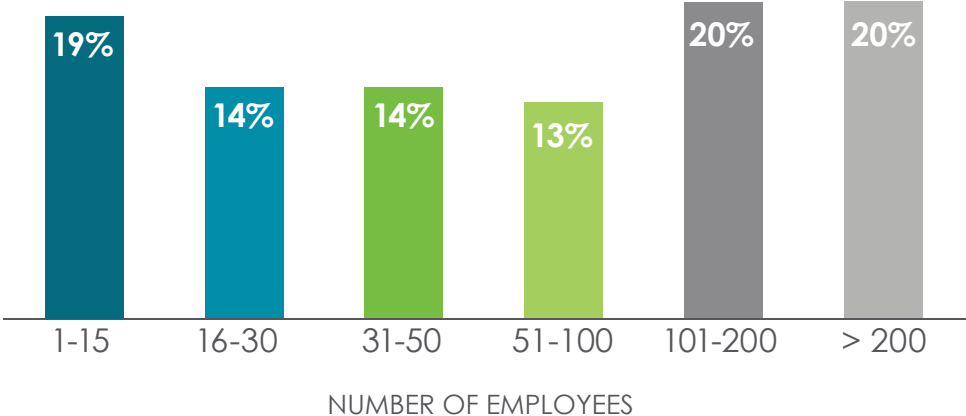
# HR OUTSOURCING ORGANIZATIONS

## HR Service Provider Size

Outsourced HR is primarily comprised of HR services and technology to enable those services. Providing HR services requires a team of dedicated HR professionals. And as organizations, HR service providers are growing—a lot. This is a clear indication that the HRO industry is growing.

In last year's trends report, 25% of HRO organizations had 100 employees or more. This year, 40% of HRO organizations have 100 employees or more. That's a 60% increase in just one year.

HR Service Provider Full-time Employees



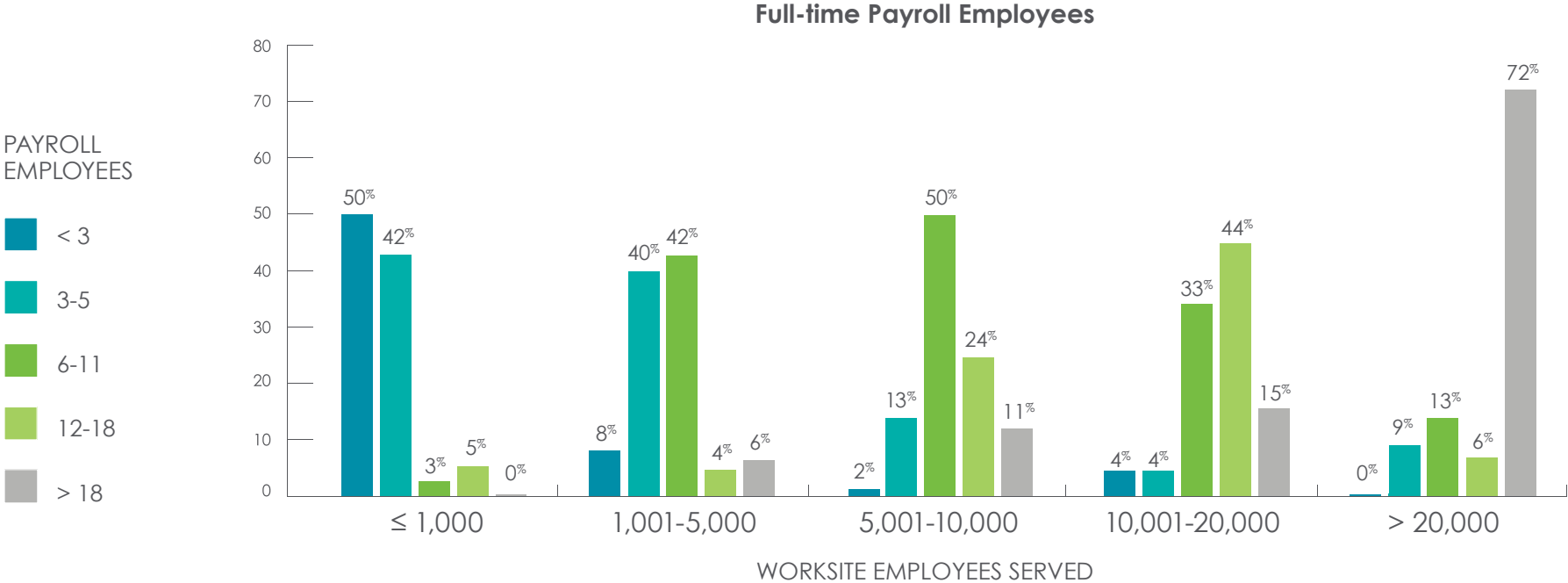
## HR Service Providers are Growing

In 2015, 63% of HRO organizations had 50 employees or less. In 2016, only 47% of HRO organizations have 50 employees or less, a 25% decrease.

# Number of Payroll Employees

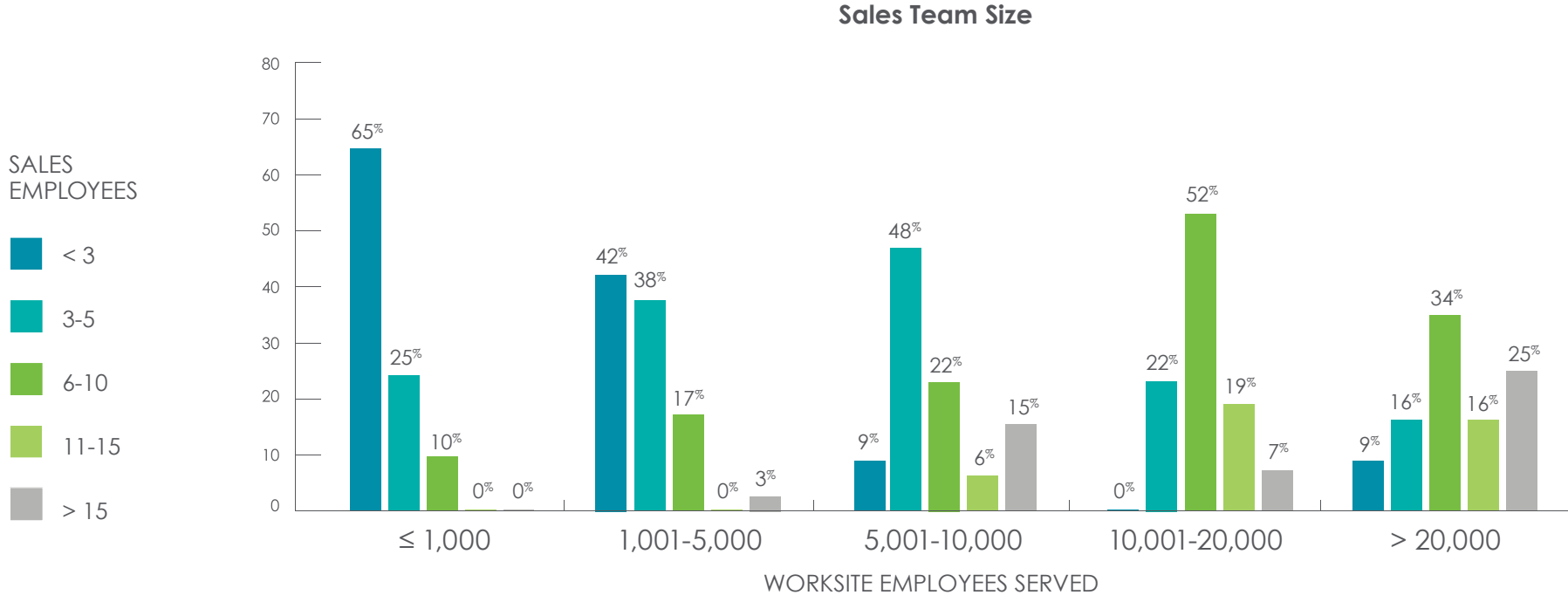
Small and medium-sized businesses outsource their HR needs and functions to support their employees with better benefits and streamlined HR. In this report, worksite employees (WSEs) refers to the employees at HR service provider clients.

Organized by the number of WSEs served, the data below shows how many full-time employees of HR service providers are dedicated to processing and managing payroll. Where does your organization fit? Are you more or less efficient than your peers? Processing and managing payroll can be labor intensive, depending on the efficiency of your HR and payroll technology. With the right technology and processes, you can greatly improve your payroll processing efficiency.



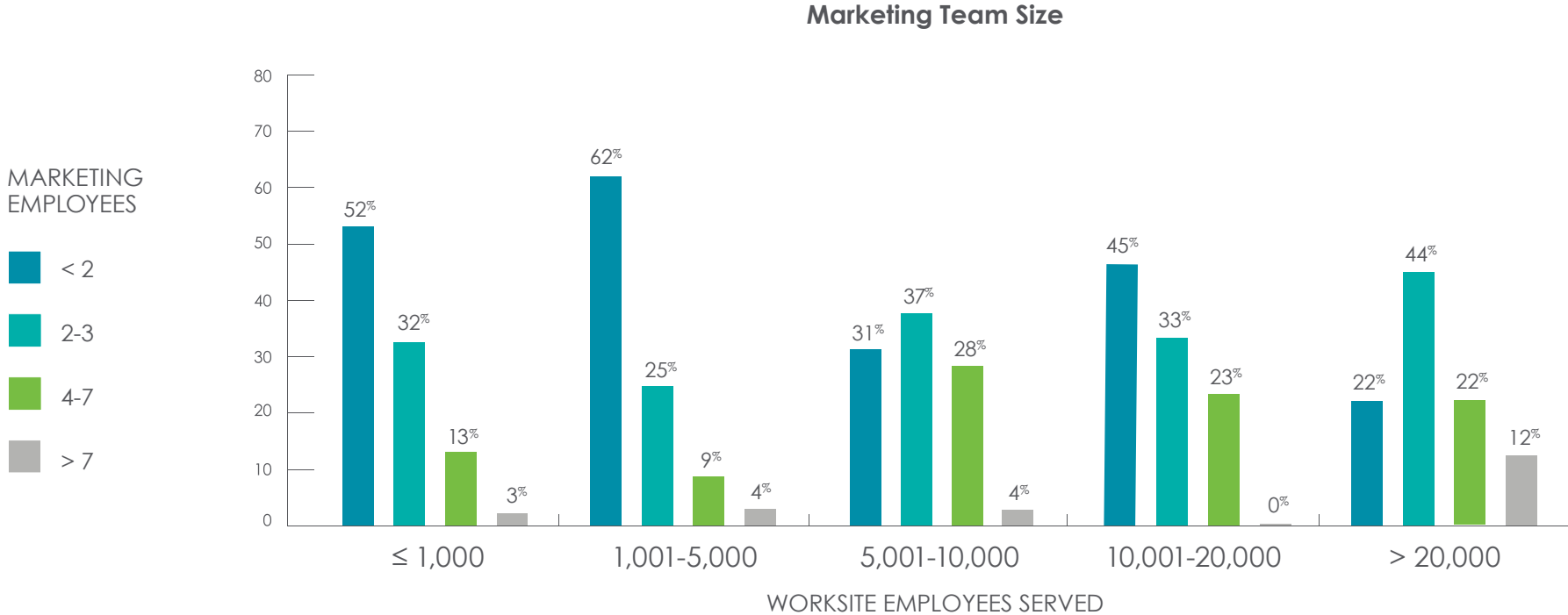
# Sales Team Size

The size of a company's sales team is not always a set proportion. It can vary greatly depending on a number of factors: Is the organization trying to expand and grow? What's the maturity of the organization? Is the sales team responsible for more than just acquiring new customers? With all of those factors in mind, it's not surprising to see little correlation of sales team size and the number of WSEs served. This is a notable difference from the number of payroll processors, which generally increases predictably as the number of WSEs served increases.



# Marketing Team Size

Similar to sales team size, the size of the marketing team can vary depending on the organization's current goals and objectives. It's interesting to see that HR service providers with 1,000 WSEs or less have larger marketing teams than those in the 1,001–5,000 range.

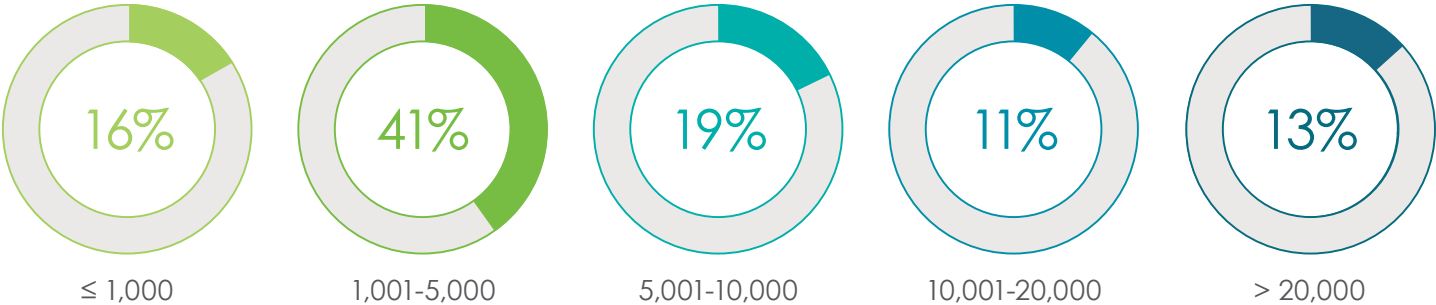


# HR SERVICES

## Worksite Employees

Most of the HR service providers who responded (41%) serve between 1,001–5,000 worksite employees. The median number of worksite employees served is approximately 5,000.

Number of Worksite Employees Served by HR Service Providers



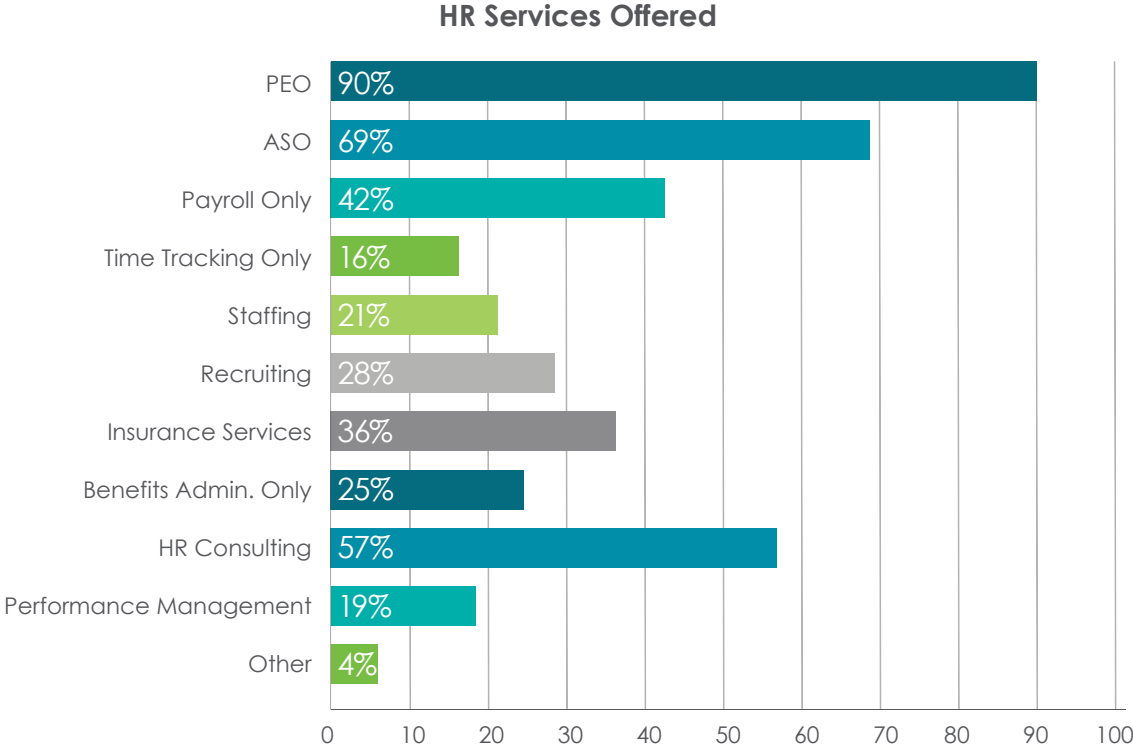
### Smaller HR Service Providers are Growing

HR service providers with 1,000 WSEs or less has decreased 20% while those with 1,001–5,000 WSEs have increased 32%.



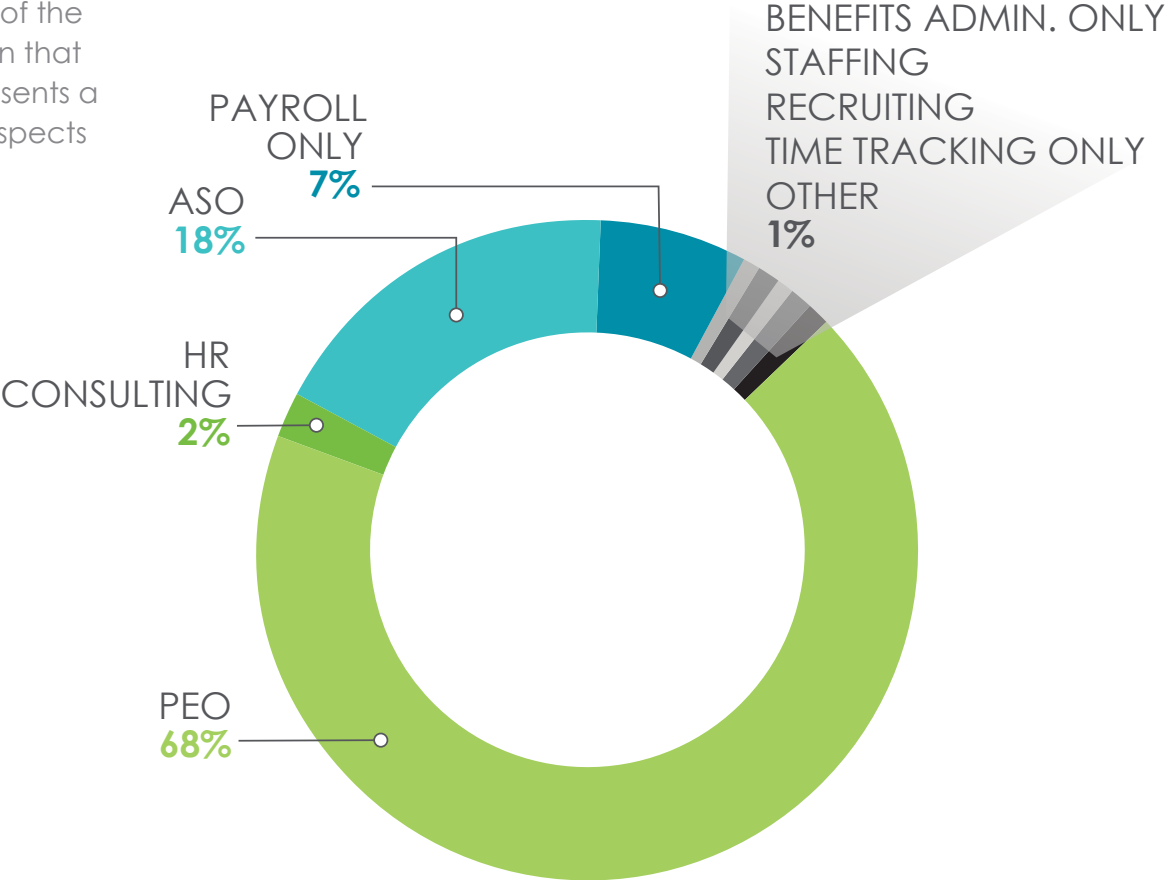
# HR Services Offered

While the core of HR outsourcing is pretty well-defined with payroll, benefits and HR, there are many other services that HRO organizations offer. Here are the majority of HR offerings that HR service providers deliver to their customers. This is a great way to benchmark your own services and to consider where you may expand your services.



# HR Services Breakdown

While there are many services being offered by HR outsourcing organizations, what percentage of their customers actually utilize those services? It's clear from the chart below that many of the services are being bundled together. While this may mean that many SMBs need more than just point solutions, it also presents a growth opportunity to offer specific point solutions for prospects who aren't ready for the complete HR solution.

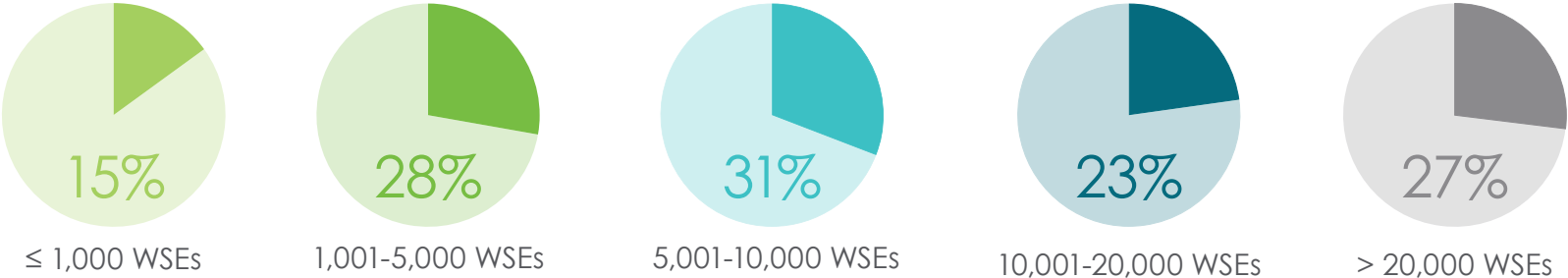


# GROWTH TRENDS

## HR Service Provider Growth

HR service providers on average reported an impressive 27% growth for 2016. As HR functions become more complex, and state and federal regulations increase, it's no surprise that the HR outsourcing industry is growing. Even as new technology-only competition enters the market, the HR service provider space is seeing consistent and steady growth. Mid-size HR service providers with 5,001–10,000 WSEs saw the most growth in 2016, reporting 31% increase in the number of WSEs they serve.

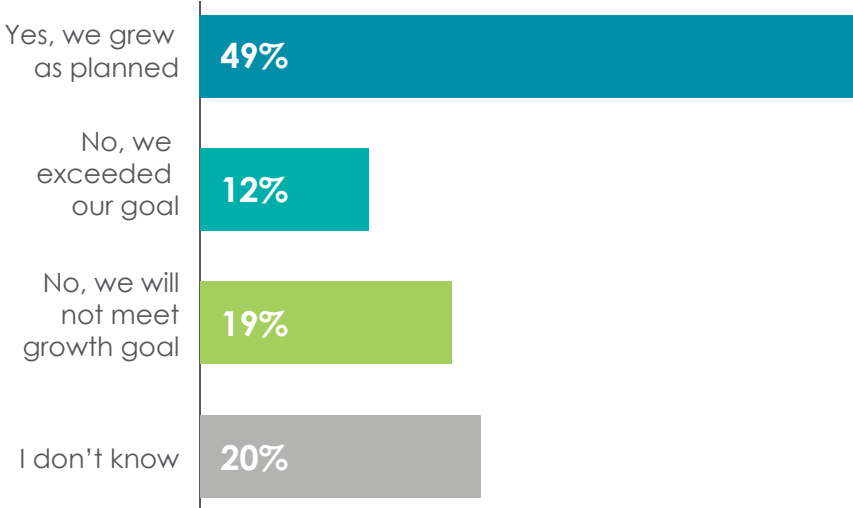
HR Service Provider Growth by Number of WSEs



# Growth Expectations

In last year's HRO Trends Report, more than 30% of respondents were expecting WSE growth of at least 26% in 2016. So it's not surprising to see that on average, HR service providers grew 27% in 2016. But what percentage of HR service providers actually met their growth goals? 49% of respondents met their growth projections for 2016, and an impressive 12% exceeded their growth projections for 2016.

2016 Growth Expectations

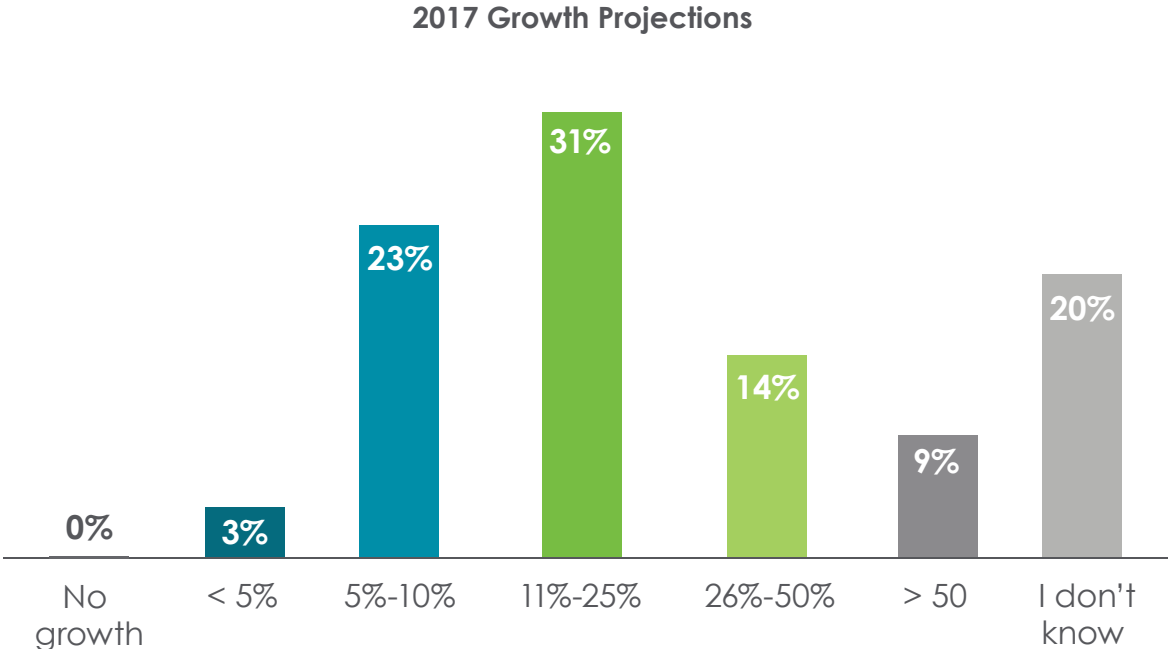


## Meeting and Exceeding Expectations

**49%** of respondents met their growth projections and 12% exceeded their growth goals for 2016.

# Growth Projections

Looking forward in 2017, HR service providers continue to anticipate significant growth. 31% of HR service providers are expecting to grow 11%–25% in 2017, and 23% of respondents are expecting to grow 26% or more.



## Growth Expectations Continue in 2017

23% of HR Service providers plan to grow at least 25% in 2017.

**≥ 25%** ↑  
2017 growth

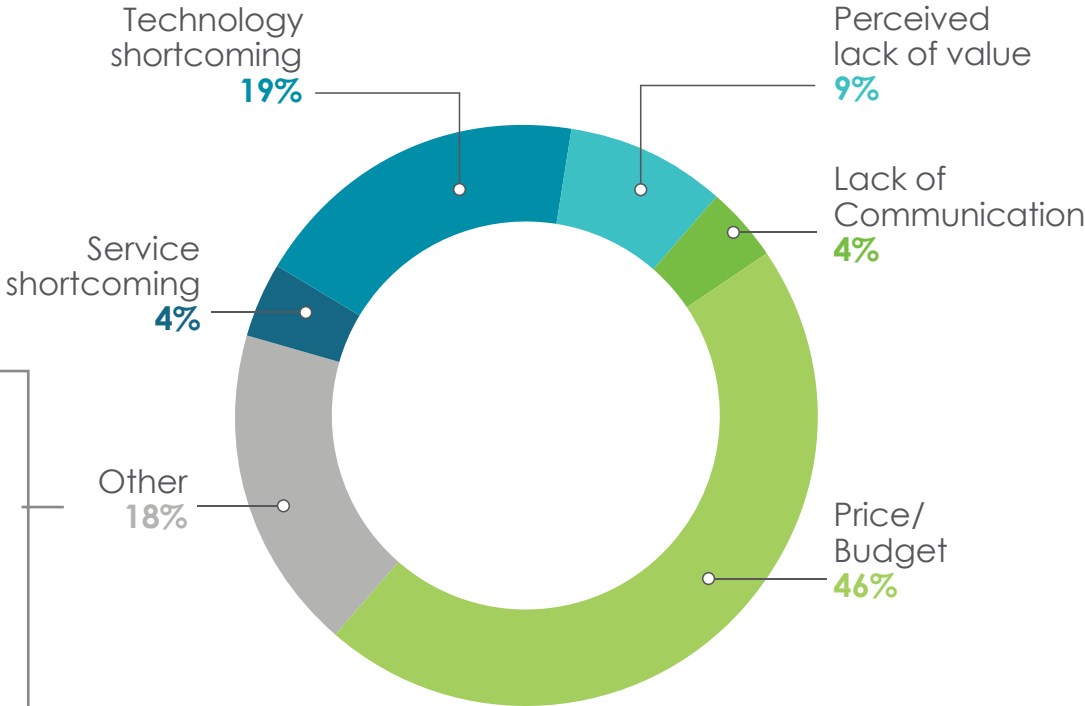
# Client Attrition

Unfortunately, there are times when customers do leave. It's important to understand why so that adjustments and improvements can be made to prevent it from happening again.

In 2016, Price/Budget was cited as the top reason for client attrition, with 46% making this claim. Price/budget is often not the real reason and getting to the bottom of why they are leaving can be challenging. [Performing an exit interview](#) is one of the best ways to get to the real reason.

Out of Business  
 Merger Acquisition  
 Unknown  
 No client left in 2016  
 Various reasons  
 Retirement  
 Healthcare Costs  
 Moved inhouse  
 Terminated Clients

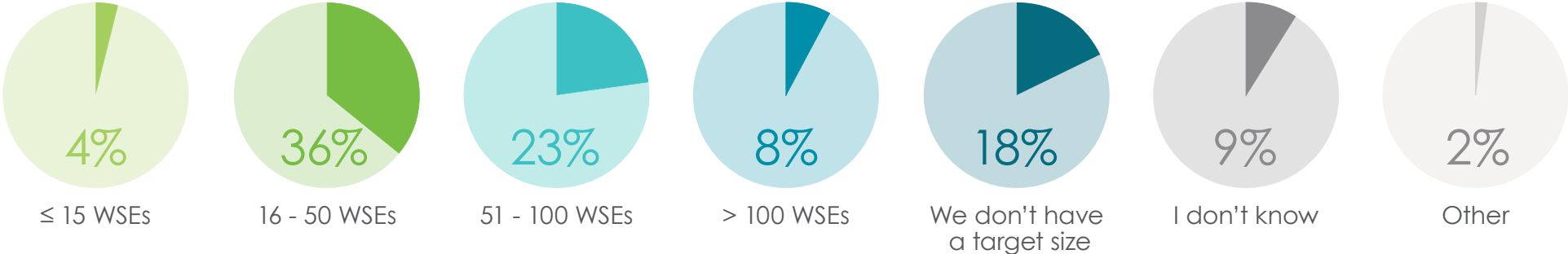
Top Reason for Customer Attrition



# Target Market

HR service provider target market is clearly in the 16-100 worksite employee range, with 59% of respondents noting that as their ideal customer size. With a clear focus on your target market, you can refine and improve your marketing and sales efforts to grow more effectively. On the other hand, it's interesting to see that 18% do not have a target market. With the scalable HR technology that's available today, these HR service providers may be set up to manage any size client and therefore do not have to limit who they work with.

Targeted Prospective Customer Sizes (WSEs)



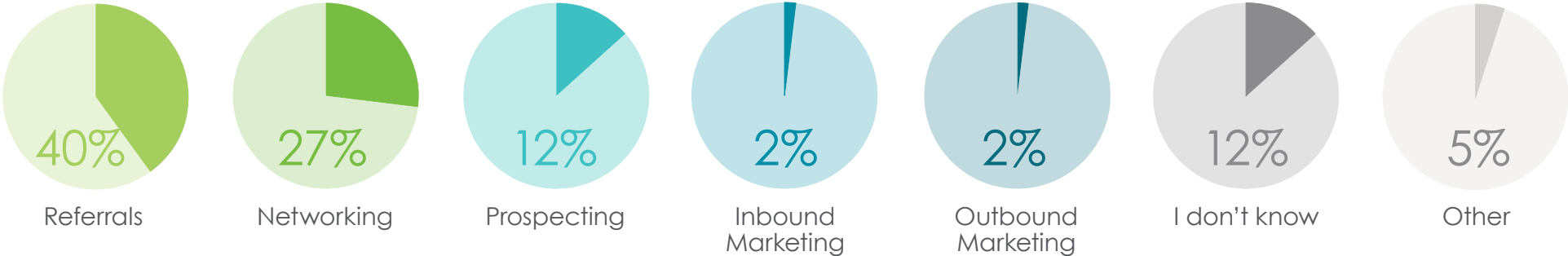
# CLIENT ACQUISITION

## Source of New Clients

Acquiring new customers in any industry is not an easy task. In the HR outsourcing industry, marketing and selling such a large scope of services is especially challenging. Therefore it's no surprise to see that 67% of HR service providers generate the majority of their business from referrals. Whether that's encouraging customers to refer business or forming relationships with strategic business partners, it's much easier to sell your services when they come from a trusted source.

While it's great to develop and generate new business through referrals, this also means that there's opportunity for additional growth through other channels. With over 860,000 SMBs in the US that have 15–100 worksite employees, there's a massive opportunity for HR service providers to tap into with prospecting and inbound/outbound marketing strategies.

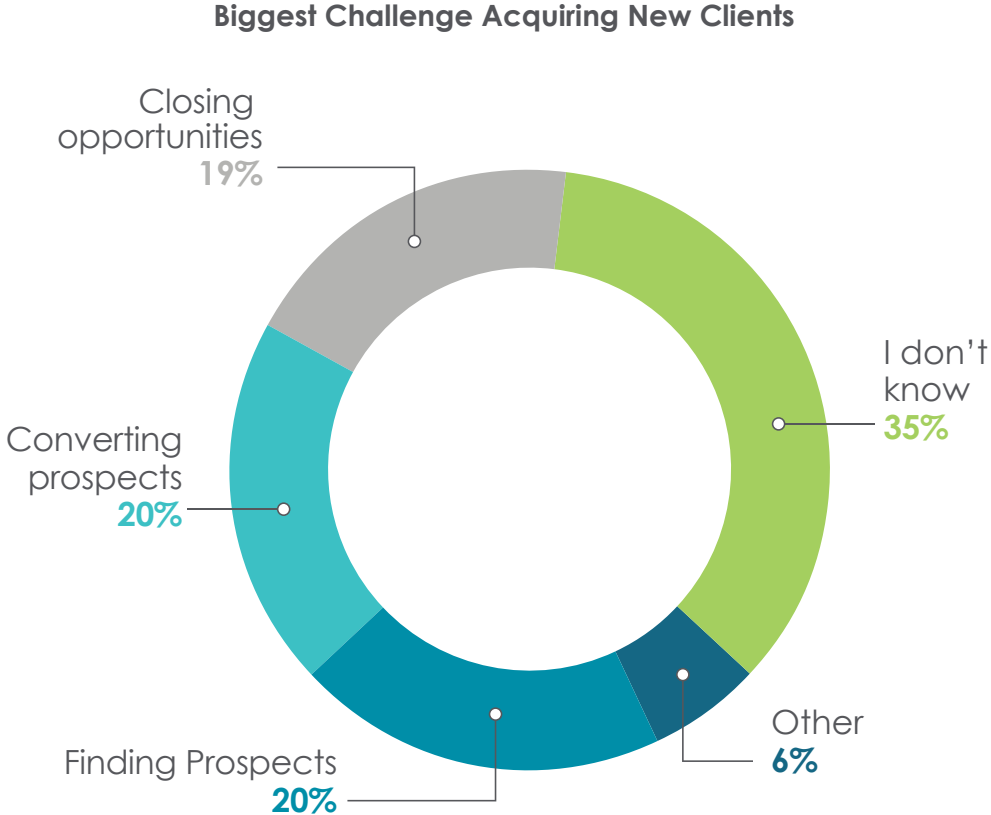
Best Source of New Clients





# Acquisition Challenges

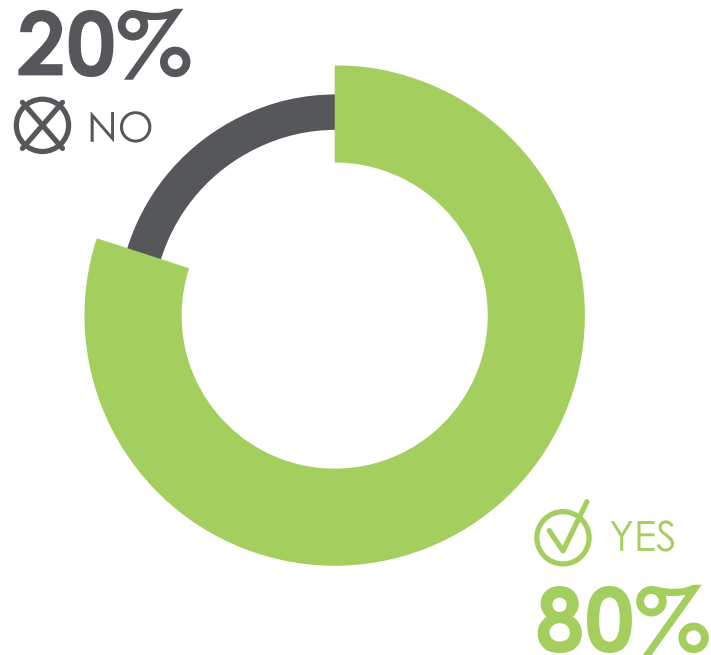
Acquiring new customers in the HR outsourcing industry is significantly challenging, especially when selling PEO services. The scope of services is often so extensive that it's a lot of control to give up for an SMB business owner. Looking closer at the data, the challenges in acquiring new customers are very evenly spread. As HR outsourcing continues to grow in popularity, it should generate more interest from SMBs, potentially making it easier to find and convert prospects to real opportunities.



## Demoing HR Technology

As technology becomes a larger piece of the HR solution, it's more important than ever to be able to effectively demonstrate its capabilities to prospective customers. But showcasing all of the capabilities of an extensive HR platform in a concise manner that meets the prospective customer's needs is especially complex. Although demoing can be challenging, it's effective. HR service providers who demo during the sales process grew 13% more in 2016 than those who don't.

### Provide Technology Demos During Sales Process

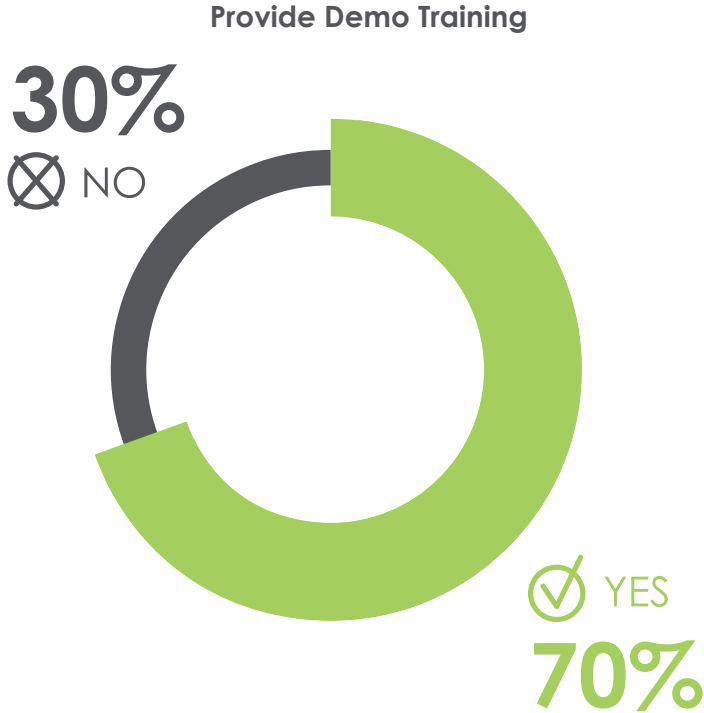


## Showcasing the Technology is Key to Growth

HRO organizations who demo during the sales process grew 13% more in 2016.

# The Value of Demo Training

Many HR service providers implement demo training programs to ensure demonstrations are done correctly. In fact, 70% of HR service providers who demo during the sales process have a formal demo training process. Demo training is absolutely worth the investment. HR service providers with demo training programs grew 35% more in 2016 than those who do not have formal demo training.



## Demo Training Boosts Growth

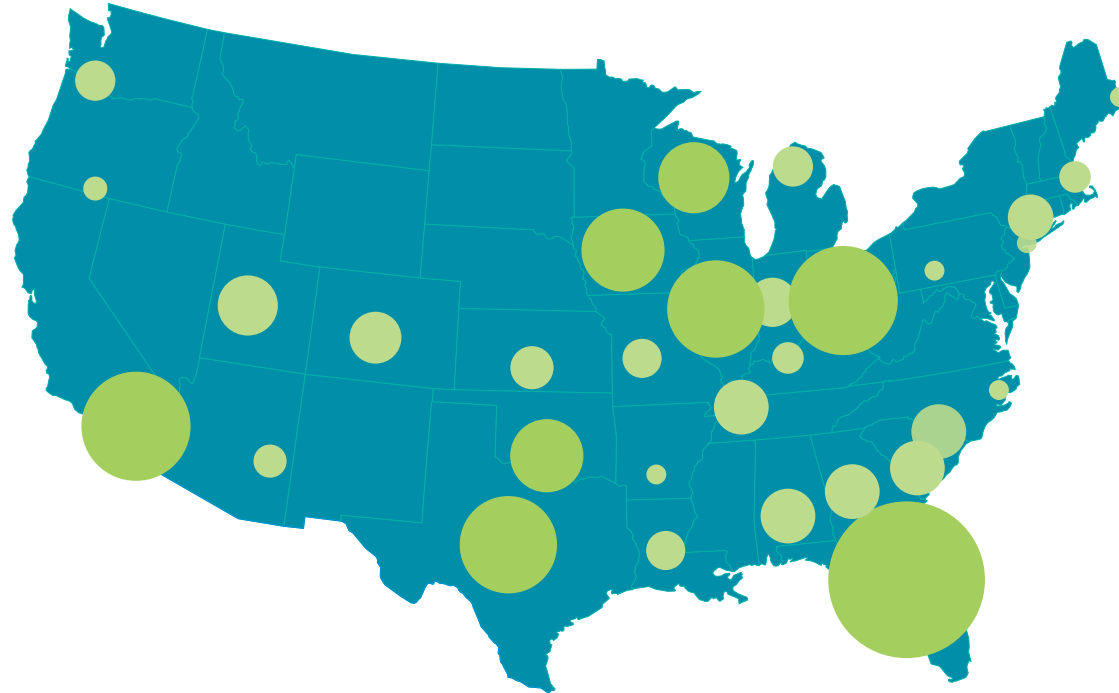
HR service providers with demo training programs grew 35% more in 2016 than those who do not have formal demo training.



# SURVEY RESPONDENTS

## HR Service Provider Location

While many HR service providers may serve clients across the country, many grow their business locally first. The heat map below shows there are clearly hotspots and more competitive areas for the HR outsourcing industry. As the HR outsourcing market continues to grow and expand, this may serve as a great tool to find areas to target and expand your customer base.



# ABOUT

## About this Report

The 2017 Human Resource Outsourcing (HRO) Trends Report is the result of over 360 responses from more than 160 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. And, over one third of responses were from HR professionals who are Director level or higher.

## About PrismHR

PrismHR creates exceptional software and services, empowering human resource outsourcing 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 80,000 organizations, delivering payroll, benefits and HR to greater than 2 million worksite employees and processing greater than \$55 billion in payroll each year. For more information, **visit [www.prismhr.com](http://www.prismhr.com)**.