

PEOs grow by giving small firms bigger benefits: Human resources outsourcing let employers get volume rates. (Professional Services).

(National Association of Professional Employer Organizations)(Statistical Data Included)(Brief Article)

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Can you turn over responsibility for most of your employees to a third party and still control your business?

That was the question asked 20 years ago when some entrepreneurs took the concept of on-site consulting--where businesses rented experts to manage projects--and turned it into full-scale human resources management.

Now the experiment has become an industry that is growing at up to 30 percent annually, and has more than 2,000 companies nationwide. Those companies were responsible for about \$18 billion in employee wages and benefits last year, according to the National Association of Professional Employer Organizations, the industry trade association.

"We started in 1994 and had \$5 million in [wage] billings," said David E. Day, president of Indianapolis-based Management 2000 LLC. "Last year, we had \$80 million and this year we expect \$100 million. We never believed we'd see these numbers."

The basic function of PEOs is simple: They will staff a facility, or more commonly manage an existing staff, in its general functions--administration and human resources, and in some instances accounting--and become what are called co-employers. They often have the right to hire, fire, monitor, train, promote and move around the workers in these jobs. The PEOs handle payroll, benefits, compliance and taxes for their clients. They also assume legal liability for the employees.

The business owners surrender control of these functions, but retain ownership of their companies. And they have, ideally, that much more time to devote to the revenue-generating positions in the company.

Top players in the local PEO industry say the phenomenal growth rates are a consequence of competition, costs and the endless red tape of governmental policies, regulations and laws.

"One of the top reasons for this success is the ability we give small businesses to compete," said Brent Tilson, president of Adminiserve Inc. in Greenwood, one of the nation's leading PEO organizations and fastest-growing companies.

For those businesses--Adminiserve's clients range in employee size from one to 220--the allure of a big-league benefits package is often irresistible. Those package costs are built on volume rates. Instead of small businesses paying through the nose for a handful of employees, their PEOs enroll everyone within all their companies--a number often in the thousands--giving them more benefits at lower cost.

"With Adminiserve," Tilson said, "employees have access to a Fortune 500-type benefits package."

Day of Management 2000 agrees. "It's a competitive thing. To attract and retain quality employees, you have to give them quality benefits."

Cross Electric, a Greenfield-based electrical supplies operation, has been a client of Management 2000 for four years, Day said.

"They started with nine employees and have grown to 50," he said. "But they've been able to give them a great benefits package from the beginning."

In the last few years, the costs for those packages, in particular health care, have spiraled upward at four and five times the rate of inflation, leaving small-business owners scrambling to keep up.



"The main thing has really been the health care market," said Don Gentry, business development manager for Professional Staff Management, a Carmel-based PEO. "We've seen increases of 25 [percent] to 60 percent for small businesses. How can they keep up?"

Another catalyst in the PEO industry is the numbing stream of new regulations flowing from state and federal governments. While large companies can afford law firms, financial officers and compliance specialists, small businesses more often cannot. PEOs bring that expertise on everything from tax-law changes to employee handbook contents.

"We become their outsourced human resources department," Day said.

"People buy to relieve pain," said Harlan Schafir, president of Professional Staff Management, which has headquarters in Richmond in addition to its Carmel office. "If I feel like you're going to help me, I'll buy your services. We help people divest their non-core competencies, the backroom stuff, so they can focus on the part of the business they love."

Schafir said legal compliance is a fulltime job that small-business owners hate. "Unfortunately, this is a litigious society we live in," he said. "But we can watch that for them."

Businesses that take on PEOs will turn over all the company's wage and benefits administration. There usually is one, tax filing, done through the PEO's company.

For most legal purposes, the workers become employees of the PEO and, in many ways, share a much larger brotherhood with thousands of other workers managed by the PEO. It is that vast brotherhood that provides the benefits of working for a large business and is at the root of the appeal to workers.

The interesting thing about PEOs is that they do not grow large themselves, despite massive annual increases in revenue.. "I have a staff of 25 who actually do everything for 3,000 people," Day said. Adminiserve's office is staffed with 19 people who cater to another 3,000.

1995 were \$188,000. Last year, the number hit \$66 million. The growth rate from 1996 to 2000 was 9,344 percent. And the ride, say the companies, is not over.

As the marketplace is currently constituted, most companies outgrow PEO services when they hit around 200 employees, according to the local companies. But all are seeing evidence that the industry's growth will continue unabated not only due to more small businesses signing on, but from larger companies as well.

"I think companies will get from 500 to 1,000 [employees] in the future and use our services," Tilson said.

In the past, PEOs have come into organizations that had human resources departments up and running, then assumed control. Now Tilson said, he is seeing people write PEOs into their startup plans.

Meanwhile, bureaucratic red tape, the enemy of all small businesses, continues to escalate, Day said.

While he detests it, he knows it is good for his business. "The more bureaucracy there is, the more people will turn to a PEO," he said.