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## **PEO CENSUS 2000 RESULTS!**

- 917 MAJOR ECONOMIC BUYERS
- 2,559 PHYSICAL LOCATIONS WHERE PEO IS SOLD AND/OR SERVICED
- 11.9 WSEs PER CLIENT
- 122:1 STAFF TO SERVICE RATIO NATIONAL AVERAGE
- 87.74% NATIONAL AVERAGE CLIENT RETENTION
- 79.41% OF EXISTING PEOs WERE LAUNCHED IN THE LAST DECADE

PEO Census 2000 was launched on January 11<sup>th</sup>, 2000 by Carrie Aaron, President of PEO Network, Inc., a Raleigh, NC based consulting firm and 18 year veteran of the industry. This project was completed on September 28<sup>th</sup>, 2000. PEO Census 2000 is the first official head count for the PEO industry which will clarify many prior conflicting reports and create a benchmark upon which the industry can measure changes in the future.

This Census was modeled after our own US Census, which provides critical data for our nation. During the nine-month project, a database was compiled by merging 15 different sources of information that resulted in 10,350 contacts. After extensive data mining, that list was reduced in half. Then companies were contacted by e-mail, snail mail and telephone with the following questionnaire:

### **PEO CENSUS 2000 SURVEY**

COLOR KEY: **ROLODEX INFO**

**INFO CONVERTED TO RANGES {dark yellow color}**

**HIGHLY CONFIDENTIAL (only to be viewed by PEO Network for statistical compilation purposes)**

**COMPANY NAME:**

**DBA(s):**

**ADDRESS:**

**(Corporate headquarters)**

**PRIMARY CONTACT:**

**TITLE:**

**E-MAIL:**

**WEB-SITE:**

**PHONE #:**

**FAX #**

**# OF BRANCH LOCATIONS**

**THE FOLLOWING INFORMATION WILL BE CONVERTED TO RANGE BANDED INFORMATION. FOR EXAMPLE, NUMBER OF WSE WILL BE CONVERTED TO 0-1000, 1001-2000, 2001-5000, 5001-10,000, 10,001-30000, 30,001-50,000, 50,001-100,000, MORE THAN 100,000**

**NUMBER OF 1999 AVERAGE WORKSITE EMPLOYEE'S:**

**1999 NUMBER OF AVERAGE CLIENTS:**

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**HIGHLY CONFIDENTIAL INFORMATION** (only to be viewed by PEO Network for statistical compilation purposes)

**NUMBER OF 1999 W-2's ISSUED**

**YEAR ESTABLISHED:**

**CORPORATE STRUCTURE:**

**1999 GROSS REVENUE:**

**(TOTAL INVOICES)**

**1999 GROSS PAYROLL:**

**(JUST WAGES)**

**%PROJECTED GROWTH FOR 2000:**

**# 1999 CLIENTS TERMINATED:**

**1999 AVERAGE INTERNAL STAFF:**

**(Excluding sales staff)**

**WHAT DO YOU CALL YOUR COMPANY:**

**(PEO, Employee Leasing, Administrative Employer, ASO....)**

Thirty percent of the companies responded to the "long form" survey via our website survey or telephone interview. The remainder of the database was then sent a broadcast fax "short form":

**PEO CENSUS 2000 - SHORT FORM**

PEO Network is conducting the PEO industry's first PEO Census. We are making every attempt to get accurate information on the size and scope of the industry. Our research shows that you may be a PEO/Employee Leasing/Administrative Employer company. Please take a moment to edit the information below. Complete details about this project can be found on our website at [www.peonetwork.com](http://www.peonetwork.com). Please Fax the form back to us immediately because the industry needs accurate statistics.

We just need to know:

Company Name:

DBAs:

Primary Contact:

Address:

City: State: Zip:

E-mail:

Website:

# of Branch Locations:

Number of WSE at the end of 1999:

Number of clients at the end of 1999:

Number of W-2s produced for 1999:

What do you call your company:

Remember, there is no happy without sad, no good without bad, no green without blue, and no Census without you!

Approximately sixty percent of the companies responded to the short form survey. The remaining ten percent of the data was collected by contacting a former or current employee, vendor or researching the Internet. We are confident that the following information is accurate and we hope that you find it useful to your continued success.

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## HOW MANY PEOs EXIST?

As a leading consulting firm, people ask this question on a weekly basis and we can finally answer **917!** There have been many conflicting and unconfirmed reports over the last decade and understandably so. First of all, how do you define a PEO, with all of the conflicting models? Secondly, how do you keep up with the M&A activity and finally, who has the time or money to launch such an undertaking?

As the founders of this project, we decided that the industry had been inflating its numbers for years and it was time for a reality check. We chose the path of least common denominator. Therefore, companies that were not included in our survey were driver leasing, labor leasing and temp companies with a few payrolling clients. This may cause our results to differ from other sources.

Also, large conglomerate companies made up of many non-assimilated acquisitions were counted as one PEO with the exception of one major investment group that has two distinct camps. As well, franchise and private labeling companies were counted as one PEO. For example, if a PEO franchise has 10 franchisee's, then is it 11 PEOs or one PEO with 10 full service branch offices? Our stance was the latter. Especially since they all share the same Worker's Compensation policy, Health Insurance Policy, 401(k)-program and payroll software.

In determining who to include in the Census, regardless of the label they used, we utilized two major barometers; Co-Employment and inventory, or lack of. The key distinctions are who's FEIN are the payroll taxes paid under and do you provide the workforce or do you just handle the existing workforce. This helped eliminate the labor leasing and ASO models.

We counted 2,549 physical locations where PEO activity takes place, these were all of the branch office locations, private label deals, franchise operations and contract sales organizations. Unfortunately, the map on the following pages only includes the locations of the 917 major economic buyers corporate headquarters location.

One PEO attorney argued that the 917 was too low because there were 1,100 companies that responded to the MEWA questionnaire. It only further substantiates the accuracy of our number because of the non-assimilated acquisitions that still had a separate health insurance policy, which we lumped under the parent company in our survey.

The state of Florida has issued 334 PEO licenses but when you drill down and consolidate the common ownership, account for out of state PEOs and eliminate the defunct or dormant companies there are only 115 Florida based PEOs.

The SI Report claims 4,500 PEOs in their recent study, but they didn't take in to account the nuances of their source, which was state UI tax reports. How many PEOs have multiple companies for various reasons? I know many PEOs who have upwards of 10 different FEINs each. NAPEO mentions 2000 on their website but does not state a source.

*The PEO industry is lumped in to SIC #7363 with the staffing sector up until 1997, when the NAICS code #561330 was specifically assigned to employee leasing/PEOs. The 1997 edition of the NAIC system manual states on page 595: "561330 – Employee Leasing Services: This industry comprises establishments primarily engaged in providing human resources and HR management services to staff client businesses. Establishments in this industry operate in a co-employment relationship with client businesses or organizations and are specialized in performing a wide range of human resource and personnel management duties, such as payroll accounting, payroll tax return preparation, benefits administration, recruiting, and managing labor relations. Employee leasing establishments typically acquire and lease back some or all of the employees of their clients and serve as the employer of the leased employees for payroll, benefits, and related purposes. Employee leasing establishments exercise varying degrees of decision making relating to their human resource or personnel management role, but do not have management accountability for the work of their clients' operations with regard to strategic planning, output, or profitability. Professional employer organizations (PEO) and establishments providing labor or staff leasing services are included in this industry."*

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So which number is most important, 917 corporate headquarters, 2459 physical locations where PEO activity takes place, 2,00 PEOs reported by NAPEO, or 4959 establishments as reported by the US Department of Commerce?

It depends on the reader's individual situation. All of these statistics have value for different situations. For example, if you are a PEO owner and you wanted to open a branch office location, then the 2,549 number would be of use. If you are contemplating a PEO launch, then the 917 number should be a benchmark for market penetration. If you are a vendor selling a major item such as software, workers' compensation, UI compliance or 401(k), then both numbers are relevant. If you are a CPA firm, you would be interested the 4,959 state tax returns!

We hope that the demographics provided will be helpful for your situation:

MAP GRAPIC:

**State -**

AK-3

AL-16

AR-9

AZ-26

CA-93

CO-18

CT-9

DC-2

FL-117

GA-38

HI-10

IA-3

ID-4

IL-33

IN-13

KY-8

KS-7

LA-18

MA-18

MD-9

ME-5

MI-51

MN-10

MO-11

MS-7

MT-4

NC-17

ND-2

NE-11

NJ-19

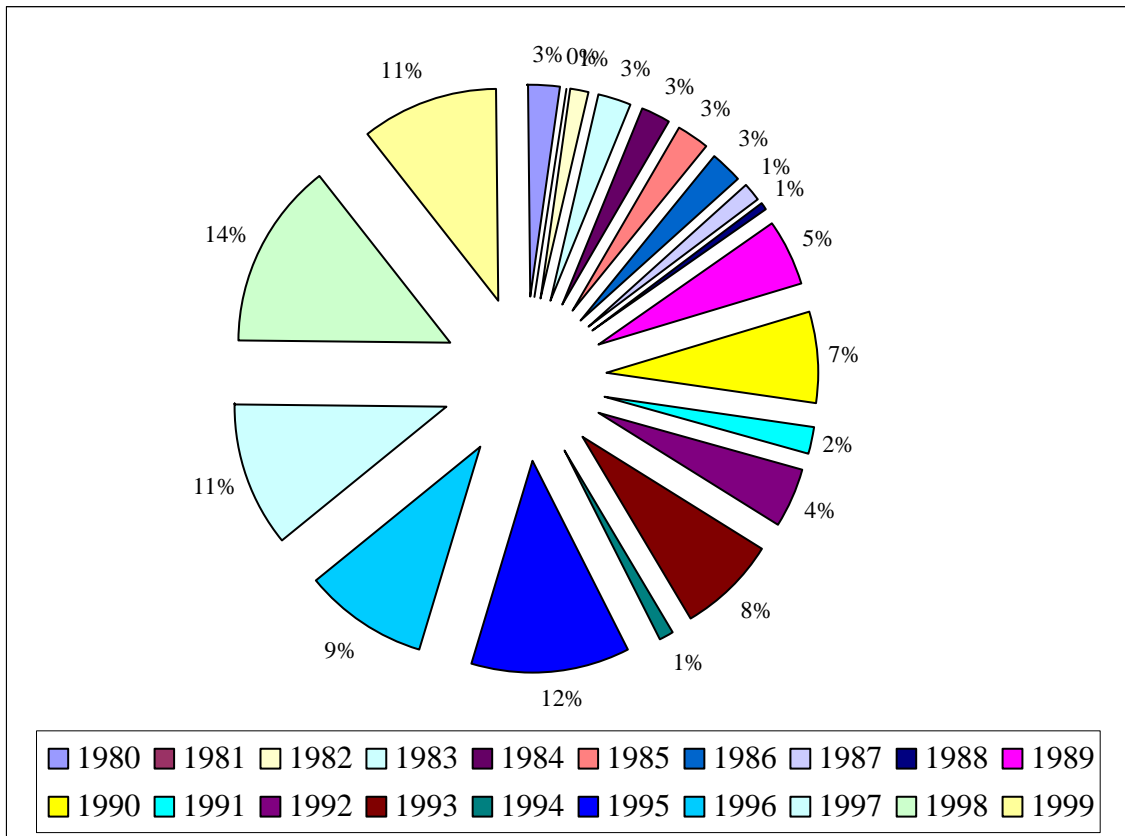
NH-3

NM-5

NV-8

NY-35

OH-30  
 OK-19  
 OR-14  
 PA-32  
 RI-2  
 SC-15  
 SD-1  
 TN-19  
 TX-77  
 UT-22  
 VA-14  
 WA-9  
 WI-16  
 --912  
 CANADA -3  
 AFRICA-2  
 =917  
 TIMELINE:



{THIS IS THE % OF PEO'S LAUNCHED IN THIS YEAR, LAUNCHES PRIOR TO 1980 WERE LUMPED INTO 1980 SINCE THERE WEREN'T MANY}

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### **The Typical PEO & Client**

A famous person once said, "All generalizations, including this one, are false." In the middle to late 1990s, the average PEO was launched by an entrepreneur who was experienced in at least one aspect of the PEO industry, usually the insurance sector. This typical PEO was set up as a sub-S corporation and grew to an average of 1,200 WSEs in the first year of business. In its fifth year of business, it would accumulate between 2,000 & 5,000 WSEs.

Nowadays, a typical PEO is being launched as an LLC by business groups with 500 to 1,000 WSEs on their first day of business. Though fewer PEOs are being launched in 2000, they are of a much higher caliber and are growing tremendously through strategic alliances with partners such as CPA firms, banks, associations, insurance companies, and/or insurance agencies.

The typical PEO client has 11.9 WSEs with an average wage of \$21,873.78. The turnover is high for these business owners, over 100 percent in most cases. This causes the average wage per W-2 to plummet to \$12,491.66 annually. The good news is that once a business owner decides to enter into a PEO arrangement, which takes approximately six months, they seldom leave. For smaller PEOs with less than 5,000 WSEs, the retention rate is in the 90<sup>th</sup> percentile. Larger PEOs have higher turnover due to less underwriting control and weaker service delivery controls – they approach a retention rate in the 70<sup>th</sup> percentile. On a national basis, the average retention rate of a client is 87.74 percent.

### **THE FUTURE OF THE INDUSTRY:**

Winston Churchill was quoted as saying, "The further you look back, the further you can see ahead" this simply means that history repeats itself and if you can track trends from the past, then you can more easily predict the future. To get a global perspective on this statement, read *The Fourth Turning* by Strauss & Howe. If you only read one book this year, pick up *The Roaring 2000's* by Harry Dent who is an economist that distilled the Fourth Turning information in to an economic prediction for the next decade.

Today, the PEO industry is facing some unique challenges that are causing it to reinvent itself, yet again. Some people claim that the employee leasing industry got its start in the late 1700s when George Washington leased German soldiers to help his cause. Other say Pinkerton Security Guards were the first form of employee leasing. Most people would agree that the industry starting in the last 1960s as a pension benefit to professionals such as physicians and attorneys; they would lease their staff, become the sole employee of their company, and put a good amount of money away for retirement. The first large employee leasing company may have been PayStaff or Contract Staffing out of California, but some experts disagree.

The first re-invention of the industry that was known as employee leasing was with Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), which introduced section 414(n) of the internal revenue code. It created a safe harbor provision for the leased employees of these highly compensated individuals. This was later revised in 1986 with the Tax Reform Act (TRA).

In 1986, some of these "safe harbor" companies went out of business, and rumors started circulating that the employee leasing industry would disappear. The industry then reinvented itself for the second time as a viable option for a small business owner to secure good group health insurance. But the industry grew slowly; hampered by several large cases of fraud and bankruptcies, including those who self-insured their health insurance and mishandled funds.

In 1989 and 1990, the industry grew organically and flourished. From 1991 to 1994, when the P&C market hardened and the MEWA issue reared its head, many became concerned about the employee leasing industry. In fact, the National Staff Leasing Association (NSLA) changed its name in 1994 to the National Association of Professional Employer Organizations (NAPEO), introducing the new acronym of PEO. One of the main reasons was the misleading label of employee leasing, but underlying all of this was the black eye created by the bankrupt leasing companies; some people are still paying the penalties from those "gold rush days." Unfortunately, the PEO terminology to date has not been a huge marketing success, many companies still utilize the term employee leasing,

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and most of the government regulations of the industry continue to refer to the industry as employee leasing or staff leasing (though this is slowly changing).

The years 1995-1999 mark the **golden era** of the PEO industry. The P&C market softened to the point of making millionaires out of several PEO owners who gambled on the workers' compensation arbitrage. Other millionaires were made on Wall Street during 1997 and 1998. The industry reinvented itself for the fourth time as the second-tier sales force that takes a risk on its book of business for workers compensation. The fifth reinvention was the hot opportunities on Wall Street, when IPOs abounded in the late 1990s. Now history repeats itself: It's the year 2000, and the P&C market has hardened again. The MEWA issue for health insurance has resurfaced, and many of the publicly traded PEOs are performing poorly. To boot, some vendors are leaving the PEO space, technology is outpacing the PEO industry, and new models that do not utilize a co-employment arrangement are gaining prominence.

Again, the doomsayers are predicting the demise of the PEO industry. But these man-sayers are forgetting some very important facts:

- Nothing has changed for the PEO prospect! There are still 7,306,302 business owners that the government deemed a non-compensated, highly penalized tax collector, provider of workers' comp and health insurance plus the redeemer of all social ills.
- A pure-play PEO will probably never make it long-term on Wall Street. This is because you have to make many bad short-term decisions in PEO to survive the long term.
- The new emerging models are for prospects with 100 plus EEs; most have a threshold of 500 EEs. The PEO serves a business owner with 11.9 EEs

The sixth and possibly final evolution of the PEO concept will take it full circle. PEOs are reinventing themselves today as true, off-site HR departments. Due to current conditions, PEOs are being forced to charge higher administrative fees and deliver an HR value proposition. Three years ago, the buzz was about "filling the funnel" which today's technology will facilitate with better penetration. PEOs are finally going to deliver what has been portrayed in their marketing brochures for years!

Consequently, the future of the PEO industry is bright. PEOs that position themselves for the fourth turning will profitably survive the predicted stock market crash of 2008.

**CARRIE AARON UPDATE 4Q2002:** Though many of the predictions of this two year old article have come true, an impending war with Iraq could speed things up by 6 years. (check out [www.fourthturning.com](http://www.fourthturning.com)) Unofficially, my observations are that the number of PEOs has shrunk to the 400 range, the number of WSEs is about the same. This is a shining tribute to the concept of PEO and a reflection of the value proposition offered to the small business owner.

Folks, there is no middle ground for 2003, either our economy will hit a low, lower than the stock crash of 1929 which won't rebound for 20 years. Or else we will rebound dramatically and flourish for 6-8 years before the regularly scheduled demise of our economy. My predictions are based on a 1997 book, "The Fourth Turning".

**CARRIE AARON UPDATE 2Q2003:** The PEO Census 2003 Project is underway! PEO Network respectfully requests your assistance in completing your [PEO CENSUS 2003 SURVEY](#). Submissions received on or before May 30th, 2003 will receive a COMPLIMENTARY copy of the PEO CENSUS 2003 RESULTS article. Late or incomplete submissions will be charged a fee for the results article.

PEO Network would like to thank the following sponsors who are supporting the PEO CENSUS 2003 project: [AON Worksite Solutions](#), [BenefitVision](#), [FW Davison - ScorPEO](#), [Slavic 401\(k\)](#) and PEO Network.