



Going Beyond Payroll: Saving HR Administration Costs



THE AVERAGE ANNUAL COST SAVINGS FROM WORKING WITH A PEO IS \$1,775 PER EMPLOYEE.²

While many people think of payroll and benefits as HR expenses, there are plenty of costs outside of those that contribute to HR costs. Understanding all HR administration costs and figuring out how to rein them in can help boost your bottom line without sacrificing productivity.

Specific costs of HR administration can vary depending on many factors such as industry and company size. Your business needs to understand and plan for those expenses so you can manage them. Managing HR functions can be complex and time-consuming. From payroll and benefits administration to HR compliance, the administrative burden can quickly overwhelm limited resources.

Fortunately, professional employer organizations (PEOs) may offer a cost-effective solution for small businesses seeking to streamline their HR operations while reducing expenses. Based on NAPEO report, the average annual cost savings from working with a PEO is \$1,775 per employee.¹ This is probably why many businesses look to PEOs to help with HR admin costs.

Whether taking a do-it-yourself (DIY) approach or working with a PEO, there are differences in how you get your HR administration done and ways to keep costs under control while reducing the impact on your company's productivity and results.

1. https://www.napeo.org/docs/default-source/member-resources/white-paper-7-the-roi-of-using-a-peo.pdf?sfvrsn=d2c52ed4_10. Accessed June 15, 2023.

Your actual savings may vary.

2. Ibid

ADMINISTRATIVE COSTS:

Various administrative costs are inherent in HR administration. These expenses encompass HR personnel salaries, office supplies, HR department infrastructure and general business administrative overhead, and these can represent around 10% to 15% of the total budget for your business.³

DIY: Once you've done your research, your company can implement several strategies and best practices to help reduce HR administration costs by streamlining HR processes. Building or outsourcing technology to automate some tasks, centralize HR data and even provide employees with self-service access for some of their HR needs can help save time and effort for your HR department. Be sure to identify and simplify HR processes by eliminating unnecessary steps and automating repetitive tasks—this is also an opportunity to explore the costs and benefits of HR technology solutions that can help achieve efficiency.

You can also improve efficiency by consolidating your HR data, including employee records, benefits information, performance reviews and training documents into a centralized HR database or human resource information system (HRIS). This allows for easy access, efficient data management and accurate reporting.

Stand-alone HRIS can cost as much as \$60 per employee per month.⁴ With that kind of price tag, when it comes to evaluating the cost-savings achieved you might consider establishing key performance indicators (KPIs) and metrics to measure HR administration efficiency. The key to evaluation is to track metrics such as time-to-fill vacancies, time and cost per hire, employee turnover rates and HR service delivery satisfaction. Be sure to regularly review these metrics to identify areas for improvement and make data-driven decisions.

PEO: Administrative tasks, such as record-keeping, employee onboarding and document management can consume significant time and resources. PEOs help streamline these processes by providing efficient HR software platforms that helps to automate administrative tasks. By centralizing employee data, managing documentation and automating workflows, small businesses can significantly reduce the time and effort required for HR administration, enabling employees to focus on more strategic initiatives. They also have time-tested and proven systems and benchmarks to help you implement and monitor best practices.

**PEOs HELP
STREAMLINE
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BY PROVIDING
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ADMINISTRATIVE
TASKS.**



3. <https://www.carboncollective.co/sustainable-investing/sales-to-administrative-expense#:~:text=While%20the%20results%20may%20differ,be%20related%20to%20process%20issues>. Accessed July 18, 2023.

4. <https://www.outsail.co/post/hris-comparisons-with-pricing>. Accessed July 18, 2023.

Calculate Labor Cost Percentage

Calculating labor costs is not complicated—although controlling them can be. To find your labor cost percentage, simply divide your labor cost by gross sales and multiply by 100.

Labor Cost Percentage = (Total Labor Cost / Total Gross Sales) x 100

Be sure to include the cost of all bonuses, commissions, benefits and all taxes you pay.

For example, if your labor costs total \$500,000 and gross sales equal \$1,000,000, the labor cost formula would look like this:

$$400,000 / 1,000,000 \times 100 = 40\%.$$

This could indicate that you may want to find ways to lop off 10% to 20% of your labor costs depending on your industry and individual business goals.

What is a PEO?

As today's business evolves, so does the role of outsourced HR and PEO. So, what is a PEO? Over the years, SMBs worked with PEOs to access HR outsourcing services, including payroll processing, access to benefits, HR expertise and payroll tax administration. Today, PEOs play a strategic role in the growth of SMBs.

PEOs operate under a co-employment model in which the PEO assumes certain responsibilities such as collects and remits payroll taxes and tax filings. The client controls its workforce management and decisions, like hiring, firing, performance, compensation and culture.

PAYROLL COSTS:

Payroll expenses represent a significant portion of HR administration costs for businesses. These costs can include employee salaries, wages and related taxes. The consensus is that payroll should be at most 20% to 30% of the company's gross revenue. However, specific industries (such as service businesses), payroll costs can be as high as 50% without harming profitability.⁵ While payroll expenses may be a required cost, one consideration to help balance may be to offer competitive benefits which can still attract and retain talent. Some of those may be more cost effective (flex hours or work-from-home), while others (health) can be expensive—and all may carry some administrative costs, which will be discussed in the next section.

DIY: While cutting payroll may not be a viable option as it can impact your revenues and ability to scale your business, cutting the expenses around payroll administration may be a way to save money while staying productive. Investing in payroll software can help reduce errors, improve accuracy, and save time, but it does come at a cost. Alternatively, you can provide training and support to your internal staff responsible for payroll administration. Ensure they are well-versed in payroll regulations and requirements and company policies. Knowledgeable staff can help minimize errors and streamline processes to help reduce the costs of payroll processing.

PEO: PEOs can help simplify this process because it assumes certain responsibility for payroll administration, including calculating and withholding taxes and tax filings. By leveraging economies of scale, PEOs may get more favorable rates with third-party providers or do it themselves and provide the support to help ensure compliance with payroll tax regulations and requirements governing pay and payroll taxes. This helps with the need for small businesses to invest in costly payroll software, dedicated personnel and training. According to the National Association of Professional Employer Organizations (NAPEO), companies that work with a PEO realize 54% savings on internal HR salaries and benefits.⁶

5. <https://www.zenefits.com/workest/essentials-for-your-small-business-payroll-budget/>. Accessed June 17, 2023

6. https://www.napeo.org/docs/default-source/member-resources/white-paper-7-the-roi-of-using-a-peo.pdf?sfvrsn=d2c52ed4_10. Accessed June 1, 2023. Your results may vary.

BENEFITS COSTS:

Providing top-tier benefits is critical in attracting and retaining top-tier talent. In fact, 40% of employers surveyed by Forbes Advisor said workers would leave their job for one with better benefits.⁷ Benefits may include subsidized healthcare plans and life insurance for employees and families, retirement contributions, paid time off, and other perks such as flexible work and wellness options. The cost of benefits can be significant, especially for a smaller business. On top of the contributions made to benefits such as health insurance and 401(k) programs, the cost of administering them can take a chunk out of your business's bottom line. For many businesses, the costs of managing benefit programs can be a daunting task, especially when it comes to negotiating rates, managing benefits enrollment and staying up to date with regulatory changes.

DIY: Saving costs for benefits and benefits administration begins with evaluating your benefits and determining which ones are most valuable to your employees. Focus on benefits that positively impact employee satisfaction and retention while considering their cost implications. Obtain quotes from multiple providers when sourcing benefit plans such as health insurance, retirement plans or employee assistance programs. Compare the costs and benefits each provider offers to negotiate better rates and terms that align with your budget. This can become a full-time job; especially as smaller businesses search for benefits such as healthcare to compete with larger companies when recruiting and retaining employees without the economies of scale to reduce costs.

Once you decide on a benefits package, communicate with your employees what you offer to ensure they understand the benefits and how to utilize them. Continue to monitor usage, feedback and costs to evaluate the effectiveness of your benefit offerings. Adjust and refine your benefits package over time to align with your employees' changing needs and preferences. This can help maximize the usage of benefits and prevent unnecessary costs due to underutilization or mismanagement.

PEO: PEOs collaborate with insurance providers to offer access to comprehensive big company benefit packages through a co-employment scenario. NAPEO reported that a PEO can save a company 37% per employee on benefits.⁸ Moreover, they handle benefits administration, such as open enrollment, claims processing and compliance, freeing up valuable time for business owners to focus on core operations.



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7. https://www.forbes.com/advisor/business/best-employee-benefits/#most_important_benefits_for_workers_section. Accessed July 18, 2023.

8. https://www.napeo.org/docs/default-source/member-resources/white-paper-7-the-roi-of-using-a-peo.pdf?sfvrsn=d2c52ed4_10. Accessed June 1, 2023. Based on survey data submitted by 35 companies. Benefits costs are based on multiple factors and your results may vary.

9. Ibid

COMPLIANCE COSTS:

Ensuring compliance with applicable labor laws and regulations is essential for every business. It takes significant resources in both time and money to stay up-to-date and compliant with various employment-related requirements. This gets exponentially more complex and time-consuming as you employ staff in different jurisdictions. And the costs for fines and penalties for non-compliance can be a lot. Staying compliant comes with a price as well. It includes expenses both routine and extensive, such as labor law posters, HR consultations, training programs and software solutions for HR compliance management—not to mention the time it takes from HR staff that could be used doing other tasks and taking care of your people.

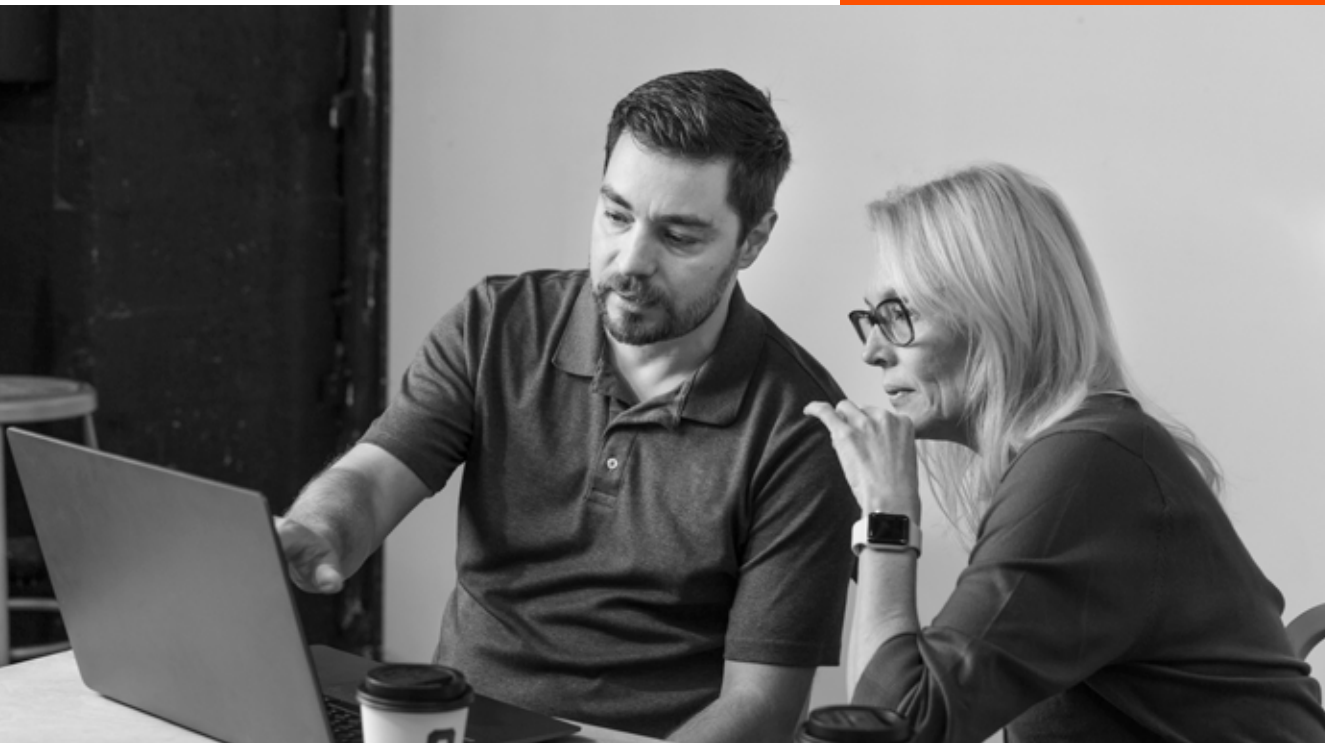
DIY: Because your business needs to stay updated with labor laws, regulations and industry best practices, you must employ resources and expertise to do this. Compliance with employment laws, data privacy regulations and reporting requirements is your responsibility when DIY and many SMBs lack the resources to keep up, putting them at significant risk from a wide range of potential pitfalls from local and federal regulations. Regularly review and update HR policies and practices to align with employment-law requirements and ensure your managers and employees understand them. Also, set up systems and procedures to provide accurate and up-to-date record-keeping of employee HR data, including employment law-related contracts, performance reviews, attendance and relevant training certifications. This documentation will help you comply with employment law-related requirements and address potential disputes.



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PEO: PEOs may help in compliance with employment-related regulations and requirements, staying up to date on these changes and providing support to help ensure compliance. They may provide guidance on wage and hour laws, anti-discrimination policies and workplace safety regulations. By working with a PEO, your business can free up your team’s time for these HR-related responsibilities and can help you cut costs from fines and penalties in the process.





HR TECHNOLOGY COSTS:

Utilizing HR software and technology solutions can streamline administrative processes and improve efficiency, helps to reduce some of your HR administration overhead. Costs associated with HR technology include software licenses, implementation fees, and ongoing support and maintenance. If you're looking for one product to help with HR management, payroll processing, talent acquisition, training management and performance management, expect to pay \$35 to \$99 in monthly fees on average, plus \$5 to \$8 per employee per month.¹⁰

DIY: Developing HR technology typically involves several steps. Unless yours is a tech company or has in-house development, there could be short- and long-term challenges to building your own HR technology. However, it is not impossible and if you can take it internally, you can get a customized solution for less than going to a third-party technology-only vendor.

As with any aspect of your business, developing a tech solution for your HR requires understanding the specific

HR processes or challenges you want to address and determining the essential functionalities you need the technology to perform. If developing software in-house isn't a feasible option, a cost-effective alternative can be to get an off-the-shelf solution from a technology provider. However, that may come with limitations since it isn't built exactly to your business needs, while a customized solution can add to the expense of developing a technology solution. And with either option, ongoing licensing and maintenance costs can cut into the savings benefits of utilizing HR technology.

PEO: Undoubtedly, HR technology can be a big boost to saving your company money. Developing it can be costly. Working with a single-solution technology provider can help get you a singular, specific solution, but it could leave gaps in your HR technology stack and can eat into the savings you seek in working with them. A PEO can provide access to HR technology as part of an offering beyond just licensing software that includes HR expertise, best practices and more.

10. https://www.forbes.com/advisor/business/hr-software-pricing/#hris_pricing_section. Accessed July 17, 2023

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GROW AND SAVE WITH TRINET

From payroll to benefits to compliance and more, HR comes at a necessary cost to businesses. However, there are ways to control these costs in-house if you have the time, experience and resources to do it. If not, working with a PEO such as TriNet can be a cost-effective way and can also help you free up your team’s time so you can focus on your core business and people.

Here are just a few examples that, as mentioned before, may help you save up to \$1,775 per employee:

- Businesses that utilized a PEO experienced a 40% higher growth in revenue compared to companies that did not.¹²
- On average, a PEO can deliver a return on investment of more than 27%.¹³
- Companies that leverage a PEO experience a 19.6% reduction in turnover compared to those that do not.¹⁴

Wondering how much your business may save by investing in a PEO? Find out with our [PEO Cost Savings Calculator](#).

11. *ibid*

12. https://www.napeo.org/docs/default-source/member-resources/white-paper-7-the-roi-of-using-a-peo.pdf?sfvrsn=d2c52ed4_10. Accessed September 25, 2023. Individual business results may vary.

13. *ibid*

14. *ibid*



About TriNet

TriNet (NYSE: TNET) provides small and medium size businesses (SMBs) with full-service HR solutions tailored by industry. To free SMBs from HR complexities, TriNet offers access to human capital expertise, benefits, risk mitigation and compliance, payroll and real-time technology. From Main Street to Wall Street, TriNet empowers SMBs to focus on what matters most—growing their business.

Go to **TriNet.com** to get started or speak with a TriNet representative at **888.874.6388**.



Learn all about our tailored solutions at TriNet.com or call 888.874.6388.