

SMB Challenges and Perceptions

When it comes to managing HR, what do small and midsize businesses care about? How are they handling it today? What challenges do they think they have? How is outsourcing HR to a PEO or ASO perceived?

These were all questions we sought to answer in a set of research projects. Now we're making that data available to you.

PrismHR commissioned two separate studies – one qualitative and one quantitative – performed by an independent research firm. Both studies targeted a senior decision-maker/influencer in decisions about HR staffing, HR outsourcing, and benefits administration. This would include owners, heads of HR/finance/ops.

In this report, we'll touch on how small and midsize businesses (SMBs) perceive HR challenges as well as the types of tools they use today (and intend to use tomorrow).

Tailoring your sales process and messaging to match how prospects think is critical to increasing your win rates. It's less about services, features, and functions – it's about understanding what they see as challenges and then conveying how you can solve them.

You'll come out with actionable takeaways to take back to your sales and marketing teams so you can build better messages, content, and campaigns.

Note: Surveys and interviews were conducted prior to the March COVID-19 pandemic. As such, findings will reflect that of a "normal" business environment.

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Key Learnings

When it comes to HR, most SMBs believe that the way they handle HR is good enough and that the problems that exist aren't worth spending the time or dollars to address. They recognize that they could be more efficient if they used more technology, outsourced some activities, etc. However, few seriously consider outsourcing or adopting new HR technology. Many also feel that they are too busy to research options — improving HR is always on the back burner.

The key challenge for HROs is to create a sense of urgency for SMBs. Educate them on the opportunities missed by operating under the status quo.

Most SMBs cannot fully imagine how life/business would be better with a trusted partner — they don't know what they don't know. HROs must take prospects on a crafted journey that highlights the gaps in what they're doing today. To do this effectively, you must take the time to understand how your prospect handles each aspect of HR. Show them how things they never thought they could change (or were within their control to change) are possible. Show them that they have the power to make their lives easier and their team more efficient.

When it comes to messaging in your marketing materials and sales process, be aware of both rational and emotional motivations. Across the interviews, the following themes and motivations emerged:

Key findings

1. **Managing mundane tasks is the most apparent HR challenge for SMBs**
2. **Inertia (the perceived effort to value gained) maintains the status quo, even though SMBs recognize their inefficiencies**
3. **SMBs want to offer quality healthcare but feel powerless to control costs. Attract SMB attention by making them feel more empowered**
4. **Helping SMBs understand how much time they actually spend on HR activities may motivate them to consider outsourcing some HR activities**
5. **The value of incremental improvements (vs. wholesale change) is more likely to resonate with SMBs**
6. **Convey the value your services provide (beyond technology)**

We'll dive into each of these topics in the following sections.

Rational Themes & Motivations	Efficiency The time HR activities require is the most salient pain-point for most SMBs	Benefit Costs SMBs have been forced to trim the packages they offer and pass costs onto employees	Expertise SMBs know there are many things that they do not know, especially in the area of compliance
Emotional Themes & Motivations	Pride SMBs pride themselves in being able to offer benefits to employees—it's the right thing to do	Not a Crisis SMBs recognize they have room for improvement but do not view their HR in crisis or as putting their business at risk	Powerless SMBs feel they have few levers to pull to manage benefits costs

And, the following key challenges emerged:

Recruiting Qualified Staff

- In a full employment economy, many SMBs struggle to attract qualified candidates for skilled positions.
- SMBs have fewer problems filling non-skilled positions.

Offering Competitive Benefits Package

- SMBs recognize that they compete with other businesses for qualified employees.
- Some look to the benefits as a way to offset the lower salaries they can afford to offer.

Providing Quality, Affordable Healthcare

- SMBs want to provide quality healthcare to employees.
- Doing so is an ongoing challenge. Each year SMBs see increasing costs, fewer options, and less coverage.

Staying in Compliance

- Staying in compliance with state, local, and federal regulations is an ongoing challenge for SMBs.
- SMBs feel they do a good job of following regulations they are aware of but admit that they don't know what they don't know.

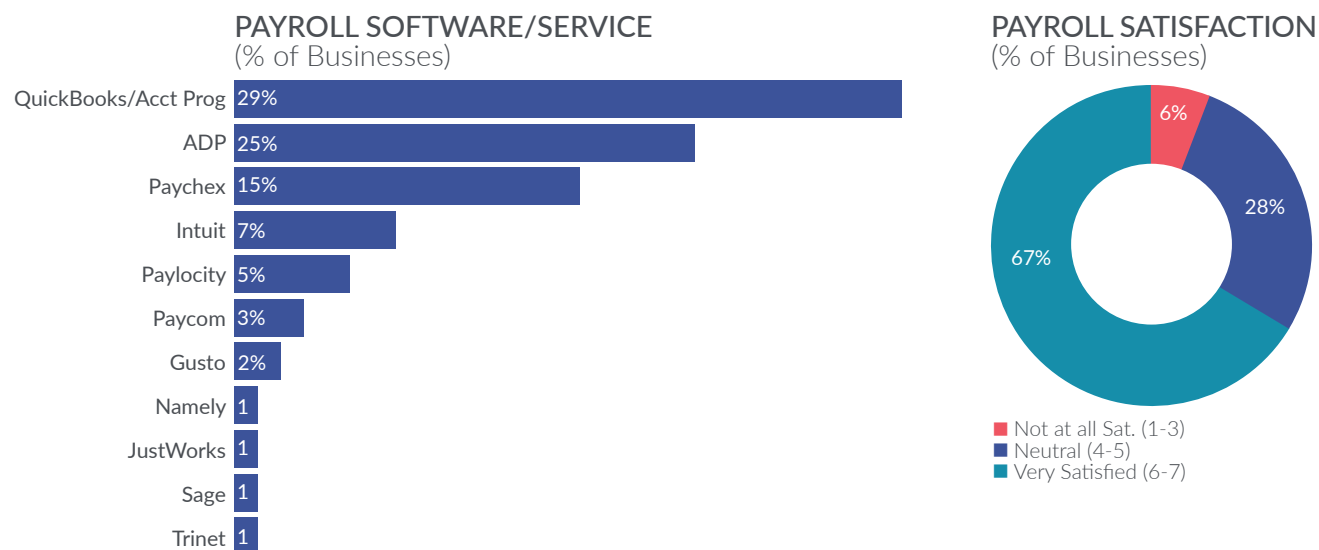
How SMBs Handle HR Today

Software & Services Vendors Used				
HR Guidance	Government Reporting	Job Posting/ Applicant Tracking	Background Checks	Performance Management
Lawyer (45%) HR Consultant (34%) Accountants (32%)	Accountants (15%) Legal Firms (11%)	HiringThing (11%) Greenhouse (6%) ClearCompany (5%) Lever (5%) JazzHR (2%)	Payroll firm (16%) Legal firm (14%) Crimcheck (11%) Accounting firm (10%) Checkr (6%) Sterling (2%)	ClearCompany (7%) BetterWorks (6%) Lattice (3%) 7Geese (2%) AgileHR (2%) Reflective (1%)
Time Tracking	Financial Wellness	Training	Expense Management	Billing & Invoicing
Kronos (15%) Timeclock Plus (11%) Tsheets (10%) SwipeClock (5%) Timecom (5%) Nettime (1%) EPAY Systems (1%)	Sofi (8%) Daily Pay (7%) ZayZoon (5%) Finfit (3%) Even (3%)	Skillssoft (9%) Absorb (3%) Cornerstone (3%) Litmos (3%) Saba (1%)	Expensify (13%) Concur (7%) Certify (5%)	Xero (4%) Intacct (3%)

Payroll

Most SMBs use QuickBooks or one of the national payroll companies to manage their payroll. Relatively few use modern HR software such as Gusto or Namely. Regardless of how they handle it, most SMBs are relatively satisfied with the way they manage payroll. As long as people are getting paid on time and accurately, it's nowhere close to top of mind.

Although the data is qualitative due to sample size, a small but meaningful number (20%) of SMBs that use modern HR software to manage their payroll are dissatisfied. They may have found that these applications didn't live up to their expectations in terms of minimizing manual tasks or ease of use for managers and employees.

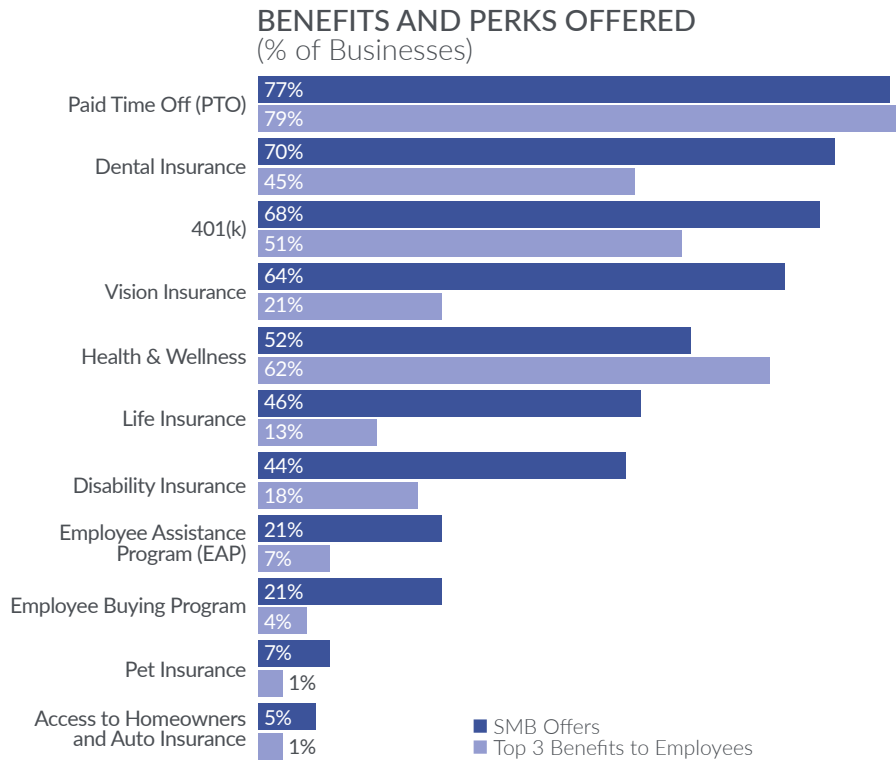


Q31. What is the primary software or service you use for payroll? Base: 151. Q17. On a scale from 1-7 where 1=Not at all satisfied, and 7=Very satisfied, how satisfied are you with the tools and services you use for payroll? Base: 138

Benefits

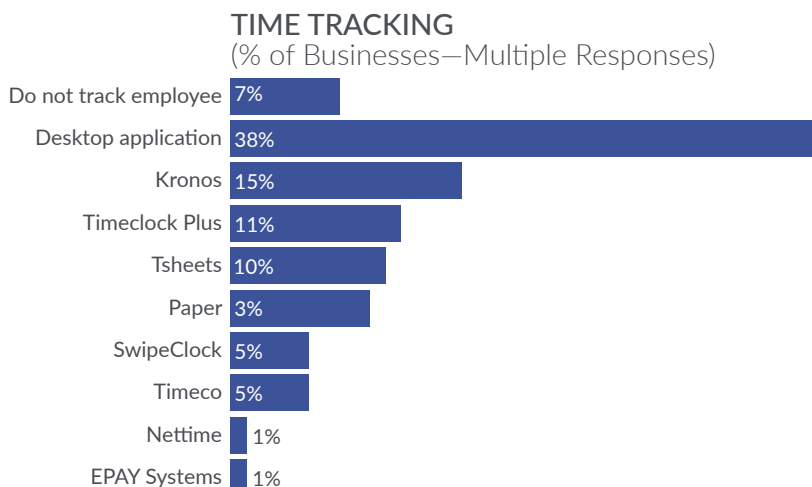
Most SMBs offer employee benefits and perks such as PTO, dental insurance, and retirement benefits. These are the benefits they believe are most valuable to employees. As you'll see in other sections, interviews show that SMBs believe these benefits help attract and retain employees. **Larger and white collar SMBs are somewhat more likely to offer a wider range of benefits.** This trend has surfaced in other research Isurus has conducted for PrismHR (and other clients), and likely relates to the challenge of attracting skilled workers.

One item that stands out is Health & Wellness programs. This is seen as a top benefit to employees, but only half of respondents listed it as something that's currently offered. Extending your solution suite to offer something along these lines would be a potential value-add to prospects.

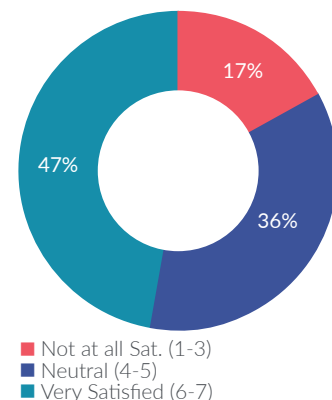


Time tracking

Satisfaction with time tracking software is mixed, and lower than many other HR activities. The research did not explore it, but ease of use for employees may influence overall satisfaction. In the qualitative SMB interviews, some SMBs indicated that they would like employees to be able to log their hours on a mobile device. Make sure integration with time tracking software and ease-of-use is part of your messaging.



TIME TRACKING SATISFACTION
(% of Businesses)

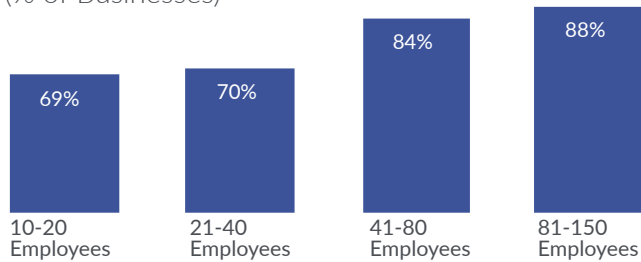


Q42. What tools do you use to track employee time and hours? Base: 151. Q26. On a scale from 1-7 where 1=Not at all satisfied, and 7=Very satisfied, how satisfied are you with the tools and processes you use for tracking time and hours? Base: 98

HR headcount

As businesses grow, so does the number of staff involved in HR activities. The largest MBs almost always have an HR person on staff. That person is often a true HR professional in terms of having a degree in HR, certifications, etc. A broad scope of activities falls under HR, such as Payroll, time & attendance, recruiting, benefits, and performance evaluation. The time required to administer these activities increases with headcount, requiring more people to be involved in managing the activities. This information can be helpful when talking with prospects to highlight that as they grow, they won't need to add headcount when they partner with you.

HAVE AT LEAST 1 DEVOTED HR STAFF (% of Businesses)



AVG. # STAFF INVOLVED IN HR ACTIVITIES (Payroll, Time & Attendance, Benefits, etc.)

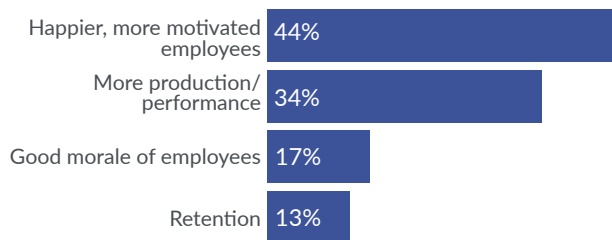
Company Size	# Staff Involved
10-20	~2
21-40	~3
41-80	~5
81-150	~6

Q7. Do you have at least one full-time person devoted to HR activities?
Q14. Approximately, how many people play a role in managing day-to-day HR activities? Base: 151

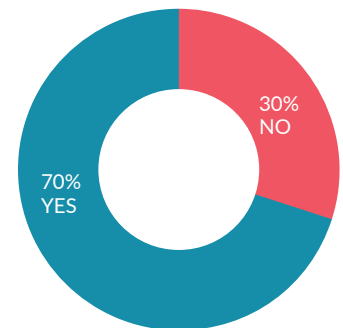
Performance management

Most SMBs stated that they offer some type of employee recognition and reward. SMBs that offer recognition and rewards believe that it leads to happier employees that work harder and stay with the company longer. SMBs that do not offer employee recognition and rewards are unlikely to start to offer them in the foreseeable future. Incorporating Performance Management into your solution suite lets you speak directly to this point.

BUSINESS BENEFIT OF PROVIDING RECOGNITION (% of Businesses)



PROVIDE RECOGNITION/REWARDS (% of Businesses)



Q39. Does your organization provide employee recognition and rewards for performance? Base: 151
Q41. How does providing employee recognition and rewards add value to your organization? Base: 46

Speaking to SMB Challenges and Perceptions

1. Managing mundane tasks is the most apparent HR challenge for SMBs

Most SMBs are relatively satisfied with how well their current tools, processes, and partners meet their HR needs. They note that most things go smoothly, employees don't complain, they haven't been sued, they haven't been fined for being out of compliance, etc. It's fair to say that most SMBs, especially those where HR is managed by the owner, don't know what they don't know. One owner admits that if he paid more attention to all the details related to HR, he would probably be running around with his hair on fire.

The area where SMBs display the most dissatisfaction with their current approach to HR is the time it takes to manage mundane tasks such as running payroll, answering employee questions about PTO or benefits, open-enrollment, etc. However, few have seriously considered a new approach. Most believe how they handle HR is good enough and that the existing problems aren't worth spending the time or dollars to address.

Inefficiencies & Mundane Tasks

Payroll

Employees regularly have questions about payroll and PTO. They need income verification for a loan, want to know how much paid time off they have left, etc.

Benefits

During open enrollment, employees have questions about plan options, paperwork, etc. They often wait until the last minute to enroll creating mini crises.

Managing HR Data

SMBs often have to manually transfer information between systems for report or management.

Background Checks

When using online job posting sites, they receive hundreds of resumes from unqualified candidates that they have to manually filter out.

Compliance

Keeping up with the paperwork required for local, state, and federal reporting constantly changes and requires effort with no return on investment.

Who's managing the tasks?

Small business (Less than 50 employees): Typically the owner or finance/operations leader. Owners tend to believe their company is small enough that it does not make financial sense to hire a devoted HR professional. They note that if they were larger, their HR activities may become too much for them to handle; but for now they have little urgency to make changes to how they handle HR.

Midsize Business (50 to 150 employees): Equally likely to be managed by the owner as they are by a devoted HR professional. Owners in MBs who manage HR activities acknowledge that activities take up more time and effort than they would like. A combination of other priorities, limited time, and general satisfaction with their HR prevent them from exploring HR tools and/or services that could make their lives easier.

When speaking with a prospect about how you can help, make sure you address these common complaints.

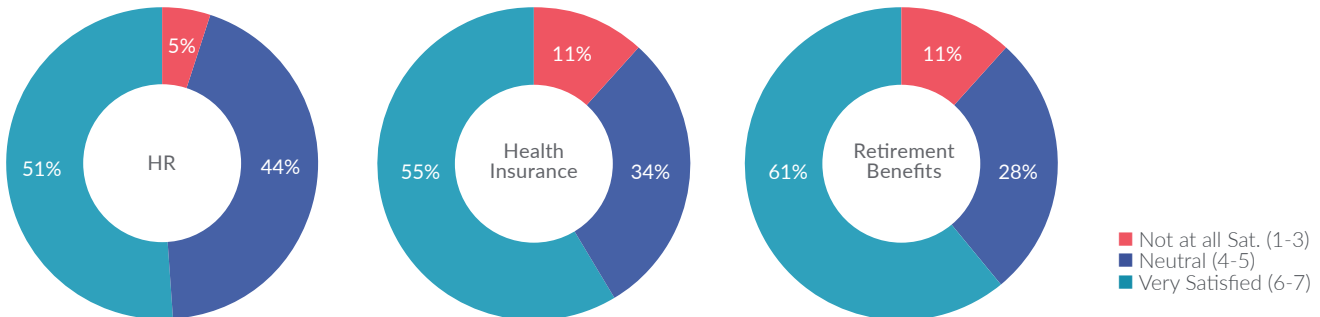
2. Inertia maintains the status quo, even though SMBs recognize their inefficiencies

As previously mentioned, SMBs believe their current HR processes, tools, and partners meet their needs overall. Those that see room for improvement still believe their current processes and tools do a reasonable job of meeting the business' needs – they are not dissatisfied.

SMBs recognize that they could be more efficient if they used more technology or outsourced some activities. When presented with the PEO model, SMBs see it as means of reducing the mundane, business aspects of HR. This would allow the internal staff that handles HR to focus on the more strategic aspects of HR.

Those that invest in HR staff, software tools, and HR service providers tend to be more satisfied with their HR operations than those that try to manage everything the way they did when they were smaller.

SATISFACTION (% of Businesses)



Q12. Thinking about your overall HR and employee administration, how well do your current process, tools, and partners meet your needs: Poor job of meeting needs – Excellent job of meeting needs. Base: 151

Q13. Where do your current processes, tools, and partners fall short of your needs? Base: 7

Q32. How do you get access to the retirement and/or health benefits you provide employees? Base: 151

Q18/19. On a scale from 1-7 where 1=Not at all satisfied, and 7=Very satisfied, how satisfied are you with the tools and services you use for employee health insurance and retirement benefits? Base: 121

Even though SMBs are often unhappy with the cost of benefits, most are relatively satisfied with the channel on which they rely to get those benefits (broker, directly, PEO). This further highlights the feeling of SMBs that 'it is what it is'.

When messaging to prospects, take into account:

- Few have seriously considered outsourcing or adopting new HR technology
- Most believe how they handle HR is good enough and that the problems that exist aren't worth spending the time or dollars to address
- Many feel too busy to research options – improving HR is rarely a priority

Recruiting

Finding, and attracting qualified employees is commonly listed as one of the biggest challenges for SMBs. In general, most use manual processes to post open positions, recruit candidates, and track their status throughout the process. SMBs find this manual process relatively effective for three reasons: They do not hire that often, they interview a limited set of candidates, and the team evaluating the candidates is small.

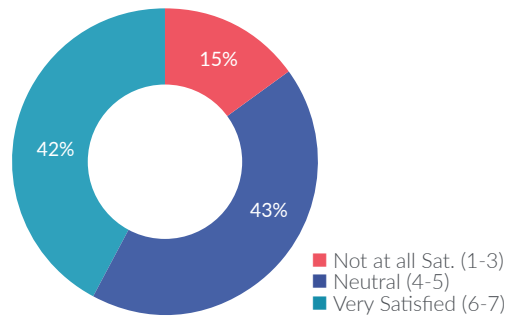
“It’s all done manually through Excel. We get the contacts through Indeed and LinkedIn, HR follows up with the interviews. It’s almost a manual process still, we’re sending emails and putting them in Outlook calendars.”

– Anonymous SMB Owner Interviewed

ONLINE RECRUITING & JOB POSTING (% of Businesses—Multiple Responses)

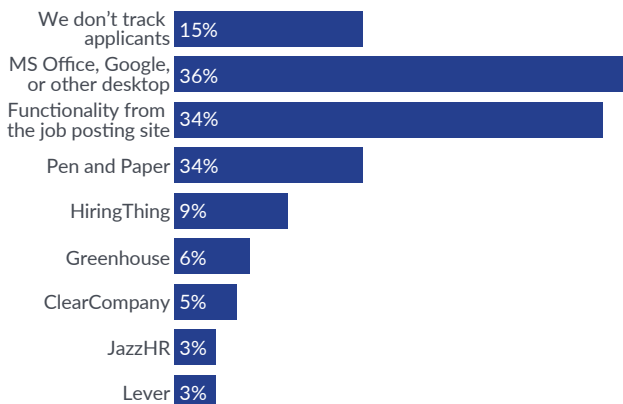


SATISFACTION % of Businesses

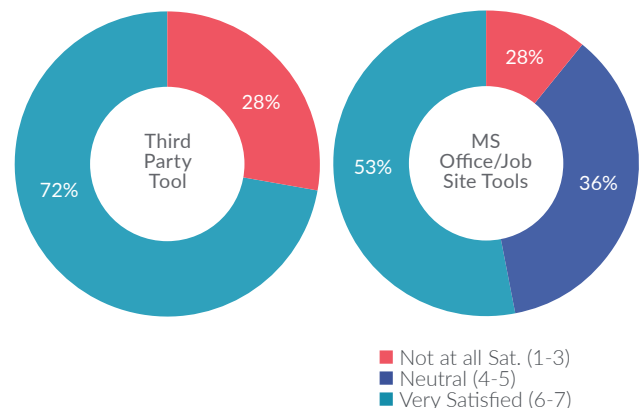


Q35. Which of the following tools, if any, do you use to post jobs to online job boards? Base: 151
Q22. On a scale from 1-7 where 1=Not at all satisfied, and 7=Very satisfied, how satisfied are you with the tools and processes you use for job posting? Base: 116

APPLICANT TRACKING (% of Businesses—Multiple Responses)



SATISFACTION (% of Businesses)



Q36. Which of the following tools do you use to track applications? Base: 151
Q23. On a scale from 1-7 where 1=Not at all satisfied, and 7=Very satisfied, how satisfied are you with the tools and processes you use for applicant tracking? Base: 73

SMBs see three potential benefits to changing the way they handle recruiting:

- Improve their ability to identify qualified candidates
- Reduce the time owners, HR staff, and department heads, spend on the manual tasks associated with the process
- Reduce the time required to fill open positions by making the process more efficient and vetting candidates earlier in the process

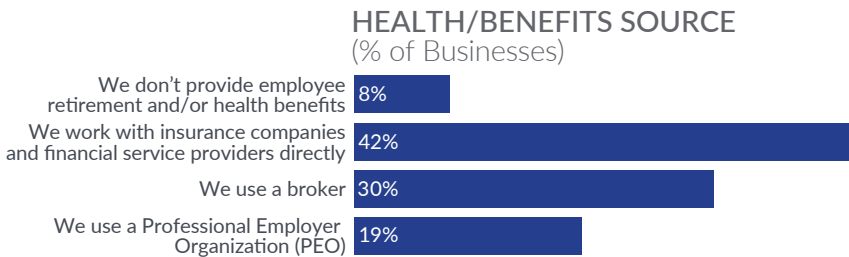
While it's not going to make or break the sale, making an Applicant Tracking System (ATS) available in your solution suite is a valuable benefit that can set you apart from other options.

3. Attract SMB attention by making them feel more empowered

SMBs want to offer quality healthcare and benefits but feel powerless to control costs

Each year SMBs see increasing costs, fewer options, and less coverage. Some note that their employee premiums have gotten so high that employees cannot afford to sign up for healthcare benefits.

To cope with increasing costs (with little or no success), most SMBs have made changes to their packages over the years: They've changed carriers, dropped coverage levels, and moved more of the cost to employees. **Few have considered switching brokers. Many SMBs seem resigned to the increasing cost of healthcare insurance.** In other research Isurus has conducted, SMBs display doubts that there will be much difference in costs and options between different brokers.



“Many times it is ‘You get what you get.’ We don’t believe in jumping around. I know a lot of organizations that do that. For me it has to be something substantial to make that decision because the newness causes me more problems than anything else.”

– Anonymous SMB Owner Interviewed

In general, SMBs believe that they offer a relatively competitive package for a small company. They acknowledge that they cannot match what a large employer can provide in terms of compensation and benefits. However, they offer other advantages to employees (e.g. flexibility, family atmosphere) that can make up for the difference in pay and benefits.

The packages SMBs offered vary widely. Some SMBs only offer bare-bone plans, others offer a choice of different plans. Coverage of premium costs ranges from zero to one hundred percent. White collar employers tend to offer slightly better plans and pay for more of the premium than blue collar employers. Healthcare is likely more of a driver of employee recruitment and retention in white collar industries than in blue collar industries.

SMBs tend to not be aware of options for providing a stronger benefits package beyond finding a way to lower the cost of healthcare.

It came across in many interviews — SMBs care about their employees and want to provide quality healthcare to them. While they recognize that providing healthcare helps with recruiting and retention, many feel that it is the right thing to do. Employers take pride in being able to provide employees with healthcare benefits — even if those benefits have diminished over time.

The primary barrier to offering additional benefits is the cost to the employer and employees. This is especially true of traditional benefits such as PTO or vision insurance. The rising cost of healthcare benefits influences the budget available. Data from other research Isurus has conducted for PrismHR and other clients show that some SMBs and employees struggle to fund their healthcare benefits, never mind additional ones.

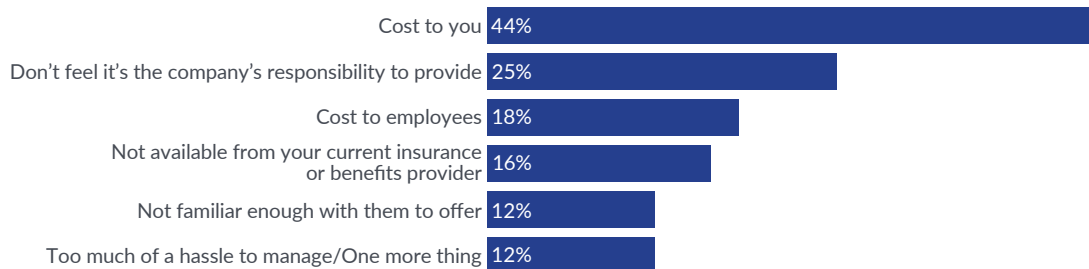
SMBs recognize that their size keeps them from getting the best rates from insurance companies — they feel they are forced to accept whatever their brokers bring back to them. They don't believe they have any real options for managing their costs.

Show them that it doesn't have to be this way — they have the power to make a change for the better.

“We're kind of a paternalistic company that cares about the employees and their families and have a lot of long-term service employees. So it kind of just adds to that... Instead of passing costs along, we try to carve things out or alter the plans a little bit, absorb some of those costs those ways.”

— Anonymous SMB Owner Interviewed

WHY ADDITIONAL BENEFITS NOT OFFERED OVERALL (% of Businesses—Multiple Responses)



Recognize their pride in your messaging. SMBs don't need to be convinced to offer benefits, they need help doing what they already want to do for employees. And you are perfectly positioned to be that partner.

Offer content that provides guides for ways to make healthcare more affordable for the SMB and individual employees (e.g., FSA, consumer-directed healthcare). Help SMBs understand they have more power and options for quality healthcare benefits than they think.

4. Helping SMBs understand how much time they actually spend on HR activities may motivate them to consider outsourcing some HR activities

As small businesses grow, they struggle to keep up with the volume of HR tasks and the additional regulations that come with larger headcounts. From a 'perception is reality' standpoint, SMBs likely underestimate time spent on routine HR activities (although they acknowledge the inefficiencies that are present). Even if they are open to change, finding the time to investigate options and then make a change to processes seems overwhelming.

To help paint a picture and motivate prospects, one option is to provide data, benchmarking, and assessment tools that show how much actual time SMBs lose on routine, mundane tasks. This gives prospects something helpful for free, and not only makes them aware of their gaps, but builds trust in your company.

After that, you must reduce the perceived burdens of making a change. A good approach would be to create a visual workflow of the process for changing to your services. This approach should also be used to show how your services + technology drastically reduce the SMBs involvement needed for processes like payroll, benefits, compliance, and answering HR questions.

5. Messaging about incremental improvements is more likely to resonate with SMBs

Approximately 75% of SMBs surveyed expected moderate or no headcount growth in the next two years. Keep this in mind when making bold claims and presenting big numbers of how you can come in and making everything better. Most of these businesses are not expecting to drastically increase their workforce, and have the same view of HR processes.

Businesses tend not to respond to messaging and positioning that feels too great of a leap forward from how they approach things today. While they recognize that they have problems and inefficiencies, SMBs generally feel their current approach to HR is good enough for most things. Solutions that appear to exceed their perceived needs will be seen as too robust or expensive and ignored. Applicant tracking (without the notion of recruiting) provides a good example. SMBs understand the benefits, but most feel it is a bit of overkill for their needs.

If a prospect is just looking for a 401k solution, are you immediately leaping into positioning a full package with payroll, benefits, and HR? You do not want the buying process to sound difficult and overwhelming - this will immediately be cause for concern for most prospects.

Dial-in on their specific pain points, and then gradually build the case for a more holistic service. Ongoing challenges and related solutions that could be positioned as a first step in improvement include:

- Payroll, including all employee questions and reporting that goes along with it
- Management of the open enrollment process
- Compliance management

6. Convey the value your services provide (beyond technology)

Staying in compliance

SMBs understand the importance of staying in compliance and recognize the risks of being out of compliance — they could be sued or fined. SMBs find keeping up to date with changing regulations challenging. Having employees in multiple states compounds the challenge. SMBs feel they do a good job of staying in compliance with the regulations that they are aware of but admit that they don't know what they don't know.

The typical SMB approach to staying in compliance is best described as: Do what you can and hope for the best. Most don't know how they would go about systematically improving their ongoing ability to stay in compliance beyond hiring more HR staff or paying an attorney to conduct an audit.

Most SMBs take a manual and somewhat reactive approach to staying in compliance with local, state, and federal regulations. This includes:

- Getting updates and notices from their accountant or payroll service
- Asking payroll service, accountant, or legal firm for answers
- Periodically visiting state and local websites to find forms, updates
- Receiving notices in the mail from government agencies
- Using an employment attorney to help with a special project such as an employee handbook
- Many SMBs track their compliance by paper & pencil

The primary barrier to investing more time and budget on compliance tracking is a lack of incidents. They haven't run into any issues in the past, so they feel reasonably confident in their position. It's also likely that they believe that even if they were found to be out of compliance, the consequences would be minor because it would be due to an oversight, not malicious intent.

Technology + Services

When SMBs think of improving efficiency, they think first of technology: Automating tasks, centralizing information, and providing mobile access to everyone that needs it. HROs can easily make the case that technology combined with professional expertise and service makes a big difference. No matter how automated things become, there are still manual tasks that need to be completed. It's always nice to be able to pick up the phone and know you're speaking with a partner who has your back.

When presented with a description of an HRO service model, SMBs reacted very positively.

They felt consolidating payroll, time and attendance, benefits, etc. with a single vendor would reduce the number of tools and partners they have to manage. SMBs see benefits and open enrollment management as significant strengths of the model. This may be due to the research being conducted during the SMB's open enrollment period, which makes

“I think it sounds like they integrate the onboarding, the benefits, and the payroll in this one system, and as we talked about before, that's one of our challenges where we're having to manually bounce back and forth 20 systems.”

“I would want this company to walk me through exactly how they go about things. Do I send you the forms? Do you put in the information? Is this all done online? If it's done online, do I have access to the portal? Do you follow-up with me once a month?”

— Anonymous SMB Owner
Interviewed

them acutely aware of the tasks associated with it. Many SMBs believe the model would help ensure they are in compliance — they expect the service provider will be up to date on all of the potential regulations the SMB needs to follow.

SMBs also display the expected skepticism of the solution being too good to be true.

They worry that they'd still have to do a lot of the work, as many of them have experience with payroll providers. There is also concern about the level of service they and their employees are going to get. And some worry about the quality of the health insurance the model could provide — would it be third tier carriers.

This all comes together to highlight earlier points. The journey you craft for prospects, through messaging and positioning, is key. Your services combined with technology are truly solving problems these SMBs have (both known and unknown). But it's not enough to tell prospects — you must show them through things like visuals, ROI tools, and case studies.

Methodology

PrismHR commissioned two separate studies — one qualitative and one quantitative — performed by an independent research firm. Both studies targeted a senior decision-maker/influencer in decisions about HR staffing, HR outsourcing, and benefits administration. This would include owners, heads of HR/finance/ops.

For the qualitative study, 15 phone interviews were conducted with companies ranging from 25 to 150 employees. For the quantitative study, 151 surveys were completed by companies ranging from 10 to 150 employees. In both studies, there was a near even split between blue and white collar businesses.

Objectives for both studies were to profile the rational and emotional HR needs of SMBs and their motivation to address their challenges and pain-points. Topics explored included:

- Processes, tools, and partners used to manage HR
- HR challenges and headaches
- Approaches used and specific pain points
- Reactions to the PEO model
- Interest in offering additional benefits

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