

PEO to HCM Software: Making the Switch

Have you outgrown your PEO? Here's what to consider when taking the leap and switching to an HCM.

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INTRODUCTION

Have you outgrown your PEO? Here's what to consider when taking the leap and switching to an HCM software.

While human resources play an influential role at every company, very few companies start out with dedicated HR teams. At small businesses, these responsibilities are usually put on someone else's plate, like an office manager or administrative assistant. On top of their usual duties, that individual is tasked with managing all things compliance, payroll, and HR. To ease the burden, smaller companies often turn to professional employer organizations (PEOs). These entities take on all HR, payroll, and compliance responsibilities for their customers. While that arrangement might work for a while, there comes a time in every company's evolution (typically around the 50 employee mark) where it's time to get serious about HR and dedicate an entire team to it. That's when businesses switch relying on a PEO to relying on an internal HR team and Human Capital Management (HCM) software.

Switching from a PEO to an HCM software can be a big change, but an exciting one. Not sure if you're ready to take the plunge? Here are some factors to consider before making the transition to an HCM software.



PEO and HCM Software: What's the Difference?

PEO AND HCM SOFTWARE: WHAT'S THE DIFFERENCE?

A **PEO** manages human resources for small businesses, typically with fewer than 50 employees. The PEO handles all aspect of HR for the company, so employees can focus completely on other aspects of the business. PEOs are an option for companies without a designated HR professional looking to outsource all for their HR duties, like payroll, benefits, recruiting, and compliance management.

Unfortunately for PEO clients, that convenience and “peace of mind” comes with a high price tag. Most PEOs charge clients per employee, per month (PEPM). The bigger your company gets, the more expensive the relationship becomes. Typically, this “admin fee,” as the industry calls it, hovers around \$100. Depending on your provider, this number can be even higher—admin fees as high as \$160 PEPM have been reported.



Conversely, think of an **HCM software** as a tool—not an outsourced service. This software is used by your internal HR team to help manage the company's [payroll](#), [benefits](#), [time entry](#), [talent](#), and more. HCM software is a great solution for growing companies and HR teams that have matured beyond using a PEO. They help streamline manual processes, alleviate the administrative burden of HR and empower teams to leverage their [people data](#) to make strategic decisions.

Keep in mind that switching to an HCM software doesn't necessarily mean you're on your own. If outsourced HR still interests you, many HCM vendors also offer administrative and strategic consulting services, sometimes referred to as [managed services](#). This allows you and your team to share some of the strategic and day-to-day administrative work with a trusted third party.

As your business scales, investing in your people should be a top priority—and implementing an HCM software could be the best way to get your growing (or new) HR team off on the right foot. The following sections will help you decide if an HCM software is right for your company.



HR for Growing Companies

There are a few milestones that stand out at every company. Hiring your first employee, signing your first client, opening up a new office, and hitting the 50 employee mark all come to mind. These moments are exciting for any company, but their less-exciting HR compliance requirements can sneak up quickly. Handling [Family Medical Leave Act \(FMLA\)](#) claims, completing EEO-1 reports, filing 1095-C forms—these are just a few of the reporting and compliance requirements you're on the hook for as your company grows. If those acronyms look like alphabet soup to you, you're not alone.

It's hard to keep track of all the [state and federal requirements](#), that's why many companies at this stage decide to hire a full-time HR professional. Once you have someone who can manage HR internally, working with PEO is no longer cost-effective.

Remaining compliant isn't the only reason to make the leap. Your talent drives your company's success, which is why keeping them happy has to become a top priority for growing businesses. Companies with 50 to 100 employees need to invest in company culture, quality benefits, and employee engagement. By streamlining administrative work, your [HCM platform](#) can free up vital time in your day to focus on more impactful people initiatives and strategies. That way, you'll be able to see the impact of the time, money, and effort you've invested in retaining and attracting that talent you need to continue scaling your business.

More resources on HR for Growing Companies:

- [What Changes at Employee 50](#)
- [8 Things HR Needs to Know in a Growing Company](#)
- [4 Ways to Keep Your Company Culture at Every Stage of Growth](#)
- [HR Compliance's Magic Number: 50 Employee](#)

Embracing HR Technology

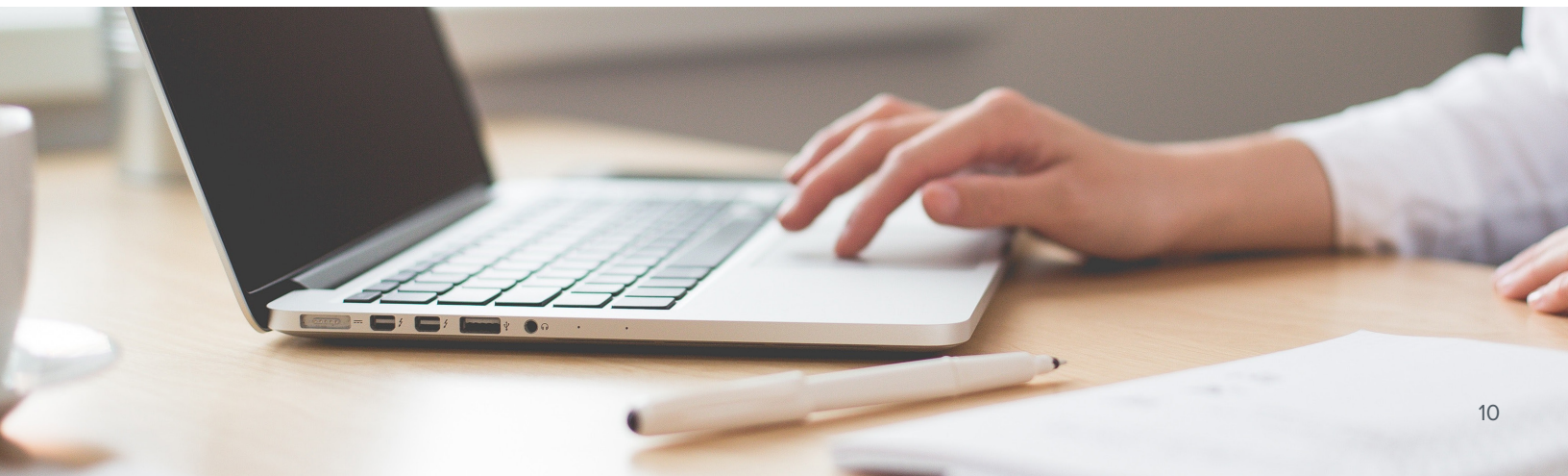
Considering switching off a PEO? The transition might seem intimidating, but it doesn't have to be. An HCM software might be the perfect addition to your existing HR tech stack. An HCM software can help alleviate the administrative burden of traditionally time-consuming tasks like running payroll, onboarding new hires, and managing compliance forms.

One of the added benefits of some [HCM platforms](#) is that they're great tools for communicating to employees. Think back to your last open enrollment period—did you struggle to get the word out and drive participation ahead of the deadline? Some platforms feature a newsfeed feature, similar to what you might find on social media. By posting on the feed, company leadership and regular employees alike can share updates, reminders, and even appreciate one another.

There's an additional benefit to switching. Unlike a PEO, your company's HCM software scales with your business. As your headcount sails past the 50, 100, or even 500 employee mark, your team can customize the platform or add modules to meet your evolving needs. Whether that means adding new custom fields or revamping the company's performance review process, your HR team can mold the platform to suit its needs.

More resources on Embracing HR Technology:

- [Changing Benefits Brokers Is Easier Than You Think](#)
- [Buying HR Software? Here's What to Look For](#)
- [4 Reasons Why You Need an HR Mobile App](#)



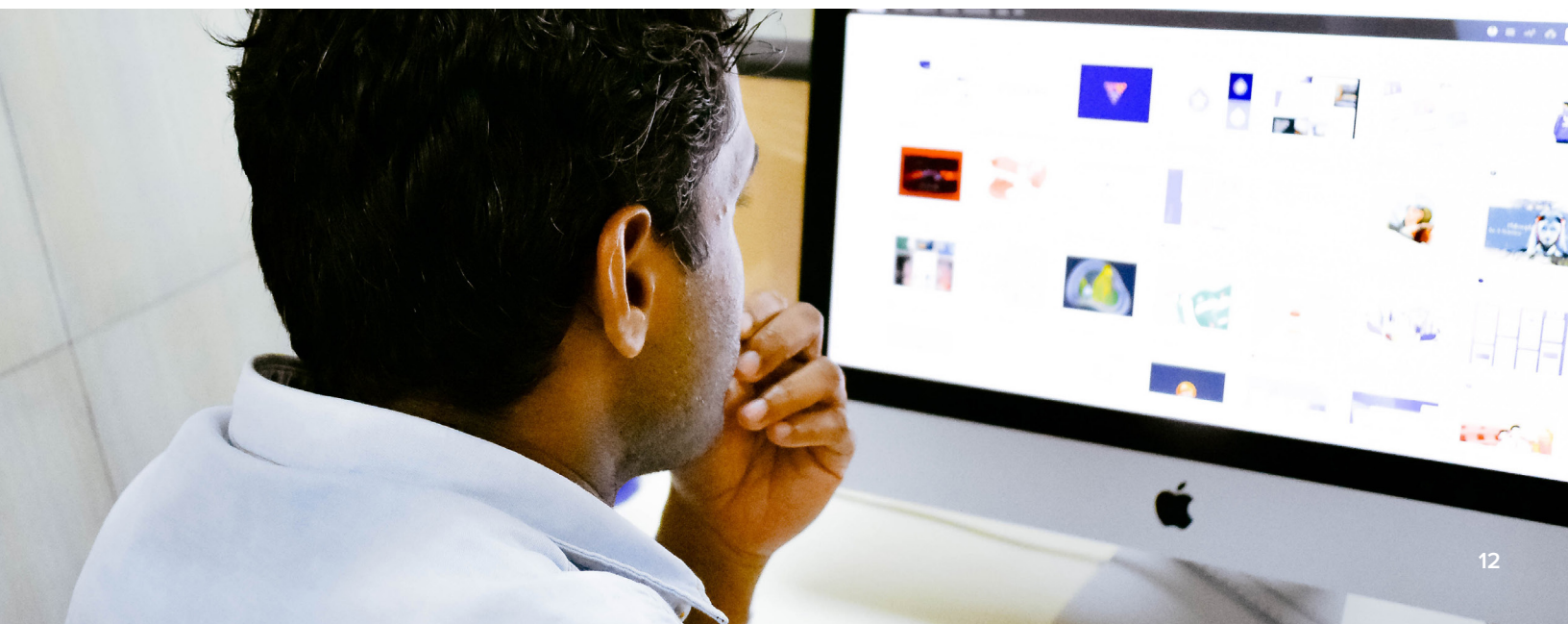
Adopting an HCM Software

Switching systems doesn't have to be a headache. Whether you're transitioning from a legacy system, moving off a point solution, or leaving a PEO, implementation typically takes just 8 to 12 weeks. You'll quickly earn that time back—new clients estimate they save an average of 11 hours a week after implementing an HCM software like [Namely](#). With all that extra help managing HR, payroll, benefits, and compliance needs, you can spend more time focusing on strategy, culture, and more.

Need one more reason? It's never been cheaper or easier to switch. In the past, migrating from a PEO midyear was difficult due to federal tax rules. Because PEOs serve as the “employer of record” for their clients' employees, businesses were often stuck double-paying certain payroll taxes, like federal unemployment taxes (FUTA) after migrating. Thankfully, that costly drawback is no more. Since 2017, the Small Business Efficiency Act (SBEA) and IRS have eliminated double taxation for virtually all PEO migrations.

More Resources on Adopting an HCM Software:

- [4 Reasons to Consider Leaving Your PEO after Employee #50](#)
- [How to Ditch Your PEO for a Payroll Service Provider](#)
- [4 Ways Your Company Can Benefit from an HCM Software](#)



Conclusion

CONCLUSION

Interested in learning if an HCM platform is right for your company? You can watch a [pre-recorded Namely demo](#) or [schedule a personalized demo](#) today.

Over 1,000 clients have already made the switch to Namely. Hear what convinced them and what they think of Namely by reading out [client case studies](#).

REQUEST A NAMELY DEMO NOW



ABOUT NAMELY



[Namely](#) is the first HR platform that employees actually love to use. Namely's award-winning, powerful, easy-to-use technology allows companies to handle all of their HR, payroll, time management, and benefits in one place. Coupled with dedicated account support, every Namely client gets the software and service they need to deliver great HR and a strong, engaged company culture. Namely is used by over 1,000 clients with over 175,000 employees globally.

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