

Finch's Guide To The U.S. Payroll Landscape

Executive Summary

There are 5,700 payroll providers in the U.S. today. As companies that serve SMBs look ahead, they need to be aware of emerging trends in HR and payroll. These trends include the growing importance of the employer-employee relationship and opportunities to gain business by offering features that leverage employment data. In addition, payroll providers must understand the changing landscape of their industry—including new API-based solutions—and how these platforms can unlock market share gains in a fragmented ecosystem.

In This Whitepaper

Introduction—SMBs Adapt, Payroll Remains Fragmented

SMB Demographics Are The Primary Factor In Determining Their Payroll Provider Of Choice

Understanding The Payroll Industry: Methodology

U.S. Payroll Ecosystem Overview—A Large, Fragmented Market

The Big Three

Market Share—Serving A Fragmented Industry

Finch—A Universal API For Employment Systems

Introduction—SMBs Adapt, Payroll Remains Fragmented

Small and mid-sized businesses (SMBs) — which employ fewer than 500 employees, and collectively employ nearly half of the total workforce — are making a comeback after an unprecedented set of challenges posed by the global pandemic in 2020.

- During 2020, more than 9 million small businesses, including sole proprietors — approximately 30% of all small businesses and sole proprietors — had to close their doors (at least temporarily), resulting in tens of millions of employees without jobs.¹
- Nationwide, 30 percent of all businesses reduced employees' hours, and more than 10 percent reduced salaries and wages.²
- The Federal Reserve Board estimates that 600,000 businesses close in a typical year; between March 2020 and February 2021, an estimated 200,000 additional establishments closed due to the coronavirus pandemic.³

However, with every crisis comes opportunity. As of September 2021, new business applications for the year have dramatically increased to 4.1 million — a nearly 30% increase year-over-year versus 2020.⁴

1 <https://sbecouncil.org/2021/01/21/millions-of-small-businesses-closed-in-2020-the-long-recovery-ahead/>

2 <https://www.bls.gov/brs/2020-results.htm#highlighted-results>

3 <https://www.wsj.com/articles/covid-19s-toll-on-u-s-business-200-000-extra-closures-in-pandemics-first-year-11618580619>

4 <https://www.census.gov/econ/currentdata/dbsearch?program=BFS&startYear=2020&endYear=2021&categories=TOTAL&dataType=BABA&geoLevel=US&adjusted=1&submit=GET+DATA&releaseScheduleId=>

The increasing importance of the employer-employee relationship

As SMBs rapidly adapt to fill new needs there will be a wave of SMB-focused innovation geared toward the unique challenges of navigating today's economic and workplace environments. At the forefront of this tectonic evolution is the increasing focus on people and the employer-employee relationship, quantified by human resources (HR) and payroll data.

Unfortunately, getting this data is far from simple — especially since there are 5,700 payroll systems used by SMBs across the U.S.. That's where Finch comes in. As of late 2021, Finch supports more than 100 of the leading payroll and HR information systems (HRIS), creating a secure, standardized layer to access employment data — and we're continuing to grow our compatibility further.

In this whitepaper, you'll learn more about U.S. payroll industry fragmentation, including key trends that may drive even greater fragmentation in the near future, as more and more companies add "payroll provider" to their growing list of services.

SMB Demographics Are The Primary Factor In Determining Their Payroll Provider Of Choice

Choosing a payroll provider is one of the most crucial parts of running a business, yet SMBs often choose a provider solely based on their demographics. They typically select a payroll provider using the following criteria:

- 1. Number of employees in the organization**

As organizations get larger there are a broader range of compliance requirements and payroll schedules.

- 2. Industry**

Depending on the industry, an employer's workforce may have various worker types such as seasonal, temp, salaried, hourly, apprentice, interns etc. which introduce unique HR workflows.

Secondarily, SMBs will consider key features and capabilities of the software platform, including payroll customization, time tracking, benefits, insurance, customer support, etc.

Since payroll is a particularly high retention product with large switching costs, winning an SMB's business can pay long-term dividends for payroll providers.

SMBs Face A New Set Of Employment Challenges—And Opportunities

Outside of demographics, external trends have an additional impact on SMB purchase decisions. Three trends in particular are creating a new set of challenges and opportunities that SMBs must consider when choosing a payroll provider:

1. **Supply-constrained labor markets** has made the process of attracting and retaining talent across multiple industries significantly more difficult.

Opportunity: Platforms that offer a suite of recruiting and retention tools can be a key differentiator for a growing business in need of talent.

2. **Hybrid work** has become an increasingly common practice amongst white-collar employers that can afford to have employees work remotely as well as in an office with limited impact to productivity.

Opportunity: Providers that offer a range of remote-focused workforce management tools can help an employer easily onboard and manage new talent.

3. **Increased regulations** to protect employees including executive orders (which employers must implement) mandate increased workforce safety requirements for both employees and contractors.

Opportunity: Payroll providers that include a broader array of compliance tools can help employers adhere to regulations without fear of penalties.

Note that these external factors do not impact all SMB demographics equally. Certain industries are more sensitive to these changes such as those in the restaurants/hospitality, construction, and agricultural industries where unique regulations and in-person requirements introduce additional levels of complexity into the decision process.

Understanding The Payroll Industry: Methodology

Estimating market share is always a challenging task given the lack of publicly available data and often self-reported figures that may be biased towards the reporting party. We focused on estimating market share based on the number of SMB employers (unique EIN) on each platform in the U.S. using SEC filings, company presentations, conversations with industry experts, and press reports. Ultimately, our goal is to answer the question, what payroll provider does my SMB customer likely use?

Please note: All data has been provided on a best-efforts basis, however Finch cannot guarantee the accuracy or completeness of this information. Finch accepts no liability which might arise from the content of this paper.

U.S. Payroll Ecosystem Overview—A Large, Fragmented Market

Size

The latest data available estimates approximately 6.3 million SMB employer firms in the U.S.⁵ This does not include 25M+ sole proprietors that do not have employees. The payroll industry includes nearly 6,000 providers (and units of larger companies), including many regional and national platforms. Combined, they generate approximately \$48 billion in annual revenue. Given that nearly 50% of all Americans work for a small business, roughly \$3 trillion in payroll is processed each year.

Cloud vs. on-prem or paper

Nearly 1 in 10 SMB employers — approximately 550,000 total businesses — do not use a cloud provider. These SMBs use on-prem solutions, CPAs, local payroll providers, and paper-based record keeping to track employee spend. While >90% of employers are using cloud based systems, there is still an opportunity for further migration to the cloud.

⁵ <https://sbecouncil.org/about-us/facts-and-data/>

⁶ <https://www.firstresearch.com/industry-research/Payroll-Services.html>

The Big Three



Intuit QuickBooks—by far the largest, with approximately 22% of the SMB market

With nearly twice the market share of their nearest competitor, Intuit QuickBooks provides payroll services for 1.4 million businesses. The self-proclaimed “#1 payroll service provider” is best known for its QuickBooks accounting software, and is owned by Intuit, which also offers TurboTax, Mint and Credit Karma.

Payroll Initiatives

Intuit has been busy in 2021 to consolidate its payroll services and connect its SMB-focused products. The company began phasing out previous versions of the Desktop Payroll solution to incentivize more SMBs to shift to its self-serve online payroll solution, started migrating Intuit Online Payroll customers to Quickbooks Online Payroll, and integrated Credit Karma into payroll services to give SMBs a better picture of their financial health.



ADP Run—approximately 12% of the SMB market

Founded in 1949, ADP has been around since punch cards and mainframe computers. The company launched ADP RUN in 2007, a cloud-based payroll system focused on employers with <50 employees. ADP RUN has since become one of the fastest growing products on the platform with over 750,000 SMBs.

Payroll Initiatives

The ADP RUN product has consistently evolved based on employer behavior and preferences. During 2021 the platform completely revamped its core interface to make processing payroll more seamless while also launching Roll, a conversational mobile application that simplifies payroll management for busy SMBs.



Paycheck Flex—approximately 10% of the SMB market

Established in 1971, Paychex offers a range of employment services to businesses across North America and Europe. Paychex clients are loyal, with nearly 120,000 of them having been with the company for more than a decade. Paychex Flex is the main payroll product with an estimated 635,000 employers with Surepayroll and legacy offerings still being used by a subset of the company's total customer base.

Payroll Initiatives

Paychex Flex has been focused on employee hiring and retention in the wake of the pandemic. The platform has implemented retention insights, pay analytics, and talent tools among other features to help SMBs manage talent in a competitive environment.

Once you get past the big three, all other SMB payroll providers have less than 4% of the market each and tapers off quickly as we approach the long-tail of systems.

Tech Innovators

Over the last decade new employment systems have emerged to capitalize on the growing demand for more self-serve products with transparent pricing.



Gusto

Launched in 2012 as Zenpayroll, Gusto offers a range of SMB services built into the product organically and via acquisition including R & D tax credits, Earned Wage Advances, and benefits. The platform serves 200,000+ SMBs across the US and continues to expand its suite of services to establish an all-in-one HR platform.



Zenefits

Founded in 2013, Zenefits focused on reinventing the benefits experience by bundling them into an easy to use platform and attaching other core HR and payroll products that unify the employer experience. Today 11,000+ SMBs utilize the company's host of HR products and services.



Rippling

Started in 2016, Rippling built a suite of integrations across the employment ecosystem to create a comprehensive employee management platform. An estimated 5,000+ SMBs and mid-market businesses use the platform to streamline their HR workflows.

PEOs

While ADP and Paychex offer Professional Employment Organizations (PEOs) services, there are also a number of smaller companies that are PEOs.

PEOs essentially lease employees to employers as a way to provide the employer with reduced pricing on insurance, benefits, employment taxes, and other costs. Notable PEOs (and their estimated number of SMB employers) include:



Insperity

Founded in 1986, Insperity is a \$4.3 billion, NYSE listed company with more than 70 offices across the U.S. They offer an all-in-one HCM solution and serve approximately 100,000 SMB employers covering over 2 million worksite employees.



Paychex PEO

Paychex bolstered its PEO services by acquiring Oasis in 2018, and now works with over an estimated 62,000 SMB employers covering over 1.6 million worksite employees.



ADP Totalsource

As part of ADP's Employer Services segment, ADP Totalsource is one of the fastest growing products within the organization. ADP Totalsource serves 14,500 SMB employers with over 530,000 worksite employees.



Trinet

Founded in 1988, Trinet serves 18,900 SMB employers and covers more than 350,000 worksite employees, as of September 2021. They have acquired a number of other PEOs throughout the years, and were the largest independent PEO in the U.S. at one point.



Justworks

Founded in 2012 (and working out of a coworking space where the Blue Man Group rehearsed above them), Justworks serves 12,800 SMB employers covering over 86,000 worksite employees.

White Label

White label (also called private label) payroll services allow service bureaus, HR systems, and PEOs to maintain their unique brand and focus on serving their customers, while letting the white label service provide the underlying infrastructure to power service-oriented human capital management (HCM) businesses.

While there are a relatively small number of these white label providers, remember that each one may power dozens or even hundreds of HCMs or PEOs, each of which works with numerous employers. Two of the largest white label providers include:



iSolved

Founded in 1986, iSolved offers a range of HCM solutions directly to employers as well as through a network of 170+ service bureau partners that offer HR solutions to businesses. The platform services 5M+ employees across 100,000+ SMB and mid-market employers.



PrismHR

Established in 1985, PrismHR powers payroll and benefits for over 300 PEOs, Administrative Service Organizations (ASO), and staffing companies across the US. The extended platform processes \$80B+ in annual payroll for 2M+ employees across 80,000+ SMBs.



Execupay

Started in 1974, Execupay offers HCM solutions directly to SMBs but also powers payroll for HR platforms like GoCo. The platform powers payroll for millions of employees across 70,000+ SMBs across the country.

Embedded

Embedded payroll providers use an API to embed a payroll application into another product.

The embedded market is fairly new — and relatively small — but has the potential to grow across the vertical SaaS, gig economy, HR tech, and fintech industries. The embedded payroll providers we keep a close eye on include:



Gusto Embedded Payroll

Announced in July 2021, Gusto launched an embedded payroll platform to make their existing infrastructure available for other applications. Vertical SaaS companies like Squire, which provides software for barber shops, utilize Gusto Embedded Payroll to expand their product set.



Check

Founded in 2019, Check allows applications to offer payroll directly through their platforms. The company's Components product that reduces developer build time by offering pre-built workflows across four separate categories from onboarding to documents. The platform counts Homebase, a time tracking platform serving 100,000+ SMBs, amongst its growing customer base.



Zeal

Founded as Puzzl in 2019 from the founders personal experience managing a labor marketplace with thousands of contractors, Zeal offers a wide range of embedded payroll solutions for multiple verticals. The platform offers an extensive range of products that give applications the ability to expand to 11,000+ tax jurisdictions and maintain compliance with 25,000+ income tax changes every year.



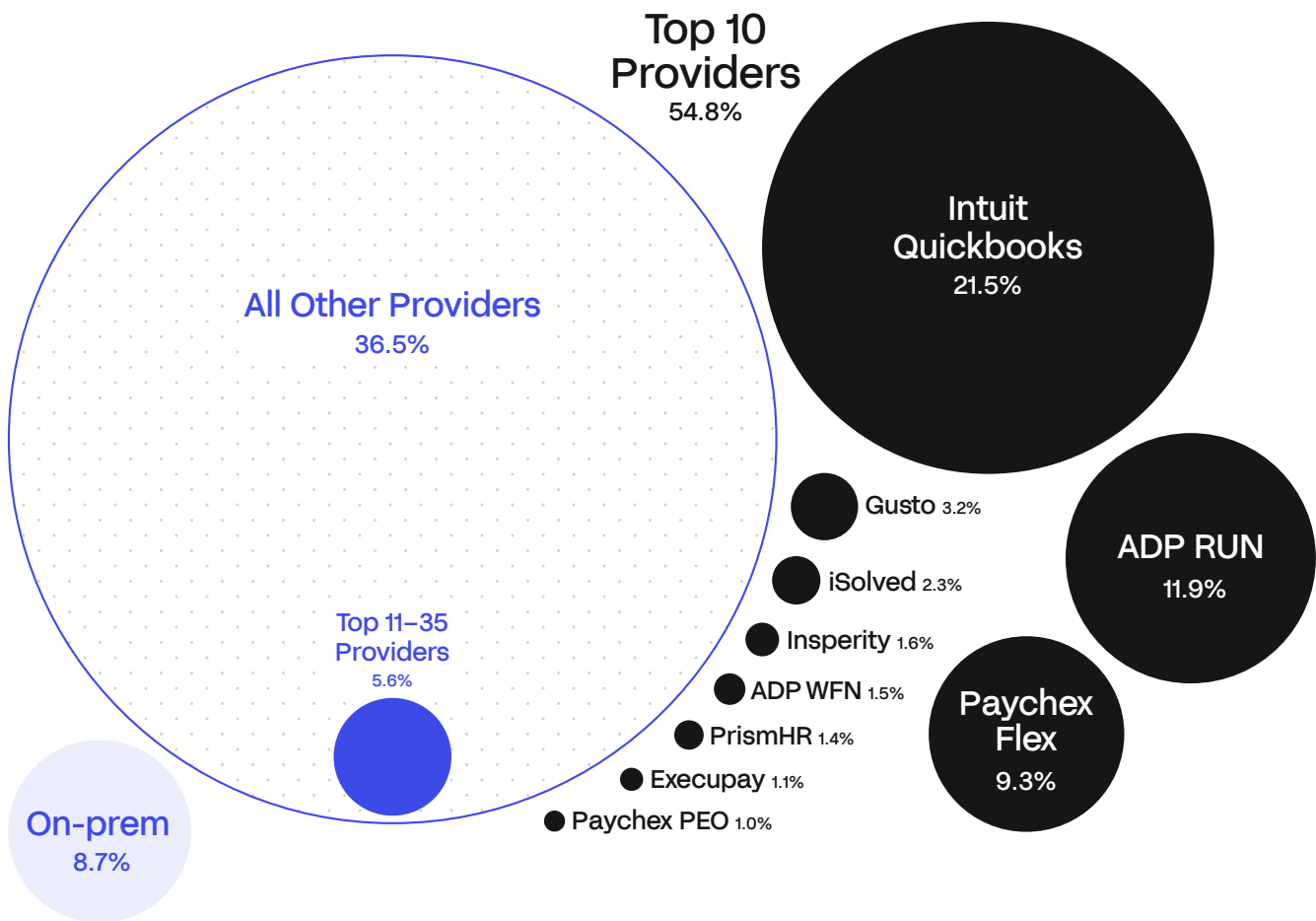
Salsa

The newest entrant in the market and founded in early 2021, Salsa is particularly focused on providing a multi-country embedded payroll experience. The founders have previous experience building global payroll and handling international money flows.

Market Share—Serving A Fragmented Industry

How many payroll integrations do you need to make? The payroll industry is highly fragmented, with 5,700 payroll providers alone in the US. While the top three providers cover 45% of the SMB market, no other competitors have more than 4% of the market. Even the top 10 providers combined cover just over 55% of US SMB employers (for comparison, in the accounting industry, the top 10 cover 95% of the market).

Of course, it would be nearly impossible to build integrations with hundreds of distinct payroll providers — let alone thousands. That's why leading fintechs, HR platforms, and other B2B companies are turning to platforms that offer a more comprehensive solution.



Finch—A Universal API For Employment Systems

Empowering Innovative Applications

Finch helps address the payroll coverage issue with an API that is compatible with more than 100 payroll systems and that number keeps growing. With Finch, applications don't need to build out all of the connections themselves nor worry about the inconsistencies across systems; they simply use the Finch API to seamlessly read and write to any payroll system — including QuickBooks, ADP RUN, Gusto, and dozens of others.

See tryfinch.com for the full list.

Partnering With Employment Systems

Finch works directly with employment systems, including payroll providers, to create alignment across the ecosystem. We improve the employer experience by streamlining secure access to their data and providing a wider range of applications to work with based on their organization's unique needs. Employment systems benefit from gaining access to key data and application partnerships that drive market share gains, accelerate product development, and unlock high margin revenue streams. Finch supports payroll systems as well as HRIS systems.

Contact Finch Today

Finch is quickly becoming the API of choice for applications looking to expand their compatibility and payroll providers aiming to expand market share because we are:

- **Developer-friendly**
We focus on developers, and empower them to create world-class solutions
- **Reliable**
Our infrastructure is built for scale with over one million API calls made every day
- **Secure**
Finch operates a secure, compliant data transfer process, and adheres to SOC2, CCPA, and GDPR (in progress) standards
- **Efficient**
Build on top of Finch's API and connect with over 100 of payroll and HR systems through one API
- **Enterprise-ready**
Built for large-scale synchronization with thousands of employers

Reach out to our team to explore ways to innovate on employment data together or directly partner with Finch to empower the employment data ecosystem.

To learn more, visit tryfinch.com

