

7th Annual Report

2026 Priorities for Business Leaders



What's Inside

Executive Summary	3
Part 1: The Big Picture (5-499 Employees)	5
Part 2: Too Busy to Fix What's Broken (5-49 employees)	12
Part 3: Competing for Talent (50-499 employees)	15
Part 4: Where Businesses Stand with AI	18
The Path Forward	20



2026 in a Nutshell: Growth vs. Complexity

Based on our survey of 600 companies with 5 to 499 employees, this report reveals a defining paradox: businesses are aggressively pursuing growth (63% make it a top priority) while simultaneously managing their most complex operational environment in years.

This is our 7th annual survey, fielded in late 2025, and the data shows a fundamental shift from survival mode to strategic expansion — but not without significant obstacles.

Here's what we found: You're navigating a complex environment in 2026, but **you're doing it with remarkable resilience**. The challenges are real, but they're not insurmountable — especially when you know what to focus on and have the right support.

Growth Tops Every Priority List, but Nearly Half Say It's Extremely Hard

What makes 2026 unique is that **growth is both your top priority AND one of your most difficult challenges**. Nearly half of mid-sized businesses (39%) find growth extremely difficult, yet they're pursuing it anyway. Why? Because waiting for perfect conditions isn't an option when competitors are moving forward and top talent expects progress.

The Top Five Challenges of 2026

You're expanding while managing:

- 1**  **Inflation** that's squeezing margins
(58% cite it as extremely challenging)
- 2**  **Turnover costs** that have **jumped 33%** year-over-year, with estimates now averaging **\$10,200-\$23,000 per employee**
- 3**  **Data privacy** concerns that have emerged as the **#1 compliance challenge** across most business sizes
- 4**  **Health insurance costs** that keep **climbing**, while employee expectations shift toward wellbeing benefits
- 5**  **Cybersecurity threats** that intensify as you scale
(62% of larger businesses rank it equal to inflation)





Time, Not Money, Is the Real Constraint

The common thread connecting every challenge?
Time — or the lack of it.

HR administrators spend between **7.3-12.1 hours per week on administrative tasks. Payroll alone consumes 17% of HR time.** That's time not spent on strategy, retention, or growth initiatives.

When you calculate the value of those lost hours over 52 weeks, add turnover costs, factor in potential compliance penalties, and account for missed growth opportunities, a clear picture emerges: **the cost of NOT automating is higher than the cost of automating.**

A Roadmap Tailored to Your Business Size

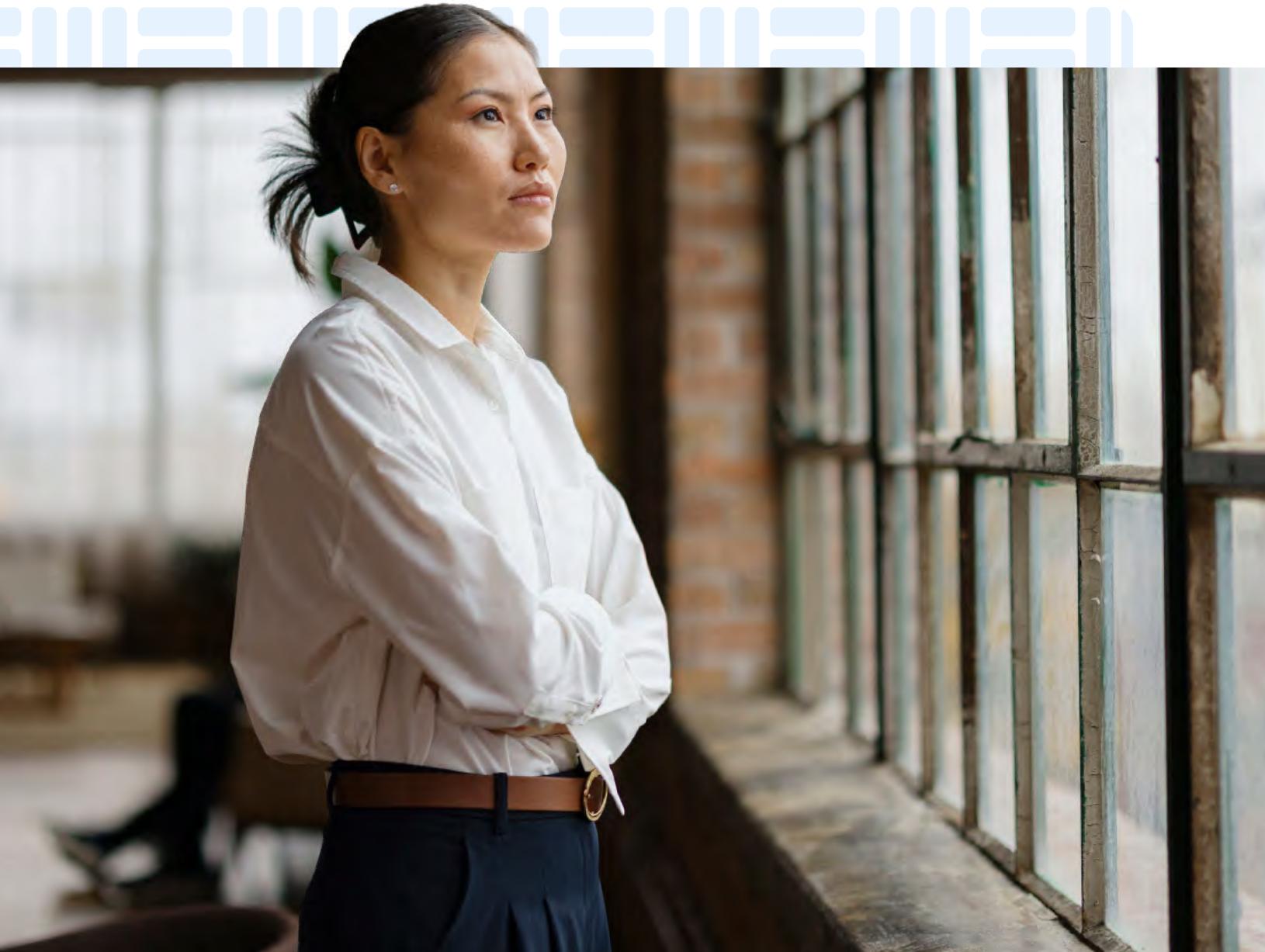
The challenges businesses face vary by size, so we've broken this report into three parts:

- **Part 1:** The five universal challenges affecting all businesses (5-499 employees)
- **Part 2:** Specific pressures facing businesses with 5-49 employees (benefits management, leadership development, payroll efficiency, hiring costs)
- **Part 3:** Intensified complexity for businesses with 50-499 employees (specialized talent competition, cybersecurity at scale, organizational turnover impacts)
- **Part 4:** Where businesses stand with AI (adoption gaps, real-world applications, what's holding companies back)
- **The Path Forward:** A roadmap for turning challenges into opportunities

The Bottom Line

The businesses succeeding in 2026 aren't waiting for perfect conditions or larger budgets. They're making strategic investments in automation, partnering with specialists for complex areas like benefits and compliance, and focusing their teams on what drives growth rather than administrative tasks.

This report shows you what they're facing, how they're responding, and where to start if you're ready to move from managing challenges to systematically removing them.



Top 5 Challenges Every Business Is Facing

In the rapidly evolving business landscape of 2026, companies with **5 to 499 employees** are navigating a series of significant and interconnected challenges. This section examines these key challenges, offering insights into their impact and significance for today's businesses.

Inflation Is Squeezing Your Margins

Inflation isn't just a financial metric — it's reshaping your entire business. Rising costs compress margins, forcing you to rethink everything from pricing to payroll.

What We're Seeing

Inflation remains the number one challenge across all business sizes. **While the impact varies by company size, the pressure is universal.**

# of Employees	% Finding Inflation Extremely or Very Challenging
5-19	56%
20-49	59%
50-99	69%
100-499	62%

For context, **inflation ranks ahead** of even customer acquisition (39%), business growth (39%), and interest rates (39%) as extremely or very challenging. The only exception is with businesses with 100-499 employees, where cybersecurity is as equally pressing as inflation.

What It Means

Rising costs mean shrinking profits. This hits small businesses especially hard since they tend to have less cash on hand, but all businesses are trying to cope. It's not just about absorbing the extra costs — it's about doing that while remaining competitive and holding onto your team.

YoY Trends: The Shift From Survival to Growth

There is some encouraging news here. Businesses are adapting. The three-year trend shows a fundamental shift in mindset:

- 2024** **63% cited inflation** as a top challenge amid widespread economic worry
- 2025** **86% faced economic uncertainty, but 85% expected revenue growth** (up from 76%)
- 2026** **Inflation remains #1 (58%),** but growth has emerged as the top priority alongside managing it

Businesses aren't content with a wait-and-see approach; instead, they are showing incredible resilience. Their efforts reveal an active pursuit of growth despite the challenges.

What You Can Do

Thriving in an inflationary environment requires strategic agility:

- ✓ **Automate routine tasks** — payroll, benefits, and compliance automation help cut labor costs and reduce errors
- ✓ **Use data to make smarter decisions** — real-time analytics help you spot cost spikes early, optimize staffing, and identify where to trim without sacrificing quality
- ✓ **Focus on productivity** — streamlined systems free your team for strategic revenue-driving work
- ✓ **Stay flexible** — your ability to adapt quickly is your competitive advantage

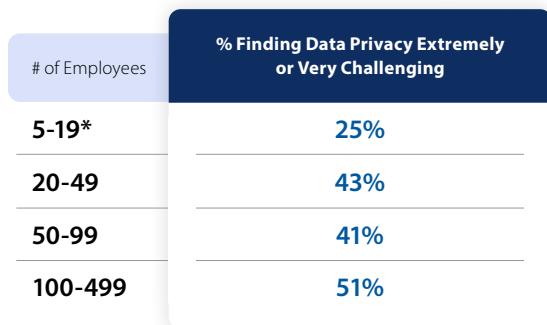
Data Privacy Isn't Just Compliance, It's Reputation

In a digital world where employee information flows through multiple systems, keeping that data secure is essential for compliance, trust, and the reputation of your business.

What We're Seeing

Data privacy has emerged as a top compliance challenge across most business sizes, with the pressure intensifying as companies grow.

And it's not just a compliance issue — it's also a technology challenge. Data security and employee data privacy rank as the #1 HR-related technology challenge across all segments (34%), outpacing concerns over system integration, training, and scalability.



*For businesses with 5-19 employees, record-keeping and documentation narrowly edges out data privacy as the top compliance concern (27% vs. 25%), reflecting the dual challenge of staying organized while staying secure.

What It Means

When managing payroll, benefits, performance reviews, and health information, you're handling your employees' most sensitive data. A breach doesn't just bring regulatory penalties — it damages trust, hurts morale, and tarnishes your reputation in ways that are hard to recover from. The challenge is ensuring that every system, process, and team member handle data responsibly.

YoY Trends: Why Data Privacy Matters More Than Ever

Data privacy wasn't tracked in previous surveys, but its emergence as the top concern reflects a shift: businesses are digitizing HR functions, regulations are stricter, and employees expect data protection. What was once a back-office IT issue is now a business priority.

What You Can Do

Protecting employee data requires shifting to a multi-layered approach:

- ✓ **Use encrypted, secure systems** — protect sensitive data in transit and at rest
- ✓ **Control access carefully** — limit who can view, edit, or export sensitive information
- ✓ **Stay current with regulations** — data privacy laws vary by state and industry, and constantly evolve
- ✓ **Train your team** — even the best technology can't protect against human error
- ✓ **Plan for retention and disposal** — know what records you need to keep, for how long, and how to securely destroy them

Turnover Costs More Than You Think

Employee turnover isn't just an HR problem — it's a financial crisis. Every departure (voluntary or not) costs far more than posting a new job, and those costs are climbing fast.

What We're Seeing

Estimated turnover costs escalate as businesses grow.

# of Employees	Average Estimated Cost Per Employee Lost	Experienced Voluntary Turnover	Experienced Involuntary Turnover
5-19	\$10,215	45%	33%
20-49	\$16,016	63%	42%
50-99	\$14,829	69%	44%
100-499	\$23,012	66%	59%

The impacts of losing someone vary by company size, but they're consistently significant — from productivity losses and training costs for smaller businesses to team disruption and workforce burnout for larger ones.

What It Means

The averages don't capture the full impact. When someone leaves, productivity drops, teams absorb extra work, remaining employees risk burnout, institutional knowledge is lost, and morale declines. By the time you hire and train a replacement, months have passed, and costs have compounded.

The smaller your business, the harder it hits — you have no backup. As you grow, ripple effects multiply and you may experience disrupted team dynamics, accelerated burnout, and escalating training costs.

Why People Leave

Understanding why people leave helps you prevent it. **Turnover falls into two categories:**

Voluntary Turnover (when employees choose to leave)

Work-life balance concerns, relocation, and burnout are the primary drivers of most voluntary departures. Among businesses with 5-19 employees, 52% of respondents report their HR team being moderately burned out — high workloads are pushing people away.

Involuntary Turnover (when you have to let people go)

Attendance or punctuality, performance issues, violation of company policies, and lack of necessary skills or qualifications are the primary drivers.

Both types of employee turnover cost money, but voluntary turnover is often more preventable — and given that 45-69% of businesses experience it, that's where the biggest opportunity lies.

YoY Trends: Separation Costs Have Increased

Turnover isn't just frequent — it's getting **dramatically more expensive**:



At the same time, more businesses are experiencing **voluntary separations — from 42% in 2025 to 51% in 2026**.

Translation: more people are leaving, and each departure costs more. Retention isn't just good HR practice — it's financial survival.

What You Can Do

Reducing turnover requires different strategies for voluntary and involuntary departures.

To Reduce Voluntary Turnover:

- ✓ Prioritize work-life balance through flexible schedules and remote work options
- ✓ Address burnout proactively with workload monitoring and mental health support
- ✓ Create growth opportunities through performance management and learning systems
- ✓ Offer competitive benefits that make staying more attractive than leaving

To Reduce Involuntary Turnover:

- ✓ Set clear expectations with regular feedback
- ✓ Invest in onboarding for strong cultural integration from day one
- ✓ Support development through training that helps employees adapt to change
- ✓ Provide coaching and performance improvement plans before separation becomes necessary

When you engage employees, support development, offer competitive benefits, and free HR to focus on retention, turnover drops. Retention is always cheaper than replacement.

Health Insurance (Rising Costs, Rising Expectations)

Health insurance has shifted from a differentiator to table stakes. Between rising costs and growing employee expectations, offering competitive benefits has become more complex and expensive.

What We're Seeing

Health insurance remains the most widely offered benefit. The challenge here isn't whether to offer it; it's how to manage what comes with it.

# of Employees	% Currently Offering Health Insurance
5-19	72%
20-49	87%
50-99	94%
100-499	89%

Rising costs with uncertain relief. Premiums keep climbing. Many businesses use tax credits to offset costs, but government policy changes could reduce or eliminate that support.

Compliance is complicated. Affordable Care Act (ACA) requirements mean tracking eligibility, managing paperwork, and staying current on regulations — with penalties for mistakes.

It's no longer a differentiator. Employees expect health insurance. Flexible schedules, mental support, and time off are what attract talent today.

What It Means

Health insurance costs more but matters less as a competitive advantage. Employees want benefits that support their whole lives, not just their medical needs. Businesses winning the talent competition find ways to offer both without breaking the bank.

Of course, health insurance is still the baseline — without it, you're out of the running. But if you stop there, don't expect people to stick around. Employees want to know you're invested in their overall wellbeing, not just checking a box.

YoY Trends: The Shift From Coverage to Culture

The benefits landscape has evolved quickly:

2025 **70%** of companies offered health insurance as their top benefit

2026 **Coverage has increased (77% now offer it)**, but wellbeing benefits emerged as the new priority — 41% now offer wellbeing time off, stress-management support, and flexible work

What You Can Do

You can manage costs and stay competitive without choosing one or the other:

- ✓ **Get expert help** — licensed agents find cost-effective options and negotiate better rates through national carriers
- ✓ **Add low-cost wellness perks** — flexible schedules, mental health days, and other wellness programs boost satisfaction without big budgets
- ✓ **Automate compliance** — tracking tools monitor ACA requirements and can help mitigate risk of penalties
- ✓ **Build budget flexibility** — prepare for potential tax credit changes that could increase your costs
- ✓ **Streamline administration** — automated enrollment and benefits management free up time for strategic priorities

Growth Is the Goal — and an Obstacle

Here's what makes this moment unique: **growth is businesses' biggest priority and one of employers' biggest challenges**. That tension — needing to expand while dealing with inflation, compliance requirements, rising costs, and limited resources — defines the business landscape in 2026.

What We're Seeing

Growth ranks as a top priority across all segments.

# of Employees	% Making Growth a Top or High Priority
5-19	61%
20-49*	65%*
50-99	74%
100-499	72%

But here's the tension: growth is also one of the biggest challenges. Among businesses with 20-49 employees, 35% find growth extremely or very challenging. For those with 50-99 employees, that number jumps to 49%.

Nearly half of mid-sized businesses are actively pursuing something they find profoundly difficult.

*For businesses with 20-49 employees, growth ties with inflation at 65% as a top priority, while customer acquisition and retention edge both out at 66%.

What It Means

You can't wait for perfect conditions — competitors won't, and neither will your best employees. But pursuing growth while managing inflation, compliance, benefits costs, and data security means every decision carries more risk. The path forward requires working smarter, not harder.

YoY Trends: Expectation Then, Priority Now

A note on the data: We asked different but related questions in this section. Earlier surveys focused on expectations; 2026 looks at priorities and challenges — showing how the growth mindset is evolving.

2025 **93% expected growth**, with 76% expecting growth of 10% or more

2026 **85% expected revenue growth**, with 59% expecting growth of 10% or more

2026 **63% have business growth as a top or high priority**, but 39% cite it as a major challenge

This isn't pessimism — it's realism. Businesses have shifted from assuming growth will happen to strategically planning how to make it happen despite obstacles. Instead of chasing aggressive targets, you're pursuing sustainable expansion while simultaneously managing inflation, compliance demands, benefits costs, and security concerns. It's measured optimism backed by execution.

What You Can Do

The key to sustainable growth isn't ignoring the challenges — it's solving them:

- ✓ **Automate what slows you down** — free your team from admin work so they can focus on customers, strategy, and revenue
- ✓ **Scale efficiently** — technology that streamlines payroll, time tracking, HR, and compliance lets you grow revenue without proportionally growing back-office costs or headcount
- ✓ **Reduce risk as you expand** — automated compliance and error-reduction tools mean scaling doesn't increase your exposure to penalties or mistakes
- ✓ **Onboard quickly** — digital systems make bringing on new employees fast and easy
- ✓ **Use data to make smarter bets** — analytics help you spot trends, optimize costs, and invest resources where they'll have the biggest impact

Growth doesn't happen in spite of operational challenges — it happens when you systematically remove them.



How To Go From Reactive to Strategic

When you're running a business with **5-49 employees**, you're likely reacting to problems instead of building the systems that would prevent them. You know what needs fixing — you just don't have the time to fix it. Here's how to break that cycle.

What We're Seeing

No leadership bench or pipeline >

49% of businesses with 5-19 employees and 37% of businesses with 20-49 employees **manage leadership transitions reactively**.

They're scrambling to fill roles as they open up rather than building a pipeline of future leaders.

Payroll consumes your week >

Businesses with 5-19 employees spend 18% of their HR **time on payroll processing** and businesses with 20-49 employees spend 14% of their HR **time on payroll processing**. That's nearly one-fifth of their bandwidth on a single task.

When payroll, time tracking, benefits, and HR live in separate systems, you're not just processing payroll — you're manually transferring data, reconciling discrepancies, and troubleshooting errors.

Benefits management is overwhelming your team >

27% of businesses with 5-19 employees and 37% of businesses with 20-49 employees **find managing health and benefits challenging**. Meanwhile, 44% of businesses with 5-19 employees and 34% of businesses with 20-49 employees **report burnout or fatigue** among HR team members.

Employees expect competitive health coverage plus wellbeing benefits, but when your HR team is burned out and your budget is maxed out (**29% cite budget constraints**), something has to give.

HR teams end up choosing to cut benefits and risk retention, or overwhelm your team and risk mistakes.

Hiring is draining resources >

Cost per hire has become the #1 HR metric for 47% of businesses with 5-19 employees and 54% of businesses with 20-49 employees.

When you're running lean, you can't afford lengthy hiring processes, bad fits, or high turnover that forces you to start over. But without efficient systems, your screening is too manual, your pipeline moves too slowly, and you're losing great candidates to faster competitors.



Building Systems That Work

The solution isn't working harder — it's building systems that free you from constant firefighting.

Create a leadership pipeline before you need it

> Start by identifying employees who show leadership potential early. Give them stretch assignments, mentorship, and training. Use your performance management tools to document succession plans that track development progress and readiness.

When you build your bench now, you stop scrambling later.

Unify HR operations

> Use an HCM system that connects payroll, time tracking, benefits, and HR in one place, so you can run payroll in clicks instead of hours. Let automation handle tax filing, calculations, and time integration — eliminating manual data entry and chasing down timesheets.

Every hour you save on payroll is an hour you can invest back into growing your business.

Make benefits administration sustainable

> Before adding new benefits, optimize what you already have. Use technology to automate benefits administration and free up your team for strategic work. You may also want to tap into Professional Employer Organizations (PEOs) or insurance agencies for access to cost-effective health plans at rates typically reserved for larger companies. Protect your HR team with realistic workload expectations.

The key is strategic prioritization — focusing on what delivers value without creating unsustainable work.

Streamline your hiring process

> Streamline your hiring process with applicant tracking tools that manage candidates in one place and automate initial screening. Structured processes move qualified candidates through your pipeline faster, while digital onboarding gets new hires productive quickly. By tracking which job boards and referral sources deliver your best hires at the lowest cost, you can focus resources where they actually work.

When your hiring has structure, you move faster, spend less, and win better talent.

The Bottom Line

At 5-49 employees, you're too busy fixing urgent problems to build the systems that would prevent them. But every process you automate gives you back bandwidth to focus on the bigger picture. The path forward isn't more hustle — it's turning that hustle into systems that make your work easier and smarter.

How Paychex Helps

- [Paychex Flex® \(HCM Platform\)](#)
- [Professional Employer Organization \(PEO\) Services and HR Consulting](#)
- [Benefits Administration](#)
- [Recruiting and Applicant Tracking System \(ATS\)](#)
- [Talent Management Tools](#)



How To Recruit and Retain Specialized Talent

When you're running a business with **50-499 employees**, the stakes change. You're competing for specialized talent against companies with larger budgets, defending against cybersecurity threats that can cripple operations, and absorbing turnover costs that hit harder at this scale. You're too big to wing it, but you don't have enterprise-level resources. Here's how to compete — and win.

What We're Seeing

The talent war touches everything

Talent management emerges as a top HR challenge for **40%** of businesses with 50-99 employees and **43%** of businesses with 100-499 employees — but it doesn't exist in isolation.

You can't just attract specialized talent. You also need to:

- **Develop leaders to manage them** — **38%** of businesses with 50-99 employees and **43%** of businesses with 100-499 employees find leadership development extremely challenging
- **Keep them healthy and engaged** — **37%** of businesses with 50-99 employees and **47%** of businesses with 100-499 employees struggle with employee wellbeing
- **Build compliance frameworks as you scale** — **40%** of businesses with 50-99 employees and **43%** of businesses with 100-499 employees find HR risk management and compliance challenging

Once you hire someone great, keeping them requires competitive benefits, growth opportunities, strong leadership, and attention to their wellbeing. Lose good people, and you're back to square one.

Turnover costs escalate — and the damage compounds

The financial impact intensifies as you grow.

For businesses with 50-99 employees, the average estimated turnover cost is **\$14,829 per departure**. For 100-499 employees, it jumps to **\$23,012**. But the real shift isn't just the dollar amount — it's how turnover damages your organization.

At 50-99 employees, the pain is productivity losses (61%). At 100-499 employees, it's training and onboarding costs (66%), team dynamic disruption (64%), and workforce burnout (60%).

Every departure has a multiplier effect — projects stall, teams fracture, remaining employees absorb extra work and burn out, and institutional knowledge walks out the door.

You become a bigger target for cyberattacks

Cybersecurity jumps from a significant challenge (**47% of businesses with 50-99 employees**) to the #1 concern (**62% with 100-499 employees**).

The spike isn't coincidental. As you grow past 100 employees, you have more systems to protect, more data to secure, more endpoints to monitor, and you become more attractive to attackers.

Like growth itself, **cybersecurity is urgent** (**30%** of businesses with 50-99 employees and **32%** of businesses with 100-499 employees **make it a top priority**).

A breach isn't just an IT problem — it's an existential threat. One successful cyberattack can set your business back years.

When a cyberattack succeeds, operations grind to a halt, customer trust erodes, regulatory penalties mount, and recovery costs pile up while your reputation suffers damage that takes years to repair.

As you grow, the risk intensifies. Mid-sized businesses make attractive targets because they typically lack enterprise-level security while holding valuable data.

The DIY security measures that worked with 20 employees won't protect you at 200.

Building Your Competitive Advantage

The solution isn't outspending larger competitors — it's out-strategizing them with systems that work smarter.

Recruit faster and onboard seamlessly

- > AI-assisted recruiting tools identify and screen qualified candidates faster, reducing your time-to-hire while digital onboarding creates professional first impressions and accelerates new hire productivity.

This approach lets you compete on speed and experience rather than budget, securing top talent even when larger competitors have deeper pockets.

Pay competitively and offer benefits that matter

- > Compensation benchmarking shows you what the market pays so you can make informed offers, while health coverage, wellbeing perks, and flexible work options help you compete beyond salary alone.

When employees see competitive total rewards, they're less likely to leave for marginal increases elsewhere.

Invest in growth and development

- > Performance management systems deliver regular feedback and development planning that map clear career paths, while learning management platforms offer training courses that build skills and signal investment in employee growth.

When people see a real future with your organization, retention naturally becomes easier than replacement.

Free up HR to focus on people, not paperwork

- > When payroll, compliance, and admin run automatically through unified HCM systems, your HR team has bandwidth for engagement, culture-building, and retention efforts.

Consider PEO support to take HR administration entirely off your plate, letting you focus on keeping your best people.

Build security into your foundation

- > Start with unified platforms that have fewer vulnerabilities than patchwork systems. You can also implement multi-factor authentication and role-based permissions to control access tightly and make sure data is encrypted in transit and at rest.

Most importantly, train your team in phishing and password hygiene — education turns employees into your first line of defense.

Prepare for the worst, access the best

- > An incident response plan and cybersecurity insurance help you recover faster when breaches occur, while security and compliance specialists provide enterprise-level protection at mid-market budgets.

With secure systems and expert guidance in place, cybersecurity becomes manageable even as you scale.

The Bottom Line

At 50-499 employees, you've reached the stage where ad-hoc solutions create more problems than they solve. Strategic infrastructure — recruiting systems that accelerate hiring, retention tools that reduce turnover, security protocols that defend at scale — transforms complexity from an obstacle into an advantage. That's how mid-sized businesses compete with enterprise players and win.

How Paychex Helps

- [Paychex Flex® \(HCM Platform\)](#)
- [Professional Employer Organization \(PEO\) Services](#)
- [HR Consulting](#)
- [AI-Assisted Recruiting](#)
- [Talent Management Tools](#)
- [Cyber Liability Insurance](#)



How Businesses Are Using AI

Our 2025 survey asked 500 U.S. companies with **1-1,000 employees** about their use of AI, and the data reveals a story of two different realities.



The Adoption Gap

If you have 100-1,000 employees, you're likely already using AI. If you have 20-99 employees, there's a good chance you've at least started experimenting. But if you're running a business with 1-19 employees? You're probably still on the sidelines — and you're not alone.

The majority of small businesses have not yet adopted AI, and many aren't even interested. The reasons make sense:

- Tighter budgets
- No IT team
- Zero bandwidth for another project

But while these businesses wait, the gap widens.

Different Sizes, Different Uses

Here's what early adopters are actually doing with AI:

Businesses with **1-19 employees** use it for **web analytics and business intelligence**.

They want better quality data and stronger sales.

Businesses with **20-99 employees** **automate workflows and strengthen cybersecurity**.

They're after sales growth and customer insights.

Businesses with **100-1,000 employees** **deploy virtual assistants and upgrade customer service**.

Their wins? Better data security and faster growth.

The pattern is clear. As businesses grow, AI moves from analysis to automation to transformation.

What's Holding Everyone Back

Smaller businesses struggle to keep pace with the rapid evolution of AI, and they are concerned about the associated costs. Larger businesses face distinct challenges, including customizing AI for their specific needs, timing the implementation correctly, and ensuring employee buy-in.

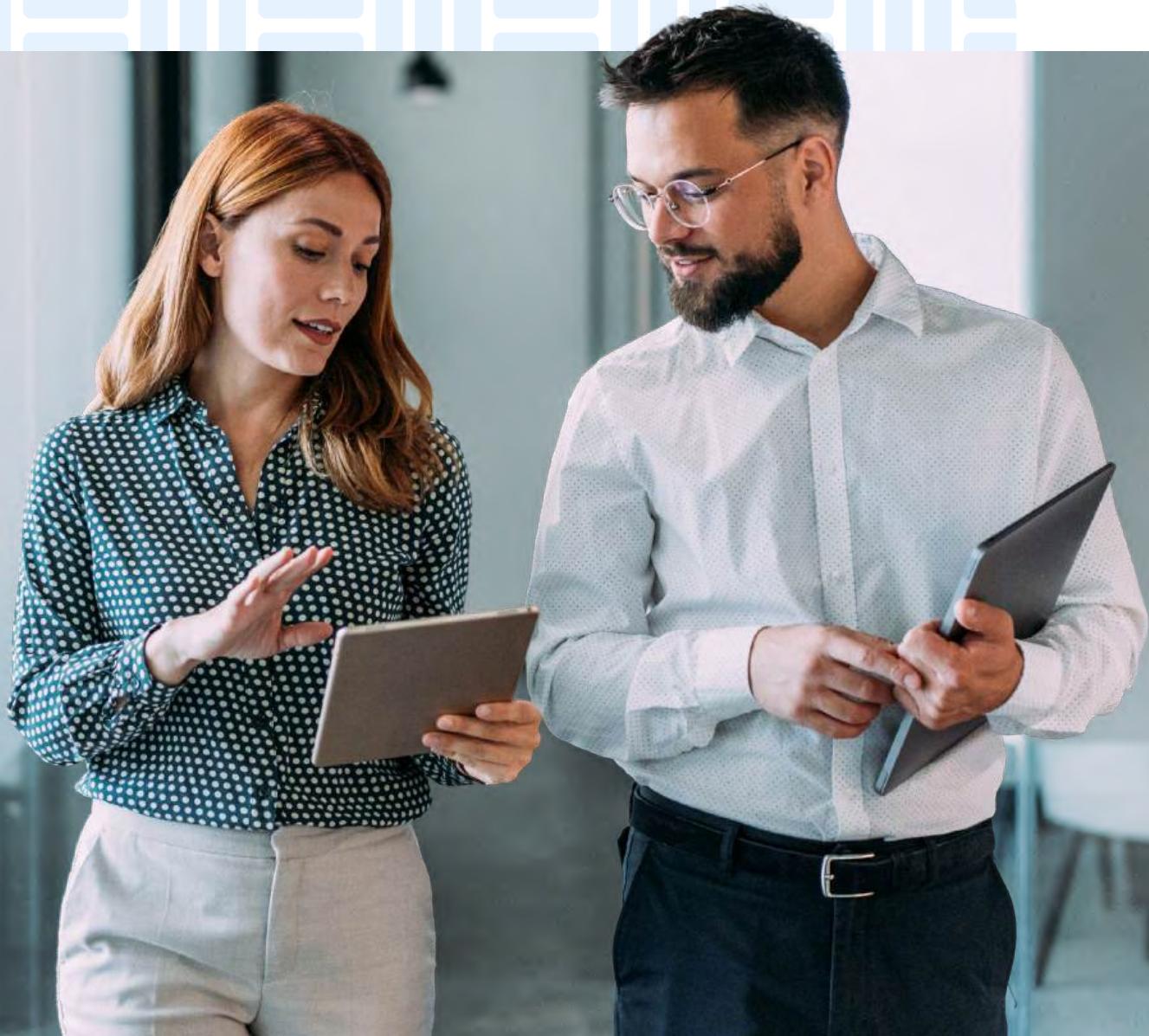
But everyone agrees on one thing. When selecting AI tools, ease of setup is the most important factor. After that? Smallest businesses want affordability. Mid-sized businesses want quality. Larger businesses need security.

Your Move

If you haven't started with AI, you're falling behind competitors who are automating operations, protecting data more effectively, and gaining a deeper understanding of their customers.

But you don't need a big budget or a technical team. Start with one tool that solves one real problem. Pick something easy to use, prove it works, and then expand.

The businesses that succeed in 2026 will begin small, learn quickly, and build upon their foundation. You can too.



From Overwhelmed to Orchestrated

Throughout this report, one pattern emerges. The challenges businesses face don't exist in isolation — they compound. Inflation drives up costs, increasing pressure on benefits, affecting retention, making talent management more challenging, draining HR capacity, and leaving less time for strategic work.

Each challenge makes the others worse. And at the center of this compounding complexity sits a single constraint: **time**.

The Automation Catch-22

Here's the bind keeping many businesses stuck: **you need automation to free up time and grow efficiently, but automation requires investment** — and that investment feels out of reach.

The data reveals the tension:

- **33% of businesses find AI adoption** and usage extremely challenging (increasing with company size)
- **34% struggle with technology** selection and integration
- **39% cite interest rates** as a major obstacle to accessing capital

These tools cost money — and for some business that can feel out of reach. But businesses breaking through understand this: **not automating costs more than automating**.

The Real Math

Consider the weekly time drain:

- **7.3 to 12.1 hours per week** on HR administration
- **17% of HR time** on payroll processing alone
- Multiply by **52 weeks** at your team's hourly rate

Then add:

- Turnover costs: **\$10,200 to \$23,000** per employee on average
- Compliance penalties from **manual errors**
- Lost growth opportunities from **bandwidth constraints**
- **Competitive disadvantage** against automated competitors

The ROI quickly becomes clear. The question shifts from "**Can we afford this?**" to "**How fast can we implement it?**"

Where One System Solves Multiple Solutions

Successful businesses in 2026 aren't buying five separate tools. They're using **one integrated HCM platform** that addresses multiple challenges simultaneously.

Managing Inflation and Controlling Costs

- Real-time dashboards show labor costs by department, location, and time period so you can spot overtime patterns and scheduling inefficiencies before they spiral
- Data-driven visibility helps you optimize spending without sacrificing quality or competitiveness

Protecting Data and Defending Against Cybersecurity Threats

- Enterprise-grade encryption, multi-factor authentication, and role-based permissions help protect employee data
- Unified platforms have fewer vulnerabilities than patchwork systems, scaling security protection as you grow

Reducing Turnover Costs

- Performance management enables regular feedback and development tracking while learning systems demonstrate investment in employee growth
- Engagement tracking helps you intervene before people start looking elsewhere
- When HR teams aren't drowning in manual admin work, they have more time to focus on retention and culture-building

Managing Health Insurance Complexity

- Access to licensed agents who negotiate with national carriers delivers lower rates typically reserved for larger companies
- Automated enrollment and ACA tracking eliminates administrative burden while clear reporting enables smarter benefit decisions

Enabling Sustainable Growth

- Scale your workforce without proportionally scaling back-office headcount through automation of payroll, time tracking, and HR tasks
- Automated onboarding brings new hires up to speed in days instead of weeks, while built-in compliance means expansion doesn't increase risk exposure
- Real-time analytics identify which teams and initiatives drive revenue, so you know where to invest

Reclaiming Time Consumed by Payroll and Administration

- Unified systems eliminate manual data transfer between separate platforms, running payroll in clicks instead of hours
- Automated tax filing, time integration, and compliance monitoring free 7+ hours weekly for strategic work
- Built-in applicant tracking manages candidates, automates screening, and tracks which sources deliver best hires at lowest cost



Why Integration Matters

Individual point solutions require manual data transfer, create security gaps, and multiply costs. An integrated platform delivers:

- Lower total cost with one subscription instead of multiple tools
- Automatic data flow without manual entry between systems
- Fewer security vulnerabilities with fewer integration points to protect
- Seamless scalability that adds capabilities as you grow without switching platforms
- Connected insights that reveal patterns and opportunities invisible in disconnected systems

When your challenges are interconnected, your solutions should be too. The businesses thriving in 2026 aren't just automating individual tasks — they're building integrated infrastructure that makes every challenge more manageable and every opportunity more reachable.

The Strategic Choice: Where to Start

You don't need to solve everything at once. Start with your biggest constraint:

- If time is your constraint: Automate payroll and HR administration to reclaim 7+ hours per week
- If retention is your issue: Invest in performance management, learning systems, and competitive benefits
- If growth is your goal: Build systems that scale without requiring proportional headcount increases
- If you're overwhelmed by HR complexity: Consider HR outsourcing or a PEO to handle payroll, benefits, compliance, and admin while you focus on strategy and growth

Start with the highest-impact area, prove the ROI, and build from there.

The Real Question

It's not whether you can afford to automate — **it's whether you can afford NOT to when your competitors are.**

While you're spending hours on manual payroll...

... they're spending those hours on growth.

While you're losing employees to burnout...

... they're retaining them with better systems.

While you're too stretched to pursue opportunities...

... they're capitalizing on them.

The challenges businesses face in 2026 are real, complex, and interconnected. But they're not insurmountable. Growth isn't about working harder or waiting for ideal conditions — it's about building infrastructure that lets you work smarter.

The path forward is clear: automate what drains your time, integrate what's disconnected, and consider outsourcing HR complexity to specialists who deliver enterprise-level capabilities without enterprise costs. Whether through technology, HR services, or a full-service PEO, the goal is the same — free your team to focus on what drives growth.

The businesses that thrive in 2026 won't be the ones that waited for perfect conditions. They'll be the ones that built the systems to succeed despite imperfect ones.

About Paychex

Paychex, Inc. (Nasdaq: PAYX) is the digitally driven HR leader that is reimagining how companies address the needs of today's workforce with the most comprehensive, flexible, and innovative HCM solutions for organizations of all sizes. Offering a full spectrum of HR advisory and employee solutions, Paychex pays 1 out of every 11 American private sector workers and is raising the bar in HCM for approximately 800,000 customers in the U.S. and Europe. Every member of the Paychex team is committed to fulfilling the company's purpose of helping businesses succeed. Visit [paychex.com](https://www.paychex.com) to learn more.

Paychex Offers Solutions With A Human Touch

Working with dedicated partners who understand your business needs makes all the difference in helping solve your business challenges.