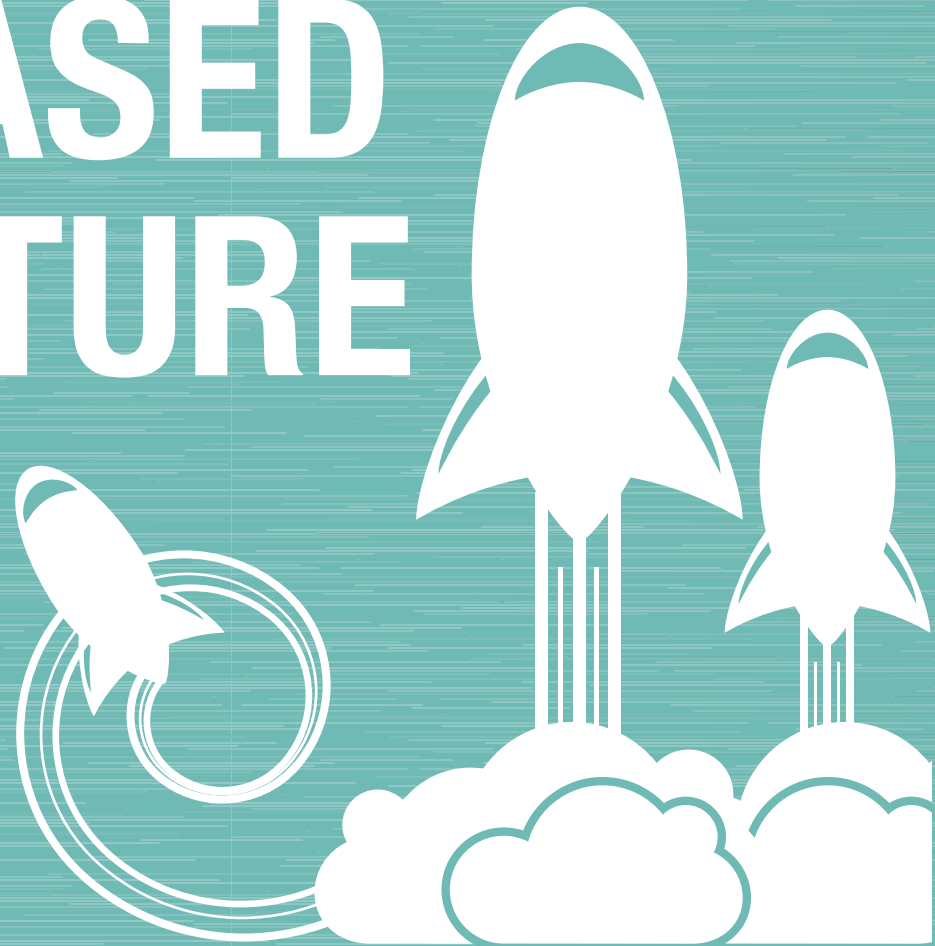


DEVELOP A MARKET-BASED PAY STRUCTURE

Step up to Smart
Compensation Planning



A PAYSACLE PUBLICATION

WHY EXTERNAL MARKET
ANALYSIS IS
IMPORTANT

“The war for talent and proliferation of pay information, especially free and low-cost data online, are increasing pressure on HR offices to have and use accurate, up-to-date market pay information, to share it with managers and employees and, at times, to defend its use while refuting incorrect or inferior data. Knowledge of and skill in selecting and using compensation surveys are required.”

- Kenneth H. Pritchard, *Selecting and Using Compensation Surveys:
Critical Issues for Today's HR Professionals*



CREATE MARKET CENTERED RANGES



- MARKET PRICING VS. POINT FACTORING
- SELECTING SURVEY DATA
- APPLYING YOUR COMPENSATION PHILOSOPHY TO THE DATA
- CHOOSING BENCHMARK JOBS
- GETTING THE DATA RIGHT
- AGING DATA
- WEIGHTING YOUR SOURCES
- DETERMINING YOUR PAY GRADES
- BUILDING YOUR RANGES
- HOT JOBS

Decide on the Correct Job Evaluation Method

Market Pricing VS Point Factoring

Market pricing is the most effective approach to job evaluation. Based primarily on external factors, the goal is to be competitive. Point factoring or other systems that evaluate jobs internally are approaches that rely on internal alignment. For example, in a traditional point

factoring approach, you would assign a certain number of points to factors which would span a broad spectrum of jobs (i.e. decision making, size of impact, etc). These jobs are assigned pay grades according to their total points.

Advantages of Market Pricing

A market-based approach, balanced with some internal alignment, will enable more reliable pay grades.

The Advantages of Using Market Data:

- o There is an objective standard (market data) that establishes jobs within ranges.
- o Allows you to establish pay ranges minimums and maximums that are competitive with the local market - and helps you retain employees. In today's highly competitive labor market, it's not enough to just be competitive internally, you need to be competitive in your market so that you can attract and retain talented employees.
- o It takes less time to maintain.
- o It is harder to manipulate the results.



Selecting Survey Data


Selecting Sources

Traditional compensation consultants will tell you it is a best practice to select three salary sources to provide an equal balance when analyzing data. With three different sources, you can validate your data one against the other, which can help you confirm your pay ranges.

When choosing your surveys, select ones with good coverage for your industry, geography and type of organization. These are the three most important factors when looking at overall survey data. For example, If you are a non-profit organization, you must get non-profit data.

A smart alternative to the expense of multiple survey sources is to use a data source that has good comprehensive coverage. PayScale is a good single-source option. We never limit the types of positions, industry or the geography you have access to. This

means that you'll have access to a broad cut of information for one simple price.



PayScale = 40 million current employee profiles, 250 compensable factors, 14,000 unique job titles.

The goal is to be able to benchmark 75-80% of the positions within your organization. Generally this is best accomplished through multiple sources, but if you only have a budget for one source, then go with PayScale for the broadest single source coverage.

The methodology of the survey that you are using is important to understand and validate because it provides credibility to your comp plan as you sell this plan to your executives.

Consider the Following Questions:

- o How is data collected?
- o Where does the data come from?
- o How many employers/employees are represented in the data?
- o How reliable and recent is the data?
- o Do they use aging or geographical differentials?

Perhaps the survey source is taking a major metropolitan area and applying different locales within the same state. This won't be reliable data for you if you're operating in a smaller city. The same goes for aging. If you have a survey that is using data from two years ago and are trying to age it, that data won't be reliable because a lot has happened or changed within the last two years.

AGING IS GREAT...
FOR WINE AND CHEESE



At PayScale we provide up-to-date data. A lot of our reports are taken from data collected in the past 6 months and this timeliness is crucial in a fast moving economy like this.

Though price is also important, make sure to focus instead on value. Good data doesn't come for free. Keep in mind that in a lot of traditional surveys, participation is required in order to get the data, so while you're considering the costs, you also have to factor in your time to participate in that survey.

As you are evaluating different sources, check to see how many jobs you will be able to benchmark from that source and divide it by the price of the survey.

Find out which survey will give you the most value and at what price.

Also think about which target you are going to use from the survey data. Be aware of the difference between the average and the median and make sure not to confuse or exchange them. If you choose to use percentiles, make sure you can get that same percentile from every survey source. Then, you have to decide if you want to look at the Base Salary or the Total Cash Compensation (TCC).

DO YOU HAVE TIME TO
FILL OUT SALARY SURVEYS?

A survey can take 10-100+ hours
depending on your company size.



Choosing Benchmark Jobs

Once you have your survey data and have decided how you will look at the data, then you have to choose your benchmark jobs. When selecting your benchmark jobs, focus on those positions that are standard across different industries. Jobs such as Administrative Assistant, Accountant, and HR Generalist are a few examples of standard jobs.

Next you will want to choose industry specific positions that are standard at your company compared to positions within other organizations in your industry. Civil Engineer, RN and Assembly Line Worker are three such examples. Try to avoid hybrid jobs which don't make good benchmarks. These refer to employees who do multiple jobs or tasks.

7 of 10 HR PROFESSIONALS

Choose PayScale Over Traditional Salary Data Sources

FIND OUT WHY NOW!

What Should You do With Non-benchmark Positions?

The key thing to know here is not to force matches to market data. Don't make a decision on how a job should be paid using inferior data. Instead, use your job evaluation tool to slot the position within a pay grade, or use your own internal assessment of comparable positions within your organization with similar skill, scope, decision making and responsibility. Typical surveys will result in more non-benchmark jobs, which is not ideal.

Organizations Using PayScale Data Will be Able to Benchmark **85-95%** of Their Jobs Because of the Broad Range of Data Available.

It is easier for you to have a great depth of data and less non-benchmark jobs, but occasionally non benchmark positions need to be handled.

Getting the Data Right

When matching jobs, don't match on title alone. Look at the duties, the scope, experience, education etc.

PayScale calls these compensable factors. You also have to decide how to handle hybrid jobs and leveling within your organization.

For hybrid jobs, consider the two (or more) jobs this person does. One may require higher skill than the other, and this could affect the pay range. You are likely paying this person for their highest skill level even though you may ask them to perform at a lower skilled job. PayScale's software automates the process of matching hybrid jobs to the market.

In terms of leveling, you may want to think about whether you want to price one job within a series or price each job within the series. For example, if the market data for three jobs in a series shows a disparity greater than 75%, it may mean that the jobs don't fall in consecutive pay grades. However, it more correctly reflects the market for these jobs. If on the other hand you price the middle job in the sequence, you can place the lower level and higher level job one grade lower and higher respectively. This would allow for smooth internal progression, but may not reflect the external market as well.

PayScale's MarketMatch™ Algorithm

PayScale uses a modern methodology in both sourcing our data and in matching it to your real-world scenarios.

While surveys may provide data that was sourced a year ago, our research model is built on the concept of crowdsourcing. We update our data twice daily with salary profiles sourced from real people.

That gives us the biggest, freshest data set in the world, currently more than 40 million profiles.

Just as Google matches your search terms to the most relevant results, PayScale's MarketMatch™ algorithm matches your unique positions to the most relevant salary data in your market.

Aging Data

Aging data is sometimes necessary when you're dealing with dated information, but it is risky because the market changes fast and doesn't move the same for all jobs.

Even though it's become common, it doesn't really make sense. It's simply the best you can do when your data was collected a year ago or more.

If you are using PayScale's data, aging is not necessary as all reports are aged to 30 days prior to the report run date. This aging is done with our sophisticated MarketMatch algorithm that uses information about the changes in market that are reflective of the variables in your report (industry, geography, position, etc).

To age data, you first want to choose the multiplier that

represents what has been happening in the market since the date of the survey. There are many ways to find a multiplier. For example, World at Work (www.worldatwork.com) publishes a survey every year with actual and anticipated wage increases.

Here's How to Age Data:

- o Find the effective date of the survey data and decide on the target date for the data.
- o Decide on an annual adjustment factor, or percentage.
- o Calculate the portion of the factor to use, which is based on the effective date of your market data and the date to which you want to age the data.
- o Apply the aging factor to the market data.

Aging Data		Adjustment Factor: 2.9%							
	Effective Date	Target Date		Source 1	Source 1 Aged	Source 2	Source 2 Aged	Source 3	Source 3 Aged
Buyer II	7/1/2012	1/1/2013	1.47%	\$38,500	\$39,064	\$41,000	\$41,601	\$43,000	\$43,630
Marketing Coordinator	7/1/2012	1/1/2013	1.47%	\$31,000	\$31,454	\$32,000	\$32,469	\$33,000	\$33,484
Accountant 2	7/1/2012	1/1/2013	1.47%	\$54,000	\$54,792	\$56,500	\$57,328		

Weighting Data

Weighting is recommended when using multiple sources of data. This can help you determine an appropriate market wage from multiple sources of data.

Here's How to Weight Data:

- o Choose a percentage weight you will assign to each source. Put more weight on sources you find more reliable based on the representation or quality of the data.

- o Multiply the source market data by the percentage (weight) assigned to that source.
- o Add the weighted numbers from each source together.

This is your weighted average. This data average will be used to make the decisions for your compensation structure. You can do this for every job and it will show you the market value for that job.

Position	Source 1	Weight	Source 2	Weight	Source 3	Weight	Weighted Average
Buyer II	\$39,064	0.25	\$41,601	0.5	\$43,630	0.25	\$41,474
Marketing Coordinator	\$31,454	0.25	\$32,469	0.5	\$33,484	0.25	\$32,469
Accountant 2	\$54,792	0.25	\$57,328	0.5			\$56,060

Want an easier, automated solution?
TRY PAYSCALE INSIGHT™



CONCLUSION

Now that you've started the hard work of stepping up to good comp planning, check out all the other steps in this e-book series:

Step 1: Gain Executive Support

Step 2: Define Your Comp Strategy

Step 3: Develop Market Based Pay Structures

Step 4: Build Pay Ranges

Step 5: Implement Your Total Rewards Plan



Stay on top of compensation with PayScale:

Follow the PayScale Index

Subscribe to our Blog: Compensation Today

Attend a Webinar

Download an HR Whitepaper



Creator of the largest database of individual compensation profiles in the world, PayScale, Inc. provides an immediate and precise snapshot of current market salaries to employees and employers through its online tools and software. PayScale's products are powered by innovative search and query algorithms that dynamically acquire, analyze and aggregate compensation information for millions of individuals in real time. Publisher of the quarterly PayScale Index™ PayScale's subscription software products for employers include PayScale MarketRate™, PayScale Insight™, and PayScale Insight Expert™. Among PayScale's 2,500 corporate customers are organizations small and large across industries including Mozilla, Tully's Coffee, Clemson University and the United States Postal Service.

For more information, visit www.payscale.com/hr.