



# **Market Analysis Overview**

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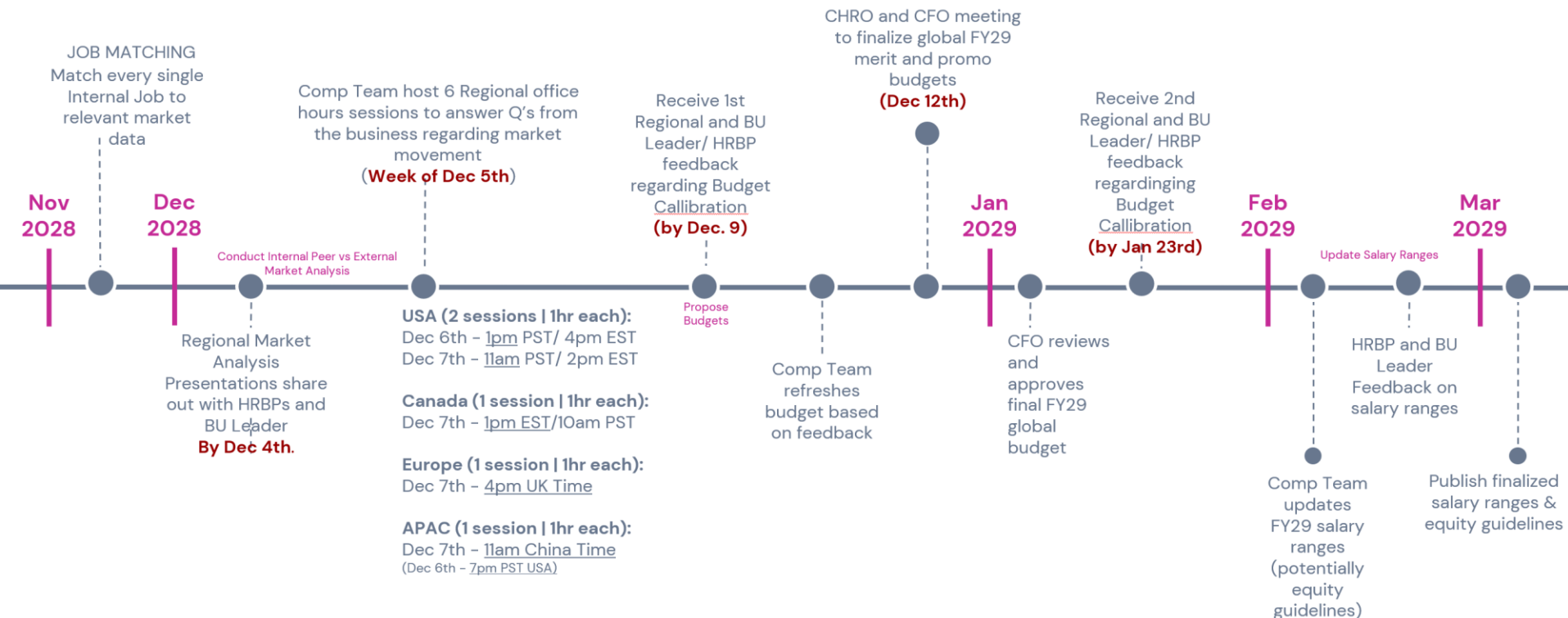
# Agenda

## This orientation will cover:

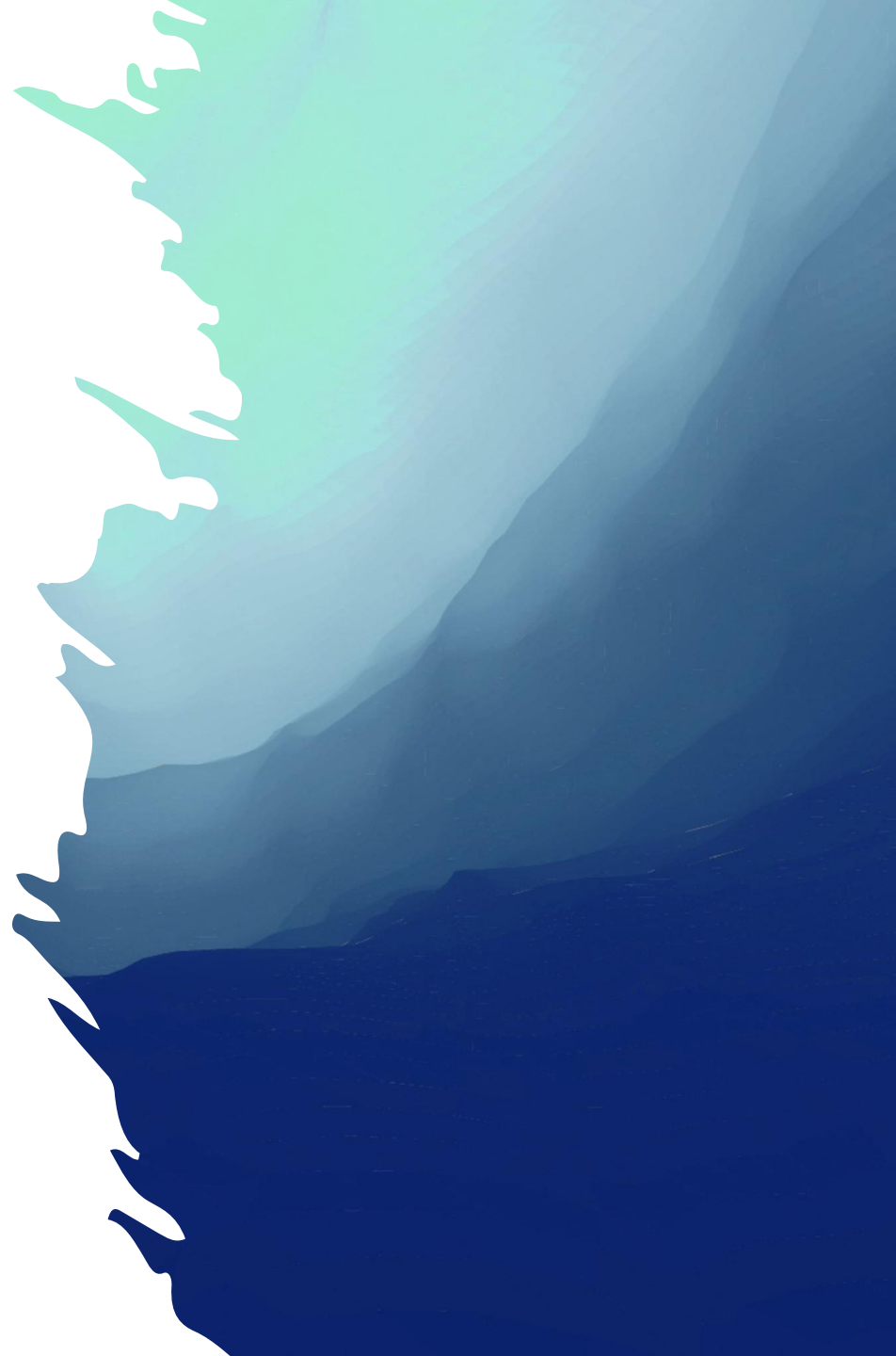
1. Timeline of Annual Compensation Activities (before Focal)
2. MA Overview
3. Methodology
  - a. Compensation Philosophy
  - b. Pay Position
  - c. Cost of Labor
  - d. Frequency of Analysis
  - e. Pay for Performance
4. Budget Planning
5. What Comp Will Be Sharing With HRBPs?
  - a. Sample Exhibit of Market Analysis Results
6. APPENDIX
  - a) Supply and Demand
  - b) Selecting the Right Survey
  - c) Comp Key Terms
  - d) Common FAQs



# Timeline of Upcoming Compensation Activities– Market Analysis, Budget Allocation & Salary Range Build



# MA OVERVIEW



# Market Analysis Overview

- The objective of market analysis is to determine the market pay level as defined by our compensation philosophy.
- We want to be more **proactive vs reactive** to market changes. By synthesizing data insights from the past, referring to survey data, best practices, methodologies, and most importantly listening to feedback from business stakeholders, it will help us indicate if we need to price a job or benchmark out of cycle.
- When we benchmark our pay against other companies with similar jobs, we can identify any large, unexplainable disparities.
- Analyzing pay can have a huge impact on **retaining** and **attracting top talent**, improve **job satisfaction, morale, budgeting, performance**, and **maintaining internal and external equity**.

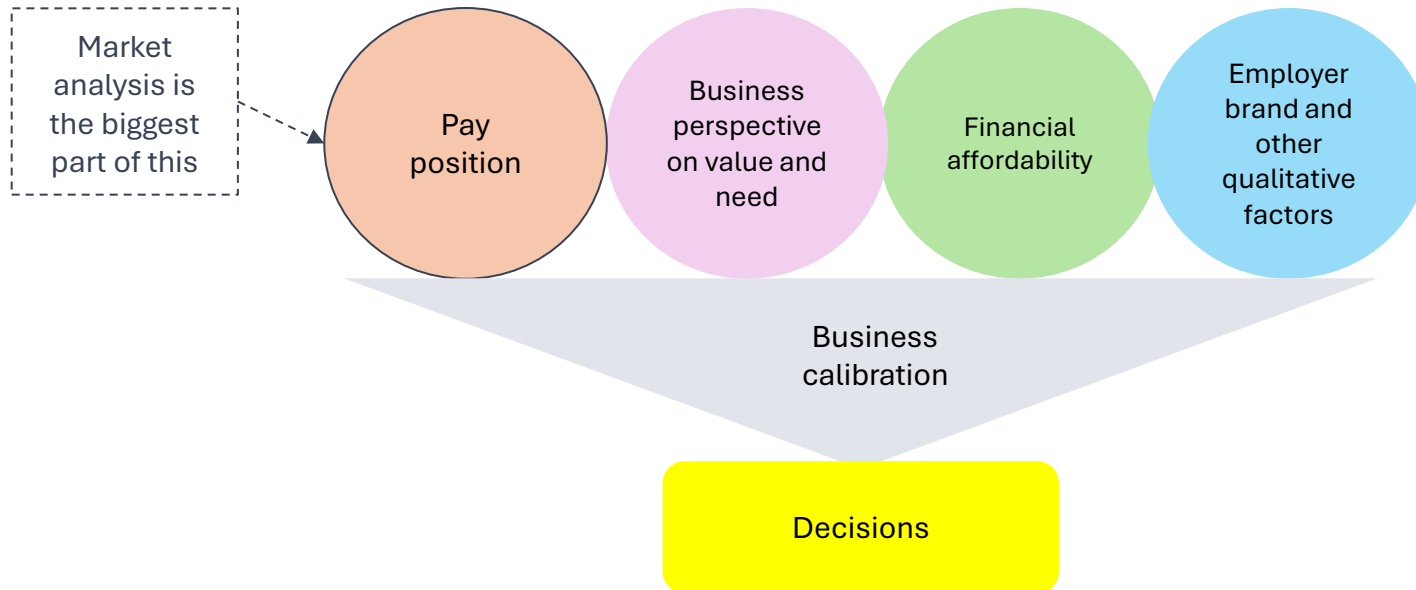


# Market Analysis Overview

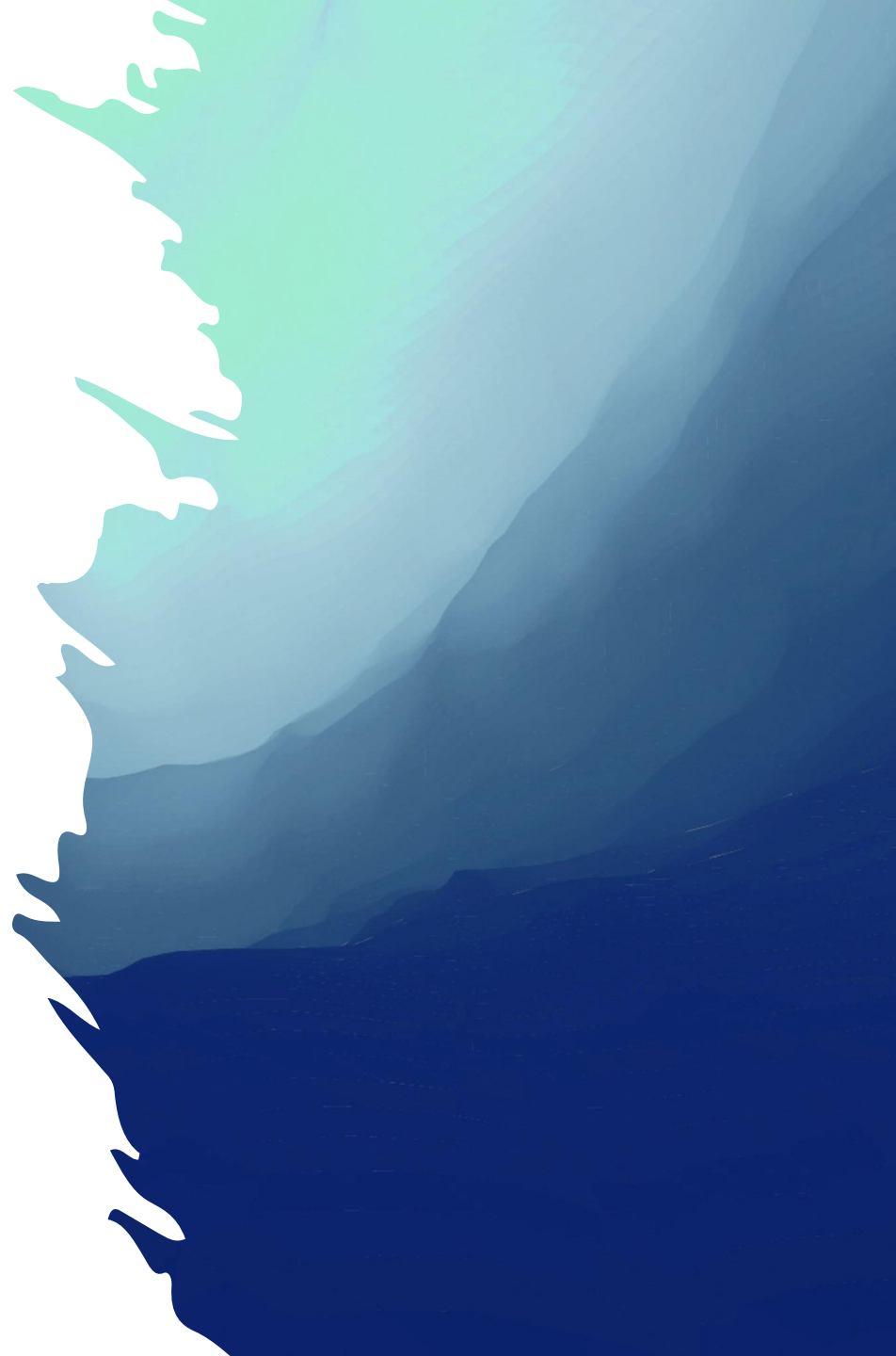
At its simplest level, market analysis is **one** factor that **informs employee pay decisions**.

These decisions include our **merit budget** and where we set **pay ranges**.

It is an important input to these decisions, but not the only variable being considered.



# METHODOLOGY



# COMP PHILOSOPHY IN ACTION

**The key features of our methodology are reflections of our comp philosophy in action, including:**

- Our company peer group (competition for talent)
- Our target pay against market (50<sup>th</sup> P, 65<sup>th</sup> P, 75<sup>th</sup> P...)
- Setting pay ranges based on local cost of labor
- Updating our pay positions regularly
- Pay for performance
- Balancing with affordability and compliance

We will explore each of these in detail, including implications for our work and comp programs



# COST OF LABOR

We evaluate and set pay based on **geo tier locations, job levels, and job families.**

We budget salary structures based on **cost of labor**. We keep an eye on cost of living-and consumer price index (inflation) data during year end merit planning cycles.



# ANNUAL PAY REVIEW

## Pay Updates Every Year

*We conduct a deep analysis and make updates **annually** to our programs, pay ranges, etc.*

### Not All Companies Update Pay Ranges Every Year

We do look to be responsive, i.e. if we see our employees' pay falling behind or getting ahead of market rates, we will react to the extent we can that year rather than having a default approach of waiting to see a longer trend.

### Contextualizing the Bigger Picture

Our responses to market movements also contextualize the implications to pay within teams and organizations at **COMPANY X**. We work closely with our HRBPs to keep the bigger picture in mind when making pay decisions, i.e., how increasing a pay range for one job impacts the pay for the levels above and below that job in the same family.

# Pay for Performance

We want to reward and retain high performers, while we continue to motivate and recognize all team members.

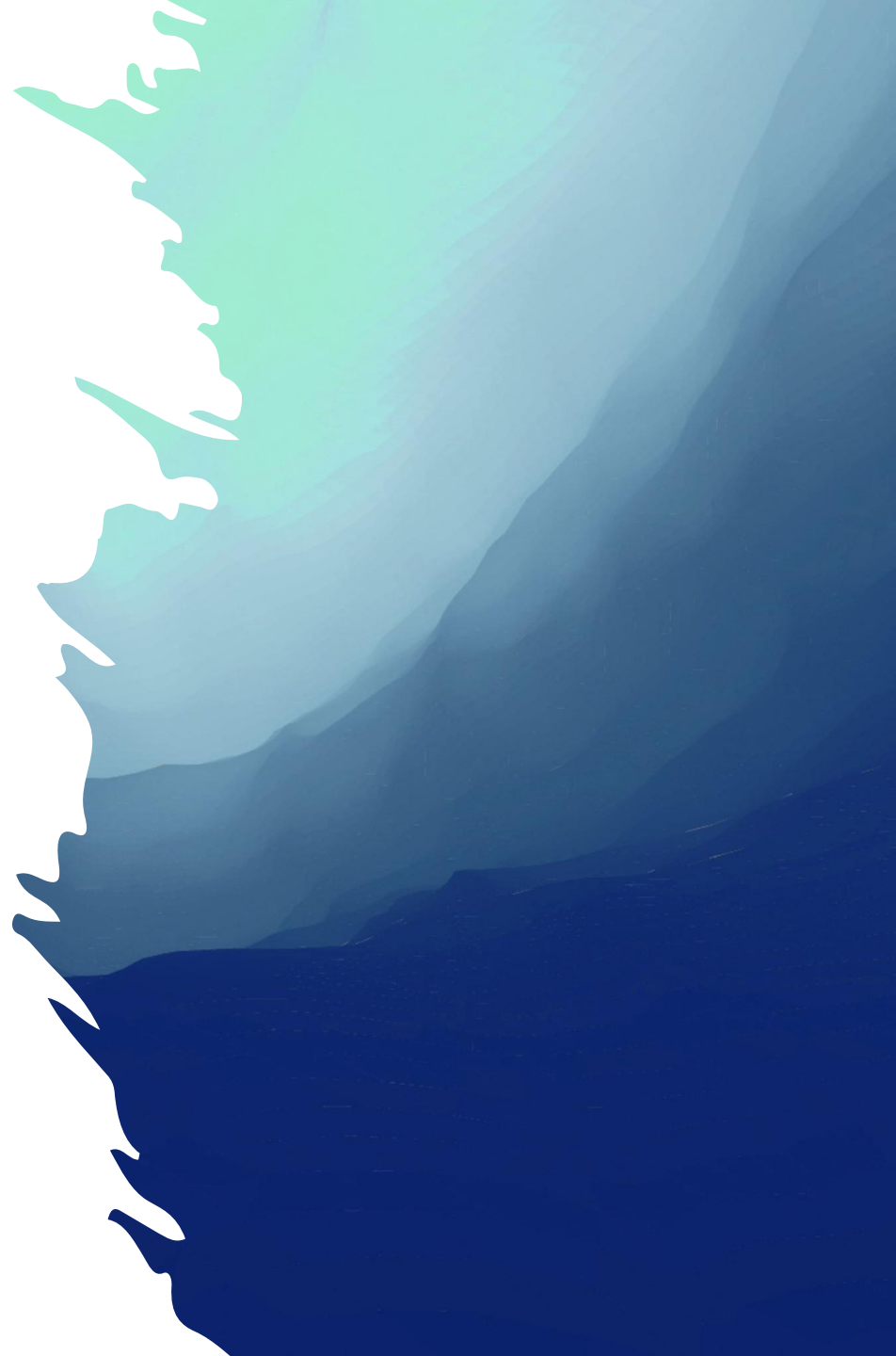


So, when looking at compensation, we tie it closely to business and individual performance — **What | How | Impact**

Increases aren't strictly limited to a certain percent - they are **based on the individual's role and performance**

Once we deploy budgets during Year End Comp Planning, it's important to still keep an eye toward focusing this spend on the people who are performing well

# **BUDGET ALLOCATION**



# BUDGET ALLOCATION

## Affordability and Compliance



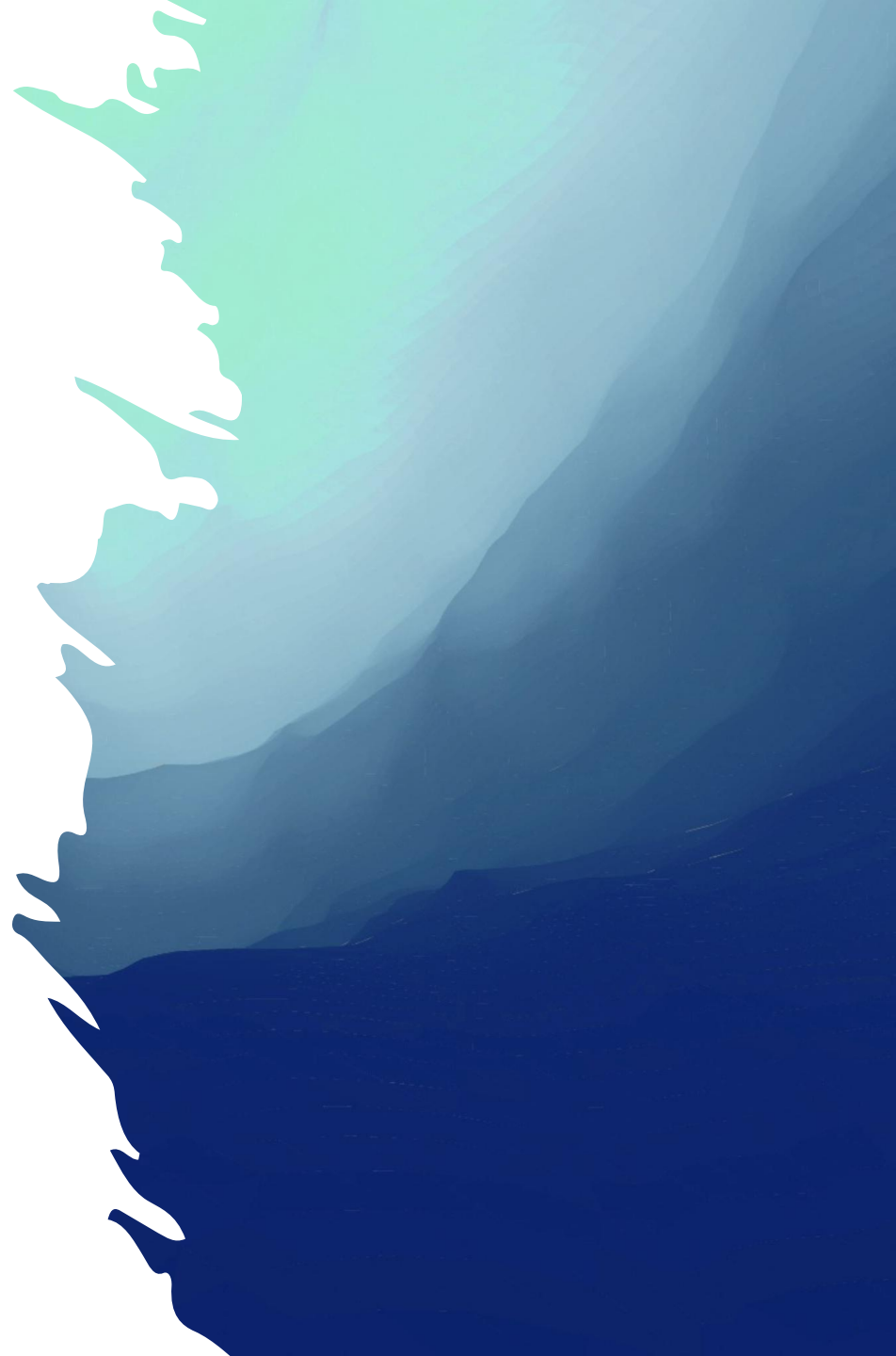
While we look to be responsive and keep a competitive pay position to market, we also have to be financially responsible

E.g. we see market data moving by **X%**, but we don't have any issues attracting or retaining talent. Should we necessarily match the market exactly?

Related, these budgets have many draws on them, for example hiring and promotions. How we manage the whole system is really important

*"There is no magic merit money sitting in a drawer within Finance or Comp. This is a cost that hits your businesses directly."*

# **What Comp Team Will Be Sharing With HRBPs**



# What We'll Be Sharing

Presentations of market analysis results include overviews by location and job function covering:

- Market pay position
- Turnover
- Preliminary budgets

## (For HRBPs)

1. Which job families are you most concerned about for the next year?
2. Which job families would you prioritize the most for the coming year's spend?
3. From which other job families can merit budget be drawn from to increase spend for priority job families?

## Example Location

Job Family	Headcount	Market CR (%) This Year	Merit % for This Year	Trailing 12 Months Voluntary Attrition
Data Science	25	105%	4.0%	37%
Dev – Program Mgmt.	25	105%	3.0%	22%
Tax	17	100%	3.0%	0%
Accounting	18	98%	3.0%	13%
Quality Design	35	98%	3.0%	5%
General Analytics	27	96%	3.0%	26%
Game Design	39	95%	3.0%	16%
Software Development	236	93%	4.0%	16%
UX Design	24	89%	4.0%	22%

# How to Interpret Market Analysis Results

Ultimately, the data shown is meant to help answer questions such as:

What is the current overall pay positioning of the jobs for my business group in a given location?

- Look at **Market CR (%) This Year**

How much in merit budget will my business group have during the next annual compensation review?

- Relationship between **Market CR (%)** and **Merit %**

How do you know whether or not to respond to the signals you're seeing from the market analysis presentations? What will it take to ensure the jobs with the greatest need are paid competitively?

- **Evaluate all the data shown** (individually and holistically)
- **Attrition rate** and **headcount size** are less direct drivers of whether to give more merit budget but may shape your perspective

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NOT ACTUAL DATA



# Recommendations for How to Create a Strong Business Rationale

## Weak Rationale

“ Our people would be happier if we gave them more merit ”

Weak or non-indicators of where we should act:

- Sentiment
- Cost of living changes
- Small subset of companies paying more; “that one company paid more than us”

## OK Rationale

“ Providing more merit would help us to close gaps in our ability to attract and retain talent ”

## Strong Rationale

“ We would be comfortable supporting more merit for Group A and less for Group B as that would solve our business needs more efficiently ”

Strong indicators of where we should act (in rough descending order):

- Demonstrable business impact
- Where we’re willing to make trade-offs
- Has considered impacts to the entire system
- Demonstrable gap in ability to attract/retain talent, especially in our core competitive set
- Movement in the labor market

# APPENDIX

# SUPPLY and DEMAND

Market studies help us learn about **supply & demand** (competition for jobs). Pay can decrease or increase over time if there is an oversupply or decline of qualified candidates or a decrease or increase of demand for certain jobs.

- Ex: 1 Geologist jobs declined when oil companies drop their oil prices.
- Ex 2: The demand of cyber security jobs increased, due to past security breaches, hacks and legislation. Media companies have been paying above market to attract and retain these key talent.
- Ex 3: Demand of IT jobs have boomed due to due dot.com in the 2000s.



# Surveys Participation

## **Compensation surveys collect pay data from participating companies.**

- This pay data includes information on base salary, bonuses, and equity for benchmark jobs. Benchmark jobs refer to common positions that are likely to exist in all companies, such as Accountants, HRBPs, Engineers, Sales Managers, etc.
- Some survey vendors also provide complimentary practice reports that assist companies in setting their budget for promotions, merit, retention, and market adjustment cap percentages. Additionally, they offer non-compensation data, such as benefits, attrition, new hires, retention data.

## **Survey vendors equip companies with thorough compensation reports, guiding them on how to:**

- Benchmark their internal job positions' pay against their target market pay. This can be based on various percentiles such as the 25th, 50th, 75th, etc., depending on the company's compensation philosophy.

## **There are three primary surveys companies participate in:**

- General Industry
- Industry-Specific Survey
- Custom Survey

# Selecting Surveys

## Industry Specific Surveys

- Industry-specific surveys are tailored to specific sectors.
- Companies may opt for an industry-specific survey if a relevant one is available.

## **These surveys encompass a broader range of professions and aren't tied to a specific industry.**

- Companies often chooses 1 or 2 of these general surveys to cover common benchmark roles, such as accounting, human resources, legal, and facilities management positions.
- Custom surveys Used in Special Circumstances

## **Custom surveys are designed to gather very specific data.**

- Custom surveys can be costly and demand significant time and effort.
- Some companies that we favor, might choose to participate, while others may decline.

## Peer Group Cut Survey

- This approach involves the org identifying which companies they are in competition with for talent.
- By pinpointing a specific set of peer groups, they can then benchmark their internal data against these entities to ensure they remain competitive in the talent market.

# Comp Key Terms

**Market Study** – the process by which we compare the pay for our jobs against what other companies with similar jobs are paying

**Benchmark Job** – a job commonly found in the market

**Compensation Factors** – details about a job that influence how the job is paid (years of experience, education, skills, responsibilities, travel percentage, etc.)

**Labor Market** – is the industry, the size of the organization, and the location we compete to hire employees. It is also called “Talent Market.”

**Percentile** – a point on a rank- ordered scale, found by arranging a group of data points in order of magnitude from lowest to highest. The first percentile approximates the very lowest number found, while the 100<sup>th</sup> P is the very highest. Our target percentile is the exact point in the market where we intend to pay proficient employees. Ex: 90<sup>th</sup> percentile means 10% of industry is paying higher than what you are paying for the benchmarked job

**Comp- Ratio** – how an employee pay rate compares to the midpoint of their range (Pay Rate divided by Range Midpoint)

**Position in Range** – an individual pay compared to the complete pay range, or how fair a pay range an employee’s pay has progressed (Pay Rate minus Range Minimum) divided by (Range Maximum minus Range Minimum)

**Compression** – wage compression is a phenomenon that occurs when a new hire is paid the same as or more than employees with more seniority in the same job

# Comp Key Terms

**Red-Circled Employee-** is one whose pay has exceeded the maximum of the range for their job

**Green-Circled Employee-** employee is one whose pay is below the minimum of the range for their job

**Internal Pay Equity-** exists when employees at an organization perceive that they are being rewarded according to the relative value of their jobs.

**External Pay Equity-** exists when an organization's pay rates are equal to the average rates in the organization's market or sector

**COLA-** Cost of Living Adjustments. An across-the-board salary increase, or supplemental payment intended to bring pay in line with inflation in a geographical area

**Cost of Labor-** is what an organization pay employees to do a job/produce work for said organization

**Merit Increase** is a performance-based raise to an employee's pay

**Market Adjustment** is an increase to the employee's pay based on market movement.

**Merit Matrix-** a pay for performance tool used to determine pay increases for individuals based on their performance and position in range (or range penetration).

**Non-Exempt Employees** are those who are subject to the minimum wage and overtime pay provisions of the Fair Labor Standards Act (FLSA).

**Exempt Employees** are those who are not subject to FLSA minimum wage and overtime provisions.

# Common FAQs



• **Q: What is the difference between Pay Equity and Pay Equality?**

• A: Pay Equity is equal pay for equal work of equal value. In some states, job evaluation and job classification are required. Pay Equality is where employees can earn the same pay based on broader diversity initiatives.

• **Q: Can pay influence performance?**

• A: Comp is only a component of performance. Learning and development, constant feedback, check ins with managers, training, company moral, trust building all impact performance.

• **Q: Why do we use surveys instead of Glassdoor?**

• A: Glassdoor reviews contain feedback from employees (which might be biased or fake). Surveys are more credible and have a great reputation for their general industry and media data.

• **Q: Why do companies use Salary Grades or Bands?**

• A: They are structures that allow companies to efficiently administer its jobs' market pay levels, salary adjustments (merit, promotions, off-cycle) and can be used for career path discussions

• **Q: What is the difference between market adjustment & merit increase?**

• A: Merit increase is based on performance. Market adjustment is a one-time variable pay. If an employee gets 6% merit increase and a 12% market adjustment increase, we don't want the employee to conflate the two and expect an 18% increase every year.



