A Forrester Total Economic Impact™ Study
Commissioned By PayScale
June 2017

The Total Economic Impact™ Of PayScale

Cost Savings And Business Benefits Enabled By The PayScale Compensation Intelligence Platform

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Project Director:
Sean Owens
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ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

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Benefits And Costs

Reduced turnover and recruiting costs (risk-adjusted, present value):

$2.1 million

One avoided compensation team hire (risk-adjusted, present value):

$123,000

Executive Summary

PayScale commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) that organizations may realize by deploying PayScale's compensation intelligence platform. PayScale provides compensation management solutions suited for organizations ranging from small businesses to Fortune 500 companies; these solutions help HR leaders, compensation professionals, and executives make better decisions related to compensation and make the work of comp easier, faster, and more insight-rich. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of using PayScale to manage compensation for their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed several customers with multiple years of experience using two of PayScale's software-as-a-service (SaaS) solutions — PayScale MarketPay and PayScale Insight. PayScale MarketPay helps increase efficiency in managing compensation surveys by automating manual collection and reporting of data and reducing analysis time for compensation review events. PayScale Insight allows customers to create robust compensation programs informed by detailed, fresh, and crowdsourced market data and provides HR and people managers with tools to communicate compensation decisions to employees.

Prior to using PayScale, each customer set compensation ranges through a mix of gut feel and resource-heavy compensation data management. Resource constraints lengthened compensation review cycles that resulted in either abbreviated cycles or multiyear review gaps. Incomplete compensation reviews and poor data quality led to more compensation-related issues with current employees and prospective recruits: longer recruitment cycle times, higher recruiting costs, reduced employee satisfaction, and increased turnover.

PayScale Solutions Save Millions In Turnover, Recruiting, And Compensation Costs

Forrester's interviews with five existing PayScale customers and subsequent financial analysis found that a composite organization, based on those interviewed organizations, experienced present value (PV) benefits of about $2.3 million over three years versus PV costs of $653,000, adding up to a net present value (NPV) of more than $1.6 million and an ROI of 249%.

Quantified benefits. The following risk-adjusted quantified benefits are representative of those identified by the companies interviewed:

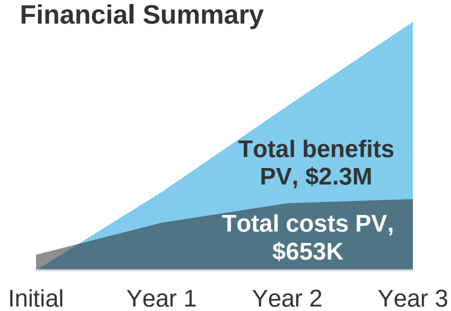
- **Turnover reduced by 3%.** Even a small reduction in turnover can be very significant — 3% is 120 employees at a 4,000-employee company. While compensation does not cause every departure, underpaying or poorly communicating compensation does lead to higher turnover. PayScale helps reduce this issue by keeping compensation data current; speeding review cycles to identify potential issues in real time, such as employees who are paid well below the median market pay for their position; and improving transparency with recruits and employees.

Return on investment (ROI): 249%

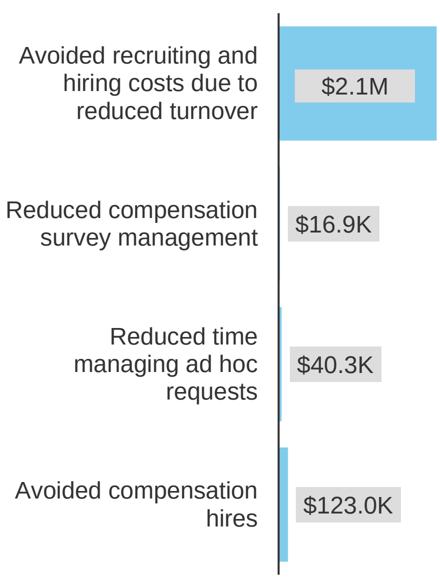
Benefits present value (PV): $2.3 million

Net present value (NPV): $1.6 million

Financial Summary



Benefits (Three-Year, Risk-Adjusted, Present Value)



- **Reduced recruiting costs.** More accurate job descriptions result in better job matching and more accurate pay-setting for specific geographies and industries. These lead to quicker hiring cycles, higher offer acceptance rates, and reduced turnover due to compensation offers being in line with current market rates and an ability to discuss specific drivers of the salary offer. The three-year present value of this benefit is nearly $2.1 million.
- **Time savings for compensation survey management.** Compensation surveys are extremely helpful, but it can take a lot of time to compile data into the right format to submit, as well as to review and analyze data for ongoing survey reviews. PayScale MarketPay helps automate a significant amount of this process — what used to take a full week can now be completed in less than a day. The three-year PV of this benefit is about $17,000
- **Time savings for ad hoc compensation reviews.** Also, managers considering new job candidates, writing a new job description, or conducting current employee reviews may have questions about compensation. These ad hoc requests add up and can consume a bulk of departmental resources for a compensation manager. PayScale solutions help reduce the time it takes to review each position. The three-year PV of this benefits is more than $40,000.
- **Avoided compensation team hires.** These and other benefits allow current compensation team members to keep up on current tasks, with some room to grow, and spend time on strategic projects. One avoided full-time equivalent (FTE) in the second year adds up to a three-year PV of about $123,000.

Unquantified benefits. The interviewed organizations experienced the following benefits, which are not quantified for this study:

- **More strategic compensation projects.** Before PayScale, compensation managers could usually keep up with most tasks, but didn't have much time left over for special projects such as benefit-related compensation or executive compensation.
- **Improved employee satisfaction.** While compensation is not the only factor, a commitment to accurate and fair compensation and clear and transparent communication with employees and recruits are linked to improved employee satisfaction.

Costs. The interviewed organizations experienced the following risk-adjusted costs:

- **License and resource costs of about $112,000.** This is the three-year PV for PayScale solution licensing based on the composite organization's requirements.
- **Implementation costs of $32,000.** Implementation costs are not high and are primarily related to the time spent by a few people within compensation management.
- **Ongoing salary correction/investment costs of nearly $500,000.** To enable several benefits related to improved employee satisfaction, the organization needed to increase salaries for the most underpaid employees (compared with standard salary rates for their positions and locations).

TEI Framework And Methodology

From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ (TEI) framework for those organizations considering implementing PayScale.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that PayScale can have on an organization:

The TEI methodology helps companies demonstrate, justify, and realize the tangible value of technology initiatives to both senior management and other key business stakeholders.

DUE DILIGENCE
Interviewed PayScale product managers and executives, as well as Forrester analysts, to gather data relative to PayScale's solutions and compensation management.

CUSTOMER INTERVIEWS
Interviewed five organizations currently using PayScale to obtain data with respect to costs, benefits, and risks.

COMPOSITE ORGANIZATION
Designed a composite organization based on characteristics of the interviewed organizations.

FINANCIAL MODEL FRAMEWORK
Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewed organizations.

CASE STUDY
Employed four fundamental elements of TEI in modeling PayScale's impact: benefits, costs, flexibility, and risks. Given the increasing sophistication that enterprises have regarding ROI analyses related to technology investments, Forrester's TEI methodology serves to provide a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by PayScale and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine the appropriateness of an investment in PayScale.

PayScale reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

PayScale provided the customer names for the interviews but did not participate in the interviews.

The Customer Journey

BEFORE AND AFTER THE INVESTMENT

Interviewed Organizations

For this study, Forrester conducted interviews with PayScale customers, all headquartered in the United States but with some global reach. Interviewed customers include the following:

INDUSTRY	INTERVIEWEE	SITUATION
Finance	Senior VP	Banking institution with 4,000 employees. Compensation management team uses PayScale MarketPay to participate in 10 to 15 compensation surveys and review 500 positions annually.
Education	Director of compensation	Private university with 1,700 job titles that need regular compensation review. Was on a three- to four-year review cycle that has improved to annually with PayScale MarketPay.
Healthcare and nonprofit	Executive director, HR	An umbrella nonprofit organization with a primary focus in healthcare with 39 senior living communities, as well as activities in child education and communication. Uses PayScale Insight to manage most job compensation reviews to help identify and manage at-risk employees in positions that are paid below the 25th percentile.
Technology services provider	Compensation analyst	Technology company focused on healthcare services, with 800 employees. Uses PayScale Insight to handle quarterly job compensation reviews (more frequent than many organizations that review annually) to stay competitive in key technology areas like data analytics.
Professional and technology services provider	Director of compensation	Professional and technology services firm with 4,000 employees and a worldwide reach. Uses PayScale MarketPay to manage the broad, detailed, and global compensation surveys it requires to adequately set compensation for employees in specific jobs and specific regions.

Key Challenges

Common issues that some of these organizations faced that led them to investigate new compensation management solutions and select PayScale Insight or PayScale MarketPay were:

- **Compensation surveys were becoming a resource drain and delivering less value.** Before PayScale MarketPay, companies tracked and analyzed salary surveys with a lot of Excel spreadsheets. Answering each survey required a lot of cutting and pasting from the organization's enterprise resource planning (ERP) system to the survey response forms.
- **Data gaps were growing.** Some positions were growing so fast that annual salary surveys couldn't keep up. Organizations did their best to adjust, but there were still difficulties filling or retaining key positions if compensation wasn't set properly.
- **Compensation for many positions was decided by gut feel.** Pay decisions were unstructured, often set at whatever the last person in the role was paid or by what the hiring manager felt was a "right" salary. "It was more of manager gut feel. They would just ask the person what their previous salary was and try to get them more than that," said the compensation analyst at a healthcare service provider. This lack of a compensation strategy and pay-decision structure was leading to many issues related to compensation management, hiring, and retention.

> "It was more of manager gut feel. They would just ask the person what their previous salary was and try to get them more than that."
>
> *Compensation analyst, healthcare service provider*

- **Too many positions were priced below the 25th or above the 75th percentiles.** Most organizations target the market median, but without the right tools to manage and track compensation, they actually end up paying significantly lower than the market; this can lead to increased turnover. Even pay that is too high can be a problem — the organization could possibly be paying too much, and it's a very difficult conversation to have with an employee to try to resolve.

> "We place a very high reliance on market data to make pay decisions."
>
> *Director of compensation, professional and technology services firm*

Solution Requirements

The interviewed organizations searched for a solution that could meet their needs to:

- Help manage and speed up the logistics of salary survey response, submission, and review.
- Provide accurate data with good job matching rates.
- Help identify and resolve "flight risk" positions that are paid too little.
- Help reduce turnover and recruiting costs.
- Help improve employee satisfaction.

Key Results

The interviews revealed that key results from the investment include:

- **Data integrity.** Whether data has been aggregated from multiple salary surveys or crowdsourced through PayScale's employee survey, salary data is more detailed and accurate. Salary review processes are quicker, but also questions about the data validity are reduced. "Whenever I've done market pricing at other companies, I've always felt like if I could match about 80% of the jobs to market data in the surveys, I was setting up a really good foundation. Well here, I've been able to find good solid matches for about 90% of the jobs or more," said a compensation analyst for a healthcare service provider. The compensation director for a professional and technology services organization added, "We have added new global offices over the last two years, and we've completely relied on MarketPay to build those models to assess impacts on our employees, to adjust them, to plot jobs, and to price jobs in those new locations."

> "The biggest business operations benefit that I've seen is the consistency in benchmarking positions."
>
> *Director of compensation, private university*

- **Reduced turnover and recruiting costs.** With PayScale, identifying employees paid well below the market (for their role and location) is easy, so organizations can take corrective action. Some employees considering a career change end up staying. Reducing turnover also means that fewer job openings are available that need to be recruited for and filled, saving costs in those areas.
- **Reduced survey management time.** Answering salary surveys by hand is a very time-consuming process; that process can be significantly automated using PayScale MarketPay.
- **Reduced time spent on ad hoc survey review requests.** Organizations are still working with managers to understand how to use more accurate pay data and how tasks like developing and updating accurate and complete job descriptions are even more important than in the past. As this process continues to improve, there are still many questions and issues that will come up that require discussion and analysis outside the annual salary review period. PayScale significantly reduces the time spent completing this analysis.

> "Whenever I've done market pricing, I've always felt like if I could match about 80% of the jobs to market data in the surveys, I was setting up a really good foundation. Well here, I've been able to find good solid matches for about 90% of the jobs or more."
>
> *Compensation analyst, healthcare service provider*

- **Improved transparency and employee satisfaction.** Employees feel more appreciated working for a firm that puts a priority on paying them a fair wage and that can have fact-based discussions about pay.

Composite Organization

Based on the interviews, Forrester constructed a TEI framework, a composite company, and an associated ROI analysis that illustrates the areas financially affected. The composite organization is representative of the five companies that Forrester interviewed and is used to present the aggregate financial analysis in the next section. The composite organization that Forrester synthesized from the customer interviews has the following characteristics:

Description of composite. This organization, called “Apex” in this study, is a global technology firm focused on healthcare that has recently expanded with a significant acquisition into two divisions (still acting independently in some ways for now); this acquisition roughly doubled the size of the company. As it happens, both divisions started using a PayScale solution at about the same time, one using PayScale Insight and the other using PayScale MarketPay. For the purposes of this study, “PayScale” will describe costs and benefits attributable to both solutions; specific costs and benefits will be called out by solution name.

Deployment characteristics. The organization implemented PayScale (both PayScale MarketPay and PayScale Insight) at the start of 2016. The combined solution covers the composite organization of 4,000 employees working in about 1,000 positions, based on the information provided by interviewed organizations. The HR department includes 40 people; three are focused on compensation, including annual job salary reviews. The division utilizing PayScale MarketPay uses that solution to manage participation in and data from 10 salary surveys each year. Two hundred people managers are directly involved in discussions about pay, as hiring managers making job offers to potential new employees and/or line managers conducting annual employee job and merit reviews. The organization aims for a 50th percentile for most salaries.

Key assumptions

- 4,000 employees
- 1,000 job titles
- Three compensation managers
- 200 people managers involved in pay discussions
- 50th percentile salary goal

Financial Analysis

QUANTIFIED BENEFIT AND COST DATA AS APPLIED TO THE COMPOSITE

Total Benefits Summary

REF.	BENEFIT	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Atr	Avoided recruiting and hiring costs due to reduced turnover	$768,000	$844,800	$929,280	$2,542,080	$2,094,545
Btr	Reduced compensation survey management time	$6,800	$6,800	$6,800	$20,400	$16,911
Ctr	Reduced time managing ad hoc compensation requests	$14,750	$16,250	$17,900	$48,900	$40,287
Dtr	Avoided compensation hires	$0	$84,375	$70,875	$155,250	$122,981
	Total benefits (risk-adjusted)	**$789,550**	**$952,225**	**$1,024,855**	**$2,766,630**	**$2,274,724**

The table above shows the total of all benefits across the areas listed below, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total benefits to be a PV of nearly $2.3 million. See individual benefit sections for detailed metrics.

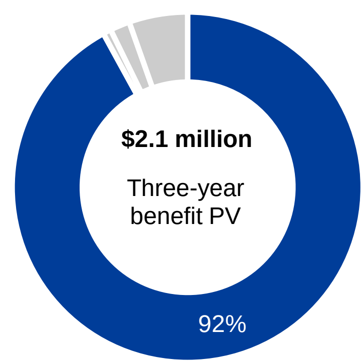
Avoided Recruiting And Hiring Costs Due To Reduced Turnover

PayScale solutions help organizations research and set salaries more accurately, with additional information that managers can use to answer employee and recruit questions. Before PayScale, the organization had seen an employee turnover of about 25%, and about 40% of those employees highlighted compensation as a key reason for leaving. “I would say that while I’ve been here, compensation is probably mentioned on 40% of the exit interviews that we have,” said the compensation analyst at a healthcare service provider.

Many of those people were in jobs that were paid below the median salary for their position and location — and below Apex’s goal to pay at about the 50th percentile. Apex, for the most part, did not want to lose any of these employees but now had to go through the process of recruiting, interviewing, and hiring a new person.

“Reducing turnover was definitely a top priority, especially since it was pay-related,” continued the compensation analyst. Since PayScale, the organization has identified several improvements:

- Salaries are set more accurately, at or above the 50th percentile based on analysis and comparison across many compensable factors, including experience, job requirements, industry, and geography.
- Salary inequities across genders are identified and corrected. Salaries below the 25th percentile are already identified regardless of gender, but with PayScale Insight’s gender gap analysis feature, any salary outliers for a given position can be quickly identified and addressed.
- Employees see that the organization is trying to correct any employee salaries that are very low (below the 25th percentile) and also making an effort to more clearly and regularly communicate compensation information. Even employees who haven’t been directly affected by a salary correction perceive a commitment to fairness and communication, which helps overall employee satisfaction.



Savings related to reduced turnover and lower recruiting costs

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- Fewer employees decide to leave the company. While other factors and best practices beyond compensation have influenced this improvement, turnover has dropped to 20%.
- With reduced turnover, HR is saving time and money on recruiting. Better pay information and communication around compensation help reduce the time it takes to fill a position as candidates are more likely to accept an offer with a competitive salary. "If you're not being competitive [with salary offers], it's costing you more in the long run to have to hire someone else and go through that training and stuff again," said the executive director of HR at a nonprofit.

The organization has estimated that it avoids recruiting and hiring costs for 50 people each year.

Reduced turnover means reduced hiring needs. Due to reduced turnover in entry-level positions, based on organization interviews for the composite organization, each new hire is estimated to cost about $20,000 on average to recruit, interview, and hire for the composite organization. While not every employee cites compensation as a reason for leaving — and many who do cite it still leave even after their pay is increased — fixing compensation issues for employees who are paid below the targeted market value has helped reduce the turnover rate. Apex estimates there are about 50 or more people each year whom the organization does not want to lose and who will now stay with the company after their salary was corrected to be more competitive based on current market data.

However, there are a lot of reasons why an employee might choose to leave a company, and it is hard to estimate what might have occurred if a compensation change was not made. To account for these risks, Forrester adjusted this benefit downward by 20%, yielding a three-year risk-adjusted present value (PV) of nearly $2.1 million.

Impact risk is the risk that the business or technology needs of the organization may not be met by the investment, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for benefit estimates.

Avoided Recruiting And Hiring Costs Due To Reduced Turnover

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
A1	Total number of employees		4,000	4,400	4,840
A2	Turnover rate before PayScale		25%	25%	25%
A3	Turnover rate since PayScale		20%	20%	20%
A4	Percentage of employees who say compensation was an issue in exit interviews		40%	40%	40%
A5	Cost to recruit and hire a new employee		$20,000	$20,000	$20,000
A6	Percentage of employee losses that could have been avoided with better and faster access to salary data		60%	60%	60%
At	Avoided recruiting and hiring costs due to reduced turnover	A1*(A2-A3)*A4*A5*A6	$960,000	$1,056,000	$1,161,600
	Risk adjustment	↓20%			
Atr	**Avoided recruiting and hiring costs due to reduced turnover (risk-adjusted)**		**$768,000**	**$844,800**	**$929,280**

Reduced Compensation Survey Management Time

One of Apex's divisions uses PayScale MarketPay to manage salary survey participation. Before PayScale, the annual process of participating in salary surveys usually involved cutting and pasting data from spreadsheets into the survey forms. Reviewing and using that data involved more spreadsheets, with added complexity when one job title needed specifics based on location and industry. “We’ve got pockets of employees in places like India, Hong Kong, and London. And so we have to buy several surveys in each of those locations. I don’t go with one survey for any occasion,” said the director of compensation for a professional and technology services firm.

Apex is now able to greatly speed up this process, as PayScale MarketPay provides tools to automate salary survey responses and to upload data from published survey results. Before PayScale, salary survey participation processes took two people about 40 hours to complete (over the course of three to four weeks). Now one person can respond to all surveys in just a few hours and be done in a day; uploading data for review takes just a few minutes. “Before, it was manual data entry into a web portal or onto a spreadsheet for a survey; what MarketPay has allowed us to do, we basically will load the survey request contents, and then they format a report that’s exactly the format that that survey vendor needs,” said the compensation director at a private university.

PayScale MarketPay also helps the organization measure how much value each compensation survey delivers, based on the amount of data that is used to evaluate salaries for its 1,000 job titles. It found that Apex subscribed to one survey that didn’t deliver any information that wasn’t already provided, allowing Apex to reduce inefficiencies and cut that survey from its compensation research.

Reduced Compensation Survey Management Time

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
B1	FTE(s) involved in annual compensation survey management before PayScale		2	2	2
B2	FTE(s) involved in annual compensation survey management since PayScale		1	1	1
B3	Hours to complete survey management before PayScale		40	40	40
B4	Hours to complete survey management since PayScale		4	4	4
B5	Average hourly salary for compensation managers		$50	$50	$50
B6	Avoided costs from pruning less valuable surveys		$3,000	$3,000	$3,000
Bt	Reduced compensation survey management time	(B1*B3-B2*B4)*B5+B6	$6,800	$6,800	$6,800
	Risk adjustment	0%			
Btr	**Reduced compensation survey management time (risk-adjusted)**		**$6,800**	**$6,800**	**$6,800**

There are also significant unquantified benefits, including:

- The organization **now reviews salaries annually**. Before PayScale, the division using PayScale MarketPay reviewed salaries less often — every two or three years — because it was difficult to take away two people for so much time.
- Salary data is **more accurate and easier to use** with PayScale MarketPay, so pay decisions are more informed.
- HR and people managers are provided greater **salary data transparency**; they can understand how and why compensation is set at a specific level, and they are better able to answer employee and

job candidate questions. “What MarketPay helps us do is to remain consistent in being able to track how a position was benchmarked and why it was benchmarked that way,” continued the compensation director at a private university.

The three-year risk-adjusted PV is about $17,000.

Each salary review now takes just 10 minutes, instead of 1 hour.

Reduced Time Managing Ad Hoc Compensation Requests

With PayScale, the organization has better salary data, tools, and services to assist in the review, use, and communication of salary information. People managers still have questions — checking on the salary for a new position, following up on employee questions, etc. — but the compensation team can answer these questions much more quickly.

Reduced Time Managing Ad Hoc Compensation Requests

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
C1	Ad hoc compensation requests each year		300	330	363
C2	Reduction in requests due to improved job matching with PayScale		30	30	30
C3	Time to complete ad hoc compensation review before PayScale (minutes)		60	60	60
C4	Time to complete ad hoc compensation review with PayScale (minutes)		10	10	10
C5	Average hourly salary for compensation managers		$50	$50	$50
Ct	Reduced time managing ad hoc compensation requests	(C1*C3)-(C2*C4)*C5/60	$14,750	$16,250	$17,900
	Risk adjustment	0%			
Ctr	**Reduced time managing ad hoc compensation requests (risk-adjusted)**		**$14,750**	**$16,250**	**$17,900**

The organization has observed the following:

- Before PayScale, there were requests for pay information outside the normal annual review time; hiring and HR managers wanted to make sure they had the latest information. “I might do anywhere from six to 10 position reviews each day. It would probably take me about 45 minutes per request to get a really good recommendation together,” said the compensation director at a private university, highlighting how ad hoc requests can often take up a whole day.
- A few of these requests were the result of an obvious issue — multiple recruits declined a position or several employees in similar positions had recently left the company.
- With PayScale, the total number of requests hasn’t changed much (other than reducing or avoiding those major issues), but the time it takes to answer each question is greatly reduced.
- In addition, organizations that use PayScale Insight can leverage compensation pro services to let PayScale professionals do the research and prepare a report — and provide additional peace of mind with the help of an outside expert. “I just send the job description to my rep and they get it back to me, typically within 48 to 72 hours,” said the executive director of HR at a nonprofit.

The three-year risk-adjusted PV is more than $40,000.

Avoided Compensation Team Hires

Because of some of the time savings listed above, as well as other productivity improvements and best practices, the organization expects it will no longer need to bring in another compensation manager in a year or two — something that was part of the staffing plan before PayScale was implemented.

- The organization estimates that PayScale is, by far, the key reason for no longer needing this resource, though there are some additional factors.
- As salaries may be underestimated and may change from year to year, a 10% risk adjustment has been applied.

The three-year risk-adjusted PV is just under $123,000.

Avoided Compensation Team Hires

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
D1	Avoided compensation team hires (cumulative)		0	1	1
D2	Estimated annual salary per compensation FTE			$105,000	$105,000
D3	Avoided compensation FTE recruiting and hiring costs			$20,000	
D4	Percentage of avoided hires due to PayScale			75%	75%
Dt	Avoided compensation team hires	(D1*D2+D3)*D4	$0	$93,750	$78,750
	Risk adjustment	↓10%			
Dtr	**Avoided compensation hires (risk-adjusted)**		**$0**	**$84,375**	**$70,875**

Unquantified Benefits

Apex identified several other benefits that are harder to quantify or haven't been quantified yet:

- **Organizations experience better communication**, particularly between HR and people managers, as well as people managers and employees or prospective recruits. Said the executive director of HR at a nonprofit, "I provide the hiring manager with the pay range information, and they have the information they need to decide what the starting pay is going to be for that candidate." The director of compensation at a professional and technology services firm added: "I know for a fact that the data we have in MarketPay helped us build and keep current our salary structure. It helps our managers and recruiters make better-informed pay decisions."
- With **better data and communication** come better and more accurate job descriptions. According to the compensation manager at a healthcare service provider: "Another top priority was developing career paths, so not having job descriptions that were current and reflective of job titles [was an issue] — or maybe even more of an issue was that we had, for example, 10 different job titles for people who are really all data analysts. Someone might not have even known that another job was a data analyst because the title was so different."

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- Organizations can identify and correct **significant salary outliers** — whether they are very low (or high) compared with the targeted market value, or compared with other employees in similar roles at the organization. This can lead to reduced turnover, as highlighted above, but could also prevent specific issues, such as if a female employee was paid much less than her male colleagues at the organization, that could lead not only to employee dissatisfaction and attrition, but could also open the organization up to compliance issues and legal liability.
- With improvements in **salary data integrity**, all employees can see how the organization places a priority on pay equity and is working to make improvements in this area. While equitable pay is not the only management focus that the organization prioritizes, it is a factor that helps improve overall employee satisfaction and engagement.

"I know for a fact that the data we have in MarketPay helped us build and keep current our salary structure. It helps our managers and recruiters make better-informed pay decisions."

Director of compensation, professional and technology services firm

Flexibility

The value of flexibility is clearly unique to each customer, and the measure of its value varies from organization to organization. The interviewed organizations hope to soon use the time they've saved to investigate other compensation priorities and strategies:

- **Executive compensation.** One specific area of compensation that requires attention is executive compensation. Now, most organizations are reviewing executive salaries as part of the current comp reviews. But executive compensation requires a lot of thought beyond just salary. "PayScale has allowed me to focus more on executive compensation and incentives than I was able to before," said a compensation director at a private university.
- **Even more communication.** The compensation director at the university also mentioned broader communication goals: "I want to develop some training for managers around compensation and how to talk to their employees about comp."
- **Prepare for the future.** PayScale's crowdsourced, cloud-based services provide salary information based on job responsibilities, location, experience, industry, and many other factors — and it is always up to date. "I think the world of standard salary surveys published once a year won't exist 10 years from now. I think that it's changing and it's morphing — how we collect this data, how we report it, how we use it. We're on the cusp of something really big in the future of the workforce," said the director of compensation at a professional and technology services firm.

Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in Appendix A).

Flexibility, as defined by TEI, represents an investment in additional capacity or capability that could be turned into business benefit for a future additional investment. This provides an organization with the "right" or the ability to engage in future initiatives but not the obligation to do so.

Total Costs Summary

REF.	COST	INITIAL	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Etr	License and resource costs	$32,000	$50,000	$50,000	$50,000	$182,000	$156,343
Ftr	Employee pay adjustments	$110,000	$275,000	$165,000	$0	$550,000	$496,364
	Total costs (risk-adjusted)	**$142,000**	**$325,000**	**$215,000**	**$50,000**	**$732,000**	**$652,706**

License And Resource Costs

The table above shows the total of all costs across the areas listed below, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total costs to be a PV of about $653,000. See individual cost sections for detailed metrics.

PayScale Insight and PayScale MarketPay costs are based on a three-year license agreement, paid annually.

- The annual license cost reflects the composite organization's use of both PayScale Insight and PayScale MarketPay.
- Resource costs are primarily seen during implementation, as the organization reviews its current compensation processes, trains on the new solutions, and institutes new best practices. Some consulting costs may be included here if needed.
- Ongoing resource costs are minimal. "Very little. It's probably 30 minutes a month to update our data," said the senior VP at a banking institution.

This adds up to a three-year risk-adjusted total PV of about $144,000.

License And Resource Costs

REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
E1	PayScale license			$40,000	$40,000	$40,000
E2	Planning and implementation resource time		$32,000			
E3	Ongoing management resource time			$5,000	$5,000	$5,000
Et	License and resource costs	E1+E2+E3	$32,000	$45,000	$45,000	$45,000
	Risk adjustment	0%				
Etr	**License and resource costs (risk-adjusted)**		**$32,000**	**$45,000**	**$45,000**	**$45,000**

Employee Pay Adjustments

Several benefits above, such as reduced turnover and lower recruiting costs, assume that employees that were paid too low are happier now because that mistake was corrected with the help of PayScale Insight and PayScale MarketPay, which can quickly identify "flight risk" employees who may leave.

That correction requires some investment, assumed here to be a net cost to the organization.

Even if the group of employees that was paid below the 25th percentile (based on the target market range for the position and labor market) was roughly the same size as the group that was paid above the 75th percentile, it is a quick process to offer the "flight risk"

Positions currently paid below 25% of the market value, as identified with PayScale, may require salary correction.

group a higher, salary while it will take time to bring above-average salaries down to the 50th percentile through natural attrition and rehiring, internal job changes, and gradually reducing raises.

The estimated net cost in additional employee salaries is estimated and is risk adjusted by 10% to account for any underestimation in the number of employees involved or the amount of salary increases.

This adds up to a three-year risk-adjusted total PV of almost $500,000.

Implementation risk is the risk that a proposed investment may deviate from the original or expected requirements, resulting in higher costs than anticipated. The greater the uncertainty, the wider the potential range of outcomes for cost estimates.

Employee Pay Adjustments

REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
Ft	Added salary costs		$100,000	$250,000	$150,000	$0
	Risk adjustment	↑10%				
Ftr	**Employee pay adjustments (risk-adjusted)**		**$110,000**	**$275,000**	**$165,000**	**$0**

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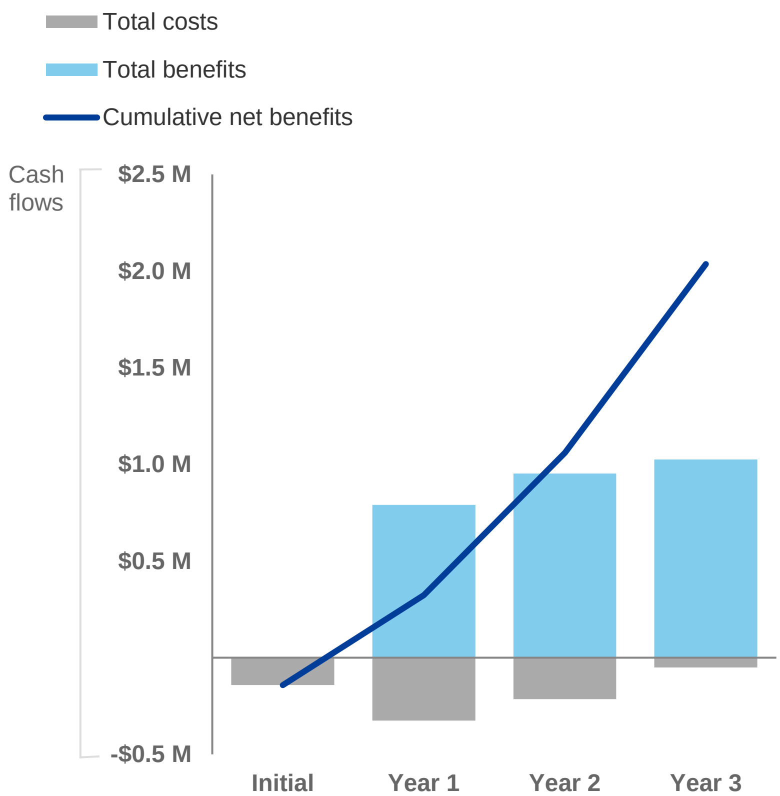
Financial Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Benefits and Costs sections can be used to determine the ROI and NPV for the composite organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.

These risk-adjusted ROI and NPV values are determined by applying risk-adjustment factors to the unadjusted results in each Benefit and Cost section.

Cash Flow Table (Risk-Adjusted)

	INITIAL	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Total costs	($142,000)	($325,000)	($215,000)	($50,000)	($732,000)	($652,706)
Total benefits	$0	$790,050	$952,725	$1,025,355	$2,768,130	$2,275,968
Net benefits	($142,000)	$464,550	$737,225	$974,855	$2,034,630	$1,622,018
ROI						249%

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PayScale: Overview

The following information is provided by PayScale. Forrester has not validated any claims and does not endorse PayScale or its offerings.

PayScale helps people — employers and employees — talk about money.

What PayScale believes: Everyone should have access to fresh, accurate salary data and be able to talk about compensation with confidence.

What PayScale built: PayScale pioneered the use of big data and unique matching algorithms to power the world's most advanced compensation platform.

What PayScale enables: Six thousand subscription customers — from small organizations to the Fortune 100 — use PayScale software to make salary decisions and manage compensation for more than 13 million employees. PayScale frees businesses up to get more strategic with their compensation planning.

Appendix A: Total Economic Impact

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

Total Economic Impact Approach

Benefits represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

Costs consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

Flexibility represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

Risks measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.

PRESENT VALUE (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.

NET PRESENT VALUE (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.

RETURN ON INVESTMENT (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.

DISCOUNT RATE

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.

PAYBACK PERIOD

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.