How to Perform a Market Study: A Step-by-Step Guide

PayScale, Inc with Sharon Koss, CCP, SPHR

A 10-page, step-by-step guide for performing a salary market study for HR Executives and Compensation Professionals. Appropriate for non-profit, for-profit and government organizations of all sizes and industries. Includes a detailed planning checklist.
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Introduction

This whitepaper will walk you through the six steps of performing an external market study – also referred to as ‘benchmarking’ – regardless of your organization’s size or industry. (We’ll address how to assess Internal Equity in a separate whitepaper.)

Determining the appropriate pay levels for individuals in your company is essential to your business for a number of reasons: attracting and retaining talent, creating (and keeping) a competitive edge, managing the bottom line, and maintaining your organizations’ reputation.

Without a thoughtful understanding of both external compensation factors (local job markets, your competitions’ pay levels, demand within your industry) and internal factors (size and makeup of your organization, detailed job descriptions, value of positions to the company), it’s near impossible to accurately assign compensation to employees.

Step 1: Create your Market Study Plan

It’s tempting to skip planning and just jump right in, but performing a market study – and doing it well – can be a bit of a daunting, time-consuming task. And remember, you’ll need some budget for this, and whenever you’re spending your company’s money, you want to make sure you’re spending it wisely. A plan will help.

Don’t worry – depending on the scope of your study, your Market Study Plan can range from a single page to a five-page overview of what you hope to achieve.

First, make sure you have job descriptions for everyone in your organization. It’s okay if they’re not 100% complete, but it will be critical for matching skills, responsibilities and experience tied to each position, since you can’t count on surveys to use the same titles that you do. (If you’re crafting descriptions from scratch, make sure employees or managers have agreed on the duties, experience and education required for each position).

Next, start building your plan. The plan can be flexible, but it should give you a decent guidepost to where you’re heading and let others know why, how, and when you’re tackling this study. Open up a new document and get started!

Let’s start with the WHY. You’re reading this whitepaper for a reason . . . what is it? Do you promote an annual effort to review salaries? Is there a team that the organization feels is over- or under- paid? Are you losing key employees? Having a hard time recruiting fresh talent into a particular business need?

Whatever your reason, your stated objective should tie back to your business reason for performing the market study. For example: “We are conducting a market study because sourcing a strong leader in Quality Assurance has proven challenging since we’re not making competitive enough compensation offers. The Engineering Team needs QA talent to keep our business on track for Holiday 2008. If we don’t ship on time, we risk 30% of our projected profits. This study will ensure that we are offering competitive pay for our positions.”

Now, it’s time to establish your goals. These might be set by you, or they may be dictated from another leader in your organization. For example, you could be tasked with reducing management pay by 10% in the next 18 months. Or
you might be trying to establish that a 5% pay increase for key players can stave off a retention issue you’re facing. The more specific your goals, the better. And keep it down to 2-5 primary objectives; any more and you’ll lose focus during the process.

Setting goals will also help you prioritize which employees, teams or talent you should first focus on, especially if your company has more than 100 employees. (After all, you can always perform additional market studies to manage less-critical groups later in the year.)

Next, outline your approximate budget and resources needs. Typically there are two major costs to conducting a market study – data and consultant time. If you plan to do the study in house, you’ll only need to budget for survey data. If you are relying on outside help, don’t forget to add consulting fees into your budget, and understand what’s included upfront.

Remember, market studies are a time-intensive project, be sure to set aside plenty of time for matching, analyzing and setting your pay rates. Once you have chosen your research tools you’ll have tighter figures.

Finally, craft a timeline for your benchmarking. The checklist included in this whitepaper is for 6 months, for a study of approximately 100 employees. Feel free to adjust accordingly, based on your priorities and the scope of your study. (And be sure to pad your schedule by a couple of weeks, to account for those unexpected surprises that always come up in your daily job.) Specific tips about timing are included throughout this whitepaper, but you can always work back from your desired ‘effective date’ to plan accordingly.

**Step 2: Research your survey options and select your sources**

Once your plan has been written (and signed off on, if need be), you’re ready to dig in to the more interesting parts of the process: figuring out which resources you’ll use for your study. This is one of the biggest decisions an organization will make regarding its compensation system. It’s an important (and can be an expensive) decision. The survey(s) you choose set the parameters for one of your company’s biggest expense – its salaries.

Right out of the gate, you have lots of sources you can choose from. The three major categories are:

- Published, Traditional Surveys: From the government, associations or consulting firms, these offer a broad perspective, although may not be entirely up to date or matched to your organization.

- Internet Surveys: Very timely, inexpensive options for comparison, with easy-to-use online databases.

- Custom Surveys: Several firms are available who custom-design a survey just for your business that are often very accurate and very expensive.

Ideally, you’ll want to use at least 2 sources to work from, to guarantee the accuracy of your results. Good salary survey information revolves around how timely the data is. The more organizations that participated the better – and you’ll want to use data with at least 10 organizations reporting in and 15 incumbents if available.

How do you select the right surveys? Keep the following three things in mind when you’re reviewing your options:

1. **Use at least 2-3 salary surveys.** It’s startling how many organizations make million-dollar decisions with only one salary survey source. Using multiple surveys for each job match will help you determine what data is the best fit for your company…and if the data is accurate for your needs.
2. **Decide what your labor market is for your positions.** Different positions often have different labor markets. Administrative or hourly positions are usually tied to a fairly small metropolitan area. Since everyone in the local area is competing for many of the same generic jobs (such as clerical, administrative, accounting, IT and human resources), it is important to know what these local rates are. But for executive positions in the market study, your might expand your search to a regional or national labor market.

3. **Pick at least one salary survey that specializes in your industry.** For example, in the hospital business sector, there are very good surveys that cover only that business sector. You’ll be more competitive if you know what the competition is paying.

Now that you know what you’re looking for, here’s a deeper look into your survey options...

**Government Salary Surveys from National, State or Local agencies.**

These sources used to be up to 24 months old. Now most data can be gathered via the Internet or e-mail, so they’re almost as current as many annually published and Internet surveys. The hardest part is to navigate the website for the first time. But once you have reached a comfort level, the data gathering is much easier.

**PROS:**

- Covers a wide variety of jobs.
- May cover remote regions that are hard to get data for.
- Generally the most inexpensive option—surveys range from “free” to under $250.00.

**CONS:**

- Websites are often hard to navigate.
- Data still isn’t as up-to-date as other sources.
- Participants may change from year to year.

**Sample Government Salary Surveys**

- Arizona Employers’ Council: www.azeci.com
- Employer’s Association of Florida: www.eafnc.org

**Association and Non-Profit Salary Surveys:**

If you’re looking for industry-specific information, you might consider using a survey from a non-profit or an association tied to your business. You’ll find that almost every category and type of business has an association. In fact, even the association business, has an association, “American Society of Association Executives” and publishes one of the best association job related salary surveys! Ask your marketing or business development team which associations they belong to.

Association surveys are generally reasonably priced for participants and/or members. A word to the wise – some will charge over $1,500 and may charge separately for executive, sales, professional and lower-level technical. Find out the price and what it includes before you commit to buying the survey.

**PROS:**

- Good sources of industry-specific data.
• Easier to match jobs – the organization structure and types of roles are usually similar.
• Can be a cost-effective way to get a large number of survey matches.
• High credibility with your executive staff and your employees.

CONS:
• May be too narrow of a view – for example, many of your jobs such as accounting can go work for almost any industry.
• May cover a larger geography than optimal for lower level jobs such as stock room, custodians, receptionists, etc.

Salary Surveys from Consulting Firms
These are the traditional published salary surveys published by big compensation consulting firms that do consulting as well as survey generation. Ten years ago, this used to be the only way to get salary information, but not anymore. When looking into this type of survey, don’t forget to balance cost vs. value. You might be able to find similar information for a lower price.

PROS:
• Comprehensive data.
• Some will do the job matching for you (for a fee).
• Used by large companies with huge payrolls.

CONS:
• Many are too expensive for most organizations.
• You may need to purchase several surveys to cover all the positions in your company.
• Participation is often mandatory to receive a copy.
• Generally doesn’t cover small labor markets.

Internet Salary Surveys
Internet salary surveys use the Internet to collect their data – and you use the Internet to retrieve it. (You can easily print out your data or download the information for future reference, too.)

The biggest upside of using Internet surveys isn’t how easy they are to use (which they are) – it’s the size of the samples they can collect information from. Employees even submit their compensation directly, which will give you
deeper insights into their education and background that employees don’t generally have access to. On the other hand, the availability of information is now extended past the HR professional, so employees can easily research their own positions, which has had a huge impact on the compensation field.

PROS:

• Information is incredibly up to date, with data being updated on a weekly – or daily – basis.

• You can usually access many more slices of data to match your organization’s needs: size, location, industry, organization type, etc.

• Some sites “coach” you through the process, so you don’t have to have a lot of compensation background.

• Can match jobs more effectively.

• Can be a cost-effective way to gather data from multiple industries and/or locations.

• You do not have to submit your company’s data to receive the information you need.

CONS:

• Short history – some Internet sources have only been around for a few years or less.

• Depending on your source, the data may run either high or low. Always have at least one other survey to compare it to.

Step 3: Collect your data

Now that you’ve chosen your survey sources, you’re ready to roll up your sleeves and start sorting through the data. To the novice compensation professional, it looks pretty easy to take a bunch of job descriptions and quickly find meaningful matches. Once you get started, you’ll realize it isn’t quite so simple…but this guide should help.

This section requires effort in two parts – matching the right jobs, and using the right numbers. First things first...

Match your organization’s jobs to the salary surveys.

The easiest place to start your search, of course, is with job titles. But you’ll want to make sure to thoroughly read through the job descriptions – yours and the ones provided with the surveys – to see if the data you are looking at matches the positions you are surveying. Strive for a 70% match on duties – don’t settle for title-to-title matches.

Here’s a time-saving tip. Look for Internet surveys who provide job-matching wizards that map job titles with industry, company type and size. You can cut your matching time in half with this handy tool.

You’ll also want to keep an eye on how your job falls into your job family versus the job family listed in the survey. Be sure to take into account the details of the position as well: education, experience, scope, reporting relationships to get as quality match as possible.

Smaller companies take note! You might have to be a little creative if your employees have combo-jobs. For example, a position may be 50% office manager and 50% human resources manager, so your best bet is to gather data on both roles and divide by two. Remember, pay is a function of responsibility and the candidate’s unique skills and experience.

Sample Internet Salary Surveys

PayScale—all levels of jobs in private and public sector across the U.S. and Canada: www.payscale.com
Select the right information to use.

When reviewing the data, start by comparing base pay to base pay...and do your best to match your organization’s size and industry.

You’ll be looking at a lot of numbers when reviewing salary data, so it’s important to make sure you’re consistent with the data you use. Once you understand averages, medians and modes, you’ll be able to make a better decision about which numbers are relevant to your organization.

**Simple Average:** A simple average takes the average from all the same jobs of one organization and combines them into a single number. For example, looking at 10 companies, 9 companies have 1 software engineer and 1 company has 79 software engineers, then the average is made up 10 averages. The one company with 79 engineers used the average of all 79 salaries to arrive a single number, which is given equal balance to the nine engineers in the other companies.

**Weighted Average:** In the example above, the weighted average may be dramatically different, since it gives equal weight to all the engineers in the group. By using the weighted average, your result will take into account 88 different salaries (79 + 9) instead of 10 salaries from 10 different companies.

If you’ve done your homework and selected surveys with sufficient data, the simple average will be the number you reference most frequently. For large organizations, the weighted average will be more accurate.

**Median and Mode:** The Median is simply the number that’s in the middle of a string of numbers. It can be useful if your scale has a bell shape, but misleading if there are “average” numbers clustered around one end of the curve.

The Mode is the number listed the most frequently in a data set – and it isn’t used very often to compute compensation averages for a market study. However, if you’re operating a business that employs many lower-level jobs (like fast-food chains), the Median may help you determine where your pay stands compared to similar organizations so you don’t lose employees over a few cents an hour.

**Step 4: Working with the numbers**

Now you’ll need to adjust the numbers to match your organization’s needs. Once you get this step down and understand the reasoning behind the math, you’ll be a pro in no time at all.

First, you need to tweak the salary survey data to take into account the time that’s passed since the information was collected. If you’re using 2 sources – one from the Internet and a printed Associate Survey – your Internet research will likely be much more current. You need to bring the Association data up to date. This is called aging the data.

Data aging is a fairly easy concept. Over time, salaries have moved on average 4% per year. By looking at the effective date of the survey, you can age the data to match the effective date of your market study.

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**Example: Aging Data**

- **Study effective date is July 1, 2008**
- **Survey data is effective October 1, 2007**
- **Data is 9 months old**
- **Salaries rose 4% over the past year...**
- **Which means that salaries rose 3% for the 9 month time period**
- **Raw Market Average is $4,000 a month**
- **To Compute the final number multiply the salary by 103%: $4,000 * 1.03**

**Answer Is:** $4,120
2. Determine what the effective date of your surveys data.

3. Age your survey’s data to math the effective data of your market study.

Sometimes the positions described in salary surveys aren’t an exact match to your jobs. But you can still make the data useful – by extrapolating up and down levels.

Extrapolating is the technique of estimating a data point (in this case, a salary) by using known information from another data point. In compensation, this technique can help estimate other higher jobs or lower jobs in a job family, by gathering the information for the middle job in a salary survey.

To extrapolate between levels, 12% is a good rule of thumb to account for the difference between pay grades. So, to extrapolate up a level, add 12% to the salary data available. For lower levels, subtract 12% from the salary survey number.

Step 5: Make sure it makes sense

Whenever you’re working with numbers, it’s critically important to review your work and make sure it makes sense.

For example, three salary survey mid-points are: $3,500, $3,450, $3,666. They are close together which give good credence to the fact that these are good numbers.

On the other hand, in reviewing your market averages, your numbers might look like this: $3,500, $3,455, $3,400, $4,888. Which one doesn’t seem to fit? $4,888 may be an outlier.

What’s going on here? It could be one of a few things...

- Poor job matching. Look back through the survey responsible for the outlier and see if there is a better job match – maybe under a different title.
- Insufficient data in a given survey. Use another survey that has a match that is more in line with your other numbers
- A slip-up in the math. Check your work to make sure there were no math errors.
- Or...? If you can’t find a reason for the outlier, go ahead and simply eliminate it, provided you have at least 3 survey numbers remaining to work with.

Step 6: Finalizing your recommendations and completing your market study

Now that you’ve got a strong set of numbers, you’re ready to move on to making your recommendations and executing the final step of your market study. You’re almost finished!
Come up with your recommendations, outlining each of the positions with their current salaries next to what your proposed change is. It's always useful to include a column that calls out the percentage difference...that way you'll have an at-a-glance insight into the updates you’re proposing. Work the numbers into your budget and adjust accordingly.

As your effective date draws near, you’ll want to have a clear communication plan in place for your managers and leaders. Make sure you inform and educate your managers how they should be communicating these adjustments to employees.

This is particularly important if you’re making big adjustments to account for market changes over several years. You don’t want one manager telling someone they’re getting a merit increase, while another employee gets the same “raise” as a cost-of-living adjustment. If you’re rolling out your plan one team at a time, prepare managers for questions from other employees. Communication works both ways, so count on hearing back from employees and managers about the new salary system.

You’ve successfully completed your market study – congratulations!

Of course, now it’s time to look forward to the next one. If your industry goes through a lot of change quickly, consider re-surveying the market once a year – especially for high-turnover positions and key roles. Otherwise, your organization should plan on benchmarking salaries every 18-24 months.
About PayScale, Inc.

PayScale is a market leader in global online compensation data. With the world’s largest database of individual employee compensation profiles, PayScale provides an immediate and precise snapshot of the job market. Our patent-pending real-time profiling system indexes custom employee attributes (such as industry-specific certifications) and specific job titles for every industry.

PayScale Professional provides employers with accurate, reliable compensation detail never before available. My PayScale and PayScale Premium give individuals the accurate facts and negotiation know-how they need in order to make smart, informed career decisions.

Launched in 2002 and headquartered in Seattle, Washington, PayScale owns the largest database of online employee salary data in the world. PayScale possesses a unique and diversified team, with areas of expertise including compensation, business and statistics, that brings an innovative and technical approach to online acquisition and analysis of job profiles and compensation data.

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About Sharon Koss, CCP, SPHR

Sharon Koss founded Koss Management Consulting in 1986 at the young age of 29 and was its president until her passing in 2010. In addition to a degree in Business Administration from Washington State University, Ms. Koss gathered over 30 years experience in human resource management during her career, specializing in compensation and performance management. Together with her husband and business partner, Doug, Ms. Koss worked with almost 700 clients and completed over 500 compensation plans for various companies. Ms. Koss also served on the faculty of SHRM (Society of Human Resource Management) for 12 years. Her book “Solving the Compensation Puzzle: How to Link Performance with Pay” was published by SHRM publishing.
Save Time and Money on Compensation Benchmarking and Make Setting Salary Ranges Easy

Eliminate compensation guesswork.

Stop overpaying employees.

Reduce the risk of losing your top performers.

To cut HR costs and save significant time and money in 2009, you must have accurate compensation data that reflects real-time market rates and truly matches your organization and your employees.

PayScale administers the largest, ongoing online salary survey in the world. PayScale’s unique search technology enables you to instantly find salary data that matches your company and your positions. With access to 5 million current pay records, it has never been easier to find accurate information to help you reduce HR costs.

Sample Report Excerpts

Detailed Market Data Report (Employee)
PayScale Job Title: Software Engineer / Developer / Programmer
Seattle, Washington, United States

Cash Compensation, Salaried

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<th></th>
<th>Reporting</th>
<th>Average</th>
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<th>25%</th>
<th>50%</th>
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<td>$14,470</td>
</tr>
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</table>

Currency: U.S. Dollar (USD)

Salary by Product Activity

See how instant access to PayScale’s data can help you with your compensation benchmarking and make setting salary ranges easy.

Request a FREE Sample Compensation Report by calling 1-888-699-0702 or emailing sales@payscale.com today