

The Total Economic Impact™ Of PayScale Compensation Management Solutions

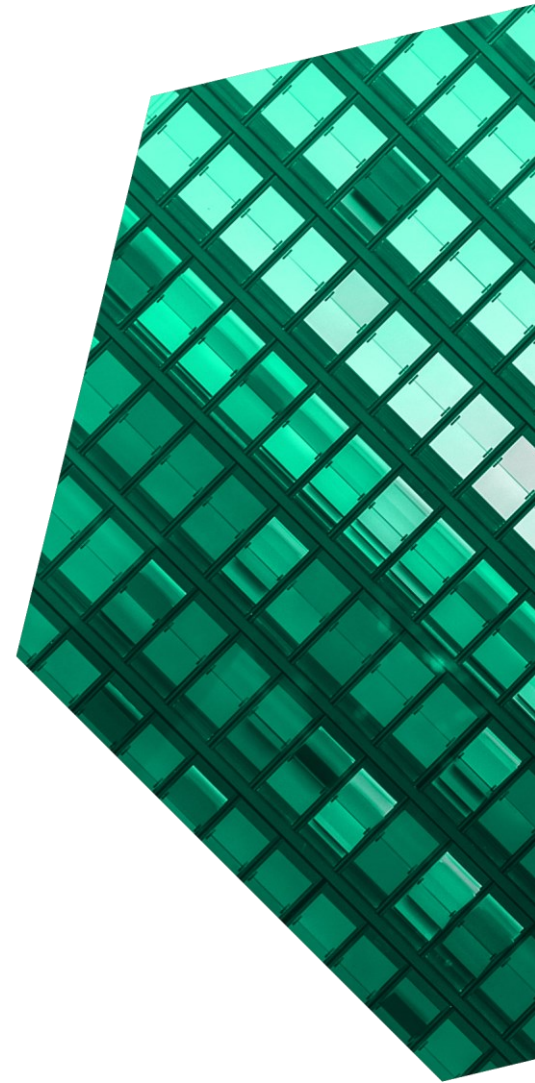
Cost Savings And Business Benefits
Enabled By PayScale

JULY 2023

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Executive Summary

In a dynamic labor market and an uncertain economy, organizations must ensure their pay structure is competitive to retain their productive workforce and recruit top talent. Compensation teams need tools that help them benchmark jobs, analyze data, and communicate with their colleagues in a way that's not too time-consuming. With Payscale compensation management solutions, companies can confidently keep up with current pay trends and effectively execute their compensation strategy.

Payscale offers compensation management technology, data, and services that help employers manage their pay structures and align employee compensation with market pay levels. With tools and features that automate compensation processes and reduce manual workload, Payscale helps compensation teams save time and gives employees confidence that their pay levels are accurate, updated, and aligned with their industry peers. With optimized pay structures in place, compensation teams can help their organizations acquire strong talent, retain engaged employees, and navigate the trends and current legislative efforts that encourage diversity and mandate fair pay.

Payscale commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying Payscale compensation management solutions.¹ The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of Payscale solutions on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed representatives from four organizations with experience using Payscale. For the purposes of this study, Forrester aggregated the interviewees' experiences and combined the results into a single [composite organization](#).

KEY STATISTICS



Return on investment (ROI)
235%



Net present value (NPV)
\$2.02M

Prior to using Payscale, interviewees' organizations struggled to analyze compensation data, which was spread across numerous spreadsheets or difficult-to-navigate tools. Participation in compensation surveys required lots of time and dedicated resources to collect and format data according to each survey's particular requirements. Without a system to organize data and simplify analytic and reporting processes, organizations had difficulty maintaining updated pay data and responding to changes with their company's compensation practices. It was cumbersome to justify any adjustments or updates that needed to be made to employee pay, and interviewees expressed frustration with the amount of manual work involved.

After the investment in Payscale, interviewees needed less time for compensation data management and analysis. Instead of using many different spreadsheets or less-sophisticated technology, interviewees and their teams used Payscale to optimize employee pay, reduce turnover,

and simplify compensation management activities like survey participation, data analysis, and job benchmarking. Managing compensation more effectively has helped save time, improve accuracy, and increase cross-functional collaboration with their colleagues to improve talent outcomes.

“With Payscale, just pricing a job — from initial evaluation to being able to provide feedback to leadership — is now something I can do in less than an hour.”

Senior compensation analyst, healthcare

KEY FINDINGS

Quantified benefits. Three-year, risk-adjusted present value (PV) quantified benefits for the composite organization include:

- **Employee management and recruiting cost savings of more than \$900,000 annually with reduced turnover.** Payscale solutions helps the composite organization identify employees who are below market pay levels. Once pay increases are implemented among these targeted employees, companies see a boost in retention — since pay is often a contributing factor to voluntary employee turnover. By addressing pay inequities, Payscale guides the composite organization on how to pay their workers more consistently and fairly, which in turn reduces the costs of recruiting, hiring, and new employee training. These savings total nearly \$2.5 million for the composite organization over three years.
- **Reduced time spent on compensation management activities, saving time and costs**

equal to one FTE. Payscale saves the composite organization valuable time by simplifying the everyday processes and activities of compensation data management and reporting. Instead of trying to update cumbersome spreadsheets, the composite's compensation analysts are able to quickly get data and insights to make informed business decisions. Further, instead of doing manual workarounds to participate in compensation surveys, Payscale's tools and templates increase the entire team's productivity and accuracy.

Unquantified benefits. Benefits that provide value for the composite organization but are not quantified in this study include:

- **Easy-to-use technology simplifies work and decreases stress.** Interviewees discussed how Payscale solutions helped them streamline and automate processes and make their jobs easier with less manual work. The technology was also easy to learn, so the fast ramp-up time meant that the interviewees and their teams gained confidence in their jobs and began benefiting from the platform shortly after implementation.
- **Customer service provides fast responses and issue resolution.** Interviewees were able to easily and effectively partner with Payscale's customer success managers because they were true experts in compensation. If interviewees needed assistance, they received quick, helpful advice from the Payscale team, which enabled them to resolve their issues and keep moving forward with their work.
- **The ability to work cross-functionally increases the trust and confidence of colleagues.** Interviewees spoke about their ability to better partner with their human resources (HR) colleagues thanks to the collaborative nature of the Payscale platform. Having the ability to seamlessly collaborate with their talent acquisition teams and HR business

partners, compensation teams could determine what strategies and practices would be best for the company as a whole.

Costs. Three-year, risk-adjusted present value (PV) costs for the composite organization include:

- **Resources and operations costs totaling \$543,000 over three years.** To effectively operate Payscale and reap the solutions' benefits, the composite organization dedicates time and resources to initial solution implementation and ongoing system management. Additionally, market adjustment costs are included in this category, since Payscale solutions help identify and boost lower-paid employee salaries to align with market salary data.
- **Payscale solutions costs totaling \$313,000 over three years.** Payscale offers compensation technology, data, and services that help companies better align their employees' compensation to their company's pay philosophy. These costs include annual subscription services for Payscale's software platforms, compensation data products like traditional surveys and other more agile data, and costs for professional services add-ons like Survey Management and Reporting & Analytics.

The representative interviews and financial analysis found that a composite organization experiences benefits of \$2.87 million over three years versus costs of \$856,000, adding up to a net present value (NPV) of \$2.02 million and an ROI of 235%.



ROI
235%



BENEFITS PV
\$2.87M



NPV
\$2.02M

Benefits (Three-Year)

Reduced turnover and associated costs

\$2.5M

Reduced time managing and reporting on compensation data

\$379.9K

“With our previous system, it took so many clicks to just do a single benchmark. It was maddening, and there was no multimatch feature like we have with PayScale.”

— Executive director of compensation, business services

TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those organizations considering an investment in 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.

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 study 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.



DUE DILIGENCE

Interviewed Payscale stakeholders and Forrester analysts to gather data relative to their compensation management solutions.



INTERVIEWS

Interviewed five representatives from four organizations using Payscale to obtain data with respect to costs, benefits, and risks.



COMPOSITE ORGANIZATION

Designed a composite organization based on characteristics of the interviewees' 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 interviewees.



CASE STUDY

Employed four fundamental elements of TEI in modeling the investment impact: benefits, costs, flexibility, and risks. Given the increasing sophistication of ROI analyses related to IT investments, Forrester's TEI methodology provides a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

The PayScale Compensation Management Solutions Customer Journey

■ Drivers leading to the PayScale investment

Interviews			
Role	Industry	PayScale Product	Employees
Executive director of compensation	Business services	Payfactors	22,000
Compensation director	Business services	Payfactors	12,000
Manager of compensation analytics	Financial services	MarketPay	23,000
Business operations analyst	Financial services	MarketPay	23,000
Senior compensation analyst	Healthcare	MarketPay	7,500

KEY CHALLENGES

Interviewees discussed the challenges their organizations experienced before implementing PayScale compensation management solutions. These companies struggled with time-consuming, manual processes and found it challenging to maintain up-to-date compensation data.

The interviewees noted how their organizations struggled with common challenges, including:

- **Manual spreadsheet work made compensation data analysis difficult.** Interviewees explained the challenges of doing compensation-related work using spreadsheet software. Spreadsheets were not only cumbersome but they also often required manual workarounds. The compensation director at the business services company described the pitfalls of using spreadsheets: “Because of the sheer size of the spreadsheets, we had some instances where the spreadsheets just broke. We have pretty complex formulas for regression in these spreadsheets, and typically they’d either fall apart, go very slowly, or get corrupted.”
- **Inefficient processes increased the time spent on survey participation.** Participating in compensation surveys was also a time-

consuming process before the interviewees implemented PayScale solutions. The senior compensation analyst for the healthcare company described this challenge: “Before PayScale, we would primarily do those surveys ad hoc. We’d then have to put all of that data into Excel and just pull out what we needed when we needed it. It wasn’t user-friendly, and it was time-consuming.”

“In the past, I would have had to build my own database to price all these jobs and automatically calculate everything. Even building the database itself would take weeks.”

Compensation director, business services

- **Manual data uploading, analyzing, and cleansing processes prevented organizations from being able to dynamically update their compensation structures.** In the past,

interviewees struggled to keep up with their own compensation strategies because interpreting data and pricing jobs was always a lengthy process. With this dynamic talent market, adjustments need to be made closer to real time in order to keep up with current trends. The compensation director from the business services organization explained this challenge: “Before Payscale, we did not have the ability to act at the snap of our fingers and quickly market-price any job at any point in time of the year. We would have to wait until market-pricing season to review updated survey data — whereas now we get surveys in a quarterly basis.” Without a way to continuously and systematically update their pay ranges, interviewees risked losing great potential job candidates because the salary estimates were off.

COMPOSITE ORGANIZATION

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

Description of composite. The composite organization is a business services company with \$5 billion in annual revenue. The organization is headquartered in the US and maintains operations exclusively in the US. It has a compensation analytics team that consists of five individuals — one director-level person and four senior compensation analysts who report to that director. The company has 17,000 employees but has been steadily growing its workforce by 10% year over year.

Deployment characteristics. The composite organization previously used Excel spreadsheets for compensation analysis and data storage; therefore, it did not have a formal compensation technology

platform in place prior to implementing Payscale. The company participates in 10 surveys annually and utilizes two unique compensation data methodologies. In addition to the primary Payscale technology platform, the composite organization also has Survey Management and Reporting & Analytics managed services.

Key Assumptions

- \$5 billion annual revenue
- 17,000 employees
- 10% annual workforce growth

Analysis Of Benefits

■ Quantified benefit data as applied to the composite

Total Benefits						
Ref.	Benefit	Year 1	Year 2	Year 3	Total	Present Value
Atr	Reduced turnover and associated costs	\$918,000	\$999,000	\$1,107,000	\$3,024,000	\$2,491,871
Btr	Reduced time managing and reporting on compensation data	\$152,755	\$152,755	\$152,755	\$458,266	\$379,880
	Total benefits (risk-adjusted)	\$1,070,755	\$1,151,755	\$1,259,755	\$3,482,266	\$2,871,751

REDUCED TURNOVER AND ASSOCIATED COSTS

Evidence and data. Interviewees spoke about the steps they took to adjust and optimize employee pay in line with the market, based on the insights they gleaned from Payscale. For example:

- Interviewees were able to use Payscale to identify employee groups in lower salary bands that should be brought closer to salary range midpoints. By aiding these market adjustment efforts for at-risk employees, Payscale contributed to turnover reduction.
- The manager of compensation analytics at the financial services company discussed how Payscale helped their team pitch the case for a premium pay structure for highly technical and hard to fill roles, which in turn led to increased retention: “Our company doesn’t want to have a culture of haves and have-nots. So, to suggest that some employees be part of a premium pay structure was a big move. We were able to demonstrate the business case and show how it could help retain and attract talent.”
- The senior compensation analyst for the healthcare company described a typical way in which Payscale could contribute to employee retention efforts: “We were able to target a group of employees across the organization who were

below range and move them closer to the midpoint, which I’m sure has made a difference from a retention standpoint.”

Modeling and assumptions. For the analysis, Forrester assumes the following:

- While the composite organization’s pay increases help reduce turnover, it is assumed that there are also other factors that likely play a role in reducing turnover. For example, the composite organization also likely adds opportunities for promotion, defines a unique company culture, improves work-life balance, and encourages remote work flexibility arrangements. These additional activities can also factor into an employee’s reasons for staying with the company.
- The costs to replace a departed employee are estimated to be 50% of that individual’s salary.

Risks. The following risks can potentially impact the reduced turnover and associated costs benefit:

- The percentage of turnover reduction attributable to Payscale could be more or less than the percentage listed, depending on how far below market the at-risk employees were prior to the market adjustment efforts.
- The at-risk employees who were targeted in the market adjustment effort could differ in their

average base salary and therefore the costs to replace employees could differ from what is outlined in this benefit.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of \$2.5 million.

Reduced Turnover And Associated Costs					
Ref.	Metric	Source	Year 1	Year 2	Year 3
A1	Employees	Composite	17,000	18,700	20,570
A2	Average turnover rate before Payscale	Interviews	16%	16%	16%
A3	Percentage of turnover reduction attributable to Payscale	Interviews	0.2%	0.2%	0.2%
A4	Employees retained due to market adjustments	A1*A3	34	37	41
A5	Average turnover costs per departed employee that are avoided due to Payscale	TEI standard	\$30,000	\$30,000	\$30,000
At	Reduced turnover and associated costs	A4*A5	\$1,020,000	\$1,110,000	\$1,230,000
	Risk adjustment	↓10%			
Atr	Reduced turnover and associated costs (risk-adjusted)		\$918,000	\$999,000	\$1,107,000
Three-year total: \$3,024,000			Three-year present value: \$2,491,871		

REDUCED TIME MANAGING AND REPORTING ON COMPENSATION DATA

Evidence and data. Report management and creation time savings represent a significant benefit to Payscale customers. Interviewees saved time by streamlining the reporting and analytic work associated with compensation management.

Examples include:

- Interviewees described the key, time-saving features of Payscale technology, including the platform's reporting features, survey templates, instant download features, and minimum wage analysis capabilities.
- The senior compensation analyst at a healthcare company discussed their team's time savings during survey participation: "[Payscale] has helped lessen the administrative burden. Just having all the surveys consolidated into one platform, instead of going into multiple different accounts...It has saved me so much time."
- The compensation director for the business services company described the speedy process for uploading data: "With Payscale, now everything is instantaneous. We truly just wait for our rep to bring in the new data, and all of our benchmarking is then automatically updated, the regression lines are produced, and we can see all impacts within 30 minutes."

Modeling and assumptions. For the analysis, Forrester assumes the following:

- While the weekly hours saved are listed on a per analyst basis, it is assumed that these management and reporting activities are not accomplished by a single person, but by a combination of the compensation analysts at the composite organization. With total time savings of just over 40 hours per week, the 5-person compensation team experiences productivity benefits nearing one full-time equivalent (FTE).
- Since interviewees described the compensation analysts who worked with them as very experienced, the fully burdened rate for a senior compensation analyst was assumed to be on the higher end of the pay range for that role.

"We now have reports that provide us with information on our competitiveness level in relation to the market. We're able to price jobs in a faster and easier way than we would have without Payscale."

Manager of compensation analytics, financial services

Risks. The following risks can potentially impact the reduced time managing and reporting on compensation data benefit:

- Time savings could differ based on the nature of the organization's compensation activities before and after implementation. For example, an organization could use the efficiencies gained with survey participation as a reason to participate in more surveys in the future — which would limit the productivity savings.
- Time savings could also be impacted by the nature of an organization's workforce. For example, if the organization is hiring a variety of new roles, that could increase the amount of time spent on benchmarking and overall analysis.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$380,000.

Reduced Time Managing And Reporting On Compensation Data					
Ref.	Metric	Source	Year 1	Year 2	Year 3
B1	Weekly hours saved per analyst due to more efficient data cleansing, management, and uploading	Interviews	8	8	8
B2	Weekly hours saved per analyst due to reduced time creating and managing compensation reports	Interviews	6	6	6
B3	Weekly hours saved per analyst due to more efficient survey participation	Interviews	5	5	5
B4	Weekly hours saved per analyst due to faster responses to leadership regarding job pricing requests	Interviews	5	5	5
B5	Subtotal: Hours saved per analyst per week	B1+B2+B3+B4	24	24	24
B6	Number of senior compensation analysts involved in these tasks	Composite	2	2	2
B7	Fully burdened hourly rate for a senior compensation analyst	TEI standard	\$68	\$68	\$68
Bt	Reduced time managing and reporting on compensation data	52*B5*B6*B7	\$169,728	\$169,728	\$169,728
	Risk adjustment	↓10%			
Btr	Reduced time managing and reporting on compensation data (risk-adjusted)		\$152,755	\$152,755	\$152,755
Three-year total: \$458,266			Three-year present value: \$379,880		

UNQUANTIFIED BENEFITS

Interviewees mentioned the following additional benefits that their organizations experienced but were not able to quantify:

- **Easy-to-use technology simplifies work and decreases stress.** Interviewees commented on the numerous ways that the structure and simplicity of Payscale technology helped to make their jobs easier.
 - **Fast ramp-up time.** The executive director of compensation for the business services company summarized her quick experience with learning how to use Payscale: “Once I learned how to use the technology, I was good to go. Our prior system felt clunky at times, but Payscale just does the job in a great, easy way.”
 - **Improved job satisfaction and overall work life.** The senior compensation analyst at a healthcare company noted that he never wants to work in this type of role without a platform like Payscale in place: “I’ve made my feelings clear at this point, but I’m such a Payscale fan. It’s been such a massive improvement in my work life that it’s almost something that I’d want to screen for with any future employer I may have down the road. And if it’s something they don’t already have in place, I’d definitely push hard for it.”
- **Customer service provides fast responses and issue resolution.** Interviewees noted that Payscale’s account and customer success teams comprise true compensation experts who could assist with any customer inquiry in a helpful way.
 - **Solutions that are customized to individual business needs.** The executive director at the business services company explained how their Payscale customer success manager (CSM) assists them with actionable feedback and problem resolution: “Their customer service provides solutions to your problems that are very customized to your company’s needs. And that’s an awesome thing. With their help, the capabilities we’ve been able to build within the last three months have allowed this platform to more than pay for itself.”
 - **Customer-facing compensation experts.** The compensation director at the business services company discussed the expertise of Payscale’s team: “All the people at Payscale who are answering your questions are compensation experts. It isn’t an admin or somebody that just moved over from a different department — they are truly comp experts. So, when you call somebody and you ask a question, their team is fully in the know.”
- **The ability to work cross-functionally increases the trust and confidence of colleagues.** While Payscale provided financial gains to the interviewees’ organizations, another benefit of having their compensation solutions in place is being able to collaborate more effectively with colleagues.
 - **Tracking capabilities to collaborate on analysis.** The senior compensation analyst at the healthcare company described this benefit, saying: “A big burden for me in the past was tracking. With everything in Payscale, I’m able to go into the system and see not only what I did in pricing this job, but I can also see what my boss went in and did. Having that saved in Payscale and not having to worry about managing a shared spreadsheet is huge.”

- **Benefits for other HR functions.** The compensation director for the business services company described how Payscale helps them work seamlessly with other groups: “The data really helps our talent acquisition (TA) folks, who are our recruiters, and our HRBPs (HR business partners) to understand what is really happening. All three of us can now work together because the TA has the candidates, HRBPs know what the business needs, and we know what the market is saying. So we all work in conjunction together and truly partner well with each other on that piece.”

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

FLEXIBILITY

The value of flexibility is unique to each customer. There are multiple scenarios in which a customer might implement Payscale and later realize additional uses and business opportunities, including:

- **Leveraging time savings to focus on strategic projects and shifting marketplace trends.** Interviewees discussed their desire to focus on strategic initiatives in the future — once their organizations fully tackle compensation issues like pay compression and below-market salaries. As new legislation continues to impact employee compensation, companies want their pay practices to line up with market expectations and meet compliance standards.
- **Expand to other Payscale offerings.** The compensation director for the business services company described their desire to leverage more of Payscale’s offerings in order to reap additional cost savings: “We’ll definitely expand the offerings that we have with Payscale because it’s so easy to tack on other modules. We’re looking forward to tacking on more things like job descriptions or pay statements that could help give us deeper insights and provide more benefits to the company.”

Analysis Of Costs

■ Quantified cost data as applied to the composite

Total Costs							
Ref.	Cost	Initial	Year 1	Year 2	Year 3	Total	Present Value
Ctr	Resources and operations costs	\$21,000	\$192,150	\$211,050	\$229,950	\$654,150	\$542,868
Dtr	Payscale solutions costs	\$0	\$126,000	\$126,000	\$126,000	\$378,000	\$313,343
	Total costs (risk-adjusted)	\$21,000	\$318,150	\$337,050	\$355,950	\$1,032,150	\$856,211

RESOURCES AND OPERATIONS COSTS

Evidence and data. This section includes the salary adjustment costs implemented by the composite organization based on the insights gained through Payscale. This cost category also includes the implementation and maintenance expenses associated with Payscale solutions.

- Interviewees discussed examples of how they adjusted and optimized salaries in line with the market at their respective organizations. These salary enhancements contributed to the turnover reduction outlined in Benefit A.
- Implementation was a straightforward process with Payscale. The compensation director from the business services company stated that their company's Payscale implementation was "the easiest out of all the systems that I've implemented in the past."
- Aside from Payscale's standard implementation fee, interviewees didn't need to devote large resource amounts to setting up Payscale.
- Minimal training resources were needed to stay up to date with the latest features and developments within the Payscale platform.

Modeling and assumptions. For the analysis, Forrester assumes the following:

- The salary adjustments target a portion of the composite organization's workforce in Year 1. The composite continues to pay those individuals at their boosted pay rate in Years 2 and 3.
- Additionally, it's assumed that the composite increases salaries for a select group of incoming employees.
- Implementation costs include Payscale's standard implementation fee, and the resources needed to clean up data before implementing.
- Training and ongoing system maintenance costs refer to the composite organization's efforts to stay up to date with current Payscale features and to utilize the system.

Risks. The following risks can potentially impact the resources and operations costs:

- The amount of money spent on salary increases could differ from the costs incurred by the composite organization. For example, if a greater proportion of the composite organization was found to be below average market pay levels, or if the composite targets a specific type of job to benefit from pay increases, then those costs could differ.
- Implementation, maintenance, and training costs are less variable than market adjustment costs

and salary optimization, but still could differ based on the time and resources needed for each of those activities.

Results. To account for these risks, Forrester adjusted this cost upward by 5%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of \$543,000.

Resources And Operations Costs						
Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
C1	Cost of salary market adjustments	Composite		\$170,000	\$188,000	\$206,000
C2	Implementation resources for Payscale setup	Interviews	\$20,000			
C3	Ongoing system management resources	Interviews		\$11,000	\$11,000	\$11,000
C4	Ongoing training resources	Interviews		\$2,000	\$2,000	\$2,000
Ct	Resources and operations costs	C1+C2+C3+C4	\$20,000	\$183,000	\$201,000	\$219,000
	Risk adjustment	↑5%				
Ctr	Resources and operations costs (risk-adjusted)		\$21,000	\$192,150	\$211,050	\$229,950
Three-year total: \$654,150			Three-year present value: \$542,868			

PAYSCALE SOLUTIONS COSTS

Evidence and data. Payscale solutions include software platforms, compensation data, and professional services. This cost category outlines this solution bundle that represents Payscale's core compensation management offering.

- Payscale offers two compensation management platforms to its customers — Payfactors and MarketPay. The five interviewees represented four Payscale customer organizations — two that were Payfactors customers and two that were MarketPay customers. Both platforms allow users to accomplish key compensation management goals and tasks.
- Payscale also offers data products to their customers — including peer data, employee-reported data, and an HR Market Analysis package.
- Lastly, Payscale offers a variety of services to their customers. Customer interviewees had experience with both the Survey Management and Reporting & Analytics service packages.

Modeling and assumptions. For the analysis, Forrester assumes the following:

- The composite organization's pricing for the Payscale software is based on their employee headcount.
- The composite organization participates in 10 surveys per year, which is included in Payscale's pricing bundle.
- The composite organization has additional services bundled in their pricing — Survey Management and Reporting & Analytics.

Risks. The following risks can potentially impact the costs of Payscale solutions:

- Pricing would differ if the composite organization participated in a larger number of surveys.
- If a Payscale customer's workforce increases by a significant amount, it could be subject to additional costs.

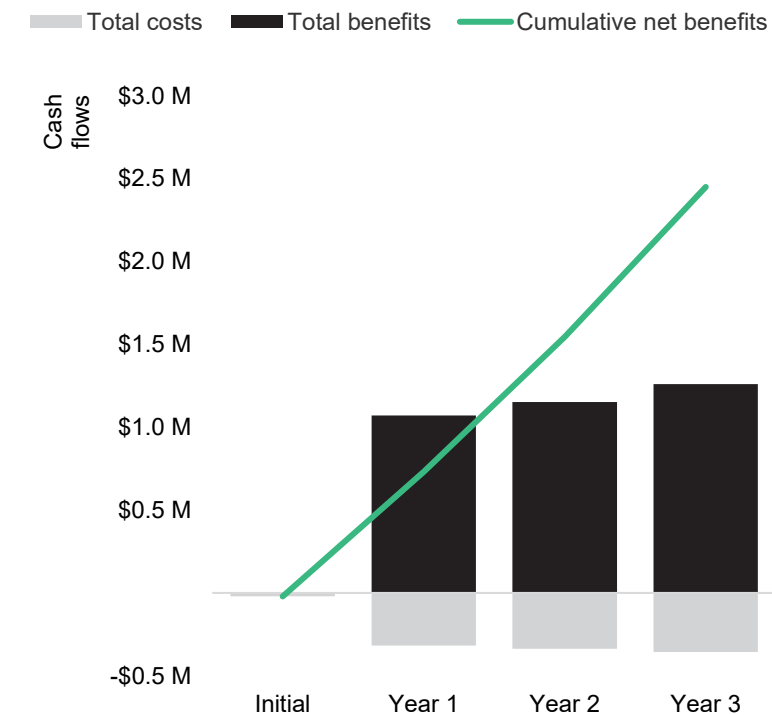
Results. To account for these risks, Forrester adjusted this cost upward by 5%, yielding a three-year, risk-adjusted total PV of \$313,000.

Payscale Solutions Costs						
Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
D1	Annual pricing for Payscale solutions based on composite size	Interviews		\$120,000	\$120,000	\$120,000
Dt	Payscale solutions costs	D1	\$0	\$120,000	\$120,000	\$120,000
	Risk adjustment	↑5%				
Dtr	Payscale solutions costs (risk-adjusted)		\$0	\$126,000	\$126,000	\$126,000
Three-year total: \$378,000			Three-year present value: \$313,343			

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 Analysis (Risk-Adjusted Estimates)						
	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total costs	(\$21,000)	(\$318,150)	(\$337,050)	(\$355,950)	(\$1,032,150)	(\$856,211)
Total benefits	\$0	\$1,070,755	\$1,151,755	\$1,259,755	\$3,482,266	\$2,871,751
Net benefits	(\$21,000)	\$752,605	\$814,705	\$903,805	\$2,450,116	\$2,015,540
ROI						235%

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%.

Appendix B: Endnotes

¹ 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.

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