



PURE MARKET PRICING

A Human Resource Guide to Salary Structure Design for
Today's Challenging Labor Market

Market pricing has evolved in recent years and can be very responsive within a highly competitive labor market. Yesterday's market pricing with one range per grade may not be an adequate process to attract, retain, motivate, and engage employees in today's marketplace. A workforce with critical skills can be in high demand, and pure market pricing can be an effective approach to retain these employees.

Technology companies have embraced the pure market pricing model to provide up-to-date individual market rates or ranges on a job-by-job basis.

Pure market pricing (also known as single job market pricing) is an approach where each job is managed to its own, unique "market-priced" salary rate or range. Grades may or may not be assigned under a pure market pricing model.

When pure market pricing is based on quality salary surveys, which are regularly refreshed to ensure up-to-date market information, they become a highly reliable resource on which to base these important decisions in the design of the annual compensation plan.

A compensation plan based on pure market pricing can be designed in a variety of ways tailored to the specific needs of an organization. Consider these options:

Include all jobs within an organization	vs.	Include specific jobs, such as the technical ladder only
Include salary rates	vs.	Include salary ranges
Include narrow range with guidelines	vs.	Include wider range (e.g., 50-70% with range minimum, midpoint, and maximum)
Include salary grades	vs.	Exclude salary grades
Grades used to manage STIP and LTIP eligibility	vs.	Grades not used to manage STIP and LTIP eligibility
Include a unique salary range for each job	vs.	Include just a few ranges (2+) within each range

Like many other compensation plans and methodologies, pure market pricing has both advantages and disadvantages:

Advantages

- Hot skills and hot labor markets can be precisely recognized in a highly competitive environment
- Responsive to a very low unemployment marketplace
- Very accurate pricing of individual jobs when updated annually

- Methodology is simple to understand
- Plan design can be simple and complement transparent communications
- Can be an excellent approach and design for a start-up, small, or even mid-size organization (even though very large organizations have also used this approach)
- Can support in reducing pay compression issues

Disadvantages

- All jobs need a benchmark market match which places increased pressure on survey data and job matching
- The market rate or range may be simple to calculate, but grade assignment, if used, may be more complex
- Increased discretion may be needed when market data is too weak to establish a pay range
- Markets with limited salary survey data may be difficult to price
- Can be labor intensive
- Proceed with caution on pay equity issues if male-dominated, technical jobs are managed with pure market pricing while female-dominated non-technical jobs are not

An Example – Is pure market pricing right for your business?

Consider our insight and an example to support you in your decision:

STEP 1: Review your goals and objectives

The decision to pursue a new compensation plan (including pure market pricing) requires a close review of your goals and objectives to ensure your company is a good candidate for the change.

Here are a few important questions to ask:

- Does pure market pricing complement the business and human resources strategy?
- Will it support in the attainment of short- and long-term goals and objectives?
- Will pure market pricing distribute the cost of labor fairly, equitably, and legally?
- Will pure market pricing contribute to a performance-driven culture and contribute to a highly-motivated workforce?
- Will pure market pricing reward, recognize, and retain critical employees, key roles, and top performers?

- Do the top executives understand, own, and approve a pure market pricing approach for the compensation plan?
- Will the plan be transparent and simple to understand?
- Can the plan be updated annually and be flexible enough to adapt to the needs of the business?



STEP 2: Update the compensation strategy

The compensation plan should be based on a well-designed compensation strategy that is thoughtfully linked to an organization’s total rewards strategy, human resources strategy, and business strategy. When pay is market competitive and delivered fairly and equitably throughout an organization, it will support in the company’s ability to attract, retain, motivate, and engage employees.



An example of a simplified compensation strategy modified for pure market pricing follows:

Compensation Strategy

Top management approves the compensation strategy and program for all employees worldwide as recommended by the HQ Total Rewards team:

- Pure market pricing company-wide, including base pay ranges within grades set at the 50th percentile of the applicable industry and competitive marketplace
- Salary ranges set to July 1 of each year following a lead-lag strategy
- An annual focal salary review cycle based on pay for performance
- Short- and long-term, performance-based incentive plans
- Total cash compensation targeted at the 50th percentile of the applicable industry and competitive marketplace when the business meets 100% of its annual goals and objectives*

**Executive compensation approved by the Compensation Committee of the Board of Directors*

STEP 3: Develop your project plan for implementation

Pure market pricing is relatively simple to calculate but can be time consuming when there are many jobs to market price and salary grades are included in the approach. Here are some critical steps to consider in the development of your project plan:

- Participate in three or more salary surveys including the desired industry, location, and/or job function
- Collect internal data and salary survey results
- Identify and match jobs to the external marketplace using job descriptions
- Develop a market summary by function of the external marketplace aged to the desired point in time
- Summarize further and rank the external, aged market results for base salary and total compensation, and then group data by desired salary grades and internal job titles
- Develop proposed salary ranges based on pure market pricing
- Apply salary grades should they be included in the compensation plan
- Develop a compa-ratio report to determine costs for implementation
- Obtain management support and approval

- Ensure transparency when communicating the plan throughout Human Resources, management, and employees
- Implement plan

Pure market pricing eliminates extensive calculations and regression analysis for the salary structure creation.

STEP 4: Summarize external market data

Let's look at a brief example:

A Specialty IT Related Services company located in Seattle, Washington, desires to implement a pure market pricing program with base salary ranges and grades at the 50th percentile (median) of their competitive marketplace as of July 1, 2019. Using ERI Economic Research Institute's [Salary Assessor](#), the company's technical intermediate jobs with 3 years of experience have been market priced in the Benchmark List. The results follow:

ORGANIZATION DATA

Name: Your Organization Name

Location: Seattle, Washington

Industry: Specialty IT Related Services

eSIC Code: 7379

NAICS: 518210

usSEC: 7370

Revenue: 100,000,000

Include in analysis of lower level jobs

Salary Planning Date: 7/1/2019

Annualized Salary Trend: 2.7% (Adjustment: 1.34%)

Benchmark List

List of Jobs: Add Position

Compensation Type: Base Salaries | Pay Period: Annual | Experience/Levels: 3 Years

#	Position	10th Percentile	25th Percentile	Survey Median	75th Percentile	90th Percentile	Actual Salary	Market Index
1	Programmer Computer	75,659	82,257	89,718	99,056	107,198	0	0
2	Data Analyst	72,964	79,855	87,678	97,457	105,974	0	0
3	Financial Analyst	74,135	80,405	87,541	96,666	104,702	0	0
4	Analyst Business Data	67,674	74,065	81,431	90,660	98,716	0	0
5	Analyst Human Resources Information Systems	68,091	74,049	80,921	89,532	97,064	0	0
6	double-click to add position						0	0

Survey Description

- Analyzes past and present financial data of organization and estimates future revenues and expenditures, applying principles of finance.
- Runs and documents financial analysis projects.
- Aids organization with financial functions, such as assessing, auditing, planning, budgeting, taxes, consolidation, cost control, and project control.
- Evaluates and analyzes capital expenditures, depreciation, proposals, investment opportunities, rate of return, profit plans, operating records, financial statements, etc.

Annual Base Salaries Graph

ERI's Salary Assessor Benchmark List can be exported to Microsoft Excel or a PDF file, as follows:

ERI's Salary Assessor®								
Benchmark Listing of Jobs								
Today's Date: 1/21/2019								
Data as of: 1/1/2019								
Compensation Type: Base Salary								
Pay Period: Annual								
Position	10th Percentile	25th Percentile	ERI Survey Median Annual Salary	75th Percentile	90th Percentile	Actual Annual Salary	ERI Market Index	eDOT #
Programmer Computer	75,659	82,257	89,718	99,056	107,198	-	0.0	030162010
Data Analyst	72,964	79,855	87,678	97,457	105,974	-	0.0	039162030
Financial Analyst	74,135	80,405	87,541	96,666	104,702	-	0.0	161067011
Analyst Business Data	67,674	74,065	81,431	90,660	98,716	-	0.0	039162012
Analyst Human Resources Information Systems	68,091	74,049	80,921	89,532	97,064	-	0.0	030162510
All Values in United States Dollars								
Organization Data:								
Area: Seattle, Washington								
Industry: Specialty IT Related Services								
Codes: eSIC: 7379, NAICS: 518210, usSEC: 7370								
Size: 100,000,000								
Planning Date: 7/1/2019								
Years of Experience: 3								

STEP 5: Develop salary ranges and grades

Salary ranges are very simple to calculate using pure market pricing as each job is managed to its own unique salary range. In this example, the market median becomes the midpoint for each job rounded to the nearest hundred.

Specialty IT Services Company
Example - Grade 3 Salary Ranges Using Pure Market Price
Effective January 1, 2019

Grade	Position	Minimum 80%	Midpoint 100%	Maximum 120%
3	Computer Programmer	\$71,760	\$89,700	\$107,640
3	IT Data Analyst	\$70,160	\$87,700	\$105,240
3	Financial Analyst	\$70,000	\$87,500	\$105,000
3	Business Data Analyst	\$65,120	\$81,400	\$97,680
3	HRIS Analyst	\$64,720	\$80,900	\$97,080

The Specialty IT Services Company salary structure will include salary ranges within grades. We decide to use a 50% range spread from the minimum to the maximum of the range. The midpoint is multiplied by 0.80 to calculate the minimum, and the midpoint is multiplied by 1.20 to calculate the maximum. The highest midpoint for the intermediate professionals is \$89,700 while the lowest midpoint is \$80,900 based on

pure market pricing. Ranges are used to provide managerial guidance to the organization while managing costs. Grade 3 has been applied to its intermediate professionals. The grades can also be used to manage both short-term and long-term incentive eligibility.

STEP 6: Develop compa-ratio report

The compa-ratio report compares the internal pay rates to the new salary structure. It also provides critical information in evaluating the overall costs of the new structure and fit within the organization. It is an excellent document to obtain management support and approval of the new compensation plan.

In this instance, the company will be at 96% of the market based on the new salary structure prior to adjustments to minimum and a 3.5% merit increase budget. After \$2,120 in adjustments to minimum and a 3.5% merit increase budget have been administered, the organization will be at 100% of market. Base salary costs have increased by \$25,294 for the new compensation plan using a pure market pricing approach.

Name	Job Title	Salary Guide	Base Salary	Salary Range (Base)			Compa-Ratio	Under Min	Over Max
				Min 80%	Mid 100%	Max 120%			
Employee 1	Programmer	3	\$88,000	\$71,760	\$89,700	\$107,640	0.98	\$0	\$0
Employee 2	Programmer	3	\$91,000	\$71,760	\$89,700	\$107,640	1.01	\$0	\$0
Employee 3	IT Data Analyst	3	\$75,000	\$70,160	\$87,700	\$105,240	0.86	\$0	\$0
Employee 4	IT Data Analyst	3	\$87,000	\$70,160	\$87,700	\$105,240	0.99	\$0	\$0
Employee 5	Financial Analyst	3	\$95,000	\$70,000	\$87,500	\$105,000	1.09	\$0	\$0
Employee 6	Business Data Analyst	3	\$63,000	\$65,120	\$81,400	\$97,680	0.77	\$2,120	\$0
Employee 7	Business Data Analyst	3	\$78,000	\$65,120	\$81,400	\$97,680	0.96	\$0	\$0
Employee 8	HRIS Analyst	3	\$83,000	\$64,720	\$80,900	\$97,080	1.03	\$0	\$0
Total - (USD)			\$660,000		\$686,000		0.96	\$2,120	\$0
Total with Adjustments to Minimum			\$662,120		\$686,000		0.97	\$2,120	\$0
Total with 3.5% Merit Increase Budget			\$685,294		\$686,000		1.00	\$2,120	\$0

For the organization being considered, pure market pricing appears to be appropriate and reasonable to implement.

As the marketplace continues to evolve from month to month, a company's competitiveness to the market can range from a 0.95 to 1.05 compa-ratio as an acceptable competitive range. Corrective steps should be considered below 0.95 and over 1.05.

As your salary structure design is being evaluated, it is important to consider the following questions:

- Is it market competitive?
- Is it equitable?
- Can we afford the program?
- Is it legal?
- Can it be implemented?

Keeping your plan up to date

Pure market pricing should be very responsive to changes in the external marketplace. It is important to keep your salary structure up to date. This starts with annual salary survey participation. Also, occasionally market reviews by function, department, or job may be needed. Companies that use pure market pricing will typically update their salary ranges annually.

Summary

There are many ways to develop a competitive salary structure. Pure market pricing is an excellent approach in a highly competitive marketplace with low unemployment. It allows a company to be very responsive to the labor market while ensuring the ability to attract, retain, motivate, and engage a talented workforce.

It is important, though, that the program is cost effective and reasonable for the organization to implement. Will a pure market approach for your compensation program support you in attaining external market competitiveness while maintaining internal equity and pay equity requirements? Is the program simple to understand and legally defensible? Is the program easy to administer? Is the program flexible and ongoing to support the long-term requirements of the organization? Finally, top management's support of any compensation plan is always critical to the success of the overall program.

Determine the Market Salary Range for Any Position

Try a Free Demo

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