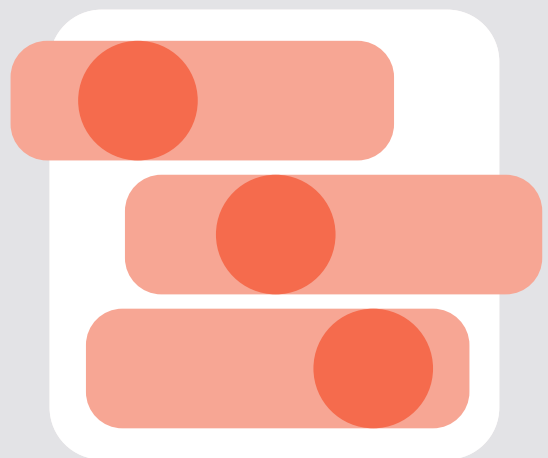




A Practical Guide to Building Compensation Bands



A Practical Guide to Building Compensation Bands.

A compensation band outlines the pay range you expect to pay someone based on their department, level (or title), and location. They are a key tool in your company's toolbox to ensure that you are fairly and competitively compensating your team. Compensation bands can drive alignment between talent teams, people teams, hiring managers and executives on how much to pay your team members, and they can help your Finance team better predict payroll expenses as your company grows. But if it's your first time building compensation bands, creating them may feel daunting.

This guide will help you demystify some of the key decisions you need to make when building compensation bands and will guide you through the eight key steps that are required.

Table of contents

- Step 1:** Get familiar with **historical pay** and **leveling practices**
- Step 2:** Define what **percentile** you want your compensation band **mid-point** to be
- Step 3:** **Use benchmarking data** to find your mid-points per department and level (and optionally location)
- Step 4:** Calculate the **minimum** and **maximum** of your comp bands
- Step 5:** Assign **departments, levels** and **locations** to each employee
- Step 6:** **Match each employee** to your compensation bands
- Step 7:** **Compare your employees** actual compensation to the compensation bands you pulled
- Step 8:** **Share your bands** to ensure your company stays aligned

Step 1:

Get familiar with **historical pay** and **leveling practices**

This may sound like a basic place to start, but it's critical that you understand any existing structure – even if it's inconsistent – before you march ahead building an entirely new one for your company. You can consider this your “data collection” phase.

Before getting started building bands, you should be able to answer these questions:

- What departments and job families are currently filled in your business?
- What leveling structure is in place (if any)?
- How do you handle location-based pay (if any)?

For many folks just starting out, the second and third bullets may not have historically had consistent treatment – and that's okay! You're going to put a defined structure into place.



Step 2:

Define what **percentile** you want your compensation band **mid-point** to be

In **Step 3**, you'll use benchmarking data – comparative compensation data from other companies – to identify what the market rate is for the different jobs you defined in **Step 1**.

However, there's a critical decision you need to make before pulling your data: how well do you want to compensate your employees relative to employees employed at comparable companies.

Most companies use the 50th or 75th percentile relative to a comparative set of companies.

If you use the 50th percentile, you can feel confident that employees at the mid-point are being paid more than 49% of employees in comparative roles in comparative companies.

If you're using the 75th percentile, employees at the mid-point of your band will be paid more than 74% of the employees in comparative role.

Which percentile you choose for your mid-point is a strategic, company-specific question. Here are a few things you may want to consider:

- **Your budget:** The higher the mid-point relative to the market, the more money you are going to spend on payroll. If you're aware of your run-rate or cash flow, you may want to use the 25th or 50th percentile as your mid point.
- **The type of talent you seek to attract:** Many of the FAANGs are notorious for paying at the 90th percentile to capture top talent by never losing on compensation. But this comes at a cost.
- **Your susceptibility to attrition:** Hot job market? Feeling like there's an employee exodus? You may want to raise your compensation band mid point to the 75th, or even 90th percentile.
- **How aggressive your hiring plan is:** If you're trying to hire a lot of people very quickly, having higher bands will make your cash offers more competitive than offers from other, comparable companies, likely increasing your candidate-to-employee conversion rate.

Step 3:

Use benchmarking data to find your mid-points per department and level (and optionally location)



Get data access:

Pave offers free, real-time compensation benchmarks. You can access those benchmarks at app.pave.com/signup.



Define who you want to compare yourself to:

Which companies do you want to benchmark against? Companies that are the same size as you? Raised the same amount of money as you (if you're a private company), have the same number of employees as you? All are totally valid decisions, as are just looking at all companies with that level/role.

Search for the roles + levels you defined in **Step 1** . Pull the percentile that matches the mid-point you defined in **Step 2** .



Smooth your data.

Once you have your benchmarking data, you'll want to double check it to make sure that the compensation increase between levels is logical and consistent. In some cases you might need to take the extra step to smooth out any data discrepancies that can be caused by low sample sizes.

Let's talk about location

How to compensate employees based on location depends on your compensation philosophy and strategy, and there is no “right” way to do it!

Here are two common approaches to how to approach location & compensation:

Location differentials: Pick a base location (usually your most expensive or HQ location) and apply discounts for other locations based on that base location. Try to keep it to 4 or fewer payzones – even companies with thousands of global employees can typically use 4 or fewer payzones, and the simplicity will be valuable as the number of jobs grows. You can use tools like numbeo.com or the current difference in pay between employees across locations to identify your differential.

Pay for output: Pay all employees in the same role/level equally (no differential), in which case you would use the same compensation band for employees in all locations. This is common for teams that want to pay teams based on the value they generate, not the cost of living where the employee lives.

For our example, we will be applying a 10% differential to the Pennsylvania team members relative to the New York team members.

Department	Level	Location	Location differential	Min	Min (50th percentile)	Max
Sales	P2	New York	100%	\$70,000	\$85,000	\$100,000
Sales	P3	New York	100%	\$85,000	\$100,000	\$115,000
Sales	P3	Pennsylvania	90%	\$76,500	\$90,000	\$103,500
Sales	P4	New York	100%	\$100,000	\$115,000	\$130,000
Sales	P5	New York	100%	\$120,000	\$135,000	\$150,000
Sales	M3	New York	100%	\$100,000	\$115,000	\$130,000
Sales	M4	New York	100%	\$112,200	\$132,000	\$151,800
Sales	M4	Pennsylvania	90%	\$102,000	\$120,000	\$138,000
Sales	M5	New York	100%	\$135,000	\$150,000	\$165,000

Step 4:

Calculate the **minimum** and **maximum** of your comp bands

Now that you have your mid-points for your unique set of departments + levels + locations, apply a 10% (some companies use 15%, some use 20%) differential to your mid-point. In other words, take your mid points, and subtract 10% and add 10%. The lower bound is your min and the upper bound is your max. Your bands should look something like this:

Department	Level	Location	Min	Min (50th percentile)	Max
Sales	P3	New York	\$85,000	\$100,000	\$115,000
Sales	M6	New York	\$153,000	\$180,000	\$207,000
Sales	P3	Pennsylvania	\$76,000	\$90,000	\$103,500
Sales	M4	Pennsylvania	\$102,000	\$120,000	\$138,000
Administration	P2	Pennsylvania	\$51,000	\$60,000	\$69,000
FP&A	P4	Pennsylvania	\$76,500	\$90,000	\$103,500
Logistics	M3	Pennsylvania	\$63,750	\$75,000	\$86,250

 $\text{Min} = \text{Mid} - (10\% * \text{Mid})$

 $\text{Max} = \text{Mid} + (10\% * \text{Mid})$

Narrower bands (less than 10% +/-) generally mean that employees doing the same job will be paid more alike, but they also allow for less progression within the band. If your organization typically promotes team members to new levels within a short period of time, narrower bands may be a good fit for your organization.

Alternatively, wider bands (greater than 10% +/-) allow for more/larger raises while an employee is still in a single level, and are likely a good fit for your organization if employees stay in the same role for longer periods of time.

Step 5: Assign departments, levels and locations to each employee

Using the departments and levels you familiarized yourself with in [Step 1](#) and the payzones you (optionally) outlined in [Step 3](#), assign all of your employees to a department, level and (optionally) payzone.

If you don't currently have levels, you can share Pave's leveling framework (created in partnership with the People Design House) with your managers, and work with them to define each employee's level.

		Scope	Autonomy	Responsibility
Professional	P1	Works within your function.	Contributes to small or function specific projects. Receives regular guidance and check ins.	-
	P2	Works within your function (or program) and occasionally interface in cross-program relationships.	General direction required from manager or leads.	-
	P3	Partners with peers (ie: similar level) in different functions within the org. Contribute to cross-functional projects.	Input on general direction from manager or lead. Owns workstream.	-
	P4	Strategizes with leaders (level 4+) across multiple functions within the org to identify work streams for their team.	Strategic partnership required from peers, manager or lead. Owns workstream.	-
	P5	Strategizes with senior leaders across multiple functions within the org.	Becomes strategic lead within team. Strategic partnership required from peers. Input from leadership team required.	-
	P6	Is a strategic lead and decision maker in company direction. Strategizes with senior leaders across multiple functions within the org.	Input from leadership team required. Strategic partnership required from peers. Sets strategy across functions.	-

		Scope	Autonomy	Responsibility
Manager	M3	Partners with peers (ie: similar level) in different functions with org. Contribute to cross-functional projects.	Input on general direction from manager or lead. Owns workstream.	Responsible for the growth and development of their direct reports. Embodies management standards of the company.
	M4	Strategizes with leaders (level 4+) across multiple functions within the org to identify work streams for their team.	Strategic partnership required from peers, manager or lead. Owns workstream.	Responsible for results, budgets, strategies and hiring of your function or team.
	M5	Strategizes with senior leaders across multiple functions with the org.	Becomes strategic lead within team. Strategic partnership required from peers. Input from leadership team required.	Sets direction, strategy and vision for 2 or more teams or subteams. Holds team members accountable. Proposes plans for budgeting, execution, and hiring. Owns decision making in partnership with functional leadership.
	M6	Is a strategic lead and decision maker in company direction. Strategizes with senior leaders across multiple functions with the org.	Input from leadership team required. Strategic partnership required from peers. Sets strategy across functions.	Sets direction, strategy and vision for an entire function. Holds team members accountable. A decision maker on planning, hiring, budget.

Step 6:

Match each employee to your compensation bands

Based on the level + department (and maybe location) per employee you defined in **Step 5** , and the compensation band you defined in **Step 4** , match the correct compensation band for each employee.

If your compensation band is far off of the compensation for the employee, revisit the leveling for the employee – you may want to consider if that person was leveled correctly or if they're due for a promotion. Alternatively, you may want to update the band itself. It's common for companies to deviate from the data based on the needs and history of their business.

Employee Name	Title	Department	Level	Location	Annual OTE	Min	Mid	Max
Jim Halpert	Regional Manager	Sales	P3	Pennsylvania	\$80,000	\$76,500	\$90,000	\$103,500
Andy Bernard	Regional Manager	Sales	P3	Pennsylvania	\$100,000	\$76,500	\$90,000	\$103,500
Pam Beesly	Office Administrator	Administration	P2	Pennsylvania	\$65,000	\$51,000	\$60,000	\$69,000
Angela Martin	Senior Accountant	FP&A	P4	Pennsylvania	\$80,000	\$76,500	\$90,000	\$103,500
Phyllis Vance	Regional Director of Sales	Sales	M4	Pennsylvania	\$118,000	\$102,000	\$120,000	\$138,000
Darryl Philbin	Warehouse Manager	Logistics	M3	Pennsylvania	\$73,000	\$63,750	\$75,000	\$86,250
Jan Levinson	Vice President of Northeastern Sales	Sales	M6	New York	\$190,000	\$153,000	\$180,000	\$207,000
Karen Filippelli	Regional Manager	Sales	P3	New York	\$95,000	\$85,000	\$100,000	\$115,000

Step 7:

Compare your employees actual compensation to the compensation bands you pulled

The main task to accomplish at this stage is to determine if you have employees that are out of band. There are two useful metrics that can help you compare compensation to the bands that you created: range penetration and compa ratio.

Range penetration is a single number (expressed as a percent) that tells you how far into the compensation band the employee's compensation is. The calculation is: (salary - comp band min) / (comp band max - comp band min). If the employee is below the min, their range penetration will be negative. If the employee is above the max, it'll be greater than 100%. If you're in the comp band, it'll be a percent between 0 and 100%.

Compa ratio is a single number that calculates individual employee compensation relative to the mid-point. It's calculated as employee compensation / mid-point. If your employee is below the mid-point, the compa ratio will be less than 1. If it's the same as the mid-point, it'll be 1. If it's over the mid-point, it'll be greater than 1.

Employee Name	Title	Department	Level	Location	Annual OTE	Min	Mid	Max	Compa Ratio	Range Penetration
Jim Halpert	Regional Manager	Sales	P3	Pennsylvania	\$80,000	\$76,500	\$90,000	\$103,500	0.89	13%
Andy Bernard	Regional Manager	Sales	P3	Pennsylvania	\$100,000	\$76,500	\$90,000	\$103,500	1.11	87%
Pam Beesly	Office Administrator	Administration	P2	Pennsylvania	\$65,000	\$51,000	\$60,000	\$69,000	1.08	78%
Angela Martin	Senior Accountant	FP&A	P4	Pennsylvania	\$80,000	\$76,500	\$90,000	\$103,500	0.89	13%
Phyllis Vance	Regional Director of Sales	Sales	M4	Pennsylvania	\$118,000	\$102,000	\$120,000	\$138,000	0.98	44%
Darryl Philbin	Warehouse Manager	Logistics	M3	Pennsylvania	\$73,000	\$63,750	\$75,000	\$86,250	0.97	41%
Jan Levinson	Vice President of Northeastern Sales	Sales	M6	New York	\$190,000	\$153,000	\$180,000	\$207,000	1.06	69%
Karen Filippelli	Regional Manager	Sales	P3	New York	\$95,000	\$85,000	\$100,000	\$115,000	0.95	33%

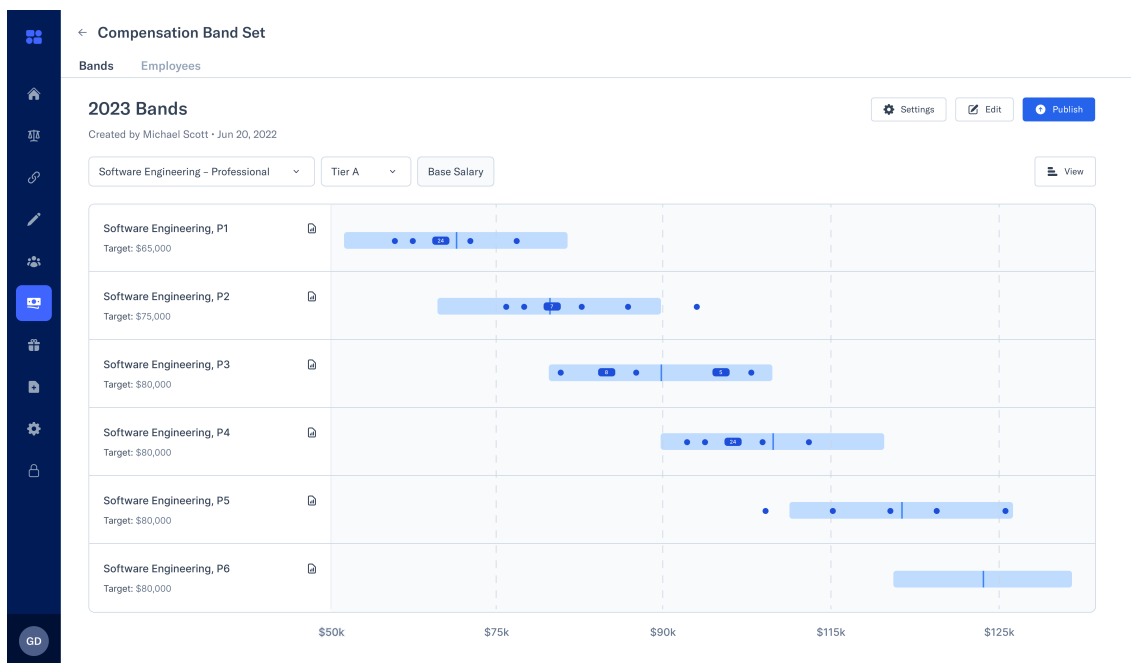
Pro tip: Try analyzing Compa Ratios or Range Penetration across different cuts of your business. You may find that certain groups are consistently over/under compensated. That likely indicates that you need to adjust your band for that role.

Step 8:

Share your bands to ensure your company stays aligned

At this point the bulk of your work is done. All that's left to do is operationalize your compensation bands. There's a few key ways to do that:

- **Share your compensation bands with operational teams.** Finance teams can use compensation bands to better plan your company's payroll expenses. Talent teams and hiring managers should use them when deciding compensation for new hires. HR/People teams should use them to guide compensation changes during compensation review cycles. You want to make sure that no one is working off of outdated band sets!
- **Share your bands with employees.** In some cases, companies will want (or be required to) share band information directly with employees. It's best to do this in a place where they can understand the context around the number, as well as other compensation components like equity, benefits, and more.
- **Share your bands externally.** In certain states, it's now required to list salary ranges on each job posting. Getting your bands in place is the first step here. Next is having an error-proof way of getting that information in your job postings.
- **Get ready to share bands with managers for upcoming merit cycles.** If you're planning on using compensation bands as part of a compensation review cycle, check out Pave's Compensation Planning product, which will visualize your bands for managers who are making compensation decisions (as well as recommend compensation changes to employees based on performance, and the place within compensation bands).



Pro tip: Revisit your bands on a regular basis. Many companies do this annually to ensure their compensation bands are still competitive and reflect the latest thinking for their compensation philosophy.

How to get started

Building compensation bands is a time-consuming process, even if you are a compensation expert. If you're planning on running a compensation cycle soon, want to start putting compensation bands in your job requisites, or want to start sharing compensation bands with employees to become a more pay-transparent organization, we recommend setting aside 4–8 weeks to complete this process manually for the first time.

Looking for a more streamlined, intelligent and reliable way to build bands?

[Pave Foundations](#) can help.

With Pave Foundations, you are able to create your bands using real-time market data and best practices from 200+ Pave customers. Most customers create their first set of bands in less than one day by:

- Using machine learning trained on 500,000+ data points to predict the levels and job families of your employees.
- Automatically pulling the relevant compensation benchmarking data from Pave's real-time market data from 5,000+ companies.
- Apply band-creation best practices to calculate the minimum and maximum for your bands.
- Share your bands with your managers, Finance, and Talent teams with Pave's intuitive permission systems. Plus, add bands directly to job requisites to comply with local pay transparency requirements.
- Analyze how your employees fall within their bands directly within the tool.

Ready to get started?

Learn more about building bands with [Pave Foundations](#).



pave.com