

Calculating the Financial Rewards of an Option Impact Subscription

How competitive labor market data can provide your company with substantial financial benefits

In today’s difficult economic environment, early stage, venture-backed companies are struggling mightily to make their way into the elite club of successful young companies. With everyone’s focus squarely on the preservation and generation of cash, management teams are exceptionally careful about spending decisions. They will not purchase products or services that do not immediately affect the company’s ability to succeed in becoming more profitable, more competitive and more productive.

Thankfully, there are products and services that deliver just that. Since 1997, Advanced-HR has worked with prominent venture capital firms nationally delivering unique online data services that help their portfolio companies contain the cost of their human capital. This service, called Option Impact™, provides start-ups with comprehensive business intelligence on compensation practices, salaries, stock option grants and more from a national cross section of pre-IPO, venture backed companies.

Quantifying Financial Benefits from Using Option Impact

Management teams at early-stage companies frequently say that managing the cost of their human capital is one of their greatest challenges. Option Impact’s competitive intelligence helps meet this challenge by guiding the design of compensation programs that are balanced, competitive and affordable. This achievement is only possible when management teams have reliable information on current labor market conditions at similar companies. This is precisely what Option Impact delivers.

Hard Money Costs of Overshooting Compensation

Human resource managers at early stage companies reveal that companies spend between 3 and 5 percent more each year in employees’ salaries due to a lack of good data sources for compensation planning. These errors are consistently on the high side, reflecting

hiring managers’ tendency to pay more to acquire or keep their employees.

When start-up companies make compensation decisions without reliable competitive data, precious corporate dollars are at stake. HR professionals suggest that these dollars are the victim of decisions guided by emotions, clouded by anecdotal information and shaped by the self-interests of hiring managers. Making decisions with current benchmark data takes the guesswork out of this process and provides real savings in human capital. Table 1 illustrates the potential savings from four different company sizes using the 3-5 percent estimate in overshooting compensation.

Table 1 Hard Money Lost Using Anecdotal Data

# of Employees	Average Salary	Potential Savings*
10	96,000	28,800
25	84,000	63,000
50	72,000	108,000
100	64,000	192,000

* Using the low-end estimate of 3% of salaries

These hard dollar estimates of excess cost only account for base salaries. These calculations do not include the potential savings from employee benefits, bonuses and stock option grants.

The Cost of Planning & Adjusting Total Comp

Experienced compensation professionals understand that their most important tool in building and maintaining their pay and stock option programs is good competitive data. They look for good data sources to minimize the time required to create and manage the programs during the course of the year. To illustrate, Table 2 outlines the steps involved in building and maintaining a compensation program in a company of 25 employees.

Option Impact can help human resource departments reduce the time they spend in compensation planning and management. It is an important means of

accelerating the process of data gathering and analysis. Current subscribers of Option Impact report a time saving of 50 percent or more, saving their company of 25 employees \$2,700, based on an hourly rate of \$100 per hour.

Table 2 Compensation Management Process

Task	# of Hrs	Responsible Party
Verify current employee data	4.0	HR Department
Collect competitive data	24.0	Comp consultant or HR personnel
Verify & adjust pay structure	8.0	Comp consultant or HR personnel
Compare stock options with aggregated data	16.0	Comp consultant or HR personnel
Make recommendations for changes	2.0	HR Department

* Assumes a company size of 25 people

Soft Money Benefits from an Option Impact Subscription

Finance people are well aware that economic decision analysis often has significant contribution from “soft money” benefits, or benefits that are more subjective in nature and harder to quantify. A subscription to Option Impact offers significant soft money benefits that include:

- Reduced hiring costs
- Reduced training costs
- Employee motivation and satisfaction
- Productivity
- Reduced administration costs

- Successful hiring of key employees
- Rapid decision-making on personnel matters

Though these sources of economic benefits are real and have a material impact on organizational costs, they are difficult to precisely attribute to the data analysis and design utilities of Option Impact. Because of this, they have been excluded from this analysis.

Option Impact’s Net Financial Rewards

An annual subscription to Option Impact costs a pre-IPO company \$1,495 each year. As with most purchases today, managers want to understand the returns that they can expect from their investment. Pre-IPO companies can expect to enjoy a return on investment (ROI) of 4,396 percent for this transaction, as illustrated in Table 3 .

Table 3 Return of Investment from Option Impact

ROI Calculation	
Annual subscription cost	\$1,495
Cost savings in base pay	\$63,000
Cost savings with consultants	\$2,700
Net Cost Savings	\$65,700
Return on Investment	4,395%

Compensation decisions affect costs that typically amount to between 25% to 50% of a company’s operating budget. Making decisions of this magnitude without reliable benchmarks on current labor market rates exposes the company to costly salary over-paying and to the risks associated with flying blind. Option Impact removes the guesswork from compensation decisions, delivering substantial hard-money benefits to the bottom line. That is why early stage companies – and their venture investors – find Option Impact to be the best weapon against their dual enemies of risk and expense.