Compensation

Compensation best practices

One of the most common mistakes we see early on is founders setting compensation for early employees pretty subjectively. It might be based on gut instinct of what might be fair for the position, what runway you have available, what the candidate asks for, or some combination of all three.

Compensating employees well has a number of benefits for you team, too:

- Increase employee loyalty and retention
- Increase employee motivation and productivity
- Positioning yourself as an equitable, and transparent employer

As the Great Reshuffle continues, outcompeting on employee compensation or benefits can be a key factor in their decision to join.

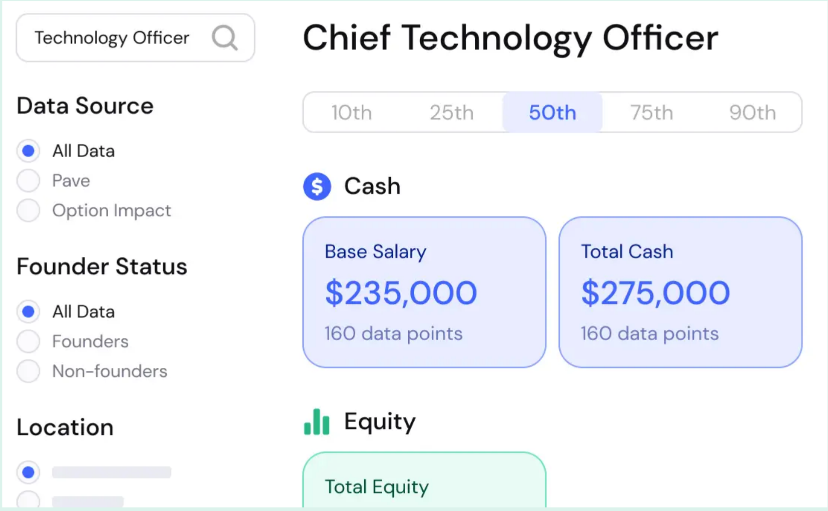
Here are our top 4 tips for acing a compensation strategy as your startup scales:

1. Align on a compensation philosophy.

A "compensation philosophy" is a stance on compensation that explains the "why" and creates a framework for consistency. It can be useful as a talking point during compensation negotiation conversations as well.

Some other questions it might help you answer are:

1. How can our team have conversations around compensation in a safe, equitable way?
2. What are the tradeoffs we are incurring by making our compensation philosophy? Think about where you're targeting higher equity over comp, or trading comp for other cash incentivized benefits (like free lunch, or home office stipends)
3. Will our company pay for performance, or pay for fairness?
4. How might a remote employee's status impact salary as it pertains to geographic benchmarking?
5. How often will we review the compensation data (i.e., conduct a market adjustment)?
6. How do we calculate the band or range for each level



Source: Pave

2. Use a comp dataset to make your offers.

Once you're aligned on a compensation philosophy, you'll want to use a comp dataset to make an offer. At Dover, we used Pave. Another popular option is Option Impact. There are pros and cons to each, which we'll briefly describe below.

1. **Option Impact** is a free startup compensation dataset. Option Impact allows you to pull compensation data specific to attributes of your candidate (e.g. title, job level) and your startup (e.g. funding status, industry, location, etc.).
    - **The big caveat is that in order to gain access to Option Impact, you have to self-report cash and equity compensation** for each of your employees by filling out a survey every six months. Since you can't fill out the survey out of their update period, so there can be up to a 6-month lag-time to gain access. In the meantime, most VCs should have access to Option Impact, so you can ask them to pull the data for you. If not, try to find another founder who has access.
2. **Pave** connects directly with your ATS, HRIS or Cap Tables to provide real time data. This means you never have to re-upload salary data, and you can get instant benchmarking results. This is especially key as the recruiting market is changing rapidly. Since you might not have an ATS at your state of hiring just yet, Pave might be a better option in the future. It also allows you to administer bonuses and equity refreshers during merit cycles with recommendation and approval workflows.

Benchmarks are typically broken down by departments, job families, seniority levels, locations, and company stages (valuation, capital raised, employee count). Each benchmarking platform defines their job levels in different ways, so you'll want to make sure you're examining the right tier before making an offer.

Some roles will have both Base Salary and Incentive Pay (e.g. sales commissions or customer success bonuses), so you'll want to look at total target pay.

For equity, you'll want to look at % Total Equity, which is how you should be benchmarking and explaining equity to candidates.

For a more in-depth discussion on building compensation bands, we recommend checking out Pave's guide here.

3. Build a talk track for framing your offers to candidates.

Having a consistent compensation philosophy will allow you to communicate your offer transparently and effectively. While the philosophy may only come up in compensation review discussion, or negotiation conversations, it's something you should incorporate into your offer and publish to the company once someone has joined your team.

In your offer letter, you might present your compensation philosophy like this:

At Dover, we want to reward people fairly for their meaningful work and to pay competitively versus similar work at companies like ours. We anchor above market on cash for startups at our funding valuation (75th percentile).

With that in mind, we're excited to offer you a few options in salary and equity, which we think are really generous offers.

We really encourage you to do your own research and find data points for startups at our stage to see for yourself whether our offer is fair. And if you're seeing something different, let us know!

4. Know what your levers are for negotiation.

While in your early stages, negotiation might simply not be possible for your startup, the more you grow, the more you'll run into negotiation conversations. This is also true as more compensation benchmarking data becomes available to candidates, and many states legally require companies to post salary ranges directly on job descriptions.

While negotiation will be handled differently based on your company structure, and leadership team, there are a few best practices we've employed at Dover:

1. **Uncover how the candidate prioritizes cash vs. equity**, so any adjustments to compensation are along the dimension the candidate values most. Consider trading equity for cash or vice versa rather than just increasing one or both.
2. **Whenever possible, get your candidate to verbalize that they will accept your offer** if you're able to meet them at their ask. Try saying something like "assuming we can get close to this, are you ready to sign?"
3. **If your candidate asks for something out of band, never commit to it on the spot.** Have a reason for being noncommittal (e.g. aligning with your co-founder or the board).

If there truly isn't room for negotiation (which might be the case if you're a seed company or hiring your founding team), you could respond with a few clarifying statements:

- We want to be fair to everyone we've hired so far, so unfortunately, we don't have much room for negotiation.
- It's important that we're thoughtful about our offers and don't do anything too out-of-band so we can continue to make generous offers to future candidates that come after you. After all, we all want to work with the best people possible.
- From your perspective, this is a good thing, because it gives you peace of mind that candidates after you won't receive a better

Salary bands 101: how to balance cash and equity

Salary bands are tiers or levels within a role that garner higher equity and cash compensation — typically both. Each band typically comes with more responsibility, whether that's in impact (owning an area of the business) or in managerial expectations. You might use criteria like years of experience, qualifications and skills, budget, job requirements and market rates specific to work type and location. A candidate is assigned a band when they start, with the idea that, as they progress, they'll climb up that specific band.

Creating salary bands creates transparency within your organization, and helps employees to understand how and when they'll receive raises, promotions or adjustments. If expectations are set early on, the goalposts are clear and your team will be better equipped to meet them. Additionally, as you make more senior hires down the road, there will be fewer adjustments on both cash compensation and equity for earlier team members.

For an early stage company, it's important to balance the right amount of cash and equity in an offer so that:

- Cash flow is not a stressor for employees and,
- Equity is parsed out in a way that makes sure it's still available for future hires and refresher grants.

When your departments are starting to take shape (around the 50 to 60 employee mark) you'll want to create a structured way to assess different bands across roles.

Here are 5 steps to get started:

1. **Take stock of all the roles in each department.**

When creating levels within a department, you'll want to assess how your current team would fit into those bands. List out each employee and their title, as well as the requirements and expectations in order to be successful. You'll also want to include any open roles you have, especially if they're urgent and will join your team soon.

2. **Rank each role across departments.**

This process might be based more on intuition and the logical ordering of your team. In fact, teams may structure themselves this way already. Titles are helpful here: a senior or director position is obviously higher in the hierarchy than a new grad. That being said, don't be too precious about this, but try to see if there is a clear structure and pattern to seniority, responsibilities, and titles. If you have two roles who are close in experience and requirements but different in title, this can be cause to revise your titles and structure, but we'll get to that in a bit.

3. **Pull market rate data for each role.**

Once you have a list of roles within your own company, you'll want to assess how those line up with market rates. If you have unique job titles or positions, pick the closest or most popular title for the purposes of comparison (i.e. Mobile Engineer might be iOS Developer or App Developer). This will help you determine how much are others paying, and how competitive your offer is (see the comp dataset step above for our recommendations on software to use for this step).

4. **Create salary bands and make adjustments for current employees as needed.**

When choosing a salary band for your company, you'll want to assess your current funding, as well as try a few cash/equity calculators to see if your calculations are accurate (we like this slider from Homebrew).

Creating salary bands instead of strict salaries allows teammates to grow in compensation as they grow in their skillset and experience, even if they aren't ready for a promotion to the next job level/title. Some of your bands may overlap with the preceding or next level to allow for variance in skill within that title.

If you discover that you're valuing current employees undermarket, or realize that a team member is

making significantly less than other folks of similar skill and experience, you'll want to make a salary adjustment to get everyone aligned and on the same page before you publish your bands to the company.

For base salary/cash in the early stages, we recommend targeting the 50th percentile.
For equity, we recommend targeting the 75th percentile. This will fluctuate as you raise more rounds, but it's best to compensate more in equity while cash streams are limited.

5. **Evaluate salary bands regularly against the job market and cost-of-living (if you're not following a remote/hybrid model).**

Your salary bands should change as your business grows and in accordance with market fluctuation. A good starting point is to formally reevaluate your structure once a year.

Below, you'll find an example of salary bands for an Engineering Manager from Advantage HR/Option Impact data. They surveyed over 1,000 companies and segmented by the amount of capital raised. You'll see that if you target the 50th percentile for salary bands, and your company has raised between $0 and $3 million, you're looking at a base salary of $120K. This number gradually increases as the amount of funding increases.

Cash Bands

Search

Lower Bound	Upper Bound	# of Companies	Average	10th	25th	50th	75th	90th
$0	$3	87	$117,533	$70,000	$166,428	$120,000	$150,000	$166,000
$3	$10	172	$134,009	$87,300	$105,000	**$130,000**	$155,000	$180,000
$10	$25	106	$162,551	$129,700	$143,650	$160,000	$180,000	$200,000
$25	$50	172	$170,316	$135,700	$155,000	$170,444	$185,000	$200,001
$50	$75	115	$178,518	$150,000	$160,000	$176,375	$192,365	$213,400
$75	$100	206	$179,338	$150,000	$162,000	$182,000	$200,000	$205,400
$100	$250	206	$183,234	$155,936	$165,000	$180,073	$198,569	$210,000

Equity Bands

Lower Bound	Upper Bound	# of Companies	Average	10th	25th	50th	75th	90th
$0	$3	87	0.28%	0.02%	0.04%	0.10%	**0.25%**	0.62%
$3	$10	172	1.17%	0.13%	0.25%	0.57%	1.36%	3.56%
$10	$25	106	0.59%	0.10%	0.18%	0.35%	0.80%	1.00%
$25	$50	172	0.26%	0.05%	0.09%	0.20%	0.34%	0.54%
$50	$75	115	0.16%	0.04%	0.06%	0.11%	0.19%	0.35%
$75	$100	206	0.17%	0.03%	0.05%	0.09%	0.19%	0.30%
$100	$250	206	0.13%	0.02%	0.04%	0.07%	0.16%	0.29%

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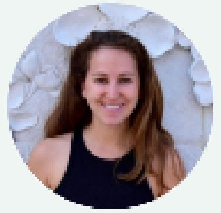

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