

# 5 Workforce Compensation Planning Pitfalls

How Finance leaders can avoid these 5 pitfalls that undermine forecast accuracy

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For most organizations, **labor is the largest operating expense**, yet workforce planning is often one of the least accurate, due to the difficulty of data collection in a cohesive way for your organization's employees.

One small assumption can quickly lead to major impacts when considering the entire organization's workforce.

Here are **five of the most common workforce planning pitfalls** for finance leaders, and some suggestions on how to avoid them.

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# Treating Compensation as a Static Expense

At a macro level, the components of compensation can be extremely complex and changeable.

- Merit increases
- Promotions
- Market adjustments
- Turnover
- Hiring delays

**Even small salary increases compound across taxes, benefits, bonuses, and incentives,** creating a snowball effect that impacts numbers across the board.

Here are ways to avoid making generalized assumptions.

- Reforecast labor regularly
- Model compensation at the employee level
- Allocate employee costs across Entities, BU's, and/or Cost Centers
- Consider every form of compensation within the organization, including Equity, Bonus Plans, Benefits
- Get all forms of compensation at a detailed level
- Understand that compensation is fluid, so make sure you are receiving real-time, up-to-date, by-the-date dollars
- Align compensation assumptions with FP&A plans

# Underestimating the True Cost of Merit Increases

When we talk merit, a 3% salary increase rarely means only 3% more spend. When these increases actually take place can vastly impact the accuracy of your numbers and ultimately your bottom line.

Here are some additional impacts to think about:

- Payroll taxes
- Benefit costs
- Bonus calculations
- Equity refreshes
- Commission structures

## Some suggestions on how to avoid this:

- Forecast fully burdened labor costs
- Stress test by versioning multiple merit scenarios
- Align HR and finance assumptions early

## Ignoring Promotion & Backfill Costs

This is critical. Promotions often trigger additional financial events, and the timing of these is crucial for the business.

Here are some examples of areas to pay close attention to:

- Backfills
- Recruiting costs
- Ramp-up expenses
- New incentive structures

### Some suggestions on how to avoid this:

- Model promotion scenarios proactively
- Forecast downstream hiring costs
- Tie approvals to budget impact

# Using Unrealistic Vacancy Assumptions

Many organizations underestimate hiring speed or assume that roles stay vacant longer than they actually do.

Again, this causes inaccurate assumptions that impact the overall numbers. This results in artificially low labor forecasts and unexpected budget overruns.

## Some suggestions on how to avoid this:

- Use historical hiring trends
- Model multiple hiring scenarios, 'What-If modeling'
- Continuously update vacancy assumptions

# Finance and HR Operating from Different Places

Disconnected systems and spreadsheets create conflicting assumptions between HR and finance. Not only does this lead to inaccurate results, but teams often spend far too much time working through spreadsheets and revisions.

All of this inevitably results in multiple versions of the truth, causing inaccurate forecasts, planning and budgets.

Here are some suggestions to help avoid this:

- **Centralized workforce planning.** There are many systems available to do this while leveraging an existing system, using a plug-in or add-on to enhance what the business already has.
- **Security.** Ensure your platform or process has role-based security at all levels.
- **Get detailed compensation at the most granular level, i.e.,** down to the employee level.
- Integrate HR, payroll, and finance data into a unified ecosystem for security dependent visibility.
- **Create a symbiotic relationship between HR and finance.** While HR owns the data, Finance can leverage it to better drive the business.

**Most workforce planning issues  
are not the result of one major mistake.**

**They start from small assumptions  
that compound over time.**

**Organizations that improve workforce planning accuracy** not only create tighter alignment between HR and Finance, but also improve their compensation plan and bottom line, further enabling better business decisions and overall company health.

Are you ready to take your Workforce Planning to the next level? Get in touch with our workforce experts.

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