

“How Do I Ensure Competitive Salaries?”

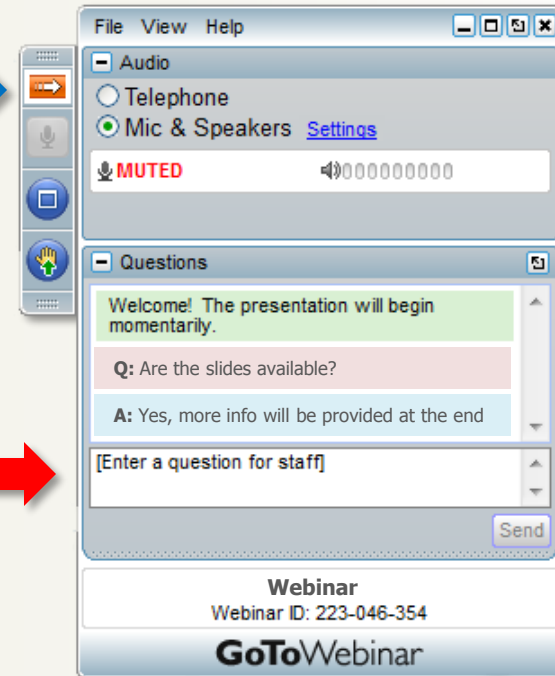


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- Founded in 1996
- Over 450 Clients in North America
- Focus: Compensation design and management that drives growth

What does competitive mean?

- Is there a “right” way to pay an individual?
- Who establishes the “right” way to pay?
- Does your company have the “right” to redefine that standard?



Two very different approaches

Company A

- Large Manufacturing Company
- \$500 Million in annual revenues
- Workforce – Mostly blue collar technical positions
- Owner's primary goal: grow the business

Company B

- Small Web Based Technology Company
- \$10 Million in annual revenues
- Workforce – High performing, entrepreneurial college grads
- Owner's primary goal: control costs

Which is correct?

Assume that both companies were looking to hire a new staff accountant:

- **Would** they both offer the same base salary?
- **Should** they offer the same base salary?

Company A

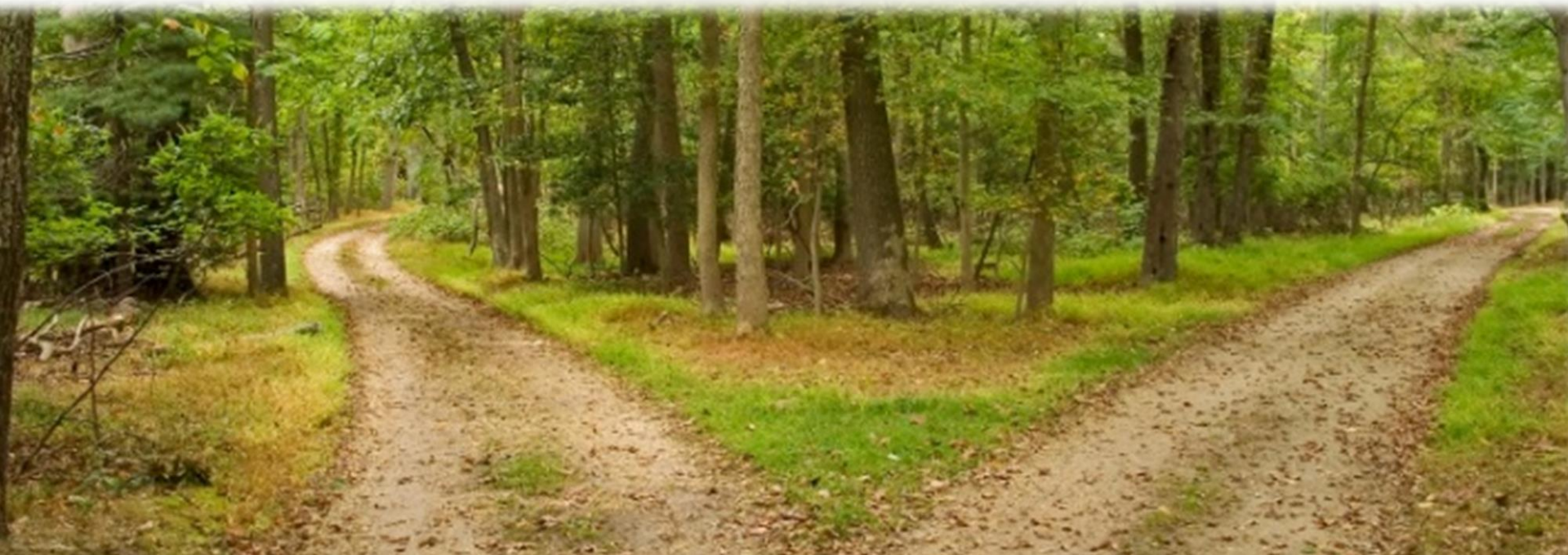
- Large Manufacturing Company

Company B

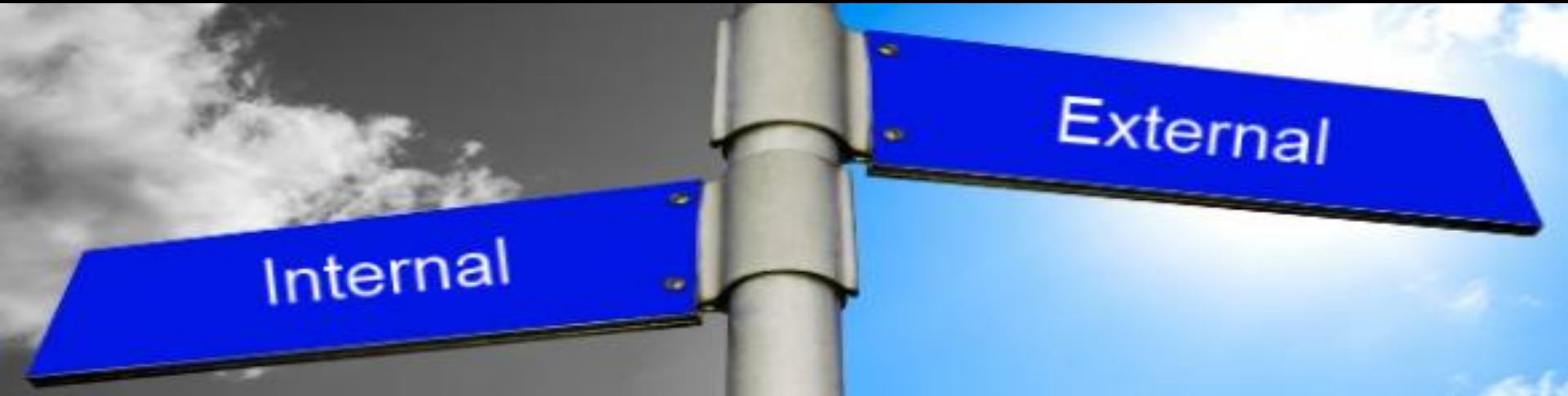
- Small Web Based Technology Company

Two factors determine Competitive Pay

- There isn't only one correct way to pay your employees
- Competitive pay is established by both internal (company specific) and external (market driven) factors



Internal vs. External Factors



Internal Factors

- Budget
- Past Precedent
- Total Rewards Mix

External Factors

- Scarcity/Supply & Demand
- Geographic Location
- Competition
- The Economy

The Key

The Key isn't necessarily trying to figure out the "Right" way everyone should be paying, but to establish the "Right" way to pay for you.



An Aligned Compensation Strategy

Salaries

- Competitive with market standards?
- In compliance with FLSA guidelines?
- Managed within a flexible but effective structure?

Performance Incentives

- Tied to productivity gains?
- Clear, achievable and meaningful?
- Self-financing?

Sales Incentives

- Challenging yet achievable?
- Reinforcing the right behaviors?
- Differentiating your offering?

Growth Incentives

- Linked to a compelling future?
- Supporting an ownership mentality?
- Securing premier talent?

Core Benefits

- Responsive to today's employee marketplace?
- Allocating resources where most needed?
- Evaluated to eliminate unnecessary expense?

Executive Benefits

- Flexible enough to address varying circumstances?
- Communicating a unique relationship?
- Reducing employee tax expense?

Qualified Retirement Plans

- Giving employees an opportunity to optimize retirement values?
- Operated with comprehensive fiduciary accountability?
- Avoiding conflicts and minimizing expenses?

Nonqualified Retirement Plans

- Optimizing tax-deferral opportunities?
- Aligning long-term interests of employees with shareholders?
- Structured to receive best possible P&L impact?



The Role of Salary

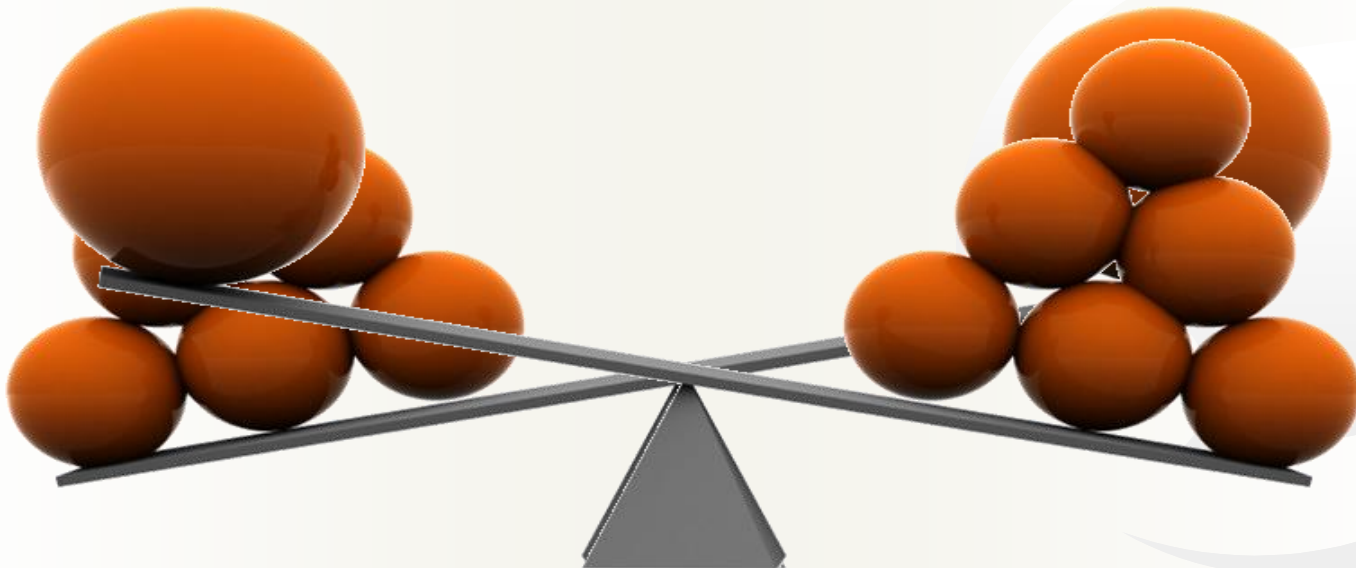
- Salary plays a critically important role in your total rewards allocation
 - Most obvious form of employee rewards
 - Provides immediate security for your employees
 - Can *sometimes* be used to reward for performance
- Probably one of the largest, if not the largest, expense of your organization



Salary Management

Poor salary management can be extremely expensive

- Underpaying positions can lead to high turnover and replacement costs
- Overpaying employees creates high levels of fixed costs that carry over year after year.



Salary Management

If salaries truly are one of the biggest expenses of any organization, why is it so often mismanaged?

What would your CEO think if he found out you were overpaying for office machinery?



What would your employees think if they knew you were intentionally ignoring competitive pay?

Salary Management

*Proper salary management is a
balancing act*

Cost Conscientious

Competitive



Step 1 - Compensation Philosophy

- Every Company needs a defined and consistently applied Compensation Philosophy
- The Philosophy should be a “guiding star” for all pay decisions
- Your Compensation Philosophy will help to define “Competitive” for your Company.
- Sets targets for all areas of pay.



Purpose of a Compensation Philosophy

- The Compensation Philosophy should be written down and shared with current and future employees
- It should cover all areas of pay (salaries, incentives, benefits, retirement, perquisites, etc)
- Make sure your philosophy creates a competitive “Total Rewards” package
- Some companies favor high salaries and low incentives while others prefer the opposite



Conservative Pay Profile

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Retirement
Conservative	High	Low	Moderate	High	Moderate

Provides a high degree of employee security at the expense of variable pay

High base salaries and low incentives

Generally offers high level of core benefits

Cash friendly stable organization

Generally attractive to a younger employee population

Can inhibit the hiring of “high performers”

Rewards performance through merit/promotion

Retains executive leadership through moderate long-term awards

Variable Pay Profile

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Retirement
Variable	Low	High	High	Moderate	Low

Provides a high degree of upside earning potential with higher level of risk

Base salaries at or below market

Rewards tied directly to business performance

Entrepreneurial mindset – less cash friendly

Attracts high performers, frightens risk averse

Rewards performance through incentive pay

Promotes high level of value sharing

Attracts entrepreneurial leadership through long-term awards

Moderate Pay Profile

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Retirement
Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

Provides a middle of the road approach to pay

Base salaries at market

Some upside incentive potential

Performance rewarded moderately

Attracts a diverse employee population

Rewards performance through multiple facets

Tries to provide a balanced approach without any distinguishing element of pay

Step 2 - Market Pay Assessment

- Once you define “Competitive” salaries for your company you then need to ensure that salaries are in line with your philosophy
- Most companies rely on external market intelligence to help put parameters around their salary philosophy

Match		Salary		
		25th	50th	75th
Mercer	Accountant I	40,000	45,000	50,000
ERI	Accountant (1 YOE)	41,234	43,567	47,890
DOL	Accountant	42,000	46,789	51,234
Aggregate		41,078	45,119	49,708

All data represented above is theoretical and only for illustration purposes

Market Pay Assessment

- Where can you find Market Data?
 - Consulting Houses (Mercer, Towers Watson, Radford, etc.)
 - Government Statistics (DOL)
 - Industry Association Surveys
 - Online Sources (PayScale.com, Salary.com, etc.)
 - Data Aggregators (ERI, PayFactors, etc.)
- Use as many sources as you can afford/access
 - Data can vary significantly from source to source
 - Create an aggregate or composite look at the data



Adjusting Data

- Data can be adjusted within reason
 - Add a premium or discount
 - Rule of thumb: No more than 10-15%
 - Weight the sources against each other, best to worst
- Create an Aggregate/Composite
- Weeds out anomalies in the data

Match				Salary		
				25th	50th	75th
Mercer	Accountant I		33%	40,000	45,000	50,000
ERI	Accountant (1 YOE)	10%	33%	41,234	43,567	47,890
DOL	Accountant		33%	42,000	46,789	51,234
Aggregate				41,078	45,119	49,708

Percentiles

- What is a percentile?
- Percentile helps determine what percentage of a population falls beneath a certain value
- The 25th Percentile – the 75th percentile is typically seen as “market competitive”
- The 50th Percentile or Median represents the middle of the market



Salary vs. TCC

- Should I only be looking at salary?
- Total Cash Compensation (Salary + Incentives) is just as, if not more, important.

Match		Salary			Total Cash Comp		
		25th	50th	75th	25th	50th	75th
Mercer	Accountant I	40,000	45,000	50,000	42,000	47,250	52,500
ERI	Accountant (1 YOE)	41,234	43,567	47,890	43,296	45,745	50,285
DOL	Accountant	42,000	46,789	51,234	43,680	48,661	53,283
Aggregate		41,078	45,119	49,708	42,992	47,219	52,023

- Your pay philosophy may target salaries or incentives low.
- So long as you are between the 25th and 75th with total cash compensation you are “competitive”

Apply Your Philosophy

- Obtaining Market Intelligence is only step 1
- Step 2 is to apply your philosophy to the data
- Recall our Pay Mixes (Conservative, Variable, Moderate)

Match		Salary		
		25th	50th	75th
Mercer	Accountant I	40,000	45,000	50,000
ERI	Accountant (1 YOE)	41,234	43,567	47,890
DOL	Accountant	42,000	46,789	51,234
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Conservative

Variable

Moderate

Step 3 - Build Pay Ranges

- Ideally, all positions should have a pay range based on external market data and the company's pay philosophy
- The combination of your pay ranges is typically known as a salary structure
- Every position should have an established salary range
- Includes salary minimum, midpoint, and maximum



Position Specific

- Ideal for smaller organizations with limited number of positions
- Maintains fair and competitive pay for all employees

Position	Min	Mid	Max
Accountant I	41,000	46,000	51,000
Accountant II	45,100	50,600	56,100
Admin Assistant	38,750	43,500	50,000
CFO	150,000	175,000	200,000
COO	170,000	200,000	230,000
Quality Control	38,750	45,500	52,500
Software Director	128,350	147,325	165,900
Software Engineer I	52,500	62,750	70,000
Software Engineer II	60,000	70,000	80,000
Software Manager	100,000	125,000	145,000
Software Support I	40,000	45,000	50,000
Software Support II	44,000	49,500	55,000

Grade Specific

- Ideal for larger organizations with sizeable number of positions
- Roles with similar pay are lumped together in grades or bands
- Easier to administer for larger organizations

Grade	Min	Mid	Max
1	26,000	28,600	31,200
2	29,900	32,890	35,880
3	34,385	37,824	41,262
4	39,543	43,497	47,451
5	45,474	50,022	54,569
6	52,295	57,525	62,754
7	60,140	66,154	72,167
8	69,161	76,077	82,993
9	79,535	87,488	95,442
10	91,465	100,611	109,758
11	105,185	115,703	126,221
12	120,962	133,058	145,155
13	139,107	153,017	166,928
14	159,972	175,970	191,967
15	183,968	202,365	220,762

Internal Equity

- Very few organizations are able to find a survey match for every position in their company
- Sometimes organizations can get creative with the survey data to find an acceptable starting point
- Most of the time, however, organizations must **search** elsewhere



Get creative?

Take several positions with similar internal importance:

Position	Similar To	Market Data		
		25th	50th	75th
Underwater Dog Trainer	Hamburger Engineer	55.7	61.4	68.6
	Accounting Manager	61.2	68.9	75.7
	Fish Trainer	51.3	57.4	63.4
	Yoga Instructor	73.0	79.4	93.2
	Underwater Basketweaver	44.9	53.0	58.7
	HR Manager	78.1	85.7	94.9
Aggregate		60.7	67.6	75.8

Or

Find a position above it and a position beneath it in your hierarchy

Position	In Between	Market Data		
		25th	50th	75th
Underwater Dog Trainer	Less than a Lion Tamer	76.4	88.7	93.8
	Greater than a Shark Tamer	55.6	65.3	78.4
Aggregate		66.0	77.0	86.1

All data represented above is theoretical and only for illustration purposes

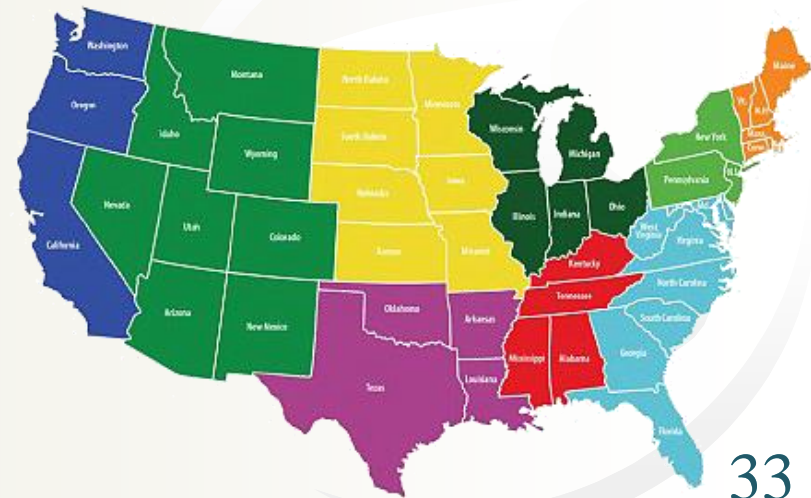
Use the ranges

- Find peer positions in your salary ranges.
- Gauge the appropriate salary range using those peer roles
- Salary ranges should preserve organizational hierarchy as well as job families and progression

Grade	Min	Mid	Max
1	26,000	28,600	31,200
2	29,900	32,890	35,880
3	34,385	37,824	41,262
4	39,543	43,497	47,451
5	45,474	50,022	54,569
6	52,295	57,525	62,754
7	60,140	66,154	72,167
8	69,161	76,077	82,993
9	79,535	87,488	95,442
10	91,465	100,611	109,758
11	105,185	115,703	126,221
12	120,962	133,058	145,155
13	139,107	153,017	166,928
14	159,972	175,970	191,967
15	183,968	202,365	220,762

Step 5 - Geographical Differences

- If you have similar roles in different locations you may need to adjust those ranges
- Survey providers provide intelligence on “geographic differentials”
- Do not base pay ranges on the **Cost of Living**
 - Price of milk, gas, housing, etc.
- Adjustments should be based on the **Cost of Labor**
 - Cost of living plus supply and demand



Geographical Differences

- How hard is it to find an accountant in Manhattan vs. Preston, Idaho?



- Geographic differentials are usually more pronounced for lower paid positions
 - Call Center Rep (High differentiation)
 - CEO of a \$500M Company (Low differentiation)

Step 6 – Pay For Performance

- Hire appropriately within the ranges
- Manage appropriately within the range

Salary Minimum	Midpoint	Salary Maximum
<ul style="list-style-type: none">• Underqualified• Brand New• Consistently Low Performing	<ul style="list-style-type: none">• Qualified• Average tenure• Meets performance expectations	<ul style="list-style-type: none">• Overqualified• Long tenured• Consistently High Performing

Your ranges should be used to reward for performance and not simply for tenure

Step 6 - Keep the data current

- How often should you market price all your roles?
- Depends on your budget for market data, staff size, pay philosophy, and industry.

- Large company
- Regular and consistent salary survey budget
- Diversified HR staff
- Narrowly defined salary ranges
- In very competitive industry (IT)

Annually

- Small to mid-sized company
- Modest survey budget
- Small or no HR staff
- Moderate salary ranges
- Talent pool fluctuates

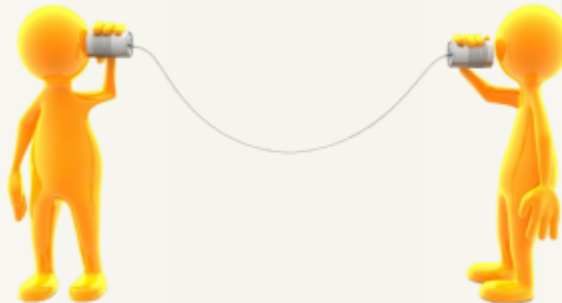
Every 2-3 Years

Keep the data current

- How often should you adjust your ranges?
- Most likely every year
 - Inflation
 - Market shifts
- Market intelligence trends can help you adjust your ranges on an annual basis
- Generally speaking your ranges should be adjusted 1-3% a year
 - Apply to entire structure or
 - Apply to specific ranges

Step 7 - Communicate

- How much should my employees know?
- Should you communicate salary ranges/market data with your employees?
- Depends on company philosophy on pay transparency
 - More companies are sharing intelligence with their employees
 - Typically companies do not share market data
 - Do share pay ranges
 - Sometimes posted on company bullet board/lunch room



Why should you consider sharing data?

Hypothetical Situation

- One of your most valued employees approaches you with a significant issue
- The employee was simply browsing the internet last night when she happened to “accidentally” stumble across a salary survey website
- Based on the information from the website the employee now feels her salary is \$10,000 below market



A Better Solution?



- Share your pay ranges
- Salary intelligence is commonly found on the internet and consequently easy for employees to “accidentally stumble across”
- Studies have shown that providing information on pay reduces the chances your employees go looking for answers elsewhere
- It addresses the elephant in the room

Be Prepared

- It is better to be in a situation to educate your employees than to be educated by them
- Make sure that you have market intelligence in your “back pocket”
- Ensure that the data is meaningful and up to date



Stop Chasing “Competitive”



“Establish” Competitive

1. Define your compensation philosophy
2. Obtain market intelligence
3. Create/Maintain a Salary Structure
4. Be mindful of geographic differentials
5. Pay-For-Performance
6. Keep your data current
7. Communicate





Type Your Questions

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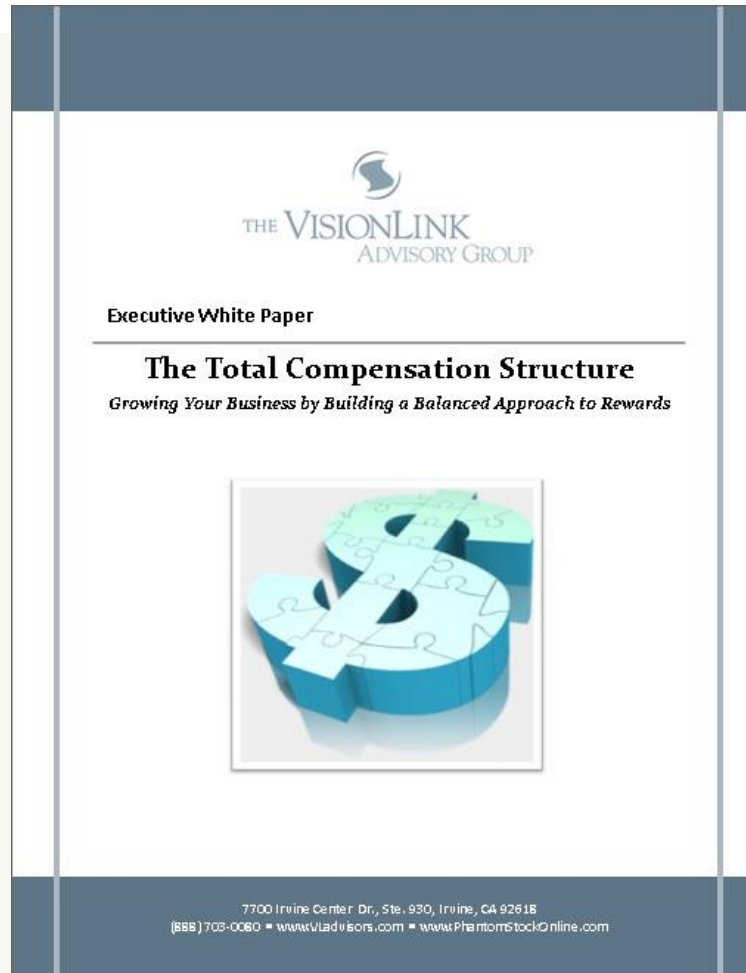
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Q&A



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Thank you!

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