



Market Compensation Data and its Role in Today's Pay Programs

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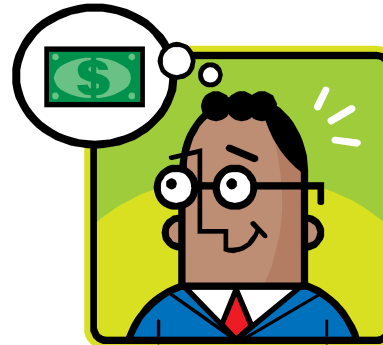
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Introduction – Chris Highfield

- ❑ 20 years as a compensation and HR technology professional
- ❑ Consultant for Towers, KPMG, and Buck Consultants)
- ❑ Joined MarketPay in 2006
 - Vice President, Systems Design
 - Manage software development and testing
 - Assist with sales and technical support
- ❑ About MarketPay
 - About 300 clients using our On-line Market-Pricing System
 - Mostly large corporations
 - We build and help them manage their benchmarking databases
 - Handle about 2,000 compensation surveys each year

What we'll talk about

- ❑ Why all the fuss and focus on market data?
- ❑ Has it always been this way?
- ❑ Advantages/disadvantages of market based compensation
- ❑ The goal of any market based compensation program
- ❑ What in particular are companies doing with all that data?
- ❑ How technology can help



Organizations are using a lot of survey data

- ❑ Most large organizations maintain a library of compensation surveys and have the staff needed to participate in the studies and analyze the results
- ❑ A large company may purchase tens of survey reports, at a typical price of anywhere from \$500 to \$10,000 or more
- ❑ There are hundreds of surveys providers, although major consulting firms dominate the market
- ❑ More prevalent in the US, but spreading
- ❑ And companies are incorporating technology to manage these vast amounts of survey data



Has it always been this way?

- Well No!

- The first compensation point factor plan was developed in:
 - A. 1795

 - B. 1871

 - C. 1930 by Edward Hay

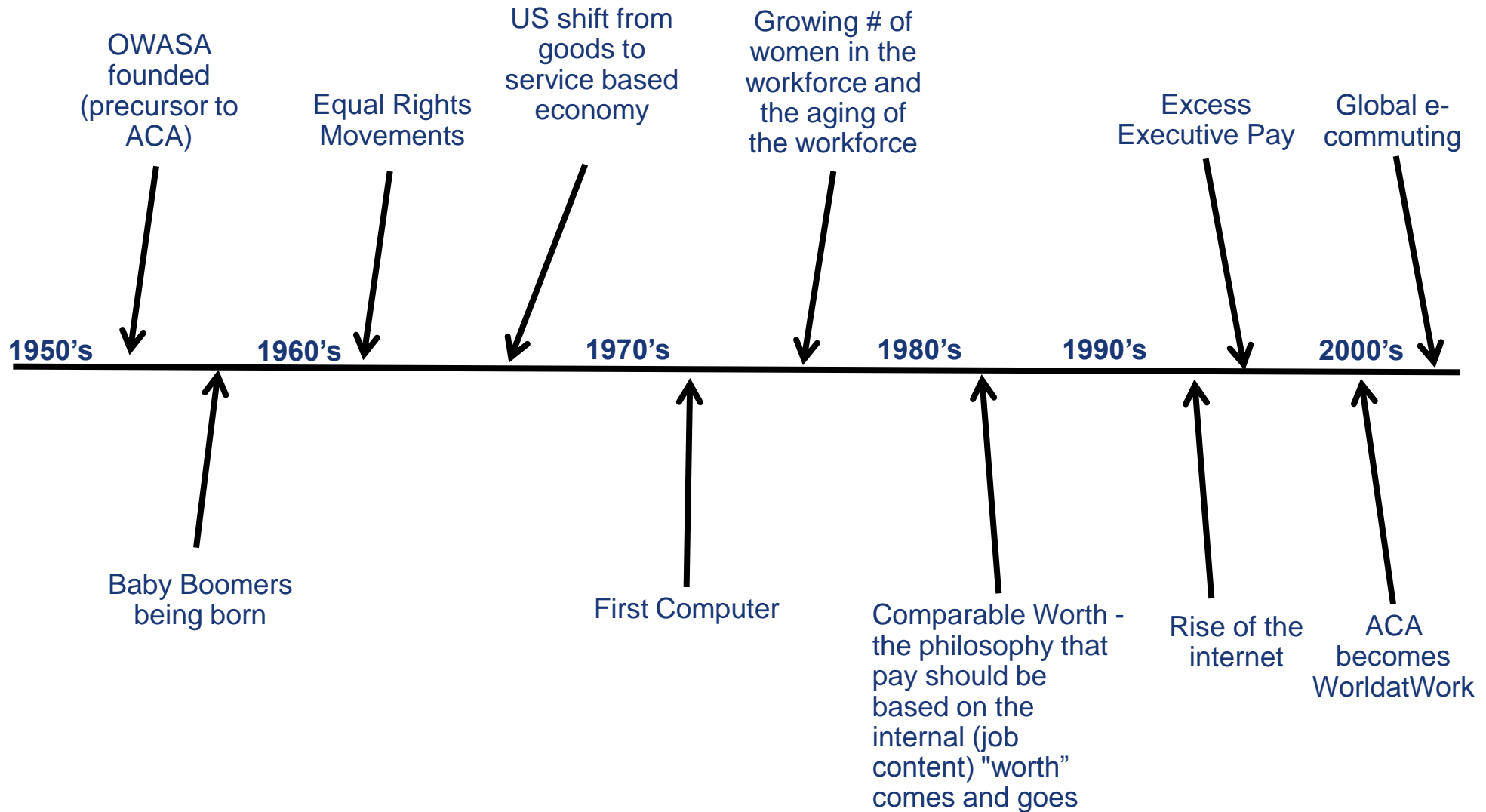
 - D. 1951

What happened????

Early Example of Market Driven Pay



What happened????



What happened????

Trends

WorldatWork Membership

1955	47
1965	526
1975	2,500
1985	9,915
1995	9,600
2005	24,000

In the 2000's, studies by WorldatWork and others have shown that over 80% of employers utilize market pay data as their primary or exclusive means of setting pay rates.

What happened????

GROWTH

Global competition and economic interdependence
Shift from goods producing to service producing
Complexity of the workforce/workplace
Market pricing

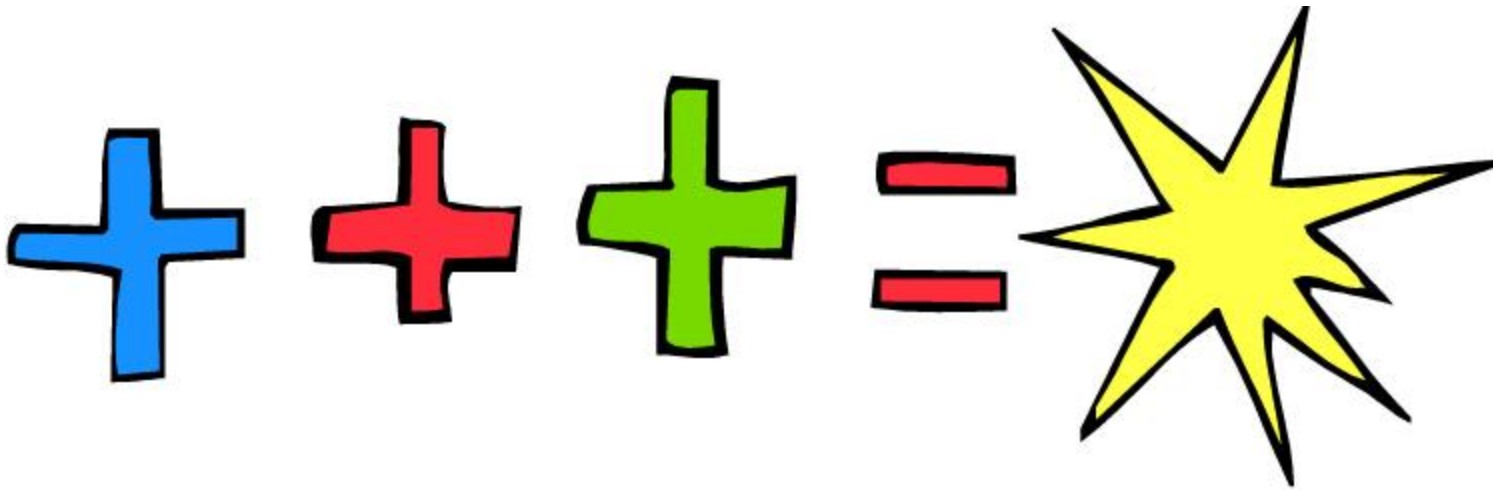
1950's

2000's

DECLINE

US economic domination
Focus on internal equity
Job evaluation

Advantages of market based compensation



Easy to explain and understand

- Point-factor and other job evaluation approaches confuse and frustrate line managers

Provides a fuller picture of how our pay program measures up against the market

- In an increasingly global economy, there is much more pressure to manage and control costs
- Labor is often viewed like any other resource – organizations want to pay the “right” price for the level of quality they desire

Reduce administrative burdens

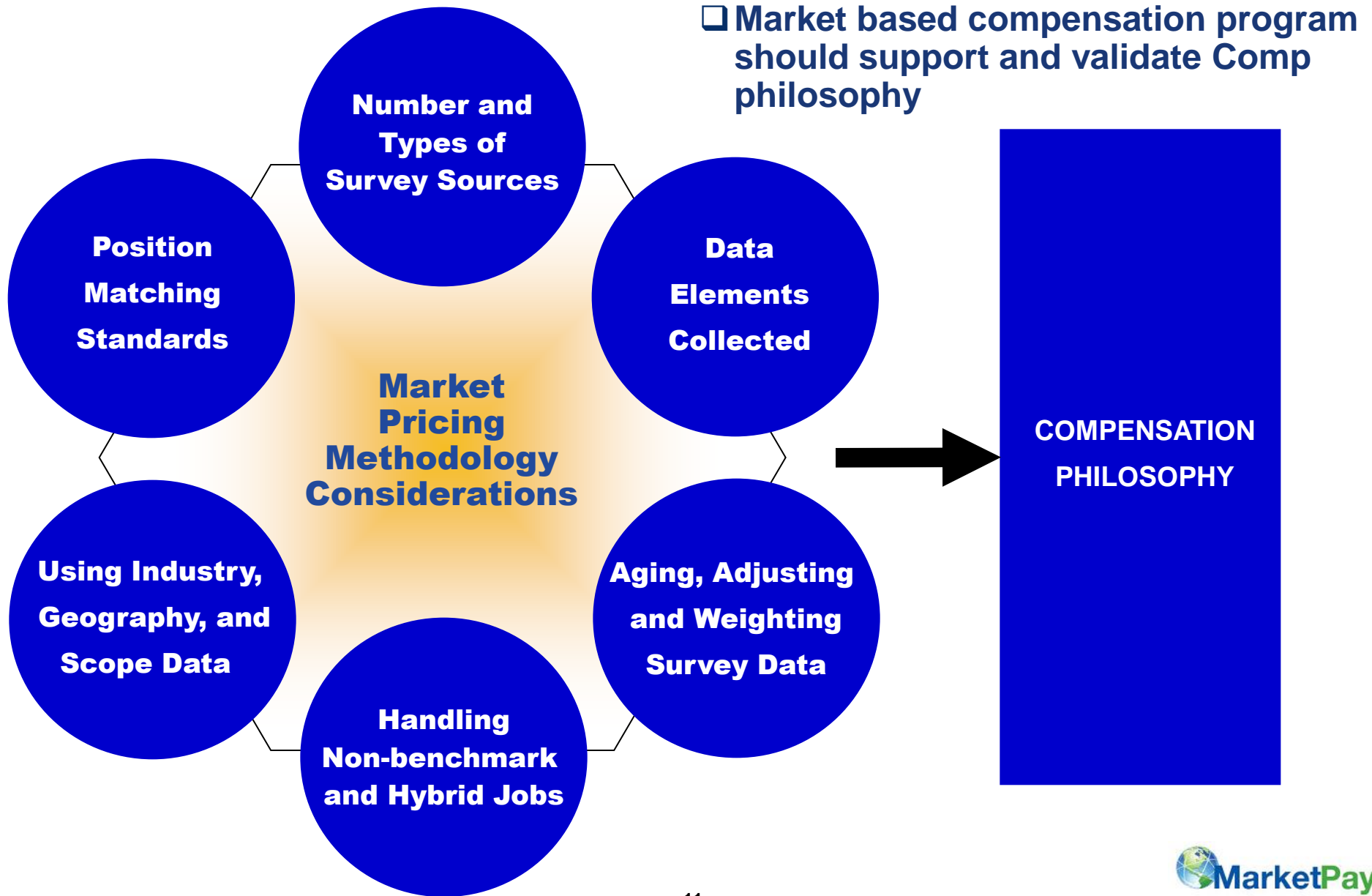
Puts the Comp/HR person on more solid ground in pay discussions

Disadvantages of market based compensation

- You can't market price every job
- Plenty of room for abuse of these statistics
- Surveys cost \$
- The approach requires expertise
- Requires a cultural shift in organizations traditionally focused on internal pay equity

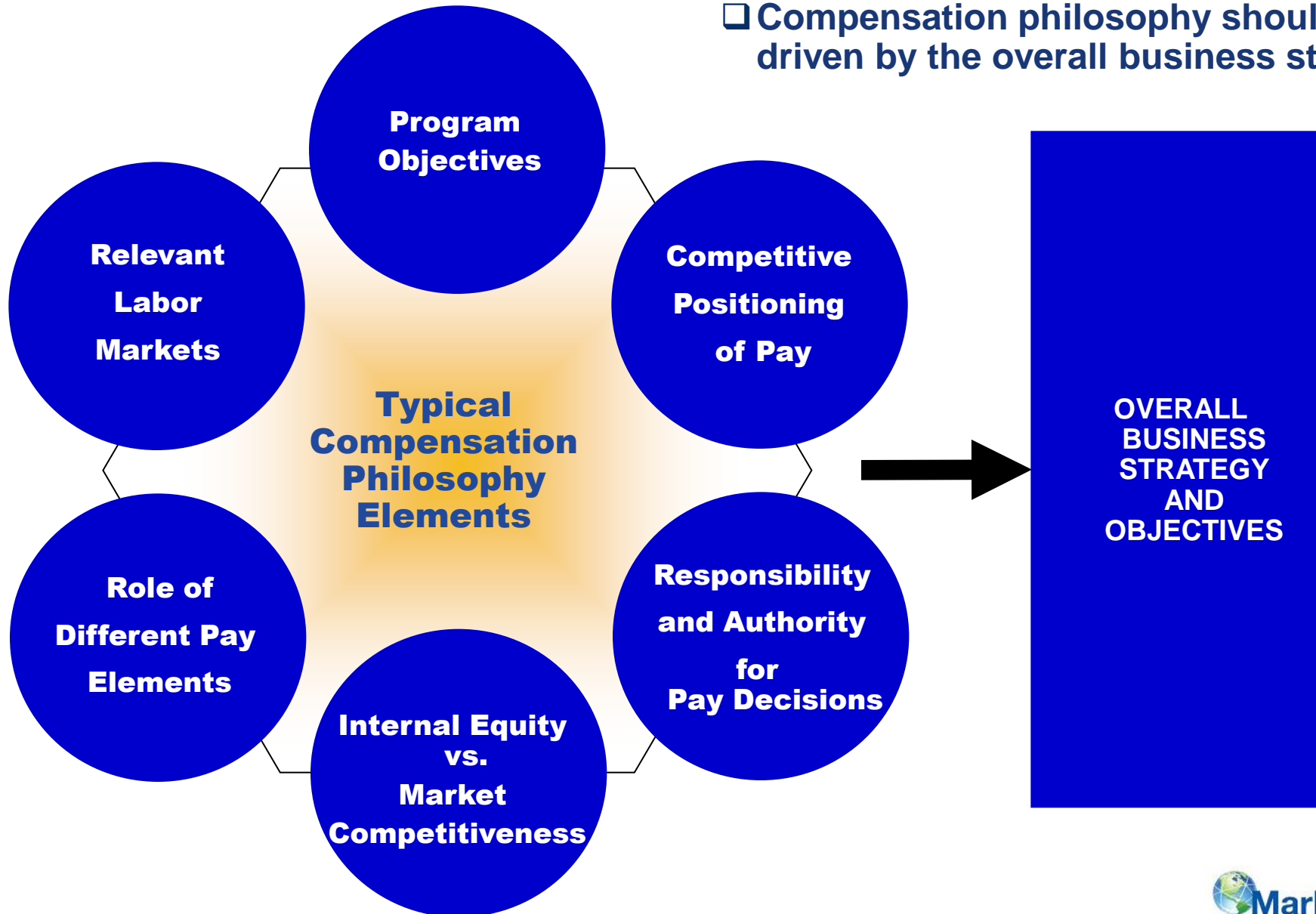


The goal of any market based compensation program



The goal of any market based compensation program

- Compensation philosophy should be driven by the overall business strategy



Benchmarking jobs is the starting point

- ❑ **Market Pricing is: The benchmarking of pay, using salary survey data, against “comparable” positions in relevant labor markets**

MarketPay On-line Market Pricing System											Log Out
Benchmark Summary											MarketPay home > Price Job > Assign Matches > Benchmark Summary
Print benchmark summary											Download
FITXP2 - Tax Accountant											
Survey Matches	Base Salary(aged/adjusted)				Total Cash(aged/adjusted)				Adjust	Weight	Comments
	25th	50th	Avg	75th	25th	50th	Avg	75th			
Watson Wyatt/ECS Prof/Scientific, 2002 : 0720											
Tax Accountant	51,794	62,634	63,725	74,197	52,998	63,959	66,133	76,847	1.1	1	+10% for responsibilities
Level All; All Organizations; 627 Cos, 1638 Ees											
Hewitt Management & Professional, 2002 : 70											
Tax Accountant-Intermediate	48,726	56,701	57,903	64,895	50,801	58,340	61,726	66,970	1	2	2x weight for this survey
All Industries; Sales/Revenues: All Co.-Average; 123 Cos, 443 Ees											
Mercer Fin, Acctg & Legal, 2002 : 275											
Tax Accountant - Intermediate	47,370	52,616	54,098	60,061	48,180	54,380	55,777	61,947	1	1	
National; 288 Cos, 795 Ees											
Overall Averages:											
	49,154	57,163	58,407	66,012	50,695	58,754	61,341	68,184			

Consider relevant labor markets when selecting surveys

- ❑ Surveys should reflect pay levels in your labor markets, usually including regional and industry competitors
- ❑ Different surveys are typically used for different positions



Type of position	Typical survey matching considerations
Executives	Industry, function and organizational characteristics
Middle Management and Professional (Ops)	Industry, function and regional geography
Middle Management and Professional (Staff)	Function and regional geography
Non-exempt/hourly (Ops)	Industry, function and local geography
Non-exempt/hourly (Staff)	Function and local geography

Use quality survey sources

Good	<ul style="list-style-type: none">– Clear job or role definitions to ensure “apples to apples” comparisons– Efforts to support job matching– Sufficient sample size for statistical inference (um.. lots of participants)– Full range of compensation elements and appropriate statistical measures– Rigorous data auditing and cleaning– Flexible (electronic) output formats
Bad (at least not so good)	<ul style="list-style-type: none">– Very brief and/or generalized job definitions– Collect average pay per job instead of incumbent-specific data– Base salary only– Averages only
Ugly	<ul style="list-style-type: none">– Self-reported data (e.g., professional association surveys of their members)– Statistically biased (e.g., recruiting firm “surveys”)– Unnamed sources and participants

Use more than one survey data source if possible

- ❑ Multiple, reliable and valid sources typically used for each position

Survey Matches	Base Salary(aged/adjusted)				Total Cash(aged/adjusted)				Adjust	Weight	Comments
	25th	50th	Avg	75th	25th	50th	Avg	75th			
Wyatt Middle Mgmt Report, 2005 : 0910 Human Resources Manager	70.7	81.0	82.1	94.3	74.1	85.3	87.9	101.6	<input type="text" value="1"/>	<input type="text" value="1"/>	<input type="text"/>
All Organizations; Total U.S. FTE Employment: All Organizations; 456 Cos, 1544 Ees swap data cut											
Towers Mid-Mgmt & Prof, 2005 : 212 Human Resources Manager	94.1	101.1	102.1	106.4	100.7	104.6	112.4	120.2	<input type="text" value="1"/>	<input type="text" value="1"/>	<input type="text"/>
Metropolitan Area: New York,NY; 19 Cos, 44 Ees swap data cut											
Mercer Human Res Mgmt, 2005 : 120.000.221 Human Resource Manager	75.6	90.6	92.8	106.2	78.8	97.6	102.2	119.9	<input type="text" value="1"/>	<input type="text" value="1"/>	<input type="text"/>
National: All Data; 622 Cos, 2866 Ees swap data cut											
Overall Averages:	80.2	90.9	92.3	102.3	84.5	95.8	100.8	113.9	<input type="button" value="Recalculate"/>		

- ❑ Fewer may be used if data is particularly relevant
- ❑ The average MarketPay client has 15-20 survey reports
 - Some as few as 5
 - Some as many as 125

“The Art and Science of the Match” – Ken Cardinal, Pearl Meyers

Job matching determines survey quality

- Job requirements often reflect incumbent KSA's, forcing Comp professionals to match carefully**
- Delegating to junior staff with little background can be “a serious mistake with real consequences”**
- Face-to-face job matching sessions are important**

“The Art and Science of the Match” – Ken Cardinal, Pearl Meyers

Making the best matches to a survey

- ❑ Learn the job (descriptions, evaluation data, interviews w/line managers)
- ❑ Match to the most appropriate family/function by focusing on the “essence” of the job – its core purpose
- ❑ Match to the best level, considering all relevant factors (not just years of exp.)
 - Scope of responsibility
 - Breadth of knowledge
 - Organizational impact
- ❑ Use variance of pay to market as a yellow flag regarding matching issues >20% with no anecdotal evidence of recruiting/retention issues

Data elements gathered and analyzed

□ Typical data elements reviewed in the US:

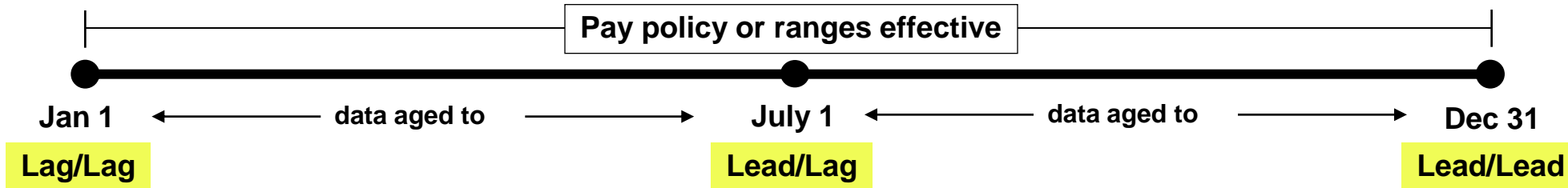
Executives	Base Salary, Incentives, Total Cash, LTI\$¹, Total Direct Compensation¹
Management and Professionals	Base Salary, Incentives, Total Cash, LTI\$¹, Total Direct Compensation¹
Sales	Base Salary, Target and Actual Incentives, Target and Actual Total Cash
Admin and Hourly	Base Salary, Incentives, Total Cash

¹ In applicable industries

- **Median, Average gathered to measure central tendency in the data**
- **25th and 75th percentile data gathered, if available, to understand variability in pay levels in the market for specific positions**
- **Sufficient sample sizes should exist to have confidence in the data**

Survey data aging, weighting, and adjusting

- Survey pay statistics are typically “aged” to a common point in time



- Under certain (limited) circumstances, survey data may be adjusted or weighted (by source) to “fine-tune” the benchmark

Example: Director, Comp & Benefits

Survey Matches	Base Salary(aged/adjusted)				Total Cash(aged/adjusted)				Adjust	Weight	Comments
	25th	50th	Avg	75th	25th	50th	Avg	75th			
Towers Mid-Mgmt & Prof, 2005 : 232 Compensation and Benefits Director Total Sample; 42 Cos, 44 Ees	120.7	134.2	135.6	154.6	136.8	163.2	166.5	191.1	1	1	
Mercer Executive Survey, 2005 : 120,228,210 Compensation Director National: All Data; 120 Cos, 151 Ees	115.4	131.1	135.8	159.9	126.2	154.3	161.4	188.3	1.1	1	+10% for benefits respons.
Mercer Human Res Mgmt, 2005 : 120,224,221 Compensation and Benefits Manager National: All Data; 80 Cos, 88 Ees	85.3	100.5	104.1	119.5	88.4	106.8	111.1	131.0	1.15	1	+15% adjust to Director level
Overall Averages:	107.1	122.0	125.2	144.7	117.1	141.4	146.3	170.2			

What are companies doing with market data?

- ❑ Validating pay position
- ❑ Developing salary ranges
- ❑ Determining grade assignments (market-based job evaluation)
- ❑ Setting incentive targets
- ❑ Determining other types of adjustments
- ❑ Analyzing pay trends
- ❑ Other interesting things we see
- ❑ Sales and International surveys – proceed with caution



Pay positioning vs. the market

- ❑ **“Competitive” = market median (most typical)**

- ❑ **Most organizations target market medians to develop competitive programs**

- ❑ **More aggressive organizations may target pay at above-average levels**
 - **Attempts to target 60th, 62^{1/2} or 65th percentiles are not uncommon**
 - **Problematic to use statistical measures other than median or average to set policy**
 - **Less common now due to economic conditions**

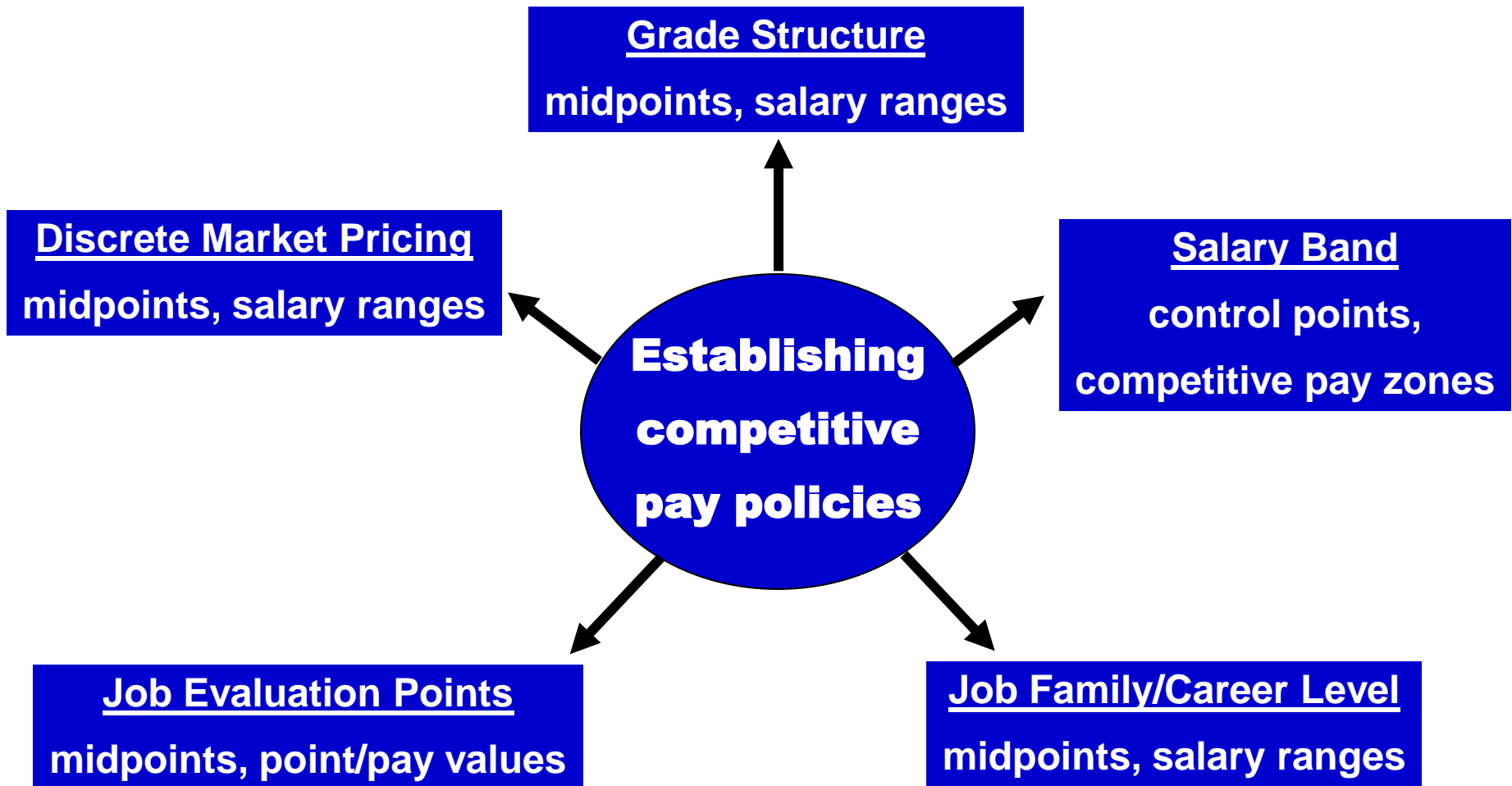


Strategic positioning of pay within an organization

- Is it appropriate to position pay for all jobs the same?
- Incorporate strategic importance of jobs to the organization
- Set pay policy for your most important jobs above market
- Pay others at or below market



Market used to set ranges for all types of comp structures



A salary range for every position

- ❑ A number of organizations develop unique ranges for each position based on market data
- ❑ In this example, the market median for base salary is used to establish a minimum, midpoint, and maximum for the position

Job code: FIFAP2

Job title: Financial Analyst II

Market-pricing results (base salary)		
25th	50th	75th
\$58.1	\$64.9	\$69.6

Assign new salary range		
Min	Mid	Max
80 % of: Base Salary Median ▼	100 % of: Base Salary Median ▼	120 % of: Base Salary Median ▼
51.9	64.9	77.8

- ❑ One challenge is how to handle the year-over-year variability in the data

Averaging the market data by level (grades, bands, etc.)

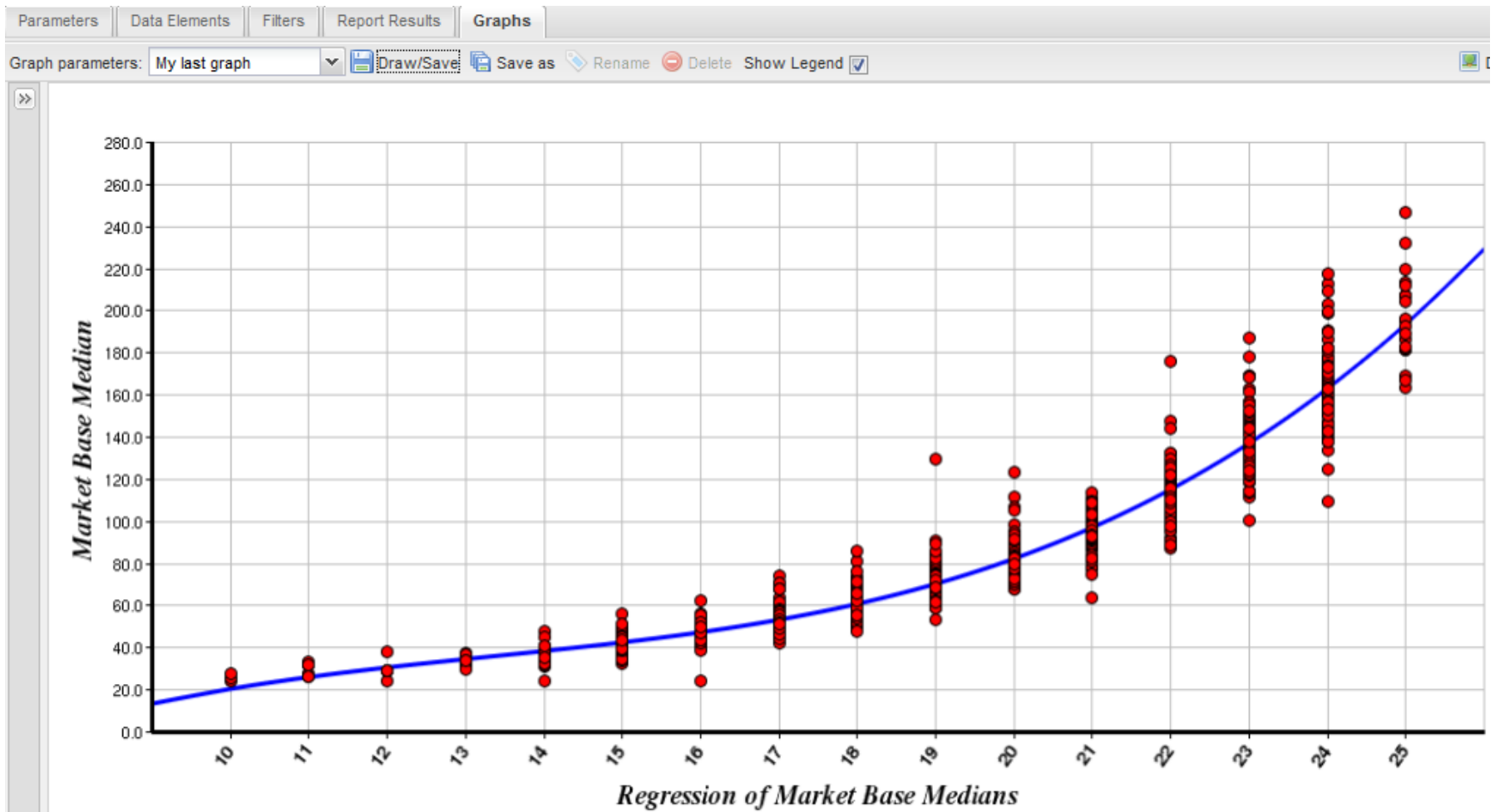
Fairly common to average the market data at each level to set midpoints

Grade	Number of Jobs	Market Base Median Avg 2010	Proposed Midpoint	Proposed Minimum	Proposed Maximum
25	21	195.9	195.9	156.7	235.1
24	70	163.7	163.7	131.0	196.5
23	83	137.3	137.3	109.8	164.7
22	124	113.3	113.3	90.6	136.0
21	128	97.0	97.0	77.6	116.4
20	105	83.2	83.2	66.6	99.9
19	126	71.2	71.2	56.9	85.4
18	101	61.7	61.7	49.3	74.0
17	98	54.0	54.0	43.2	64.8

Also typical to smooth the progression between midpoints

Get fancy and smooth the data with regression

Regression line can be used to develop midpoints for each level



Competitive Pay Zones within Broad Bands

- ❑ Organizations with very wide pay bands find a need to establish “competitive pay zones” within the bands

- ❑ Almost like having grades within the bands, although usually without the typical constraints of minimums and maximums

Competency Level	Entry	Development	Fully Competent Job Rate			Experienced	Expert
Salary Range	Minimum			Mid-point			Maximum
DIRECTOR	\$90,000	\$112,500	\$135,000	\$150,000	\$165,000	\$187,500	\$210,000
MANAGER 1	\$75,000	\$93,750	\$112,500	\$125,000	\$137,500	\$156,250	\$175,000
ADVISOR 1	\$54,000	\$67,500	\$81,000	\$90,000	\$99,000	\$112,500	\$126,000
ADVISOR 2	\$45,000	\$56,250	\$67,500	\$75,000	\$82,500	\$93,750	\$105,000
COORDINATOR	\$39,000	\$48,750	\$58,500	\$65,000	\$71,500	\$81,250	\$91,000

Determining grade assignments

- ❑ Complex position evaluation systems have become less common
- ❑ More and more, companies are using market benchmarks to determine position grades and levels
- ❑ Commonly, a comparison of the market median (typically base salary) to range midpoints is used to determine the best fit

Survey Matches	Base Salary		Salary Range
	Median	Avg	Avg
Survey #1			
General Accounting Mgr	91,901	92,740	92,740
Industry: Insurance - Non-Healthcare; 57 Cos, 465 Ees; USD swap data cut			
Survey #2			
GENERAL ACCOUNTING MANAGER	93,573	94,545	94,545
All Companies; 191 Cos, 878 Ees; USD swap data cut			
Survey #3			
General Accounting Manager	80,611	81,824	81,824
FP; Sector: Insurance; 25 Cos, 315 Ees; USD swap data cut			
Overall Averages:	88,695	89,703	89,703
Equivalent Grade:	31	31	31

Leveling “non-benchmarks”

- ❑ For many jobs, reliable market data is not available
- ❑ “Slotting” against other benchmarks can be used to estimate market value
 - Linking a given job to one or more other benchmark positions that have market data, and thereby developing comparable reference data

Example: slotting an OD Manager against an HR Manager and a Comp Manager

Slotted against	Base Salary(aged/adjusted)				Total Cash(aged/adjusted)				Adjust	Weight	Comments
	25th	50th	Avg	75th	25th	50th	Avg	75th			
HRGEM1 HR Manager	76.6	86.0	87.1	97.3	80.7	90.1	94.0	106.2	1.10	25	+10 for Phd required
HRCOM1 Compensation Manager	91.5	107.1	107.5	121.6	101.1	120.5	124.4	146.9	1.10	75	+10 for Phd required
Overall Averages:	84.1	96.6	97.3	109.5	90.9	105.3	109.2	126.6	<input type="button" value="Recalculate"/>		

Setting incentive targets

Averaging the job reported incentive targets by grade or level can give guidance to establishing your targets

Parameters Data Elements Filters Report Results Graphs				
Advanced Sorting Remove Break Wrap Columns Autosize Columns Download to Excel				
Structure	Grade	Market Actual Bonus/Incentive % 50th (Median) Avg 2010	Market Actual Bonus/Incentive % Average Avg 2010	
GEN	20	112.5	119.9	
GEN	19	104.5	108.9	
GEN	18	79.6	91.0	
GEN	17	77.4	76.5	
GEN	16	58.3	61.7	
GEN	15	35.7	40.5	

Determining other types of adjustments

❑ “Market adjustment” recommendations

- Often to address pay compression, real and/or perceived inequities, or difficulty in hiring and retaining staff

❑ Premiums for “hot” or specialized skills

- Typical in the IT world, there are some surveys that report pay differentials for different skills (SAP, Middleware) that can be used to adjust more generalized benchmark data (usually up, of course)

2010 Benchmark Summary (2011-02-17 Mark Avery) slot this job show audit trail copy matches from another job									
Survey Matches	Base Salary				Adjust	Weight	Comments		
	25th	50th	Avg	75th					
Survey #1									
SYSTEMS PROGRAMMER 2	67.5	73.4	72.9	76.4	1.08	1	+8% for SUSE Linux Enterpris		
UNITED STATES OVER 3.0 BILLION USD; 31 Cos, 1958 Ees; USD swap data cut									
Survey #2									
Operating Systems Programming - Intermediate Professional (ITOS)	66.4	75.2	76.0	84.5	1.08	1	+8% for SUSE Linux Enterpris		
All Firms; 8 Cos, 66 Ees; USD swap data cut									
Survey #3									
Operating Systems Programmer - Level 2	61.4	69.3	73.1	78.3	1.08	1	+8% for SUSE Linux Enterpris		
All Organizations; 61 Cos, 544 Ees; USD swap data cut									
Overall Averages:	65.1	72.6	74.0	79.7	66.2	73.3	75.3	82.5	<input type="button" value="Recalculate"/>

Analyzing Pay Trends

- ❑ Studying year-over-year changes in benchmarks by position, or better, by job family
- ❑ Proceed with caution as survey results can vary from year-to-year based on many factors, including participant fluctuation, population of employee data reported (experience, skill set mix)
- ❑ A few surveys try to control some of the variation in their own year over year analysis

Parameters		Data Elements		Filters		Report Results		Graphs	
Job Code		Job Title		Market Base Salary 50th (Median) 2010		Market Base Salary 50th (Median) 2009		Market Base Salary 50th (Median) 2008	
EXFI	CFO	506.3	442.8	433.3					
FIACM3	Controller	231.0	211.0	213.1					
ITDAP4	DBA - Advanced	120.6	116.6	96.8					
HRGEM1	HR Manager	94.2	93.6	95.1					

What affects survey results?

- Lay-offs
- Pay freezes
- More “blended” jobs
- Companies dropping out of surveys for cost reasons
- Actual incentive payments much lower
- Government pressure on executive pay



However, in this latest recession, we did not see too many abnormalities in pay levels reported by major surveys other than smaller bonuses and incentives

Other interesting things we see

- Reports comparing internal job descriptions to survey position descriptions
- Using survey position structure to develop new compensation structures (like global grading schemes)
- Analyzing and developing regional pay ranges
- Comparing results from different surveys
- Establishing promotional increase guidelines
- Studying long-term performance vs. market pay competitiveness (i.e., are consistent high performers closer to 25th, 50th or 75th percentiles in pay?)
- FLSA exemption comparisons
- Defending against discrimination claims

Sales is a different animal

- ❑ Not as much survey information available (hard to collect)
- ❑ Helpful to compare internal actual and target total cash levels to market when designing a comp plan
- ❑ BUT..... design is king (leveraging, measurements, etc.) and should be done within a strategic context



Beware international survey terms

- ❑ US survey definitions are relatively consistent

- ❑ International survey definitions are not so consistent
 - For example, the 12 month wage paid to an individual can be called:
 - Base pay
 - Basic pay
 - Annual pay

 - “Total remuneration” has been used to describe:
 - Total cash (guaranteed pay plus variable short term incentives)
 - Total direct (total cash plus long term incentives)
 - Total cost of employment (total cash plus benefits)
 - Total remuneration (everything)



International compensation components

Base Salary

+ Guaranteed benefits and allowances = Guaranteed Pay

+ Bonuses and incentives = Total Cash

+ LTI (annualized value) = Total Direct

+ Fringe benefits (annualized value) = Total Remuneration

Different than US surveys



International survey vendor definitions (7 vendor samples)

	A	B	C	D	E	F	G
Base Salary	base salary	base salary	basic salary	annual base salary	guaranteed base		base -
Cash Allowances	regular allowances						
Guaranteed Pay	fixed compensation	base + bonus	base salary	guaranteed payments	total fixed pay	base salary	base +
STI Paid	bonus/incentives	sti - actual			total variable paid	annual bonus + commissions	
Total Cash Paid	fixed comp + incentives	guaranteed pay + sti	total cash	annual total remuneration	total pay	total cash compensation	
Total Target Cash Paid		guaranteed pay + sti target	total cash at target	target annual total remuneration		target total cash compensation	total +
LTI Paid	stock options	lti					
Total Direct Paid		total cash + lti					
Total Target Direct Paid							
Fringe Benefits							
Total Remuneration		total direct + benefits	total remuneration				
Total Target Remuneration							
Total Cost of Employment	total remuneration						

Some strange things in international surveys

Market Price	25th percentile	50th percentile	75th percentile	100th percentile	125th percentile	150th percentile
Market Price Local						
2,775.89	1,387.94	1,665.53	2,220.71	2,775.89	3,331.07	3,608.66
Market Price International						
10,309.05	5,154.52	6,185.43	8,247.24	10,309.05	12,370.86	13,401.76

How technology can help

It's a lot of data!



- Typical client survey library contains 100,000's of rows of data
- Data are provided by publishers in many different formats
- Nice to have everything in one place in a consistent format
- Merge with HRIS data for analysis and to facilitate participation

How technology can help



Sharing of data

- Web technology – anywhere, anytime
- Encourage consistency across units in benchmarking positions
- In large corporations, eliminate duplicate survey purchases
- Eliminate redundant pricing of the same jobs
- Ability to restrict users access to certain groups of jobs or employees may be important

How technology can help

Efficiency and accuracy

- ❑ Huge productivity gains searching for data, matching jobs, analyzing results
- ❑ Automation of survey participation
- ❑ Year-over-year efficiencies using the same sources and matches
- ❑ Consistency and accuracy of calculations



Any questions?



Questions / Comments?