



Market Pricing Techniques and Technology

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Market pricing

- Historical perspective
- What is Market Pricing?
- Where and when is Market Pricing typically used?
- Role in different Comp programs
- Business Strategy, Compensation Philosophy and Market Pricing methodology
- Survey sources
- Position matching
- Data elements
- International survey considerations
- Aging, adjusting and weighting
- Blended jobs and non-benchmarks
- Pay positioning vs. the market
- Advantages, disadvantages, and issues
- Market Pricing technology



What is market pricing?

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	<input type="text" value="1.1"/>	<input type="text" value="1"/>	<input type="text" value="+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	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="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	<input type="text" value="1"/>	<input type="text" value="1"/>	<input type="text"/>
National; 288 Cos, 795 Ees											
Overall Averages:	49,154	57,163	58,407	66,012	50,695	58,754	61,341	68,184			

Market pricing – historical perspective

GROWTH

Global and local business competitiveness
Focus on “human capital”
Focus on external pay competitiveness
USE OF MARKET PRICING
Number and types of compensation elements
Number and quality of compensation surveys
Need for automation

1950's

2000's

DECLINE

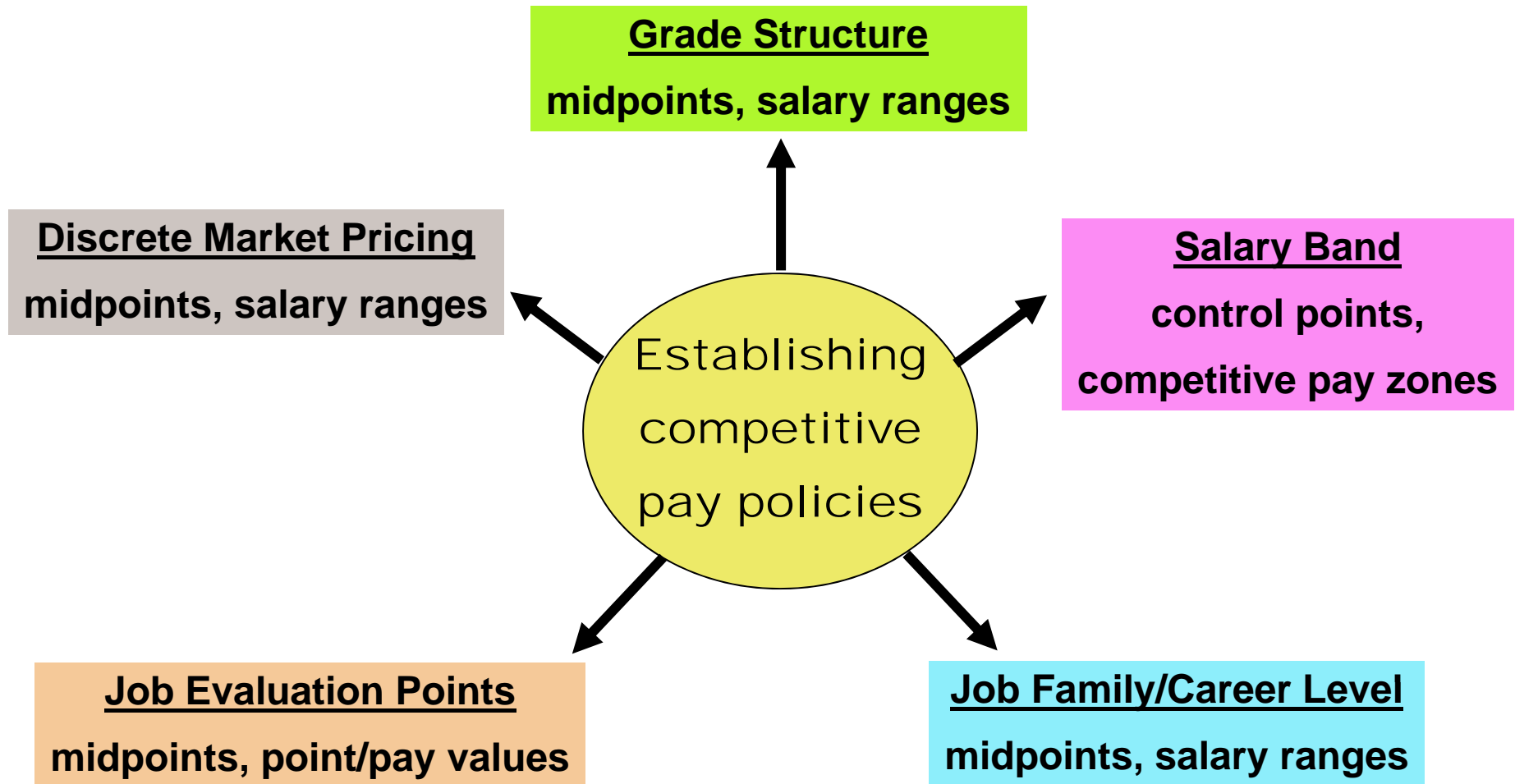
US economic domination
Focus on internal equity
Job evaluation

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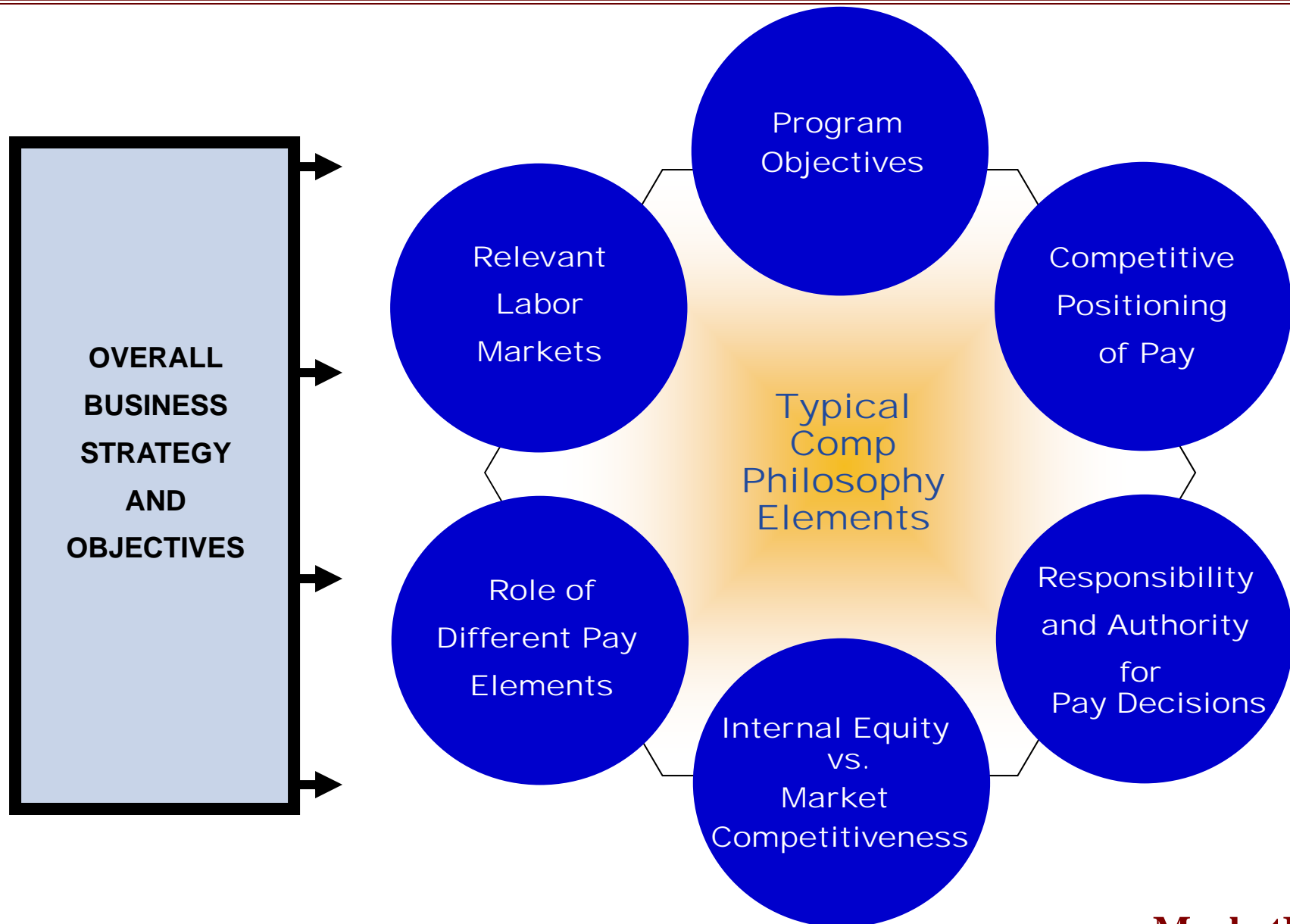
Where and when is market pricing typically used?

INDUSTRIES		
Government Education	Manufacturing Health care Brick and mortar	Technology Finance/insurance Deregulated Health care
PACE OF INDUSTRY CHANGE		
Low	Moderate	High
COMPENSATION PROGRAM'S FOCUS ON MARKET COMPETITIVENESS		
Market Aware	Market Integrated	Market Based
USE OF MARKET PRICING		
By exception, when "system" doesn't give the right answer	In parallel with job evaluation, to set grade/band pay ranges using specific set of benchmarks	Basis of position evaluation and pay range development for all positions

Role of market pricing in different comp structures



Business strategy should drive compensation philosophy



Turn forward to 2009....

- **Business strategies changing with economic conditions**
 - Survival
 - Cost control
 - Do more with less
- **How important are Attraction and Retention?**
- **Is the emphasis on Motivation? Key contributors?**
- **Where does competitive compensation fit in?**
- **Is this an opportunity to reinforce pay for performance differentiation?**



Are we playing “to win” or playing “not to lose”?

Axiom Consulting Partners (www.axiomcp.com)

“Not to lose” – a short term strategy

- Spending money on quick fixes.
- Retaining less expensive talent that can deliver on urgent, but not important goals.
- Wasting time on activities and initiatives that are familiar and readily achievable when the tough stuff is what will lead to the market win.
- Losing sight of the goal by becoming more opportunistic than strategic.
- Ignoring people with ideas and energy—because they are deemed too impractical in these “tough times”—causing them to stall out and become complacent.

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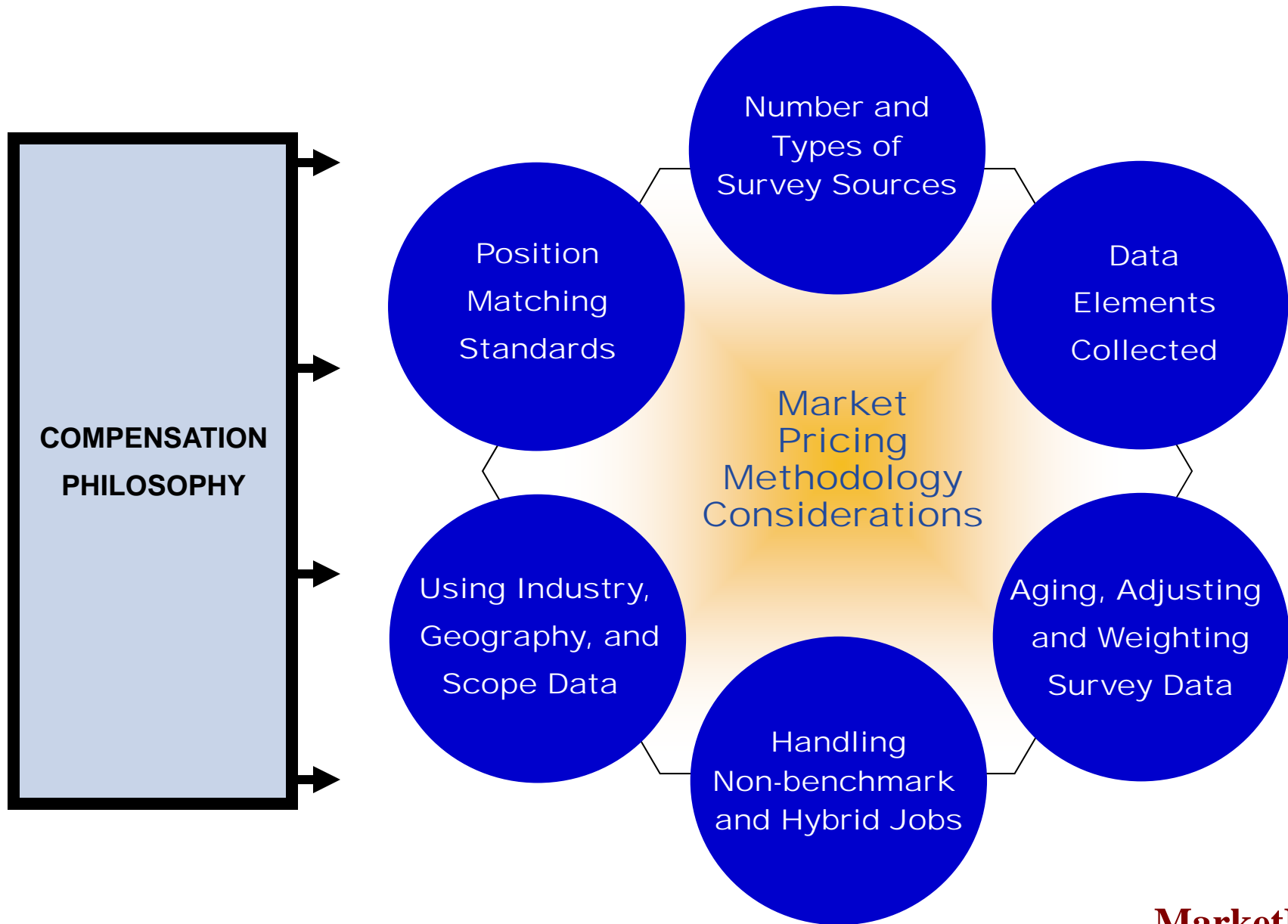
Are we playing “to win” or playing “not to lose”?

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“To Win” – a long term strategy

- **Staying on top of the market and where it is going by bringing the best minds to bear; remaining honest with self and others--- not too cynical nor too optimistic --- about the hurdles facing the business in the future. This may require actually identifying multiple scenarios that could play out.**
- **Putting a strategic stake in the ground that differentiates the business, especially in terms of these new market conditions.**
- **Doing what needs to be done sooner than later, even if unpopular, to protect what will ensure success in the long haul (i.e., eliminating perks and cutting the fat).**
- **Bringing a laser-like focus to employees on what is most critical and very importantly, what is not. Articulating to the entire organization often and clearly what the strategy is and how they help to drive it.**
- **Taking a top to bottom look at how work gets done, where it gets done and who does it.**
- **Ensuring, above all else that the right people are positioned to lead the charge.**

Compensation philosophy should drive market-pricing methodology



Survey sources – labor market considerations

- Surveys should reflect pay levels at labor market and business 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

Survey sources – quality considerations

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

Will 2009 surveys be distorted by economic conditions?

More variability than usual

- Lay-offs
- Pay freezes
- More “blended” jobs
- Companies not participating in surveys for cost reasons
- Actual incentive payments much lower
- Government pressure on executive pay



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

Job matching determines survey quality

- Job requirements often reflect incumbent SKA'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

Position matching – number of data sources

- Multiple, reliable and valid sources should be 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

Position matching – selecting data cuts

- Data cuts selected will vary by position and data availability

Type of position	Typical data cuts used
Executives	Industry and/or organization size
Middle Management and Professional (Ops)	Industry and/or regional geography
Middle Management and Professional (Staff)	Regional or local geography
Non-exempt/hourly (Ops)	Industry and local geography
Non-exempt/hourly (Staff)	Local geography

- Geo differential surveys can be used to adjust national data to local levels

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**

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



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Beware international survey terms

- **US survey definitions are relatively consistent**
- **International survey definition 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)**



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International survey vendor definitions (7 vendor samples)

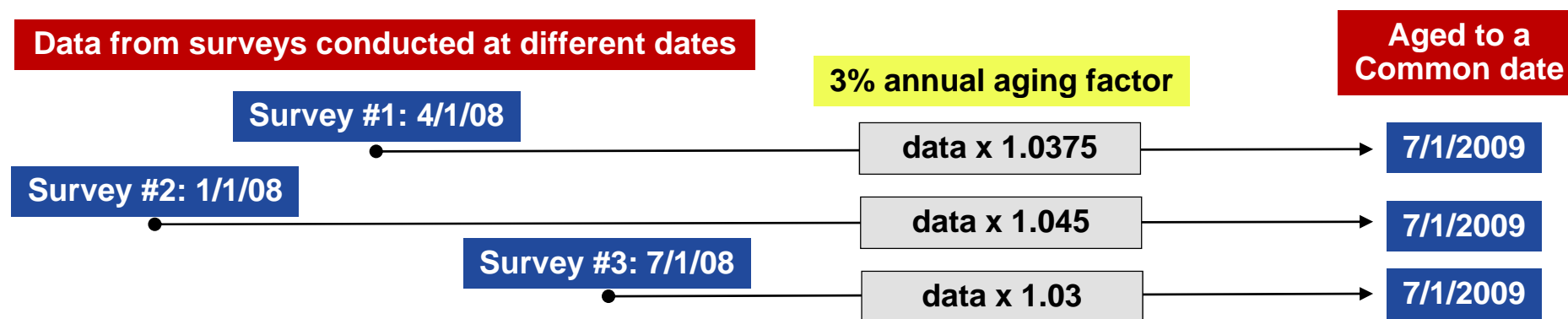
	A	B	C	D	E	F	G
Base Salary	base salary	base salary	basic salary	annual base salary	guaranteed base		base -
Cash Allowances	regular allowances						
Guaranteed Pay	fixed compensation	base + bonus	base salary	guaranteed payments	total fixed pay	base salary	base +
STI Paid	bonus/incentives	sti - actual			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

Survey data aging

- Survey pay statistics are typically “aged” to a common point in time
 - To “standardize” data from sources conducted at different dates



- To position pay recommendations to be competitive at a certain point in time



Adjusting survey data

- Under certain (limited) circumstances, survey data may be adjusted to reflect the job having more or less responsibility than the survey match
- Adjustments of 5%, 10%, or 15% are generally accepted

Plus or Minus	Rationale	Example
5%	"Noticeable" difference	An additional (or missing) minor function, specific responsibility or expertise required, such as "comp manager also administers relocation" or "our receptionist also does word processing"
10%	"Significant" difference	An additional (or missing) major function, or set of responsibilities, such as "comp manager also manages benefits" or "CFO also manages IT"
15%	Order of Magnitude difference	A full position or management level - often used to recognize or to develop "Director" benchmarks, when only Manager jobs are available in the surveys

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	120.7	134.2	135.6	154.6	136.8	163.2	166.5	191.1	1	1	
Total Sample; 42 Cos, 44 Ees											
Mercer Executive Survey, 2005 : 120,228,210											
Compensation Director	115.4	131.1	135.8	159.9	126.2	154.3	161.4	188.3	1.1	1	+10% for benefits respons.
National: All Data; 120 Cos, 151 Ees											
Mercer Human Res Mgmt, 2005 : 120,224,221											
Compensation and Benefits Manager	85.3	100.5	104.1	119.5	88.4	106.8	111.1	131.0	1.15	1	+15% adjust to Director level
National: All Data; 80 Cos, 88 Ees											
Overall Averages:	107.1	122.0	125.2	144.7	117.1	141.4	146.3	170.2			

Weighting survey matches

- Simple averaging (equal weighting) is appropriate in most situations
- Under certain (limited) circumstances, sources may be more heavily weighted to put more emphasis on:
 - Industry specific sources
 - Significantly better match of survey description to your position
- Some organizations weight by the number of companies or incumbents for each data point (wouldn't recommend this)
- Sample criteria for weighting (a MarketPay client)
 - Weight 1x: "Meets evaluation standards"
 - acceptable source and match
 - Weight 2x: "Very trustworthy source"
 - high quality survey methodology
 - large participant base
 - Weight 3x: "Most relevant source/match"
 - highly comparable participants
 - best quality match

Position matching – blended jobs

Financial Systems Analyst - match to Financial Analyst, Systems Analyst or both?

- “Highest Common Denominator” approach (recommended)

Survey Position	Market Median Base Salary
Financial Analyst	\$60,000
Systems Analyst	\$70,000

Reference value for your Financial Systems Analyst should be at least \$70,000

- Weighted average blending of data

Survey Position	Market Median Base Salary	Percentage of job
Financial Analyst	\$60,000	60%
Systems Analyst	\$70,000	40%

Reference value for your Financial Systems Analyst should be \$64,000

Non-benchmarks – jobs that you can't get good data for

- Job evaluation is the traditional answer
- “Slotting” of jobs to estimate market value can be an alternative
 - Linking a given job to one or more other benchmark positions that have been market priced, and thereby assigning it to the same 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"/>		

Pay positioning vs. the market

- “Competitive” = market median (most typical)
- More aggressive organizations target pay at above-average levels
- “Mix” of compensation (base vs. variable) is a strategic lever



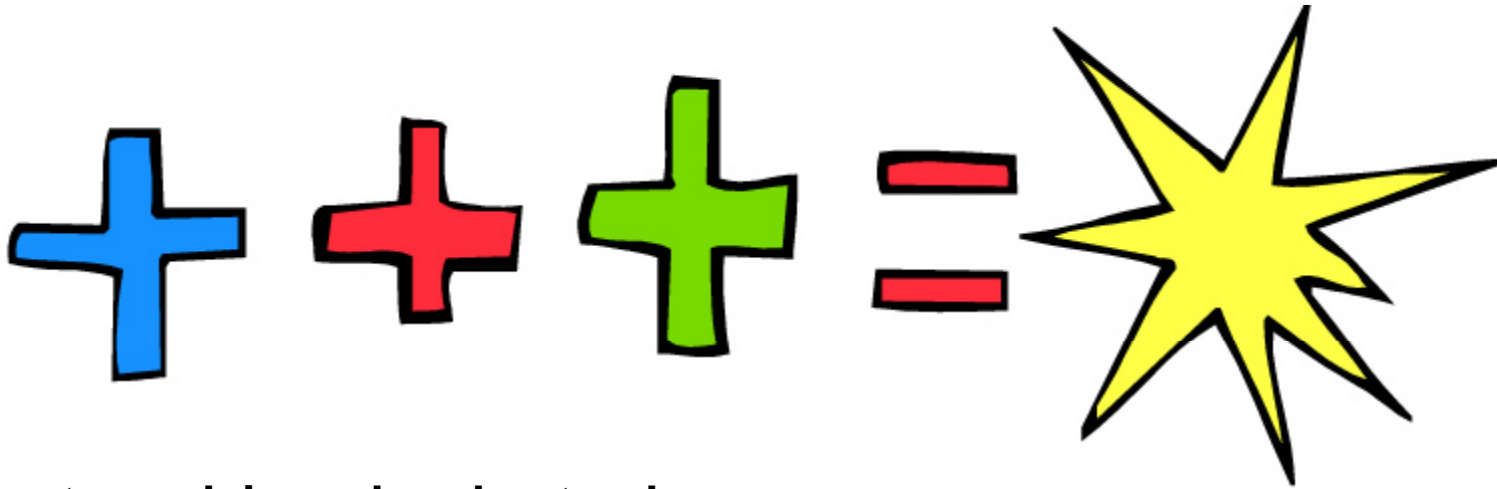
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Beyond market pricing – incorporating strategy

- 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



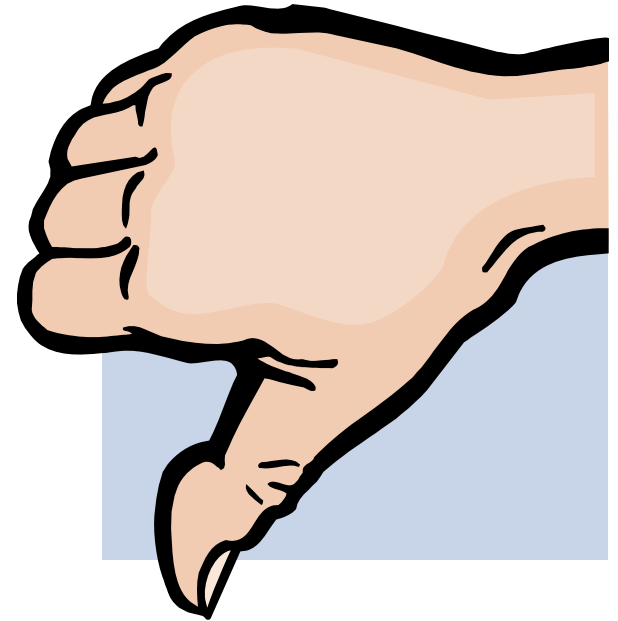
Advantages of market pricing



- **Easy to explain and understand**
 - Point-factor and other job evaluation approaches confuse and frustrate line managers
- **Competitive necessity**
 - 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 pricing

- 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 pay equity



How can technology help?

Managing all the data



- Typical client survey library contains 100,000's of rows of data
- Data are provided by publishers in many different formats
- Having everything in one place in a consistent format
- Merging with HRIS data for analysis and to facilitate participation
- Year-over-year efficiencies using the same sources and matches

How can technology help?

Sharing the 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 can technology help?

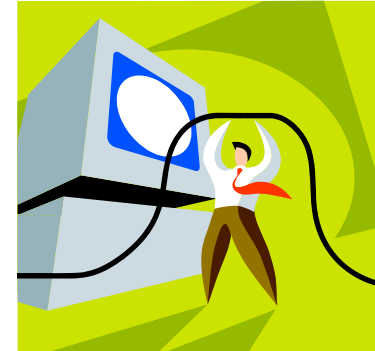
Efficiency and accuracy

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



Different types of technology solutions

- Homegrown databases
- In-house MIS
- Full-featured Compensation Management Software
- Desktop or Client/Server Applications
- Survey publisher on-line services
- Software and data “on-demand” (web-based application service)



Market pricing

Questions / Comments?