



# Putting Compensation Strategy Into Practice

*Thomas Showalter*  
CCP, SHRM SCP

AK State HR Conference 2017  
May 18, 2017



***Strategize***

***Strategy  
Tree***

***In  
Practice...***

# Strategy Tree



## *In Practice...*

Service & quality over price  
High customer retention  
Measured growth, strong margins, low debt

**Organizational  
Strategy**

Top Talent  
Quality & Service Culture  
Retention

**Employment  
Strategy**

**Total Rewards  
Strategy**

Differentiators (better than most)  
• Professional Development  
• Workplace Culture  
• Cash & Benefits

**Compensation  
Strategy**

Total Cash Comp @ 75<sup>th</sup> percentile  
Service and EBITDA-based Incentives



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# Build

*Know Thy  
Market*

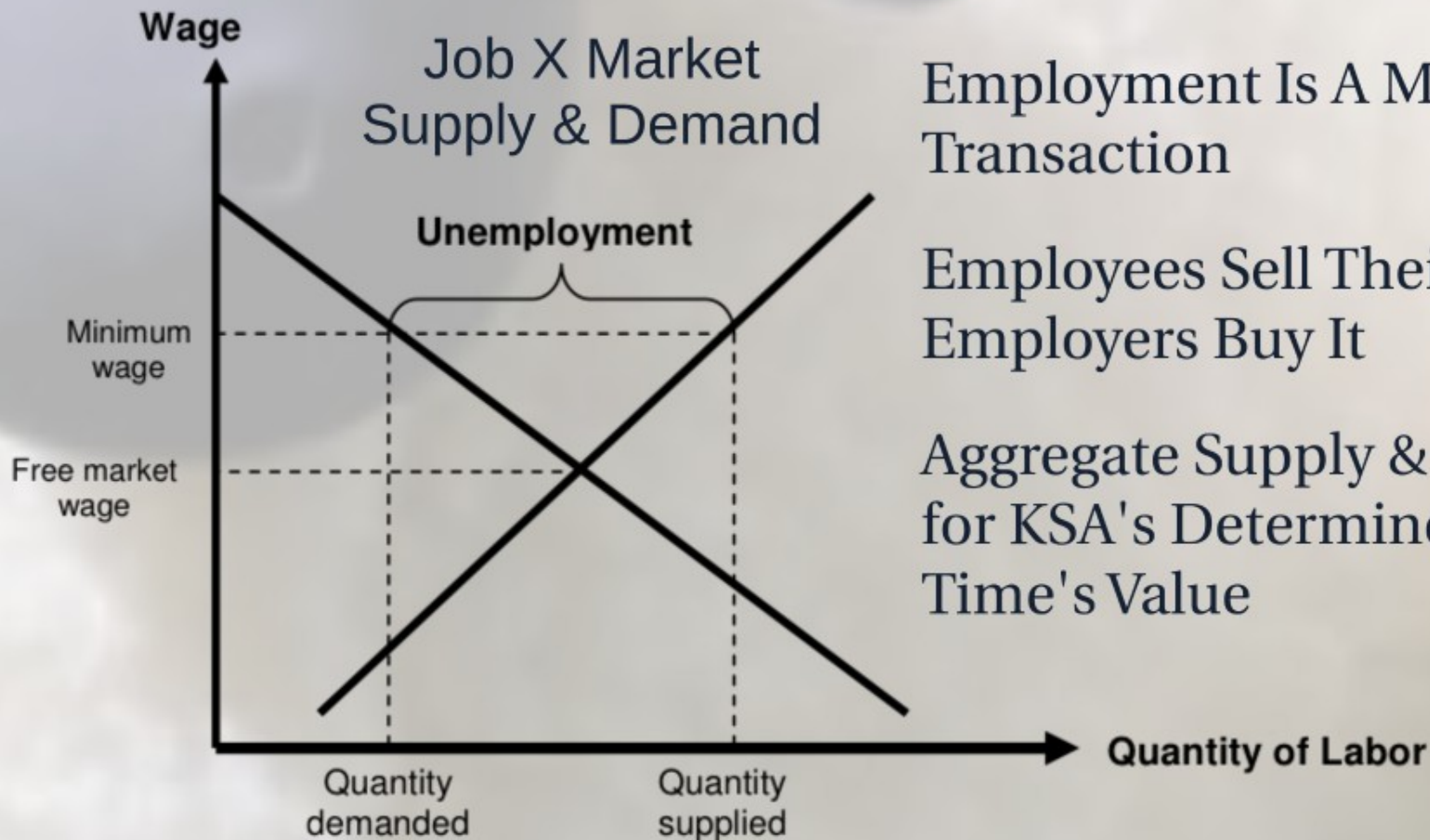
*Build a  
Structure*

*Populate  
It*

*"Hardwire"  
Compliance*

*What About  
Incentive  
Pay?*

# Know Thy Market



Employment Is A Market Transaction

Employees Sell Their Time, Employers Buy It

Aggregate Supply & Demand for KSA's Determines That Time's Value

# ***Market Analysis 101***

## **1. Prep**

- Buy Good Surveys \$\$\$
- Define Your Jobs
- Have a (Differentiating) Strategy

## **2. Match Your Jobs to Market Jobs**

- Responsibilities
- Quals
- Industry
- Geography

## **3. Pull the Data Your Comp Strategy Dictates**

e.g. Median Base, Incentive, Total Cash Comp



# ***In Practice...***

## **Your Job**

Sr. Marketing Director  
10+ years Mktg Exp, 4 yr Degree  
Fairbanks-based

## **Your Company**

Engineering Industry  
\$50 MM Annual Revenue  
Anchorage-based

## **Your Comp Strategy**

Peg to Market Median TCC  
High Incentive to Base

# And The Market Says...

Director Marketing (Revenue)  ERI: 220020  
eDOT: 16316761  
SOC: 112021

Compensation Type: **Total Cash** Pay Period: Annual Revenue:   Customized Table Percentiles:

Revenue	10th Percentile	25th Percentile	Survey Median	75th Percentile	90th Percentile
60,000,000	109,664	119,290	130,242	143,474	155,729
50,000,000	107,011	116,365	127,043	140,627	151,875
40,000,000	103,717	112,723	123,038	136,478	147,134

Adjustments to Compensation Analyses

Organization Data

Area: Fairbanks, Alaska  
Industry: Engineering Services  
Codes: eSIC: 8700 NAICS: 541620 usSEC: 8700  
Size (Revenue): 50,000,000

Planning Date: 5/5/2017  
Annualized Salary Trend: 2.7% (Adjustment: 0.89%)

Annual Total Cash Graph

Total Cash

Revenue (in millions)

— 10th Percentile — Median — 90th Percentile

Survey Description

Director Marketing (Revenue)

Alternate Titles

Marketing Director (Revenue);

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Overview

Directs, develops, implements, and facilitates marketing strategies, activities, and policies for an organization.

Administers economic and commercial surveys to identify potential markets for products and services.

Initiates market research studies and analyzes findings in order to discover which market segments would buy the organization's products or services and how to best present those products and services to the selected target market.

## ***Build a Structure***

A Compensation Structure Is Just a  
Shell

But It's Important to Get Right

Because.....

It's a Big Part of Putting Strategy Into  
Practice

***Here's  
One***

***Getting  
It Right***

***In  
Practice***

## Here's One

Base Salary Compensation Structure			
Job Grade	Salary Range (\$US)		
	Entry	Target	Maximum
A	\$21,739	\$25,000	\$28,261
B	\$23,913	\$27,500	\$31,087
C	\$26,304	\$30,250	\$34,196
D	\$28,935	\$33,275	\$37,615
E	\$31,828	\$36,603	\$41,377

### Structure Basics

*Grade:* A Label for a Range

*Range:* Minimum and Maximum \$

*Spread:* The Range Breadth

*Progression:* Gap between Ranges

## ***Getting It Right***

Range Spreads Reflect Job Complexity

Tie The Range Middle (or Target) to  
Where Your Comp Strategy Says You  
Want to Be in the Market

Choose Progressions that Balance  
Precision and Simplicity

## *In Practice*

### Dishwasher

Entry	Target	Maximum
\$21,739	\$25,000	\$28,261

Lower Mid Point (Market Value)  
Narrower Spread (Complexity)

### General Manager

Entry	Target	Maximum
\$91,899	\$114,874	\$137,849

Higher Midpoint  
Broader Spread

# Populate It

Director Marketing (Revenue)

Compensation Type: Total Cash  
 Pay Period: Annual  
 Revenue:  Customized Table  
 Percentiles:

Revenue	10th Percentile	25th Percentile	Survey Median
60,000,000	109,664	119,290	130,242
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**Adjustments to Compensation Analyses**

**Organization Data**

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 Size (Revenue): 50,000,000

Planning Date: 5/5/2017  
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**Annual Total Cash**

Grade	Entry	Target	Maximum
N	\$69,045	\$86,307	\$103,568
O	\$75,950	\$94,937	\$113,925
P	\$83,545	\$104,431	\$125,317
Q	\$91,899	\$114,874	\$137,849
R	\$101,089	\$126,362	\$151,634
S	\$111,198	\$138,998	\$166,798
T	\$122,318	\$152,898	\$183,477

		U.S Salary Range		
Primary Job Title	Job Grade	Entry	Target	Maximum
Marketing Director	Q	\$91,899	\$114,874	\$137,849
Job X				
Job Y				





## ***"Hardwire" Compliance***

Set Entry Above Minimum Wage

Document How Pay Is Set & Adjusted  
Within Ranges (more about this later)

Don't Allow Pay Outside the Ranges  
Once In Place

Manage "Sins of Past" to Bring into  
the Structure

## ***What About Incentive Pay?***

Incentive Pay = Bonuses

Your Compensation Strategy Will  
Guide You

If Not Using, Base Pay = Total Cash  
Compensation.

If Using, Add It to Your Structure as  
Part of Total Cash Compensation

***In  
Practice...***

***Look  
Before  
You Leap***

## In Practice...

### Without Incentive Compensation...

Primary Job Title	Job Grade	U.S Salary Range		
		Entry	Target	Maximum
Marketing Director	Q	\$91,899	\$114,874	\$137,849

### With Incentive Compensation...

Primary Job Title	Job Grade	Total Cash Compensation (Base + Incentive)					
		U.S Salary Range			Target Incentive		Total Target Cash Compensation (Target Base + Target Incentive at Target Base)
		Entry	Target	Maximum	%	\$	
Director of Marketing	O	\$75,950	\$94,937	\$113,925	25%	\$23,734	\$118,672

# ***Look Before You Leap***

Added Onus for Goal Setting & Tracking

"At Risk" Often Perceived as "Manager Gravy"

Enter Reality & Rationalization

Entitlement Looms

Administration Can Be Painful. And Hazardous...



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# *Deploy*

**1. Write a  
Users' Manual  
(more later)**

**2.  
Automate?**

**3. Train  
Your  
Users**

**4.  
Communicate  
to Staff**



***1. Write a Users' Manual (more later)***

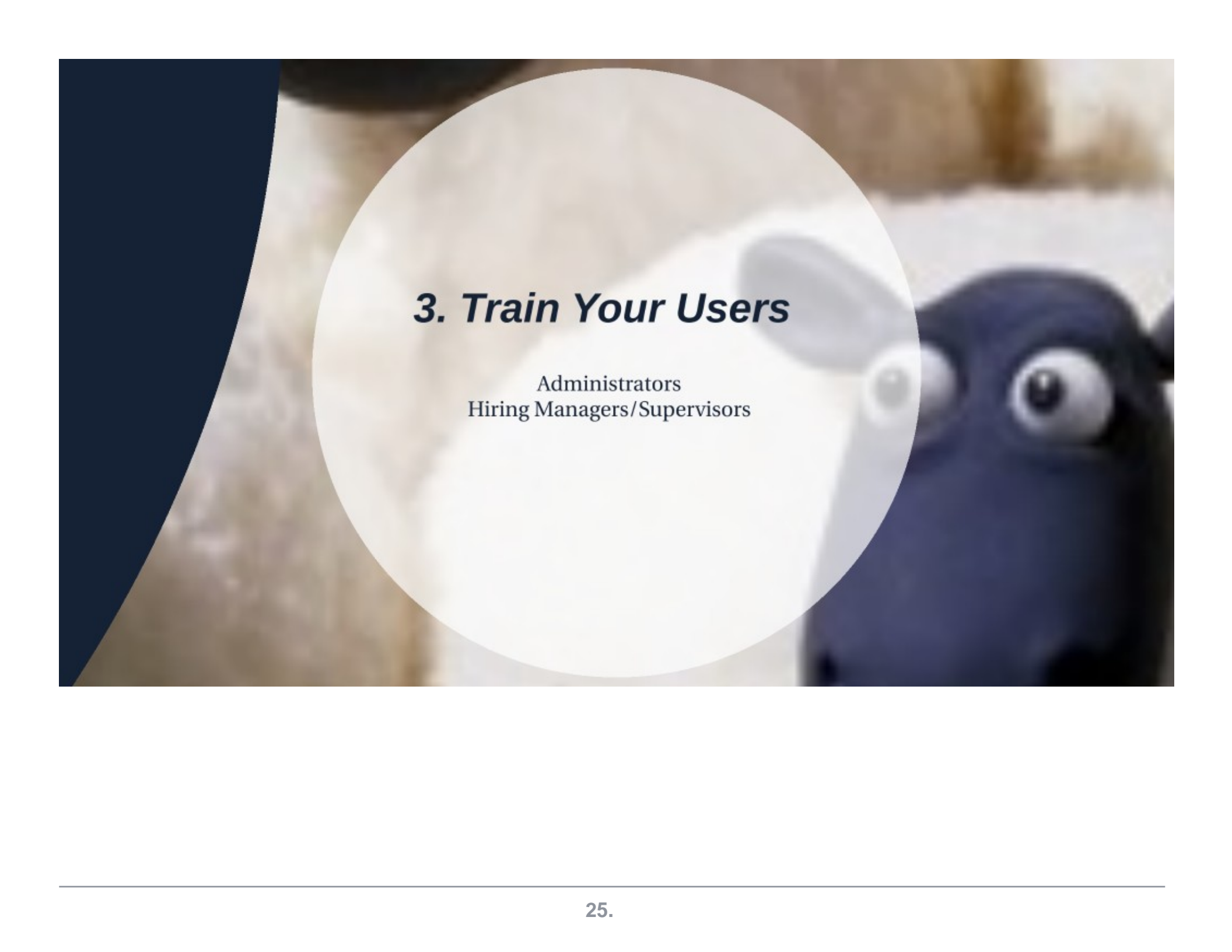


## ***2. Automate?***

Some HR Systems Hold Pay Structures, Others Don't

If Yours Does, Use It!





### ***3. Train Your Users***

Administrators  
Hiring Managers/Supervisors



## **4. Communicate to Staff**

How Much You Will Want to Share  
Depends on Your Culture & Philosophy



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**Use**

***Setting  
Pay at Hire***

***Managing Pay  
throughout the  
Employment  
Cycle***

## ***Setting Pay at Hire***

Entry = Starting Wage!

Qualifications & Past Performance  
Are Predictors of Productivity

Set Wages at Hire Accordingly

***In  
Practice...***

## *In Practice...*


Primary Job Title	Job Grade	U.S Salary Range		
		Entry	Target	Maximum
Marketing Director	Q	\$91,899	\$114,874	\$137,849

### **What Would You Pay.....**

Just Meets MQ's?

Experienced, Proven Performer?


Rock Star in a Suit?



***Managing Pay  
throughout the  
Employment  
Cycle***

***A Do or a  
Don't?***

***Best  
Practice?***



***A Do or a Don't?***



## ***A Do or a Don't?***

Train supervisors how to use pay ranges

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Base pay on seniority


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## ***A Do or a Don't?***


Train supervisors how to use pay ranges 


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Freeze pay to manage labor expense


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
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


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
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
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Equate high performance with high %  
increases

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Evaluate pay at the same time for  
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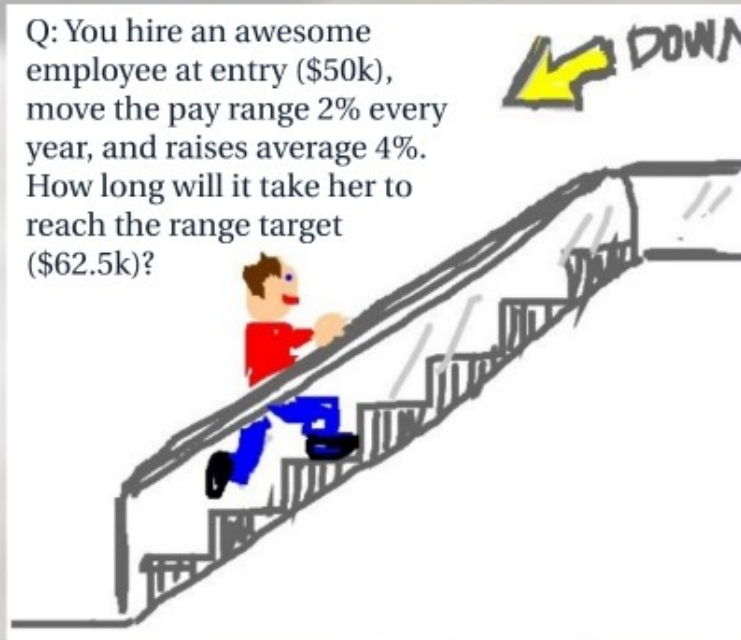
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# Best Practice?

Q: You hire an awesome employee at entry (\$50k), move the pay range 2% every year, and raises average 4%. How long will it take her to reach the range target (\$62.5k)?



**Answer:**



**YEARS!**

How Would You Prevent This?



***Answer:***

**YEARS!**

How Would You Prevent This?

**Answer:**

**1**

**YEARS!**

How Would You Prevent This?

**Answer:**

**1 3 YEARS!**

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How Would You Prevent This?

**Answer:**

**1 3 YEARS!**



Woo Hoo!

How Would You Prevent This?

# Answer:

1 3 YEARS!

<u>Year</u>	<u>Pay</u>	<u>Range Target</u>
1	\$ 50,000	\$ 62,500
2	\$ 52,000	\$ 63,750
3	\$ 54,080	\$ 65,025
4	\$ 56,243	\$ 66,326
5	\$ 58,493	\$ 67,652
6	\$ 60,833	\$ 69,005
7	\$ 63,266	\$ 70,385
8	\$ 65,797	\$ 71,793
9	\$ 68,428	\$ 73,229
10	\$ 71,166	\$ 74,693
11	\$ 74,012	\$ 76,187
12	\$ 76,973	\$ 77,711
13	\$ 80,052	\$ 79,265



Woo Hoo!

How Would You Prevent This?

# Answer:

1 3 YEARS!

<u>Year</u>	<u>Pay</u>	<u>Range Target</u>
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How Would You Prevent This?



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***Maintain & Refine***

***Annual  
Maintenance***

***Refine***

## ***Annual Maintenance***

Adjust Your Structure Annually to  
Keep Pace with Labor Market  
Inflation

Salary Structure Movement = Salary  
Budgets

Re-analyze ~20% of Your Jobs Each  
Year

Focus on Key Jobs, Hard to Fill Jobs,  
and those You Know Are Changing

***In  
Practice...*** /



## ***In Practice...***

With regard to salary ranges, WorldatWork reported average upward salary structure adjustments of 1.9 percent (2.0 percent median) in 2016, which is anticipated for 2017 to average 2.1 percent (2.0 percent median).

*Source: SHRM reporting on 2017 World at Work Salary Budget Survey*



## ***Refine***

Time Changes, Practices Change

Stay Abreast of Market and  
Compensation Trends

Understand Your Workforce of Today  
and Tomorrow

Change Your Compensation Strategy  
& Practices Accordingly



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***Sheep?***

**"We Offer Fair  
& Competitive  
Compensation  
" Strategy ..."**

***Consider  
Differentiating  
Yourself***

**"We Offer Fair &  
Competitive  
Compensation"  
Strategy in Practice**



**Consider  
Differentiating  
Yourself**



**How?**



# How?

Start from the Beginning...





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