

Benchmarking Overview

- Competitive market analysis is the process of determining the “going rate” in relevant labor markets for a representative sample of positions having **similar** functions and comparable scope of responsibility as those within a given organization.
 - The “going rate” represents the competitive pay for a hypothetical seasoned incumbent.
 - An individual might be paid below or above the competitive “going rate” depending on performance, skill, experience, and tenure.
- Market analysis provides vital information for developing appropriate compensation policies (salary structure, incentive target).
- Market analysis is NOT the process for determining how much you should pay individuals in your organization.
 - Provides the **framework** for making sound pay structure decisions.
- Market analysis IS the process for determining appropriate rates for benchmark jobs and using that information to design a competitive structure.
- Benchmarks:
 - Serve as anchor points
 - Represent all job families and organizational levels, when possible
 - Represent the entire current hierarchy
 - Represent multiple incumbent and/or critical jobs
 - Are stable in content
 - Can be found in survey data.
 - **DON'T FORCE NON-BENCHMARKS TO BE BENCHMARKS**
- Steps:
 - Select benchmark jobs
 - Define benchmark responsibilities/scope
 - Determine relevant labor market/pricing strategy
 - Select survey sources, primary and secondary
 - Match positions
 - Gather data
 - Develop going rates and apply geographic differentials
 - Compile and summarize results
- Survey Sources:
 - Primary survey sources fit defined reference group, carry more weight than secondary sources, can vary by job family/level or position
 - Secondary survey sources are used to validate primary source data, used as a sanity check
 - The number of companies and incumbents for your benchmarks must be sufficient to consider a survey source “valid”
 - Surveys used must be conducted regularly to ensure consistent year-to-year data availability. Benchmarking from year to year must include the same survey sources.



- Surveys must be recent enough to reasonably reflect actual market conditions.
- Avoid surveys that show only job titles
- Do not use surveys more than three years old
- Limit the number of survey sources to a maximum of three per job
- Job Matching:
 - Do not use only titles to match jobs
 - 100% matches will not happen – survey descriptions should cover most of the responsibilities included in your position
- Data Gathering:
 - Focus on the data cuts that best fit the relevant labor markets defined in your pricing strategy. Don't be tempted to divert based on what you see in a survey.
 - Use regression and tabular data as available
 - Gather tabular data that fits your scope, using the next highest or lowest range if your scope is close to the end of the survey's range.
 - Median should be used, not mean, to ensure smoothing of data outliers. If your survey shows only mean data, calculate the difference between mean and median for those surveys that show both and apply the percent relationship to mean only data.
 - Pull statistics that surround your targeted pay philosophy
 - Interpolate between two given percentiles to arrive at your desired percentile, when surveys do not provide your desired percentile.
 - Be cautious of usefulness of regressions data. Assess the r-squared and standard error or estimate to determine if the scope is a useful predictor of compensation level.
 - Age survey data from the survey effective date to your desired effective date. Use merit increase movement in the market as your “aging” factors, updating on a monthly basis and compounding annually.
- Going Rates:
 - In establishing the “going rate,” emphasize your primary sources and focus on only one data cut from each source. Calculate an overall going rate for each benchmark by using either simple average, weighted average or primary source only. Be consistent across jobs, surveys, and years.
 - Check going rates for consistency with families, across families, and relative to prior year's going rates.
 - Do not “build” total cash compensation by adding reported base and incentive. Pull actual TCC data reported.
 - Total direct compensation (TDC) going rates are developed by building up from base salary using long-term incentive (LTI) levels (annualized expected values as a multiple of base) expressed as a percentage of base salary. Apply the median LTI level appropriate for the base percentile level. TDC is unlike annual incentive, it is more a function of organizational level than position.
 - Applying geographic differentials is an acceptable method of determining differences among geographic regions. Be certain to use differentials that reflect cost of labor, not cost of living.



- Results:
 - Compare your incumbent and target data to desired market percentile, determining a “percent of market”
 - Determine overall percent difference and percent difference job to job, family to family
 - Review jobs that fall outside the competitive range. Competitive guidelines:
 - Executive: +/- 20%
 - Exempt: +/- 10% to 15%
 - Non-exempt: +/- 10%
 - Results are used for developing/modifying your salary structure and assigning jobs to that structure, based on the midpoint closest to the market going rate. Non-benchmarks can then be evaluated relative to benchmark slottings.

