

## **CME Advertorial for January / February 2007**

### **Market pricing: Do it right to advance your organization's strategic goals** By Danielle Bushen

Research reveals that, on average, 77% of a company's expenses are workforce expenditures.

With so much at stake, determining competitive pay levels (commonly referred to as market pricing) can have a profound financial impact on an organization – saving or costing the company dearly and dramatically nurturing or diminishing your most important asset.

Pay too little and watch attraction, retention, morale and productivity decline. Pay too much and profit margins suffer, a problem that compounds over time as the overpayment multiplies with increases and adjustments.

When done properly with the appropriate tools and resources, market pricing enhances your company's success by supporting its business strategy with a competitively paid and motivated workforce.

#### **How can you do it right?**

Market pricing is the process of determining competitive pay levels for specific jobs. More specifically, market pricing allows you to determine current market rates for your jobs. This in turn lets you set the rates for your organization's jobs in relation to the competitive intelligence you have developed around pay for those jobs.

That sounds simple, but rarely are HR issues as easy as they appear. The foundation of solid market pricing is the development of a pricing strategy. The first three elements of a pricing strategy consist of thoughtful deliberations about your organization's approach to pay, answering the following questions:

- How do you and your competitors define compensation?
- What is your organization's pay philosophy? Do you intend to lead the market, lag the market or match it? Is pay guaranteed or partially at risk – dependent on the company's or the individual's performance and delivered as a 'bonus'?
- What are your benchmark jobs? (A benchmark job is a job that is considered "standard," with a definition and scope of work that is readily understood by several organizations.)

Once you have a clear vision of your pay philosophy and know what jobs you want to compare to your competitors, it's time to assess the labour market issues that affect your organization. There will always be other organizations hiring in the same labour pool as you. These may or may not be organizations in the same industry as yours. The very existence of these organizations will impact your company's pay levels. In determining your organization's pay levels, you are really trying to answer the question, "What are these other firms paying for jobs like those in our organization?"

Because you don't operate in a vacuum, you can't market price in a vacuum. Three common external factors will influence your organization's pay levels (separately or in combination):

- *Geographic location:* Are you market pricing jobs where qualified labour is either scarce or abundant? Would you recruit only locally for this job or is it a job with a regional, national or even international labour pool. Your costs will reflect the availability of labour in the marketplace in question.
- *Industry:* You may be competing for talent with similar businesses and industries – organizations that are your product competitors or this may be a job requiring skills which do

not vary much by industry and for which you could easily recruit outside of your competitive sphere.

- **Size:** You may be competing with organizations of a similar size, despite different locations and industries. Many narrowly-defined positions, for example, are found in larger organizations, but not in smaller organizations, where job duties tend to be more diversified and less easily categorized.

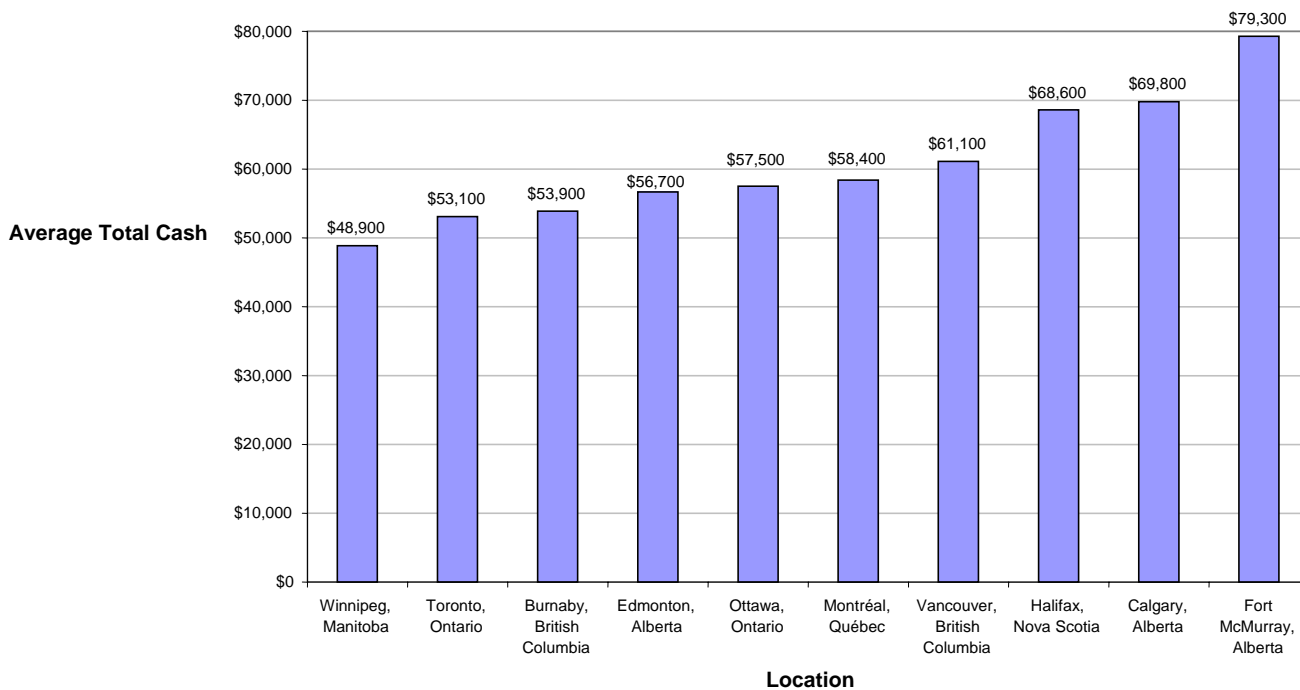
### What are other firms paying for jobs like those in our organization?

To demonstrate the impact of geographic location, industry, and size, let's look at an example of how pay differs across the same benchmark job, using average total cash compensation (base salary, plus bonuses/commissions and profit sharing).

The following examples illustrate the pay level of a buyer role at the working level with two to four years experience.

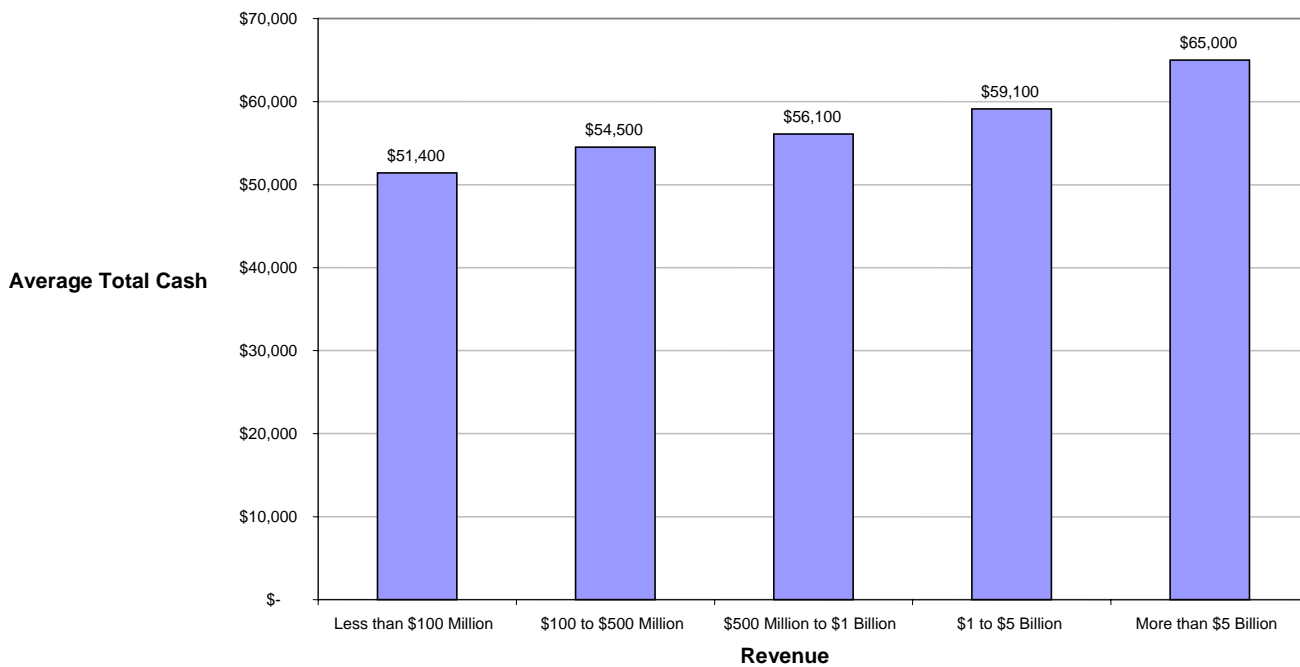
As illustrated below (Graph 1), total cash compensation for this role ranges from \$48,900 to \$79,300 for select cities across Canada. Across industry groups total cash compensation ranges from \$47,700 to \$76,900 (Table 1). When examining pay by size of company, pay levels again vary widely (Graph 2).

### Buyer Role by Geographic Location



| Industry Sector                | Average Total Cash Compensation |
|--------------------------------|---------------------------------|
| Public Sector/Not for Profit   | \$ 47,700                       |
| Durable Manufacturing          | \$ 53,200                       |
| High Tech & Telecommunications | \$ 54,100                       |
| Wholesale/Retail               | \$ 55,800                       |
| Non-Durable Manufacturing      | \$ 55,900                       |
| For Profit Services            | \$ 56,100                       |
| Transportation & Utilities     | \$ 60,900                       |
| Natural Resources              | \$ 76,900                       |

### Buyer Role by Revenue (Size)



Other than realizing that the best place to be a buyer is at a large firm in the natural resources sector in Fort MacMurray, what can this analysis reveal? It can paint a comprehensive picture of what industries in what geographies are competing for specific skills and help guide decisions about the same position in your organization.

Market pricing is a sophisticated, complex area of study that has the potential to significantly affect your organization's financial performance:

- Establishing a pricing strategy is a first, and important, component of market pricing
- Geographic location, industry, and company size each play a significant role in how pay is determined

Mercer Human Resource Consulting has identified eight steps to successful market pricing. The first step - Develop Your Firm's Pricing Strategy - establishes a solid foundation on which everything else rests. The data that you collect and review from market surveys should reflect your organization's compensation philosophy. This means that you must identify where your

organization wants to position overall pay levels relative to competitors and that your survey data should reflect your organization's competitors for talent in terms of industry, geographic location, and organization size.

For many companies, now is the time to plan ahead for their 2007 data needs and review their compensation strategy and goals. Participate in the CME Compensation Survey, 2007 Edition, to access reliable information and data cuts that support your compensation philosophy. For more information on the CME surveys, the eight steps to market pricing, or to purchase the CME Compensation Survey Suite, visit [www.imercer.ca/CME-MEC](http://www.imercer.ca/CME-MEC) or call 1 800 631 9628.

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