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SALARY BENCHMARKING 101

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As companies grow and undergo change, they are challenged to keep up with the constantly shifting marketplace around them. Those who adapt quicker typically see more success. Studying the market can reveal all types of business trends and provide the insight an organisation needs to stay competitive and benchmark against industry peers.
WHAT IS SALARY BENCHMARKING?

In many industries, salary benchmarking is one of the most comprehensive ways to stay on top of ongoing business trends. But what exactly is it, and what does it entail?

By itself, the term ‘benchmarking’ refers to the process of evaluating or checking something against a predefined comparative standard or point of reference. In that vein, many companies, organisations and businesses use the strategic process of salary benchmarking to gauge the attractiveness of their internal job positions by comparing them to those same positions of their competitors and similar companies. These comparisons can be broken down by geographical location, industry, company size and so on, depending on how the data will ultimately be utilised.

Regardless, all of these comparisons should be similar enough to provide a viable comparative framework showing where each company stands in regards to how attractive their payment and compensation plans are.

For HR professionals, understanding the competitive market is a crucial step towards creating alluring payment and compensation packages that attract and retain top talent. As such, salary benchmarking has become a standard global practice for businesses of all types and sizes.
WHY BENCHMARK SALARIES?

The implications of salary miscalculation or misestimation are huge. By underpaying employees, companies can lose their ability to attract and retain qualified talent. On the other hand, overpaying employees can negatively affect payroll budgeting efforts. Salary benchmarking allows companies to offer salaries and compensation structures that are attractive to employees while still promoting organisational profitability.

Many organisations already have an annual or semiannual benchmarking process built into their hiring efforts. Others are gravitating toward a similar practice for any number of common HR or budgeting scenarios. Salary benchmarking can add tremendous value to an organisation when it is:

- Hiring today’s top talent for your jobs.
- Hiring in a new market or industry.
- Creating positions new to the organisation.
- Setting competitive salary structures.
- Budgeting for annual employee salary increases and promotions.

So how does one obtain the necessary salary data that makes benchmarking a beneficial and cost-effective exercise?
OBTAINING THE RIGHT BENCHMARKING DATA

For benchmarking efforts to be accurate and successful, it is essential to keep close tabs on salary and job trends within a specific industry, geographic market, job family, or department. However, this requires a lot of effort, and it is typically not feasible for a single HR department to go at it alone.

More and more, companies are turning to third party HR data experts to not only access but better understand the market data available for any given position. When you factor in a company’s total payroll expenses, purchasing salary data or consulting expertise from specialised data vendors is often a small expense in comparison to the monetary implications of overpaying or underpaying for dozens, hundreds, or thousands of positions.

Luckily for HR professionals, there are several solutions out there that compile reliable data around salary and compensation in specific industries, regions, and jobs. But how reliable is the data and where does it come from?

SALARY SURVEYS

Specialised HR data organisations have taken the lead in collecting, compiling, and analysing compensation data, developing proven processes that enhance the data quality at all stages. It all starts with salary surveys.

Salary surveys are the primary way for companies all over the world to report their compensation practices and compensation planning efforts for specific jobs. Administered by data industry experts, salary surveys are typically conducted on an annual or semiannual basis. They have become the most reliable means for data collection, in part because survey methodology has become incredibly refined over the years.

Mercer, for example, ensures market data is accurate and up-to-date by collecting survey responses strictly from HR professionals reporting on their own organisation. Employees do not self-report. The data is then analysed for validity, thoroughness, and market representation based on the organisation’s size, structure, geographic region, or a combination of these factors. Mercer consultants can take things a step further with ultra-customised reports based on a client’s specific needs.
HONING IN

When salary data is reliable and extensive, it allows companies to leverage custom data sets and retrieve the specific information they need to benchmark against. For the end user, custom segmented salary analysis capabilities include:

Geographic salary information – General global or national salary data might be adequate for executive positions (CEO, CFO, etc.) where talent is equally competitive across all geographic boundaries. It might also be adequate if it is not impacted by regional cost of living or labour market specifics. For most positions, however, the actual salary can deviate by as much as 30% nationally, depending on what part of the country the job is located in. A database engineer in Sydney, is not going to be paid the same as he or she would be in Perth or Adelaide. Benchmarking salaries against specific geographic locations (cities, regions, etc.) helps employers compete for talent without unknowingly breaking the bank.

Salary data by industry and company size – In terms of standard job duties, responsibilities, and compensation, not all industries are created equal. For example, a marketing director employed by a small advertising agency is paid quite differently from one employed by a $100 million law firm. With quality data comes specific data sets that allow businesses to appropriately compare against similarly sized organisations or within their own industry.

Grouping similar jobs – Job titles aren’t always universal across organisations and industries. As such, benchmarking a salary by position name might not be the most reliable method. Instead, it’s often the job description itself that is comparable to similar jobs, even if there aren’t shared job titles. Companies seeking salary survey data on unfamiliar or obscure positions can rely on assigned data consultants to piece together custom reports based on job description similarities.

Multiple data sources – For custom reports, data consultants often rely on several different salary survey sources to compile and extract exactly what an employer needs as well as verify market results. This frees the HR professional from the burden of purchasing from several different providers as well as from cumbersome multi-layered analyses using data that may not quite be apples to apples. Ultimately, this custom approach from consultants provides less room for error with the composite averages.

Survey participation incentives – Surveys take time and money for participating companies. Therefore, the participants are typically incentivised with special discounts for the survey results. Consider participating in the surveys whose reports will add the most value to your compensation planning when released.

Whether you’re the type who wants
to dig into the numbers yourself or would prefer to benefit from the expertise of working with a consultant, salary benchmarking is an important practice for your business’s continued success.

Crossing industries, geographies, and organisations of all sizes, we have the employer-reported data and solutions you need to strategically address compensation challenges.

Find the solution and details you need today!

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1800 645 186