



Compensation Trends, Circa 2010

-- *Houston, we have a problem...*

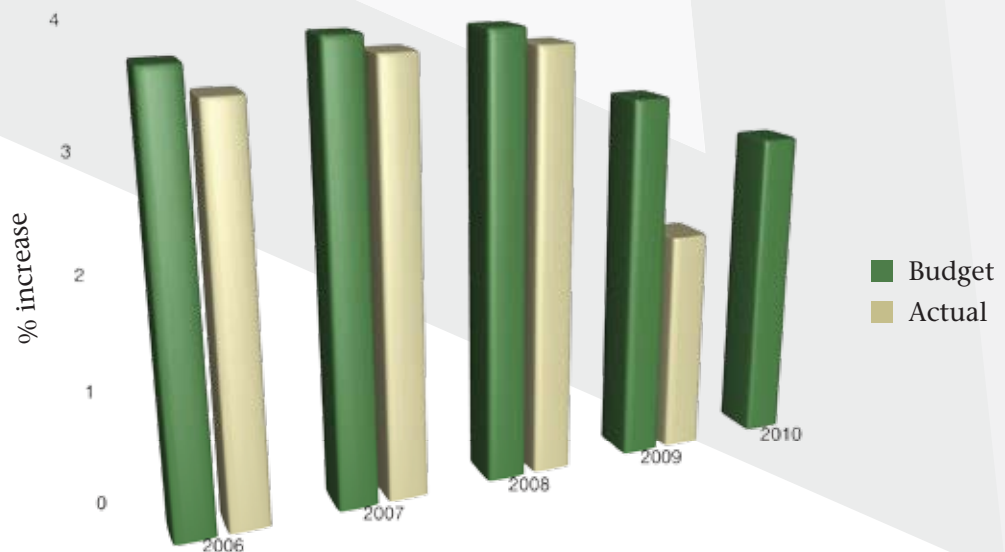
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2010 Compensation budget forecasts seem tentative and defensive.

Compensation budgets for 2010 are projecting the lowest average increase in almost 30 years. Further, surveys are incredibly dynamic right now, making definite forecasts even more difficult than normal. Though we came close in our Circa 2009 letter, no one's Ouija board accurately forecasted 2009 increases.

In researching this topic again this year, I'm seeing 2010 **payroll ranges moving about 2.8% on average, when moving upward at all.** The added variable continues to be those firms projecting to *freeze* compensation levels in 2010. Most surveys show that those freezing compensation levels this year make up as many as 20-30% of all surveyed.

As a reference point, it's typical -- in all years -- for 2-8% of firms to report "no increase" for the upcoming year.



These are hard payroll costs – base salaries only – and do not reflect incentives, benefits, and related costs. Nor do these figures include promotions, transfers, or reassignments. There is some belief that 2010 may represent a transition year of sorts; that once the total impact of the last couple of years is fully understood and assimilated, some normalcy may return in 2011.

Of course, if we could really predict future years, 2011, 2012, etc., we'd be picking stocks too, and I probably wouldn't write this compensation review every year.

Last year, we projected around 3.3%, based on averaging data, but that the elephant in the room was that as many as *25% of surveyed companies intended to freeze salaries* altogether, resulting in something closer to an aggregate increase of 2.4%

The reality was that *more than 50%* of firms froze salaries in 2009. Most surveys show 2009 increases between around 2.0%, much closer to the potential number mentioned (including freezes) for 2009.

Available projections from relevant sources include:

Triangle:	2.9%
BLR:	1.85%
Mercer:	3.0%
Hewitt:	2.7%
WaW:	2.8% (WorldatWork, formerly American Compensation Ass'n)

Some other things to consider for 2010:

- Nearly 75% of all companies have a formal compensation range structure. **Do you??** What are you doing with ranges and spreads in 2010?
- Demographic differences do exist: managers and executives will likely see higher percentages, as will employees in Baltimore, Washington D.C., and Houston.
- 82% of companies provide performance-based incentives; average, projected payouts for 2010 include:
 - Nonexempt: 6.5%
 - Professionals & Managers: 12.8%
 - Executives (non-CEO): 43.0%

- Your top performers must still be rewarded. Surveys show top/key performer raises may reach 4.8% or more. In times of less available dollars, **differentiate more**, not less, when considering performance-based compensation.

Also, realize that budgetary forecasts represent general wage adjustments, not necessarily performance. If we assume, for example, that the overall target increase to our compensation for 2010 should be 2.8%, then that really only leaves a small percentage of payroll to actually “reward” employees via some merit process. Pay close attention here.

Not mentioned here, of course, are other benefits that impact total compensation costs. Healthcare is always a concern, probably more now than ever before, and work-life issues and programs continue to mount a hard charge as a lure for attracting and retaining top candidates for employment.

Never forget, as Zig Ziglar likes to say: “Anyone who tells you that money doesn’t matter, well, he’ll lie about other things as well.”

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