

FIA

SOLUTIONS

Making Sense of Market Data

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FOX LAWSON & ASSOCIATES LLC
COMPENSATION AND HUMAN RESOURCES SPECIALISTS

Compensation Consulting Since 1995

Volume 10, Number 2

In our last newsletter we discussed conducting a market salary survey. Now that you have collected market data, what do you do with it to arrive at meaningful and valid conclusions?

The first task of using market data involves an initial review of each participant's returned survey questionnaire. You want to check for completeness and that the responses seem appropriate. Review each job match made to the benchmarks as well as the salary data reported, and follow-up with participants to question and clarify job matches or reported figures. Since all of the data you receive from participants will be of varying quantities (hourly, monthly, annual), of varying effective dates and of varying geographic locations, the data needs to be adjusted so that consistent comparisons can be made. The data should be 'aged' to a common point in time by applying an aging factor. The data should be 'annualized' to one common dollar amount (hourly, monthly or annual), and the data should be adjusted by geographic factors so that it is common to your geographic location. There are several independent sources that can help you with the correct aging and geographic factors. Once all of the data have been reviewed, entered into an analysis application such as MS Excel or a statistics program, and adjusted, a check for 'outliers' should be performed to exclude any extreme data figures. This is done by calculating salary figures that are +2.00 or -2.00 standard deviation

points from the market trend regression line. Standard deviation is a statistical term that represents how far data points are from the trend. If a salary figure is greater than + or - 2.00 standard deviation points from the trend, it means that the job match is poor or other factors which may not be identifiable, are affecting this salary. Outliers should be excluded from your analyses.

Once the data has been 'cleaned', it can then be summarized. This means calculating statistics such as totals, averages, and medians of the data. Your organization's pay strategy will determine what statistics from the market you will calculate and compare your data to. Three statistics commonly calculated are unweighted average (a simple average), weighted average (averages weighted by number of incumbents) or median (50th percentile or the middle rate). The most commonly used statistic is the median since it is the middle rate and is not impacted by any high or low rates, which would be reflected in an average.

It is important to present your summarized data in a fashion that will not violate Antitrust provisions. The general guidelines for these provisions state that the survey output should be aggregated rather than showing individual company data, that the data should not be summarized for fewer than 5 data matches, and that no organization can represent more than 25% of the aggregate data. (Refer to our website

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at www.foxlawson.com/newsletter for our newsletter "New Alerts on Using Salary Survey Data" (volume 8, number 4), covering this topic).

Comparisons can first be made on a job by job basis. A job by job basis compares your organization's salary against the market salary for each benchmark job. This comparison tells us those individual jobs that are above or below market. Jobs whose salaries are +/- 15% from the market should be reviewed more carefully. Overall averages encompassing all benchmark jobs can also be calculated to get an idea of on average, how your organization compares to the market in general.

Utilizing regression analysis, a comparison can be made on a grade by grade basis. A grade by grade basis compares your salary by grade to market salary by grade. This comparison tells us those grade levels that are above or below market (or how your organization's current structure compares with market). Regression analysis is a "line of best fit" between an independent variable, such as grade, and a dependent

variable, such as base salary. The formula produced by regression analysis can be used to predict market pay rates for jobs at various points along this line of best fit. Thus, for any given grade level, the predicted market pay for that level can be determined. This is useful for determining predicted rates of market pay for jobs that were not benchmarked.

This predicted market pay rate normally becomes the midpoint of a new market based salary structure, since it reflects the market pay trend.

Fox Lawson & Associates conducts over 50 compensation surveys for organizations each year. If you need assistance in using market data, please contact us to discuss how we can help in making meaningful and valid conclusions based on market results. We can offer assistance in conducting a custom market survey, analyzing the results, developing and making salary structure recommendations, and calculating cost implications of implementing a new salary structure.