



3. Calculating a Salary



Calculating a Competitive Salary

Salary is a complicated issue. On the one hand, companies want to pay as little as possible for their employees, because less money means more revenue. On the other hand, if you pay too little you can actually run into problems:

- Employees that aren't paid enough are more likely to leave.
- Employees that feel unappreciated can have poor morale.
- Employees may work only as hard as they think they need to.

Yes, you want to save money, but you also want to offer as competitive a salary as possible, because a competitive salary is the only way to improve morale and reduce turnover. Rather than get into lengthy discussions with potential applicants, the best way to determine a competitive salary is to plan what you're willing to pay in advance, and use that as your reference for your recruitment.

What is a "Competitive Salary?"

To start, it's best to understand what a competitive salary is. A competitive salary is a salary that other companies are going to have a hard time beating. It's not just a "good" salary. It's a salary that you can say with confidence is going to be more than most, if not all, of your competitors can offer – or at the very least it's within the range to such a degree that few people are going to look at another salary as much more/less. Companies should always strive for competitive salaries, since competitive salaries are going to attract the best applicants.

How to Start – Use PayScale.com

The best place to start is to first determine what your competitors pay. The worst thing that can happen to your organization is losing a great employee for a competitor.

Start by looking at job descriptions that share salaries and at PayScale.com. It's a website that shows the average salary for those with the same job description and title. You can use this tool to determine averages, then add in your own considerations like cost of living expectations, direct competitors, and so on. This will give you a baseline number. Remember, this is only the average – average is not necessarily a competitive salary. It's simply a starting point. Other websites you can use include:

- Salary.com
- WageWeb.com
- TrueCareers.com

Look at different percentiles as well. You don't need to pay more than every other company, but ideally you want to be in greater than the 50th percentile, and hopefully closer to the 85th percentile in order to ensure competitiveness.

Looking At Your Budget

As a company, you want to pay a competitive salary for the reasons mentioned above. Still, every company has limitations. You're not giving an entry level employee \$200,000 just because you can, because you'll destroy your budget. Similarly, just because you paid the last employee X amount doesn't mean that you can't pay the next one Y amount if the money is there.

So look hard at your budget. Give a realistic "most possible" number so that you can understand your own range of salaries available. If you have 80,000 you could spend very easily on a \$50,000 a year career, then you're in a good place.

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Try to Calculate Potential Contributions

Running a business is about getting the most from your ROI. You never want to pay more than you receive back. Sometimes those contributions can be hard to see since not everyone works in a position that can be assigned monetary value, but if possible, try to give it that value by calculations such as:

- Estimating a total position output, both in average and in best/worse case scenarios.
- Estimating the value of the position by both average and "best/worse case" output.
- Determining the maximum compensation you can pay for average output.

Every position within an organization needs to bring in more than it loses. Even the janitors at your organization provide a monetary contribution, even if it's very difficult to calculate. But try your best to figure out this number. If an average employee will still contribute roughly \$100,000 a year, and their average salary is only \$50,000, then you have a lot of room to offer them more while still drawing in revenue.

Subtract Benefits

By now you should have a fairly decent range. That range should be roughly from the average salary (since average is the low end of competitive) to about as much you can afford to offer, given the calculations above. But you'll still offer benefits as well. It's not just medical and dental either. You'll want to calculate:

- How much freedom there is at work.
- How much vacation they get.
- How casual & relaxed the environment is.
- Whether there is a wellness center.
- Whether the work you're doing is meaningful.

These can be calculated out of the total amount you need to pay if you want. Now, you should assign high values – not even for medical and dental, since it's not really a "benefit" if it's completely subtracted out of their salary – but these are benefits that have an implied value, and you can account for these in your numbers.

Determining the Values to Work From

These numbers give you a good starting rate from which to work from. Once you've established the rate, you should have some idea of what you can offer a competitive applicant. You don't need to max out your budget for every applicant, but you can adjust the number based on years of experience, how much you want the employee, and more. These numbers are always going to be fluid.

But keep in mind that offering more has very real advantages. Once you've completed these calculations, determined what percentile pay you want to provide, and you've figured out what the position is worth, you'll have a baseline that you can give your recruitment company to start finding great employees that will not only come to your organization – but stay for years to come.

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Recruit Shop Pty Ltd.

PO Box 824, North Sydney NSW 2059

ABN: 39 911 832 202