

THE JOY OF SEGMENTATION A 21ST-CENTURY APPROACH TO REWARD MANAGEMENT

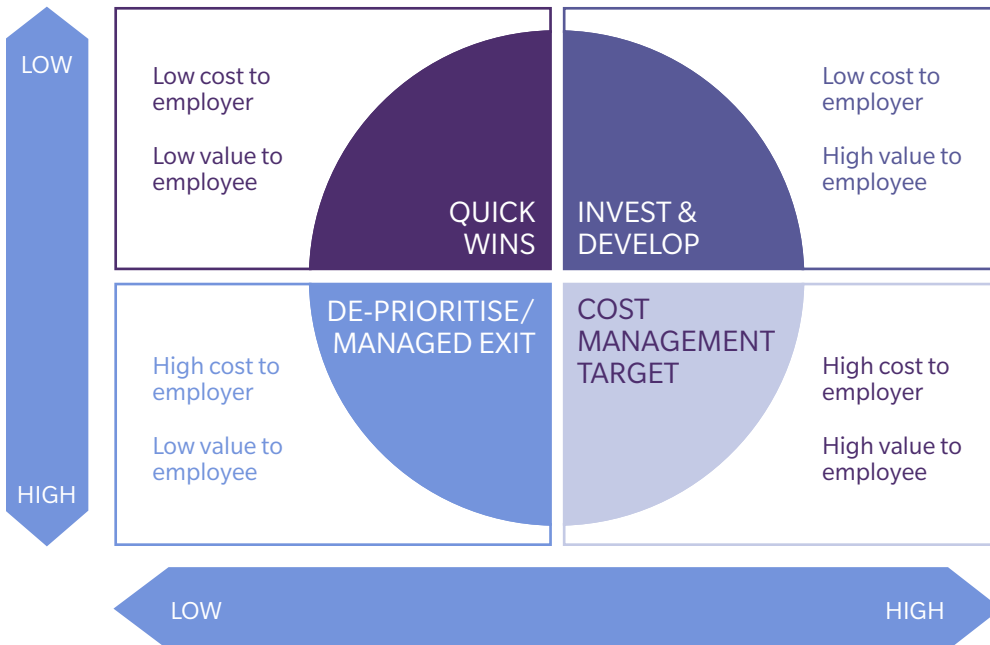
The economic conditions we have experienced since 2008 have put a spotlight on reward management in a way that we have never previously experienced. The economic uncertainty has resulted in public scrutiny of reward levels among senior roles, and organisations have been forced to spend carefully on maintaining workforces while controlling costs, leading to a separation between real and wage inflations. As a consequence, employees have demanded greater transparency regarding the link between their pay, their performance, business performance, and “fair pay” for their job in the market. At the same time, we as reward and HR professionals have easier access to more data than we ever thought possible, even as recently as five years ago. These strands come together to offer an intriguing way to advance the power of reward in our workplaces for the first part of the 21st century.

Typically, “good” reward strategies focus on organisational performance and market rates — the old reward strategy that every company seemed to centre on “reward to recruit, retain, and incentivise the best talent.” However, in our view, the best companies also focus on cost containment and meeting employee needs.

To actually execute on all four of these elements simultaneously requires not only a good view of the market and an accurate way to represent organisational performance in pay — it also requires an accurate (and holistic) understanding of the total cost of employment and clarity on employees’ perceptions of the value of this spend. In both cases — costs and value — your reward strategy must quantifiably take account of more than just simply base pay, bonuses, and financial benefits, but also career development, work lifestyle, and learning and development opportunities.

When analysed together, employee value and employer cost can be very powerful.

Figure 1: Employee Value Versus Employer Cost



Inevitably, the analysis of these four inputs throws up contradictions that cannot be answered by a traditional reward strategy and approach to reward management. At some point you have to respond to three fundamental questions:

1. Does it actually make sense to have a single reward proposition for your entire workforce?
2. If not, what is the rationale for a segmented approach?
3. On what basis should you segment?

This article explores further the issues of determining the right segmented approach to reward management — an approach that is right for an early 21st-century workforce. Segmentation offers the ability to get the absolute most out of the investments you make on a daily basis in paying, protecting, getting performance from, and developing your employees within your culture and environment, in the context of your markets.

HOW CAN EMPLOYEES BE SEGMENTED

Segmented reward requires you to analyse your workforce on the basis of areas of difference and areas of convergence within it — and these may not be (or may be) the traditional segments of division or status. However, this process is critical to ensure the reward spend is truly appreciated by the employees who receive it. The trick, of course, is to ensure that the most appropriate spend goes on the parts of the population that are going to drive the greatest value for your business.

We believe your workforce can be segmented in innumerable ways; however, to provide some examples, let's look at **capability**, **geography**, and **age**.

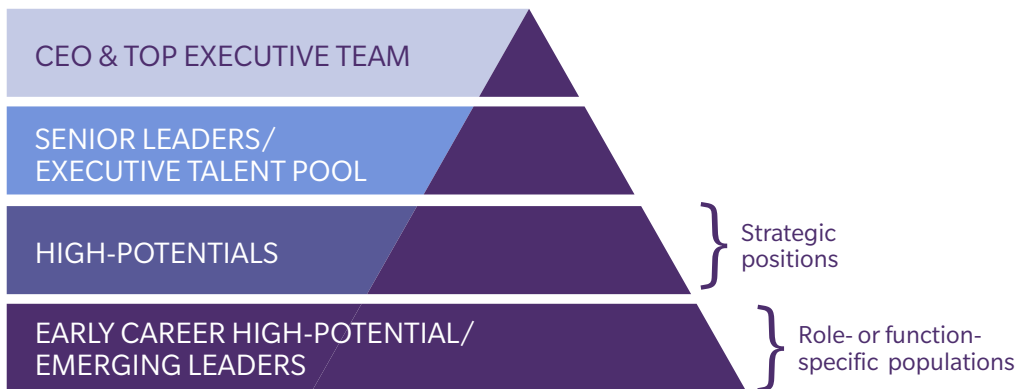
CAPABILITY

Global talent challenges to securing key talent remain high:

- The talent pipeline is weakening, creating a problem with supply.
- High expectations from desirable candidates are making attraction difficult.
- Employment demands not being met creates further retention challenges, especially in developing markets.

Together, these factors all result in escalating compensation and benefits costs. However, segmentation offers a way to target spending towards those individuals classified as critical talent and those who are also in critical roles. This perceived differentiation will increase retention and also allow you to hold on to those individuals necessary to making your organisation a success.

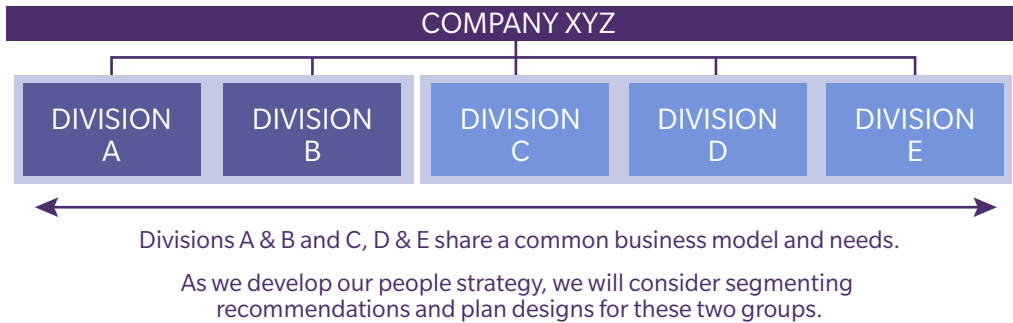
Figure 2: Differentiating Critical Talent



GEOGRAPHY

What a workforce values is not the same in every country. Whereas base pay and type of work are important throughout Europe, career advancement becomes more important in developing markets. Targeting total reward spend towards those initiatives that will have most value locally will give you a greater return on your investment and, indeed, in some areas might increase cost containment.

Figure 3: Reward Segmentation by Company Division



Although we appreciate that in unionised environments this interaction must be managed, our experience is that there are still opportunities to demonstrate a differentiated approach to your workforce in key areas that will make a difference.

In international businesses, for the same roles at the same levels, it's fascinating to see that certain elements of reward that may seem insignificant in one country can have a significant impact on engagement and retention in another.

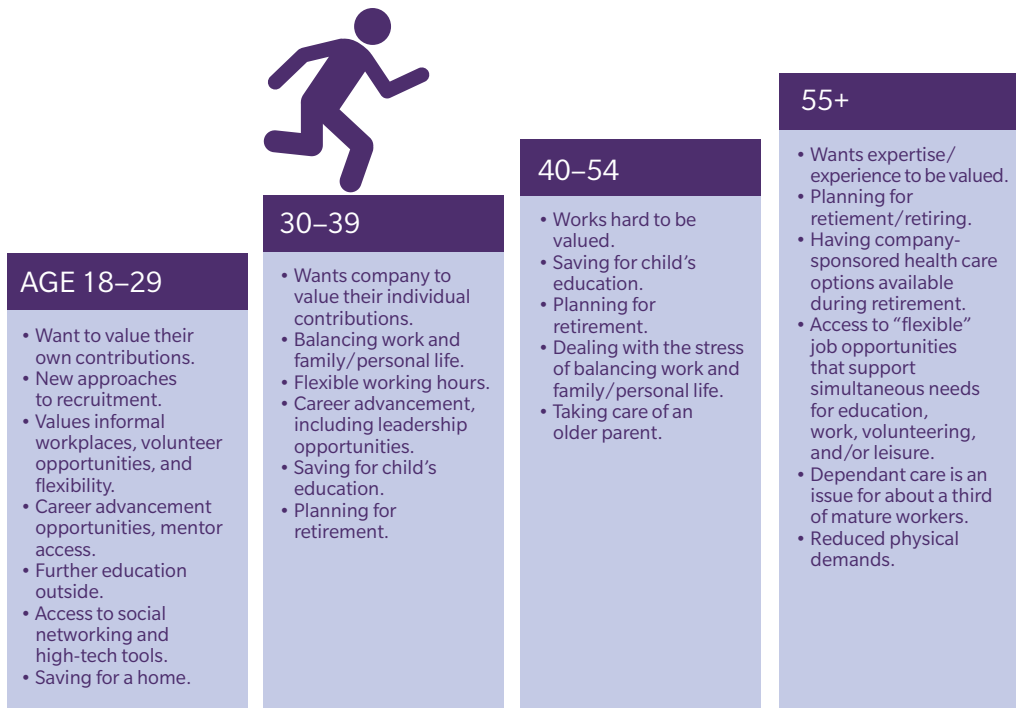
For example, in Asia we find that structured training programmes for entry-level roles are critical for formalising the promise of career progression, and that cash is still king for many individuals in this region. However, in the UK, softer forms of recognition can be as effective as financial recognition. Therefore, balancing mobility and global consistency with segmentation for individual differences, although not straightforward, is essential to getting best value.

AGE

As with geography, when looking at employee age data we need to be careful not to generalise inappropriately. However, Mercer's research demonstrates that, broadly speaking, when employees are segmented into age groups, they tend to value different elements of the reward package.

Although this may be partly due to life stage, our research does show some clear differences between the generations: baby boomers (born before 1964) are focused on retirement planning; Generation Xers (born after 1964) most value being appreciated for working hard; and millennials (entering the workplace after 1999) most value career advancement and access to development opportunities, such as mentoring. These differences in themselves may not warrant segmentation in your total reward offering, but at the very least warrant investigation.

Figure 4: Reward Segmentation by Age



Some needs span groups: predictable income/benefits, having meaningful roles, opportunities for growth, being treated with dignity and respect, etc.

HOW DO YOU DRIVE A SEGMENTED REWARD APPROACH?

As we mentioned earlier, data are available and access is easy in 2014. In fact, the greater difficulty lies in the sheer overabundance of data and the relative lack of structured tools and processes to turn this information into insight and intelligence. Nonetheless, gaining data on your employees' skills, careers, and performance, and their desires and preferences when it comes to your reward programmes is critical to allowing a comparison with your spend, market perspectives, and company plans. This is essentially why segmentation has the capability to add such value.

Structured use of workforce analytics supports this process and opens up a much more practical approach to delivering reward programmes to ensure best possible spend.

The simple steps are:

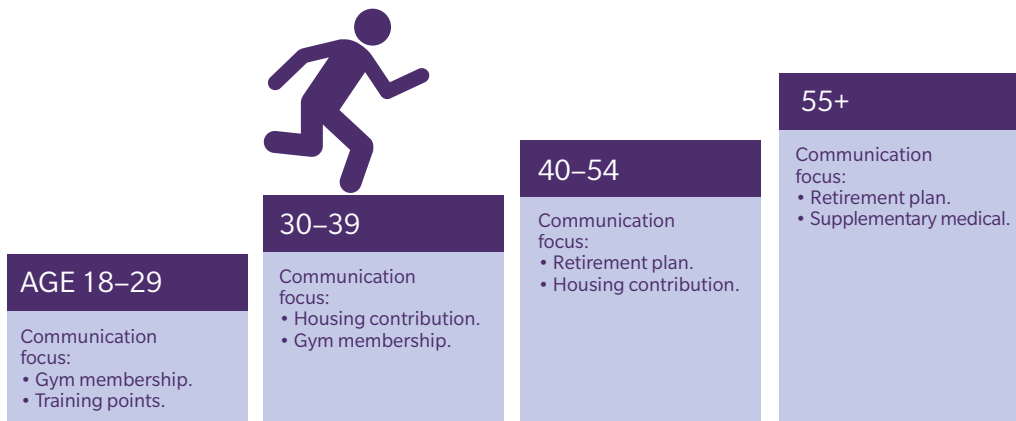
1. Identify natural segments that apply to your workforce.
2. Identify the values driving groups in your workforce.
3. Gain employee insight into the value proposition.
4. Make decisions on policy, design, and plan implementation.
5. Once policies have been designed and implementation plans have been created, shift focus to communication with employees.

We recognise that implementation, particularly engaged communication, is vitally important — arguably more important than design and policy. Many reward programmes would benefit from reducing bonus pools by £100,000 to fund excellent communications, engagement, and implementation.

This illustrates the need to use a common language with employees. This is even more important in a segmented reward management approach for which the language you use should be tailored to the groups you want to have an impact on to ensure the value of your differentiation efforts is not lost in the messaging.

A recent client example of ours is illustrated below. You can see that a common flexible benefits package designed to meet the needs of a variety of age groups was communicated differently to each to ensure tailored, targeted, and relevant messages based on what they valued most. In doing so, the employer ensured that it received the most value for its investment.

Figure 5: Example: Communicating a Common Flex Programme



SO WHAT DOES THE FUTURE OF SEGMENTATION LOOK LIKE?

Reward segmentation offers a powerful way of targeting investments to realise value. Through its application, you can utilise a holistic approach to total reward, considering those elements beyond pay, such as career development and work lifestyle. Segmentation executes the crafty trick of shifting the focus to the needs of the employee, but in a business-centric way.

Organisations that act now will have competitive advantage in the longer term. However, we do need to ensure appropriate feedback loops are in play — employee needs can change, almost as rapidly as business plans and directions can. Here again, the value of workforce analytics is realised as a way that allows you to monitor the characteristics of your workforce and ensure ongoing review, maintenance, and evaluation of your reward approach.

ABOUT THE AUTHORS

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