2018 COMPENSATION PLANNING IN EUROPE

FORECASTS AND TRENDS TO PREPARE FOR THE FUTURE OF WORK

WEBCAST
OCTOBER 30, 2018

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European Consumer Goods and Retail Industry Leader
TODAY’S SPEAKERS

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AGENDA

1. GLOBAL TALENT TRENDS
   MACRO TRENDS IMPACTING THE FUTURE OF WORK

2. 2019 COMPENSATION FORECASTS
   FINDINGS FROM MERCER SURVEY RESEARCH

3. HOW COMPANIES ARE RESPONDING
   REWARDS MARKET TRENDS AND PRACTICES TO WATCH

4. ACTIONS YOU CAN TAKE
   STRATEGIC AREAS YOU CAN FOCUS ON IN 2019 AS YOU BUILD FOR THE FUTURE
GLOBAL TALENT TRENDS

UNLOCKING GROWTH IN THE HUMAN AGE
PREPARING FOR THE FUTURE OF WORK

We cannot wait until there are massive dislocations in our society to prepare for the Fourth Industrial Revolution.

Robert J. Shiller | 2013 Nobel laureate in economics | Yale University professor
THESE CHANGES ARE RAISING CRITICAL QUESTIONS

BUSINESS LEADERS
How can we build for an unknown future?

HR
How can we attract and retain tomorrow’s workforce?

EMPLOYEE
What does career success mean in today’s world?
MERGER 2018 STUDY FINDINGS
TOP 5 TRENDS

CHANGE @SPEED
WORKING WITH PURPOSE
PERMANENT FLEXIBILITY
PLATFORM FOR TALENT
DIGITAL FROM THE INSIDE OUT
Moving support functions to shared services
Eliminating certain roles/ functions/ departments
Increasing regional control
Building internal/ external networked communities
Flattening organizational structures

96% of executives are planning structural changes this year

TOP CHANGES BEING PLANNED BY THE C-SUITE

© MERCER 2018
96% of executives are planning structural changes this year.

TOP CHANGES BEING PLANNED BY THE C-SUITE

1. Moving support functions to shared services
2. Eliminating certain roles/ functions/ departments
3. Increasing regional control
4. Building internal / external networked communities
5. Flattening organizational structures

IMPLICATIONS FOR REWARDS

- Focus on enhancing AGILITY in reward systems
- Assess effectiveness of Rewards FUNCTION

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Working with Purpose
Critical to the Value Proposition

Thriving employees are 3x more likely to work for a company with a strong sense of purpose.

Only 13% of companies have an EVP differentiated by a purpose-driven mission.

Levels:
1. Cultural Alignment
2. Compensation & Benefits
3. Career & Well-being
4. Affinity Pride Purpose
WORKING WITH PURPOSE
CRITICAL TO THE VALUE PROPOSITION

THRIVING EMPLOYEES ARE

3X

MORE LIKELY TO WORK FOR A COMPANY WITH A STRONG SENSE OF PURPOSE

13%

OF COMPANIES HAVE AN EVP DIFFERENTIATED BY A PURPOSE DRIVEN MISSION

IMPLICATIONS FOR REWARDS

Ensure PURPOSE is cascaded through employee value proposition

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PERMANENT FLEXIBILITY
THE EMPLOYEE EXPERIENCE

51% OF ALL EMPLOYEES WANT MORE FLEXIBILITY

BUT...

36% HAVE HAD A REQUEST FOR FLEX TIME TURNED DOWN

41% WORRY IT WILL IMPACT PROMOTIONAL PROSPECTS
PERMANENT FLEXIBILITY
THE EMPLOYEE EXPERIENCE

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BUT...

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41% WORRY IT WILL IMPACT PROMOTIONAL PROSPECTS

IMPLICATIONS FOR REWARDS

- Integrate FLEXIBILITY as a core part of value proposition
- ASSESS jobs for ability to be done flexibly
PLATFORM FOR TALENT
LEVERAGING THE TALENT ECOSYSTEM

2 OF 5 ORGANIZATIONS ARE PLANNING TO “BORROW” MORE TALENT IN THE NEXT 12 MONTHS
PLATFOR FOR TALENT
LEVERAGING THE TALENT ECOSYSTEM

2 OF 5 ORGANIZATIONS ARE PLANNING TO “BORROW” MORE TALENT IN THE NEXT 12 MONTHS

IMPLICATIONS FOR REWARDS

- Expand your EVP to appeal to NON-TRADITIONAL talent models
- EXPERIMENT with alternative reward models to compete for talent

PARTNERSHIP TALENT
FREELANCE TALENT
CROWD SOURCED TALENT
CO-OPETITION

INTERNAL TALENT
66% of employees say that having access to state-of-the-art digital tools is important to them.
66% of employees say that having access to state-of-the-art digital tools is important to them.

Implications for rewards:
Deliver best-in-class rewards experiences through digital platforms that enable employees to take quick action.
COMPENSATION FORECASTS

INSIGHTS FROM MERCER SURVEY RESEARCH
World Economic Outlook

Global
- GDP: 3.8%
- Unemployment: 8.1%

2018 | 2019
--- | ---
Europe | 3.2% | 3.0%▼
| 8.2% | 7.9%▼
Asia | 4.8% | 4.7%▼
| 3.6% | 3.6%=
US | 2.9% | 2.7%▼
| 3.9% | 3.5%▼
Africa | 4.8% | 4.6%▼
| 9.4% | 9.4%=
ME | 2.2% | 4.4%▲
| 5.8% | 5.7%▼

Source: Mercer’s Global Compensation Planning Report, July 2018

© MERCER 2018
2018 Economic Indicators

Source: Mercer’s Global Compensation Planning Report, July 2018
TURNOVER RATES (VOLUNTARY AND TOTAL)
A DIVERSE PICTURE

## ANNUAL SALARY INCREASE PROCESS
SOME CHANGES BUT NOTING RADICAL...

<table>
<thead>
<tr>
<th>CHANGES BEING CONSIDERED</th>
<th>RESPONSE %YES</th>
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<tbody>
<tr>
<td>Increasing transparency of rewards</td>
<td>52%</td>
</tr>
<tr>
<td>Increasing pay-for-performance differentiation</td>
<td>43%</td>
</tr>
<tr>
<td>Increasing focus on pay equity/fairness</td>
<td>40%</td>
</tr>
<tr>
<td>Increasing the frequency of communications about rewards</td>
<td>39%</td>
</tr>
<tr>
<td>Revising process or ratings</td>
<td>33%</td>
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<tr>
<td>Changing frequency of performance reviews</td>
<td>23%</td>
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<tr>
<td>Removing the link between performance ratings and pay</td>
<td>14%</td>
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<tr>
<td>Eliminating performance ratings</td>
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<tr>
<td>Eliminating process altogether</td>
<td>7%</td>
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<table>
<thead>
<tr>
<th>FACTORS DETERMINING ORGANIZATION’S SALARY INCREASE BUDGET</th>
<th>% ORGS</th>
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<tbody>
<tr>
<td>Market Practices</td>
<td>76%</td>
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<tr>
<td>Organization’s Financial Performance</td>
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<tr>
<td>Inflation Rates</td>
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<tr>
<td>Affordability</td>
<td>49%</td>
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<tr>
<td>Overall Economic Health</td>
<td>48%</td>
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<tr>
<td>Organization’s Strategic Plan</td>
<td>35%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Source: Mercer Select Intelligence 2017 Rewards Decision-Making and Communications Survey*
EUROPE SALARY INCREASES 2018-2019

Increased since 2018:
- TR: +2.0
- UA: +0.5

No change since 2018:
- HU
- PL
- DE
- NL
- IT
- ES
- FR
- RO
- CZ
- UK
- DK
- PT

Source: Mercer's Salary Movement Snapshot, Sept 2018
**Salary Increases**

**Nominal vs. Real Cumulative Salary Increases**

### Nominal Cumulative Salary Increase 2009-2018

- **Russia**: 90%
- **Romania**: 46%
- **Poland**: 33%
- **Czech Republic**: 26%
- **United Kingdom**: 25%
- **Germany**: 23%
- **France**: 20%
- **Denmark**: 20%

### Real Cumulative Salary Increase 2009-2018

- **Russia**: 15%
- **Poland**: 13%
- **Romania**: 8%
- **Germany**: 8%
- **Czech Republic**: 8%
- **France**: 7%
- **Denmark**: 5%
- **United Kingdom**: 1%

© Mercer 2018
**IMPACT OF MARKET CONDITIONS ON PAY DECISIONS**

**TURKEY**  
- **Increased inflation**  
  - 2018 median salary increase %: 15%

- **Prevalence of additional mid-year increase**: 20%

- **Considering pay in hard currency**: 6%

**ROMANIA**  
- **Changes in taxation**  
  - Increased salaries: 60%

- **Salary increase %**: 20%

- **Temporary fixed allowance**: 38%

*Source: September 2018 spot polls, Turkey and Romania*
# OF ORGANIZATIONS

10,028

34 % Change since 2015

LARGEST MARKETS BY INCUMBENT

1. Germany 319,914 in 655 Orgs (498 in 2015)
2. United Kingdom 267,943 in 608 Orgs (508 in 2015)
3. Poland 200,718 in 501 Orgs (386 in 2015)
4. Russia 176,665 in 342 Orgs (299 in 2015)
5. Italy 142,960 in 528 Orgs (346 in 2015)

NUMBER OF MERCER JOB LIBRARY CODES USED

United Kingdom (2213) – Moldova (38)

Source: 2018 TRS Surveys (based on 27 published surveys)
## Remuneration Mix - Executive Level

### Executives Western Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Base Salary</th>
<th>Guaranteed Allowances</th>
<th>Variable Bonus and Commission</th>
<th>Long-term Incentives</th>
<th>Benefits</th>
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<tbody>
<tr>
<td>DE</td>
<td>61.0%</td>
<td>0.2%</td>
<td>23.1%</td>
<td>6.5%</td>
<td>9.2%</td>
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<tr>
<td>UK</td>
<td>63.9%</td>
<td>0.2%</td>
<td>13.1%</td>
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<td>FR</td>
<td>66.5%</td>
<td>0.4%</td>
<td>16.0%</td>
<td>14.6%</td>
<td>12.5%</td>
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<tr>
<td>NL</td>
<td>68.8%</td>
<td>0.7%</td>
<td>10.6%</td>
<td>9.0%</td>
<td>10.9%</td>
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<tr>
<td>IT</td>
<td>69.0%</td>
<td>0.9%</td>
<td>13.6%</td>
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<tr>
<td>DK</td>
<td>72.1%</td>
<td>1.2%</td>
<td>9.7%</td>
<td>6.4%</td>
<td>10.6%</td>
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</table>

### Executives Eastern Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Base Salary</th>
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<tr>
<td>RO</td>
<td>68.8%</td>
<td>5.4%</td>
<td>12.3%</td>
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<tr>
<td>HU</td>
<td>71.0%</td>
<td>0.4%</td>
<td>11.8%</td>
<td>4.4%</td>
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<tr>
<td>CZ</td>
<td>72.9%</td>
<td>0.4%</td>
<td>14.1%</td>
<td>7.4%</td>
<td>6.2%</td>
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<tr>
<td>PL</td>
<td>73.3%</td>
<td>0.2%</td>
<td>15.4%</td>
<td>5.0%</td>
<td>5.1%</td>
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<tr>
<td>LV</td>
<td>82.9%</td>
<td>0.9%</td>
<td>10.5%</td>
<td>6.4%</td>
<td>0.3%</td>
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Source: Mercer 2018 Total Remuneration Surveys
### Remuneration Mix Professionals

#### Professionals Western Europe

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<th>Country</th>
<th>Base Salary</th>
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<td>DK</td>
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</table>

Source: Mercer 2018 Total Remuneration Surveys
SHORT-TERM INCENTIVES
TARGET AND ACTUAL – EXECUTIVE LEVEL

Decreased since 2017

Target

Increased since 2017

Actual

Source: 2017 & 2018 Mercer Total Remuneration Surveys
LONG-TERM INCENTIVES
PREVALENCE 2015 - 2018

- STOCK/SYARE OPTIONS: 43% (0%)
- SHARE APPRECIATION RIGHTS (SARS): 5% (-4%)
- RESTRICTED SHARES/SYARE UNITS: 56 (+11%)
- PERFORMANCE SHARES/SYARE UNITS: 35% (-6%)
- PERFORMANCE CASH UNITS: 6% (+2%)
- LONG-TERM CASH: 21% (+2%)

Source: 2015 & 2018 Mercer Total Remuneration Surveys
BENEFITS
CHOICE AND FLEXIBILITY ARE CRITICAL

58% of employees agree that they would like to reduce the value of some benefits they receive and increase the value of others.

YOUNGER EMPLOYEES OVERWHELMINGLY LOOKING FOR MORE BENEFITS FLEXIBILITY

- 70% of employees aged 18–34 yrs.
- 59% of employees aged 35–49 yrs.
- 48% of employees aged 50–64 yrs.
- 38% of employees aged 65+ yrs.
PERSONAS
EMPLOYEE SEGMENTS WITH UNIQUE NEEDS AND DESIRES

Provides *multiple dynamic lenses* to evaluate programs

Builds relevance into all programs to target investments

Foundation for a personalized experience

Sample Personas

<table>
<thead>
<tr>
<th>STARTERS</th>
<th>LONG-TERM LOYALS</th>
<th>URBAN AMBITIONS</th>
<th>MANAGERIAL CORE</th>
<th>STRIVERS</th>
<th>CONTINGENT WORKERS</th>
</tr>
</thead>
</table>

Employee demographics | Location demographics | Needs | Interests | Behaviours | Communication preferences

Location demographics | Employee demographics | Needs | Interests | Behaviours | Communication preferences

Needs | Interests | Behaviours | Communication preferences

Provides multiple dynamic lenses to evaluate programs

Builds relevance into all programs to target investments

Foundation for a personalized experience

Sample Personas
The Power of Benefits: Impact of Benefits on Engagement

Employees who say: “my benefits meet my needs” are twice as likely to agree to these statements:

- "I would recommend my employer to a friend"
- "I have a positive experience at work"
- "I am proud to work for my company"

Impacts on how employee feels about their employer – in priority order:

1. Salary
2. Professional development
3. Nature of your role
4. Pensions and benefits
5. The colleagues you work with
   - Career opportunities
   - Convenience of getting to work
   - Company culture

Thomsons Online Benefits: Expectations vs reality: the widening gap in global benefits

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HOW ARE COMPANIES RESPONDING?

2018 REWARDS TRENDS
HOW ARE COMPANIES RESPONDING?

2018 REWARDS TRENDS

WITHSTANDING SCRUTINY

• Pay Equity & Transparency

INNOVATING IN REWARDS

• Expanding Experiential Offerings

PREPARING FOR THE FUTURE

• Focusing on the Rewards Function

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PAY EQUITY AND TRANSPARENCY
SOCIAL & ENVIRONMENTAL PRESSURES DRIVING ADDITIONAL SCRUTINY

CEO PAY RATIO
EUROPEAN SHAREHOLDER RIGHTS DIRECTIVE
GENDER PAY REPORTING AND BOARD/MANAGEMENT DIVERSITY
MEDIA COVERAGE
SOCIAL DATA
EMPLOYEES WANT TO KNOW MORE
Organizations are modernizing their award programs and taking a “whole person” approach to deliver meaningful experiences both INSIDE and OUTSIDE of work.

**CAREERS**
Digital career pathing driven by AI

**RECOGNITION**
Rewarding employees with memorable, personal and shareable experiences

**FINANCIAL**
Helping employees solve financial challenges, by providing support like short-term loans and student loan assistance or refinancing

**FAMILY**
Addressing needs of working parents and the “sandwich” generation

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PREPARING FOR THE FUTURE
DISRUPTION IN THE ENVIRONMENT DRIVING
TRANSFORMATION OF THE REWARDS FUNCTION

RESHAPING ORGANIZATION STRUCTURES
DIGITALIZATION AND AI
EMPLOYEES AS CONSUMERS
GLOCALIZATION

IMPACT TO REWARDS FUNCTIONS
Demanding AGILITY in reward systems
Changing CAPABILITY needs from rewards professionals
Creating more FLEXIBLE & PERSONALIZED reward solutions
Ensuring GOVERNANCE in rewards decision making
ACTIONS YOU CAN TAKE

AREAS OF FOCUS FOR 2019
**ACTIONS YOU CAN TAKE**

**FOUR CRITICAL AREAS FOR FOCUS IN 2019**

- **FOCUS ON THE FOUNDATION**
  - Ensure foundational architecture is in place to effectively assess pay equity concerns

- **FIX THE ANNUAL INCREASE PROCESS**
  - Budget strategically
  - Redefine pay for performance

- **GIVE NEW LIFE TO YOUR EVP**
  - Rethink your EVP to focus beyond the contractual rewards

- **BUILD FOR THE FUTURE**
  - Redefine the Rewards function to align with business changes
FOCUS ON THE FOUNDATION
A PATH TO EQUITY AND TRANSPARENCY

UNDERSTAND JOBS

MEASURE AND ADDRESS PAY EQUITY

ORGANIZE JOBS THROUGH JOB ARCHITECTURE

ENHANCE PAY TRANSPARENCY
FIX THE ANNUAL INCREASE PROCESS
BUDGET STRATEGICALLY

WHAT’S HAPPENING TODAY

Setting budgets based on overall market movement

WHAT SHOULD BE HAPPENING

Strategic planning process for long-term multi-million dollar investment

© MERCER 2018
FIX THE ANNUAL INCREASE PROCESS
REDEFINE PAY FOR PERFORMANCE

ANNUAL PAY INCREASE
MARKET COMPETITIVENESS
PAY EQUITY

PAY FOR PERFORMANCE
CAREER GROWTH
INCENTIVE PAY
RECOGNITION
GIVE NEW LIFE TO YOUR EVP
TRANSFORM THE REWARDS JOURNEY TO DELIVER BETTER EXPERIENCES

EMPLOYMENT OFFER
“Mom, I got the job!”

ONBOARDING / ENROLLMENT
“Everything is in one place and easy to understand!”

PERFORMANCE MANAGEMENT
“I understand my goals and how I contribute to our success”

CAREER MANAGEMENT
“I’m doing really meaningful work and excited to advance my career!”
BUILD FOR THE FUTURE
REDESIGN REWARDS FUNCTION TO ALIGN WITH BUSINESS NEEDS

GOVERNANCE
How will we distribute decision making responsibility and manage risks through authority and accountability checks?

STRUCTURE

PEOPLE

TECHNOLOGY

PROGRAMS & POLICY

SERVICE DELIVERY
What activities are done in the Rewards function, versus through technology, partnership with other functions, or automation?
Q&A AND CONTACT DETAILS

We will do our best to answer as many questions as we have time for.

Please type your questions in the Q&A section of the toolbar. To submit a question while in full screen mode, use the Q&A button on the floating panel, at the top of your screen.

YOUR FEEDBACK IS VALUED

At the end of the session, a feedback form will pop up in a new window. Please fill it out so we can continue to improve.
## Salary Increases - 2018 Actual

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial Services</th>
<th>Consumer Goods</th>
<th>Energy</th>
<th>High Tech</th>
<th>Life Sciences</th>
<th>Services (Non-Financial)</th>
<th>Transportation Equipment</th>
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<tbody>
<tr>
<td>Denmark</td>
<td>2.5%</td>
<td>2.5%</td>
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<tr>
<td>France</td>
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<td>2.6%</td>
<td>-</td>
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Table presents Median values. Averages are marked with an asterix.
# Salary Increases – 2019 Forecast

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<th>Energy</th>
<th>High Tech</th>
<th>Life Sciences</th>
<th>Services (Non-Financial)</th>
<th>Transportation Equipment</th>
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