Compensation Trends in Europe

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PATRICK GUTMANN

MAKE TOMORROW, TODAY
A G E N D A

• Macro Economic Trends
• Talent Trends
• Salary Budgets
• Rewarding High Demand Skills
• Future of Rewards
Macroeconomic Environment
A WEAKENING GLOBAL EXPANSION OUTLOOK FOR EUROPEAN MARKETS

**Global GDP and Unemployment Growth**

<table>
<thead>
<tr>
<th>Region</th>
<th>2014-18</th>
<th>2019f</th>
<th>2020f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>3.6%</td>
<td>3.3%</td>
<td>3.6% ▲</td>
</tr>
<tr>
<td></td>
<td>5.1%</td>
<td>4.9%</td>
<td>4.9% ▲</td>
</tr>
</tbody>
</table>

**Europe**
- Lowest GDP
- Second highest unemployment

**Asia**
- Highest GDP
- Lowest unemployment

**Note:** Figures for 2019 and 2020 indicate forecasted values

Source: IMA Asia – July 2019; IMF – World Economic Outlook, April 2019
ILO Modeled Estimates, ILOSTAT Database
ECONOMIC GROWTH COMPARISON ACROSS EUROPE MODERATING GROWTH & EASING INFLATION

YEaR 2019

2019 GDP Growth % Forecast
2019 Inflation Rate Forecast
2019 Salary Inc Forecast

ECONOMIC GROWTH FORECAST FOR 2020
GROWTH EXPECTED TO REMAIN SUB-PAR

YEAR 2020

GDP Growth % Forecast

Inflation Rate Forecast

Salary Inc forecast

Talent Trends
### Employees, what is the most important thing your company could do today to improve compensation?

1. Offer more types of rewards and compensation
2. Give me opportunities to earn more
3. Link my compensation to the success of specific projects
4. Be more fair and equitable across employees

### Leading practices

- Continue to leverage LTIs to focus on the future
- Align executive plans with transformation objectives
- Get creative with spot rewards and kudos systems
- Reward a culture of experimentation and learning
- Invest in strategic rewards to allow differentiated investment

### HR’s Rewards Priorities for 2019

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More diverse rewards</td>
<td>36%</td>
</tr>
<tr>
<td>Drive Pay-for-performance</td>
<td>35%</td>
</tr>
<tr>
<td>Reward for high-demand skills</td>
<td>32%</td>
</tr>
<tr>
<td>Career moves as rewards</td>
<td>32%</td>
</tr>
<tr>
<td>Skill-based pay</td>
<td>32%</td>
</tr>
<tr>
<td>Pay band level equity</td>
<td>31%</td>
</tr>
<tr>
<td>Compensation transparency</td>
<td>30%</td>
</tr>
<tr>
<td>More compelling EVP</td>
<td>27%</td>
</tr>
<tr>
<td>Align rewards with org structures</td>
<td>27%</td>
</tr>
<tr>
<td>Gig worker reward strategy</td>
<td>26%</td>
</tr>
<tr>
<td>Redesign jobs</td>
<td>25%</td>
</tr>
<tr>
<td>Decrease compensation costs</td>
<td>22%</td>
</tr>
</tbody>
</table>
Jobs will be changing within the future of work, resulting in a shift in skills and tasks

Changing skillsets

- Only 50% of skills needed today will be applicable in 2020
- Current stable jobs will require different skill sets in just a few years
- Skills instability will be high for all industries regardless of the employment outlook
- Current roles are already hard to recruit for

The nature of work today and in 2025

Source: Mercer Research 2018, Oxford University, OCDE, France Stratégie, World Economic Forum, Mercer and Oliver Wyman analysis
EMPLOYEE RETENTION REMAINS A CHALLENGE
VOLUNTARY ATTRITION RATES ARE ON A RISE

2020 FORECASTED SALARY INCREASE RATE:

- CZ: 10%
- DE: 3.0%
- DK: 2.5%
- ES: 2.3%
- FI: 2.2%
- FR: 2.5%
- HU: 3.9%
- IE: 2.5%
- IT: 2.7%
- NL: 3.5%
- PL: 4.6%
- RO: 10.0%
- UA: 3.0%
- UK: 10%

VOLUNTARY ATTRITION RATES 2017 – 2018

- CZ: 10%
- DE: 7%
- DK: 9%
- ES: 4%
- FI: 7%
- FR: 7%
- HU: 14%
- IE: 11%
- IT: 5%
- NL: 4%
- PL: 10%
- RO: 11%
- UA: 15%
- UK: 11%
- Source: 2019 Mercer Total Remuneration Surveys
HIRING INTENTIONS
HIRING CONTINUES ALBEIT WITH SOME CAUTION

2017-19 AVERAGE vs. 2020 HIRING INTENTION:

Source: 2017-2019 Mercer Total Remuneration Surveys
## Why Do They Stay?

<table>
<thead>
<tr>
<th>GENDER</th>
<th>GENERATION</th>
<th>LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>Gen Y</td>
<td>Individual contributor</td>
</tr>
<tr>
<td>Female</td>
<td>Gen X</td>
<td>All managerial levels</td>
</tr>
</tbody>
</table>

### Key Factors

- **Job security**
- **Flexible hours**
- **Convenient location**
- **Time off**
- **Professional development**
- **Health benefits**
- **Meaningful work**
- **Competitive pay**
- **Fun work environment**
- **Advancement opportunities**
- **Interesting/varied work**
Salary Budgets
SALARY REVIEW POLICY

Salary Review Period

- **95%** Once a Year
- **2%** Twice a Year
- **2%** Others

Most Frequent Salary Review Months

- January (2)
- March (3)
- July (4)
- Others

Source: 2019 Mercer Total Remuneration Surveys
**Salary Increases Factors Affecting Salary Increase**

- Individual Performance: 94%
- Position in Salary Range: 64%
- Organization Performance: 53%
- Market Position: 49%
- Inflation: 46%
- Job Level: 26%
- Other: 12%
- Length of Service: 8%

Source: 2019 Mercer Total Remuneration Surveys
## Salary Increases 2019 & 2020

### Industry Comparison

<table>
<thead>
<tr>
<th>2019 (2020 Forecast) MARKET</th>
<th>ALL INDUSTRIES</th>
<th>CHEMICAL</th>
<th>CONSUMER GOODS</th>
<th>LIFE SCIENCES</th>
<th>HIGH-TECH</th>
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<tr>
<td>FI</td>
<td>2.1 (2.2 ▲)</td>
<td>--</td>
<td>2.0 (2.0)</td>
<td>2.5 (2.4 ▼)</td>
<td>2.4 (2.3 ▼)</td>
</tr>
<tr>
<td>ES</td>
<td>2.3 (2.3)</td>
<td>2.5 (2.5)</td>
<td>2.2 (2.3 ▲)</td>
<td>2.5 (2.8 ▲)</td>
<td>2.4 (2.5 ▲)</td>
</tr>
<tr>
<td>FR</td>
<td>2.4 (2.5 ▲)</td>
<td>2.6 (2.6)</td>
<td>2.3 (2.4 ▲)</td>
<td>2.5 (2.5)</td>
<td>2.5 (2.5)</td>
</tr>
<tr>
<td>DK</td>
<td>2.5 (2.5)</td>
<td>--</td>
<td>2.5 (2.5)</td>
<td>2.5 (2.5)</td>
<td>2.5 (2.5)</td>
</tr>
<tr>
<td>IE</td>
<td>2.5 (2.5)</td>
<td>2.6 (1.9▼)</td>
<td>2.5 (2.5)</td>
<td>2.5 (2.5)</td>
<td>2.7 (2.7)</td>
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<tr>
<td>IT</td>
<td>2.5 (2.5)</td>
<td>2.6 (2.5▼)</td>
<td>2.5 (2.5)</td>
<td>2.5 (2.5)</td>
<td>2.5 (2.5)</td>
</tr>
<tr>
<td>NL</td>
<td>2.7 (2.7)</td>
<td>3.0 (3.0)</td>
<td>2.6 (2.7▲)</td>
<td>2.7 (2.8 ▲)</td>
<td>2.7 (2.8▲)</td>
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<tr>
<td>DE</td>
<td>2.9 (3.0 ▲)</td>
<td>3.0 (2.9▼)</td>
<td>2.8 (2.8 )</td>
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<td>3.0 (3.0)</td>
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<tr>
<td>UK</td>
<td>2.9 (3.0 ▲)</td>
<td>3.0 (2.9▼)</td>
<td>2.8 (2.9▲)</td>
<td>3.0 (3.0)</td>
<td>3.0 (3.0)</td>
</tr>
<tr>
<td>CZ</td>
<td>3.0 (3.0)</td>
<td>3.0 (3.3 ▲)</td>
<td>3.0 (3.6 ▲)</td>
<td>3.0 (3.0)</td>
<td>3.0 (3.0)</td>
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<tr>
<td>PL</td>
<td>3.5 (3.5)</td>
<td>3.2 (3.3 ▲)</td>
<td>3.3 (3.7 ▲)</td>
<td>3.5 (3.5)</td>
<td>3.5 (3.5)</td>
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<tr>
<td>HU</td>
<td>3.6 (3.9 ▲)</td>
<td>3.8 (3.8)</td>
<td>3.5 (4.0 ▲)</td>
<td>3.5 (3.5)</td>
<td>3.5 (4.0 ▲)</td>
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<tr>
<td>RO</td>
<td>4.5 (4.6 ▲)</td>
<td>5.0 (6.0 ▲)</td>
<td>4.3 (4.5 ▲)</td>
<td>4.6 (4.6)</td>
<td>4.5 (4.6 ▲)</td>
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<tr>
<td>UA</td>
<td>10.5 (10.0 ▼)</td>
<td>--</td>
<td>12.0 (12.5 ▲)</td>
<td>10.0 (10.0)</td>
<td>8.8 (10.0 ▲)</td>
</tr>
</tbody>
</table>

*Note: Based on median values*

Source: 2019 E2 SMS Report
LONG-TERM INCENTIVES – PLAN PREVALENCE EUROPE

Executives

- **Restr. Shares**: 59% (2017), 42% (2019)
- **Options**: 38% (2017), 42% (2019)
- **Perf. Shares**: 44% (2017), 38% (2019)
- **Long-term Cash**: 18% (2017), 17% (2019)

Managers

- **Restr. Shares**: 56% (2017), 56% (2019)
- **Options**: 31% (2017), 29% (2019)
- **Perf. Shares**: 51% (2017), 28% (2019)
- **Long-term Cash**: 37% (2017), 20% (2019)

Professionals (non sales)

- **Restr. Shares**: 56% (2017), 63% (2019)
- **Options**: 38% (2017), 46% (2019)
- **Perf. Shares**: 27% (2017), 21% (2019)
- **Long-term Cash**: 10% (2017), 11% (2019)

Source: 2017-2019 Mercer Total Remuneration Surveys
High Demand Skills
All industries are affected!
WITH HOW MANY SECTORS/INDUSTRIES (OUTSIDE OF YOUR CORE BUSINESS SECTOR) ARE YOU NOW COMPETING FOR TALENT?

* Source: Mercer research: "Deep Dive Into Digital Talent Pools 2019", 570 participants
WHAT DO COMPANIES SAY?

REWARDING HIGH DEMAND SKILLS

- **BASE PAY PREMIUMS**: 53% Cyber Security, 50% Cloud Engineering, 59% Data Scientist
- **ONBOARDING PACKAGE (SIGN ON BONUS, SIGN ON LTI PACKAGE)**: 44% Cyber Security, 38% Cloud Engineering, 51% Data Scientist
- **ALLOWANCES: RELOCATION FEE, APARTMENT FOR FIRST 6 MONTH ETC.**: 31% Cyber Security, 28% Cloud Engineering, 37% Data Scientist
- **SPECIAL LTI AWARD**: 25% Cyber Security, 22% Cloud Engineering, 32% Data Scientist
- **BONUS PREMIUM**: 22% Cyber Security, 28% Cloud Engineering, 29% Data Scientist
- **PERKS (SPECIFIC TO THESE SKILLS)**: 13% Cyber Security, 13% Cloud Engineering, 12% Data Scientist
- **HIGHER FREQUENCY OF PAY RISES**: 6% Cyber Security, 9% Cloud Engineering, 15% Data Scientist
- **OTHER**: 13% Cyber Security, 13% Cloud Engineering, 10% Data Scientist

Source: Mercer Study 2018, Deep Dive into Shallow Talent Pools (65 respondents)
Pay Leverage: LTI/Total Direct Pay
Global - By Sector

Support
- Semiconductor: 1.0%
- Software: 1.0%
- Internet Ecommerce: 1.9%

Professional
- Semiconductor: 9.4%
- Software: 9.1%
- Internet Ecommerce: 30.6%

Management
- Semiconductor: 18.4%
- Software: 19.2%
- Internet Ecommerce: 43.2%

Executive
- Semiconductor: 44.0%
- Software: 50.6%
- Internet Ecommerce: 65.1%

* Source: Mercer | Comptrx 2019
Pay Leverage: LTI/Total Direct Pay Professionals & Management

G&A
Professionals: 4.7%
Management: 13.2%

Ops
Professionals: 2.8%
Management: 8.2%

Services
Professionals: 3.4%
Management: 7.1%

R&D
Professionals: 11.2%
Management: 23.1%

Sls&Mktg
Professionals: 4.8%
Management: 14.1%

* Source: Mercer | Compyrx 2019
Pay Leverage: LTI/Total Direct Pay
Professionals & Management - Internet / Ecommerce

* Source: Mercer | Compyrx 2019
HOW TECH FOCUSED ORGANIZATIONS LEVERAGE LTI TODAY*

Management - LTI Grants (USD)

- Non Sales: New Hire 103,500, Tenured 31,900
- R&D: New Hire 153,000, Tenured 35,600
- Software: New Hire 180,000, Tenured 36,500

75th%‘ile: 570,000

Professionals - LTI Grants (USD)

- Non Sales: New Hire 47,200, Tenured 13,800
- R&D: New Hire 57,600, Tenured 14,900
- Software: New Hire 75,100, Tenured 16,300

75th%‘ile: 175,000

* Source: Mercer | Comtryx 2019
TRENDS FROM TECH INDUSTRY

TURBOCHARGE PERFORMANCE

- Scaling business models globally
- Magnetic EVP
- Focus on high impact talent

LTI OFFERING

- Competition with startups
- Cost issue

PERKS

- Cool office is a hygiene
- Perks designed to meet the needs of tech savvy workforce

AGILE & REWARD

- Pay for competence
- Performance ratings disappearing
- Work is fast, salary advancement should be too

Big Bets On People

- Pay premiums and high ongoing grants the norm for scarce skills
- New hire grants up to 6x higher for specific engineers and ownership skewed to R&D jobs

Training and Development

- High demand talent wants latest technology, tools and platforms
- Is seeking for certificates and upskilling opportunities

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Future of Rewards
WHAT’S CHANGING?

WORK IS EVOLVING

New jobs, new skills
Pressure to adapt & innovate
Rise of networked delivery model

EMPLOYEE EXPECTATIONS ARE CHANGING

Quality of life focus
Focus on team performance
Era of the individual

AI & AUTOMATION IS TRANSFORMING HR

Availability of crowd & cloud-sourced data
Automated pay management
HR as business coach
What do we mean by agile?

Process of continuous iteration and evolution following user and market feedback. It covers the end-to-end cycle from strategy and ideation through to delivery and renewal. The goal is cross-fertilization of ideas and innovation.

What is at the heart of agility?

- Getting closer to customers
- Collaborative, team-based working
- Staying aligned with change

Agile working poses three challenges for rewards:

- Continuous review requires a more regular (vs annual) approach to reward management
- Project-based pay needs to be linked to the skills required
- Agile rewards require better calibration with fairness and transparency
**PAY-FOR-SKILLS**

### The future of jobs:

- Discrete jobs will morph into skill clusters
- Skill clusters will include both cognitive and behavioral skills
- Individuals will be paid based on the skill cluster, rather than the job

### Key to getting pay-for-skills right is:

1. Dynamic pricing model for skills
2. Using cloud-based data to provide near real-time information on market pressures and prices for skills

### Pay-for-skills challenges traditional concepts of pay-for-a job

- Firms are seeking ways to stay ahead when hiring talent with in-demand skills
- Firms are increasingly thinking about delinking base pay and performance and moving towards pay-for-skills. The future may be a focus on rewarding progression
- Firms are taking a more holistic view of rewards. E.g., an increase in the use of recognition programs, spot rewards and career opportunities to recognize and motivate
Personalized Rewards

Customize individual deals based on what resonates with workforce segments across the total rewards spectrum.

Deconstruct the employee experience to identify the moments that matter and the implications for pay.

Technology allows organizations to offer a selection of deals, from which the individual selects the deal that suits them best.

What are the challenges to keep in mind?

- Jobholder ROI of Sweat Equity
- Transparency & Pay Equity
<table>
<thead>
<tr>
<th>EMPLOYEE</th>
<th>MANAGER</th>
<th>HR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency alone doesn’t solve pay inequity</td>
<td>Transparency tends to focus on today, not tomorrow’s potential rewards</td>
<td>Transparency will surface tensions between local and global principles</td>
</tr>
<tr>
<td>Motivation can suffer without understanding the whole story</td>
<td>Difficult to juggle transparency with new rewards strategies</td>
<td>Transparency requires time and investment to implement well</td>
</tr>
<tr>
<td>Tradeoff between managerial discretion and organizational consistency</td>
<td>Skill required in having pay and career conversations with employees</td>
<td>Governance and communication are interlinked</td>
</tr>
</tbody>
</table>
INTELLIGENT REWARDS

The HR function of the future advises on **business viability, affordability and fairness**

- Separate HR functions collapse into “personal” Employee Experience advisors assigned to each employee
- Compensation managers act as advisors on how to implement rewards policies fairly and affordably
- Compensation managers focus on complex and unstructured situations such as hot skills, critical roles, high performers
- Low-value C&B tasks are automated, while reward strategy recommendations are executed by comp managers
- All C&B processes are fully automated

**High-touch function**

**Light-touch function**

Automation already performs many analytical rewards tasks. With the number crunching done by computers, the rewards function becomes a guide and a coach.