



ContactOut 



Salary Benchmarking

The Definitive Guide



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Introduction



What is this lesson about?

Salary benchmarking is the process of comparing and setting your company's salaries based on external market data. It ensures that you're offering competitive and fair compensation to your employees, taking into account their roles, experience, and locations.



What will you learn at the end of this guide

- The importance of salary benchmarking.
- Essential skills required for the process.
- A step-by-step guide to conducting salary benchmarking.
- Real-world examples.
- Resources for further exploration.



Why is it important?

Salary benchmarking is crucial because:

- It helps attract and retain top talent.
- Ensures fairness and transparency in compensation.
- Enhances employee engagement and productivity.
- Makes informed, cost-effective decisions about compensation.

Here's the step-by-step on how to do it:

1. Prepare Your Employee Baseline Salary Data

Gather Essential Data:

Start by collecting data on each employee. This should include:

- Name
- Base Salary
- Job Title
- Grade (reflects seniority or experience)
- Scope (e.g., budget or project size they handle)
- Location (city or country they're based in)

Use Tools:

Utilize spreadsheet applications like Excel. Familiarize yourself with pivot tables, formulas, and other advanced features to handle large datasets.

2. Find Market Data

Free Data Sources:

Many recruitment agencies, such as Robert Walters and Michael Page, offer free annual salary surveys. These provide average salary data and insights across various sectors and locations.

Participation-Dependent Data:

Platforms like Option Impact offer free salary surveys if you submit your company's salary data periodically.

Paid Data Sources:

Companies like Willis Tower Watson and Radford provide in-depth compensation surveys. They consider a broad range of job criteria, making their data more precise.

Competitor Salaries:

Platforms like Glassdoor allow you to review salaries for specific companies. This can give you an idea of what competitors are offering.

3. The Salary Benchmarking Process

Data Entry:

Import your employee baseline data into a spreadsheet. This will be your primary working file.

Example:

Employee ID	Name	Base Salary	Job Title	Grade	Scope	Location
E001	John	\$50,000	Developer	G2	Small	New York
E002	Jane	\$60,000	Manager	G3	Medium	London
... (and so on)						

Market Compensation Data:

Enter the aggregated market compensation data for each position.
Ensure the data is standardized for easy comparison.

Example:

Department	Job Title	Grade	Internal Average Salary	Market Average Salary	Market Min	Market Max
IT	Developer	G2	\$50,000	\$52,000	\$48,000	\$56,000
HR	Manager	G3	\$60,000	\$62,000	\$58,000	\$66,000
... (and so on)						

Data Aggregation:

Compile the external market pay data in a pivot table. Break it down by department, job title, and grade. Cross-reference this with average, minimum, and maximum salaries.

Example:

Department	Job Title	Grade	Internal Average Salary	Market Average Salary	Market Min	Market Max
IT	Developer	G2	\$50,000	\$52,000	\$48,000	\$56,000
HR	Manager	G3	\$60,000	\$62,000	\$58,000	\$66,000
... (and so on)						

Standardization:

Ensure job titles are consistent across your internal data and the external market data. This will facilitate automated benchmarking.

Example:

Internal Job Title	External Job Title (Source)	Standardized Job Title
Dev	Developer (Robert Walters)	Developer
Mgr	Manager (Michael Page)	Manager
... (and so on)		

Analysis:

Use formulas and functions like VLOOKUPS to automatically compare salaries and reveal pay gaps.

Spreadsheet Template: Salary Comparison Analysis:

Employee ID	Name	Internal Salary	Market Average Salary	Difference	Percentage Difference
E001	John	\$50,000	\$52,000	-\$2,000	-4%
E002	Jane	\$60,000	\$62,000	-\$2,000	-3.33%
... (and so on)					

For the "Analysis" section, you can use the formula = '**Internal Salary - Market Average Salary**' to calculate the difference and = '**(Difference / Internal Salary) * 100**' to find the percentage difference.

(These templates are basic structures to get started. Depending on the complexity of your organization and the granularity of the data, you might need to add more columns or sheets. Remember to use features like pivot tables, data validation, and conditional formatting to make the analysis more efficient and visually appealing!)

4. Considerations for Global Teams

Local Rates:

Pay staff based on their specific location. This considers localized market rates or the cost of living. For instance, a role in New York might have a higher salary than the same role in Bangkok due to the cost of living difference.

Location Bands:

Group similar location costs into bands. This method simplifies the process by categorizing locations with similar living costs together.

Equal Pay:

Offer the same salary for a role, regardless of location. This method prioritizes the value of the role over the location's economic factors.

Review and Adjust:

- **Regular Check-ins**
Market rates, economic conditions, and company needs change. It's essential to review your benchmarks regularly, ideally twice a year.
- **Adjustments**
Based on your reviews, make necessary adjustments. This could be due to inflation, performance, or market corrections for specific roles.

Next Steps

- Identify the roles and locations within your company that need benchmarking.
- Gather internal data and choose your external data sources.
- Start the benchmarking process, and remember to involve key stakeholders.
- Communicate any changes transparently to your team.



Here's an example of it

Imagine a company with a Senior Software Engineer in San Francisco and another in New Delhi. If they choose to pay everyone the same, both engineers would earn, say, \$100,000 annually.

However, if they decide to pay based on local rates, the engineer in San Francisco might earn \$100,000, while the one in New Delhi might earn \$30,000, reflecting the cost of living and market rates in each location.

Further Resources

 [How to Conduct a Salary Benchmarking Exercise](#)

 [How to Do Salary Benchmarking for Global Teams](#)

 [How Much Should I Earn \(or Pay\)?](#)