COMPENSATION PLANNING

Remaining Competitive in a Sea of Wage Pressures

By Scott Smith & Laura Moriarty

Why would operators increase pay rates when there is no great compelling reason to do so?

This question was posed to resort leaders during a workshop at the NSAA National Convention and Tradeshow in San Francisco this past May, prompting responses with a common theme: This big-ticket item hasn't always been a priority on every operator's to-do list, and when it is, it's in the queue behind capital expenditures such as installing that new point of sale system, upgrading or replacing lifts, and buying that new groomer. Sound familiar?

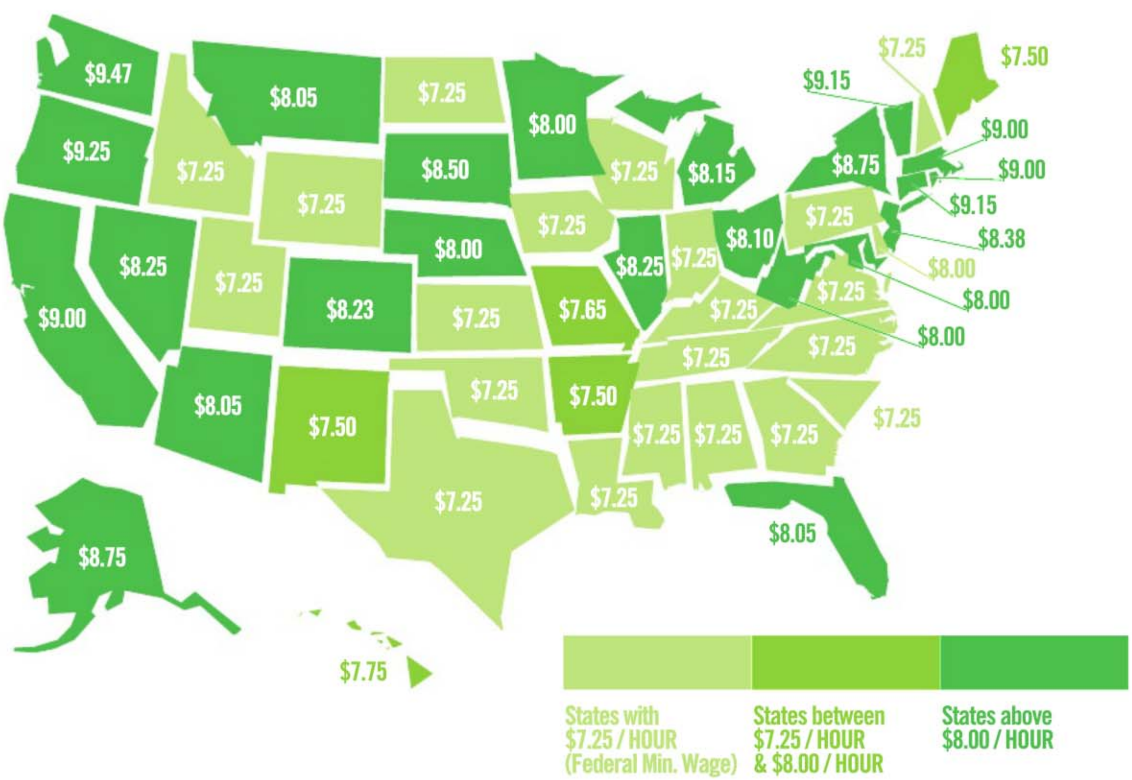
As a wise person once said, "If you don't like change, you'll like irrelevance even less." Resorts do a good job at investing in what it takes to remain competitive and current in their operations to provide the most quality skiing/snowboarding experience possible to their discerning guests—but do they apply a similar philosophy when it comes to retaining an increasingly discerning workforce?

More than ever there are compelling reasons for moving your compensation plan up to the front of the queue: the threat of losing key employees to better paying jobs elsewhere; not having enough employees to fill positions; losing the investment you've made in training staff and department heads; struggling with wage compression when starting salaries approach what you pay long-time employees for doing the same or similar jobs; and complying with legislation at the federal, state, and municipal levels.

Coincidentally, while NSAA Convention participants were attending sessions at the San Francisco Hilton, the new requirement to increase minimum wage in the City of San Francisco was being enacted in the back of the House—the first of three annual increases that will result in a minimum wage of $15 an hour by 2018.

While your resort may be miles away from San Francisco both geographically and in pay philosophy, chances are you have a McDonald's or Walmart nearby. And, as Maryam Morse of global management consulting firm Hay Group says, "Walmart just raised the minimum wage."

Case in point, as this article was going to press, Vail Resorts announced that starting September 26 it will raise the company's minimum wage for entry-level employees



to $10 per hour nationwide. Vail Resorts employs more than 25,000 people across the country from Minnesota to California, with 18,000 of those employees in Colorado alone. The wage increase reveals an eagerness of Vail Resorts to actively compete with neighboring resorts for the best employees the market can offer.

You may not be able to control what other companies pay their employees, but if you want to retain a strong workforce you have to be competitive, and that means having a formal compensation strategy that makes sense and ties in with your company's philosophy and business model.

These expected raises in minimum wage create compression. You are not alone if your resort's starting salaries for new-hires in a particular job title are too close to the wages of your more experienced workers, also resulting in supervisor/subordinate pay getting too compressed, and salary grade collapse. According to the Society of Human Resource Management (SHRM), of 100 organizations today, 98 have pay compression problems. In really awful circumstances, the starting salaries might even *exceed* what your current employees are earning for comparable work.

According to World at Work—a global association focused on benefits and total rewards—75 percent of all U.S. companies have formal compensation systems. Compensation plans are no longer intangible concepts shrouded in secrecy. The good news is that we have several tools to help us with the mechanics of compensation planning. In developing these and other resources, NSAA works closely with experts inside and outside the industry that moderate compensation trends.

One of NSAA's best tools to help resorts stay competitive from a wage and salary standpoint is the annual *National Wage and Salary Survey.* This 230-page analysis of hundreds of specific industry positions is invaluable for any HR manager, no matter the size of the area. With 140 areas participating in the data collection (constituting more than 60 percent of total national skier visits in the industry) the survey covers a lot of base wage data. And the positions are scalable: the data can be formatted easily in Excel, allowing CFOs and HR managers to sort the data based on skier visits, regional comparisons, and vertical feet transportation per hour (VFTH), giving incredibly accurate data comparisons.

Another excellent compensation planning tool is NSAA's *Economic Analysis of U.S. Ski Areas,* which also breaks down labor costs by job title, region, visits, and VFTH.

These surveys alone will not determine competitiveness in every position, however. Clearly, not all jobs can be benchmarked as apples to apples comparisons. Further fine-tuning is needed using regional differentials provided by data from the Bureau of Labor Statistics and Economic Research Institute. Additional data can be obtained through a host of other wages resources, ranging from locally available surveys to targeted and even broader industry data found through professional and trade groups (e.g., National Restaurant Association, Towers Watson, Robert Half, and Culpepper, to name a few). As resorts increasingly compete for professional talent to fill executive, finance, and human resources and IT positions, this data is indispensable.

As with the science of snowmaking and guest satisfaction, compensation has its own unique standards. It is clear that as our businesses change and grow, there's a need for pay programs to support organizational objectives and culture. Does your resort have a pay philosophy and strategy? To understand more about why these systems are important one only need look at some of the compelling issues driving this need:

BUDGETS: Labor is one of the most significant operating costs. It's a number that begs to be managed for "bottom line" results. Are your labor budgets based on past practices or something more advanced? Ski resorts may have some of the least sophisticated systems to manage their single largest expense. It's not just about spending or saving money, it's about knowing how and why you pay what you do, for what reasons, and for what conditions, preferably with built-in structure to help address the myriad of labor challenges you now or are yet to face.

ECONOMY: One leading factor driving wages is simple supply and demand and the availability of workers—which until recently, after the Great Recession, have been relatively plentiful. One-third of companies imposed wage freezes during the recession with many companies continuing to abstain or severely reduce increases compared to recovery averages—as much as 2.3 percent below pre-recession norms (WorldatWork Salary Budget Survey – 2014/15, ® 2014). Nationally, ski area wages are growing negligibly, with only the slightest increases and below national inflation rates. (At a regional or local level, wage growth differs.) As companies "hunkered down" so did workers. Those who had jobs stayed put.

Now there are positive signs of economic recovery, but with only slight wage pressure following suit. This is beginning to strain the natural balance between the growth of economic prosperity with workers' income, and this natural form of "wage inflation" has not risen proportionally after two recessionary periods, first in 2002 and again with even deeper impacts in 2008-09. All this kinetic energy is building up, and leading economists are foretelling the warning signs of entrenched wage stagnation impacting employee morale and turnover. >

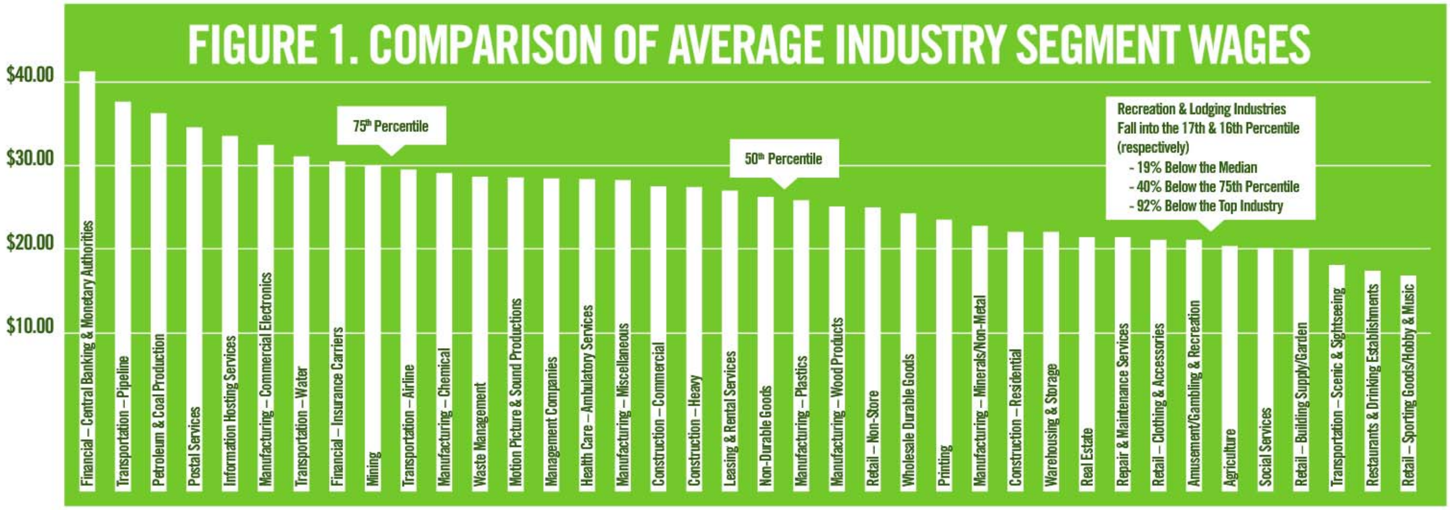


FIGURE 1. COMPARISON OF AVERAGE INDUSTRY SEGMENT WAGES

WAGE FREEZES: Ski areas may have been impacted even more. After imposing total wage freezes for a few years, many operators may just be starting to give increases again, especially in those regions that haven't had a good snow year in a few seasons. Prior to 2010-11 many resorts reduced standard percentage increases in order to manage recessionary impacts. In some cases, exempt salaried leaders sacrificed time on the job with commensurate reductions in salary or mandatory furloughs. Some performed line-level jobs and wore multiple hats to save on labor costs of hourly employees.

By necessity, some resorts have prioritized paying out overdue increases to their top performers for retention purposes, taking a further bite out of the limited pool of money that owners may be hoping to dedicate to all other staff supporting business and/or to cover those mandated by compliance. This is not great news as research also suggests our industry is more susceptible to downturns than recovery from economic upswings (Bureau of Labor Statistics, United States Department of Labor, National, State, Metropolitan, and Non-Metropolitan Area Occupational Employment & Wage Estimates, 1997, 2003, 2013). At the same time, this slow-to-recovery phenomenon is mounting fast and collectively, and our reaction time may be at a disadvantage.

RANKING: Let's face it, the ski, recreation, and hospitality industries don't routinely pay anywhere near the top of other industry segments, or the middle, or even closer to the top of the bottom third. For wage reporting, we fall in a broad category that includes other companies in amusement, recreation, and gaming, where our industry ranks at the 17th percentile (figure 1).

From an employee perspective, the good news is that compared to a decade ago, our group rose from the 10th percentile, in part due to the segment outpacing the norm for all industries by 0.4 percent per year, showing modest but sustained gains. Even so, digging deeper into wage ranking research from Bureau of Labor Statistics data reveals we are just now regaining an almost identical "wage" and "percentile" ranking held nearly two decades ago. On the broader scale and in terms of industry rankings, looking forward we seem to be improving; turning to look back, however, we're only regaining comparative wage rankings held some 20 yeas ago.

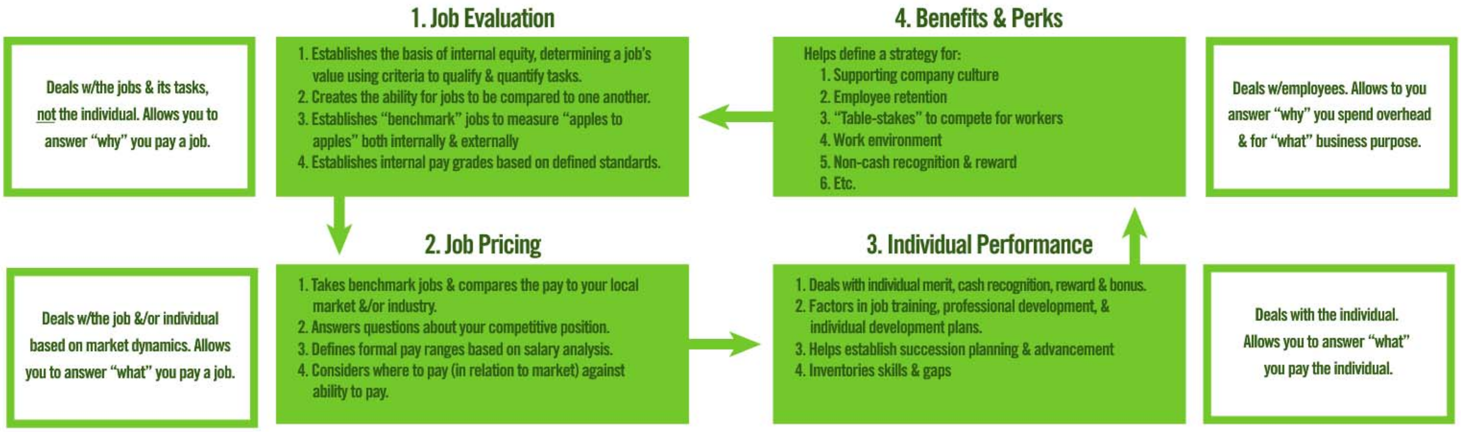
WAGE GROWTH: If we look past broad rankings and drill down to more specific industry wage factors, we can measure ski area "real" wage growth to approximately 2.3 percent per year—generally 1.3 percent less than the standard averages for most businesses. Our concurrent five-year wage growth history weighs in at only 1.3 percent, also well below most economic recovery levels experienced by others over the same timeframe.

Why are rankings and growth segments important? Because if we can't compete outside of our own industry, we can't grow. We know we won't "rank" proportionally with the elite groups (e.g., finance, sales, medicine, law), and as an industry we may be positioned properly; at the same time, we must contend with other industry segments closer to us (e.g., gaming, hospitality, retail), making major strides and improvements in their relative position and total compensation savviness.

Many people will work simply for the love of the sport, but not all. As we increasingly go outside of our own industry to find high-caliber candidates with credentials to lead (and are challenged to pay commensurate wages), are we equally exposing our own critical talent by not maintaining the necessary wage "pace" to retain them, potentially leaving us vulnerable on both ends of the recruiting spectrum?

As resorts become more complex, technical, and advanced with sophisticated business models and operational plans, they may not be assigning that level of importance to the quest for >

FIGURE 2. TOTAL COMPENSATION MODEL



and retention of talent (regardless of the wage category).

Where the ski industry "fits" (even amongst its larger benchmark category) is a matter of debate; however, the trends show disproportionate results, and these could have much larger and longer-term repercussions down the road. If we can't compete outside of our industry, we can't grow our talent pool. Overall, maintaining market relevance by understanding "where we fit" is important, and to add a cliché, if you don't know where you're going, any road will get you there. But clearly, just any road could lead you astray.

MINIMUM WAGE: Undoubtedly, minimum wage changes and other compensation factors will have a substantial impact on us all. How will resort owners absorb the increases and/or fundamental changes? One thing is certain: They need to plan for these cost increases and evaluate where senior, middle management, supervisory, and entry-level jobs land in their compensation structures (if they have them).

Areas need to *anticipate* a rapidly changing reality on wages in general, especially regarding state and federal minimum wages. This is no longer the sole province of Democrats and large urban cities pushing for higher minimum wages. Citizens in rural, conservative states are demanding higher wages themselves. In 2014 alone, four conservative states voted overwhelmingly to raise their state minimum wage well above the federal minimum wage, including Alaska, Arkansas, Nebraska, and South Dakota.

And while President Obama is pushing his Executive Order for federal contractors to raise the minimum wage to $10.10 an hour, there are already calls from Democrats to raise the federal wage rate to $12 an hour or higher. In hindsight, the current $7.25 rate at the federal level seems quaint and increasingly nostalgic. Employers need to anticipate in their business models likely higher wage rates.

Many states, under pressure from voters, economists, activities, etc., have seen the need to manage internal affairs and define what's good for their own economy and working residents—leading to increases, more annual indexing, and fixed progressions. So why are so many states moving so aggressively? According to one leading source, it's due to the changing demographics of the average minimum wage earner—no longer a teen but a 35-year-old white female working full time.

Stats aside, the feds are strongly suggesting the nation can't settle with an inconsequential minimum wage and, rather than debate right or wrong, it's time to prepare and focus on the main considerations employers need as we invariably move forward to implement these new regulations.

TOOLS TO MANAGE: To address these challenges, let's look at a few additional tools to help you manage. Visit the nsaa.org website and download the "Compensation Structure: Remaining Competitive in a Sea of Pressures PowerPoint" presentation and corresponding handout (under Conferences/National Convention Info/Presentations and Handouts). Included is an assessment you can take to evaluate your resort's compensation philosophy and goals, and a dictionary of compensation terms and definitions. Here are some other suggestions to help you get started.

1. Total compensation approach: Figure 2 shows the Total Compensation Model and the relationships to strategy, integrating **job evaluation** (why you pay a job), **job pricing** (what you pay a job), **individual performance** (what you pay a person), and **benefits/perks** (what you add to support people). Each step can be managed individually using its own set of principles, but together and fully integrated they form a clear roadmap for a unified compensation system.

A. Classify jobs into formal pay grades (best achieved by using a formal job evaluation plan, which can be constructed by an internal compensation professional or compensation consultant). If you don't have a formal plan, consider it. The benefits are defensibly immeasurable. In the meantime, categorize jobs (not people) into hierarchies based on consistent and objective criteria, measuring skills, knowledge, and responsibilities. Work toward shoring up the unique and standard descriptions so all jobs can be compared to every other job internally.

B. Know your wage market(s), blending NSAA, local, regional, national, and/or profession trade salaries based on what's applicable per job. Customize and analyze survey data to pinpoint relative positions. Build a budget and forge priorities with distinct plans of attack based on the market demands for jobs. Objectively define where you want to be and track wage movements over time.

C. Use market data to set up formal pay ranges with qualified minimums, midpoints, and maximums. Although there is a science to build a good pay grade matrix, if you don't have one, start simple and focus first on those pay grades that are less than the job title justifies—possibly creating structured overlap with small percentage or dollar progressions between grades. Over time the vertical distance between the lowest and highest grades should separate through normal analytics, pulling you close to final compensation goals.

D. Focus on "rock stars," those critically skilled high-potentials with hard-to-find experience. These people represent those most in demand and at risk. Ensure their job satisfaction and market relevance isn't idling.

E. Highlight the "psychological paycheck" to promote the intrinsic value of working within our trade. Skiing/snowboarding is fun! Working in resort communities has its benefits. Regular benefits and other amenities are real leverage points that should be communicated regularly. Use Total Compensation Statements—communication tools that monetize the added perks and reinforce the unique benefits and privileges offered by resorts. Having this "add-on" information on the pay stub is a powerful tool for current and potential staff alike (and is easy to customize). These are typically annual statements (similar to a 401[k] statement) that are created by someone with intimate knowledge of the resort's individual benefits, their value, consumption, etc. Generally they are created by a current HR staff member who is well versed in this process; by a third-party platform (such as a cloud-based payroll processor having a template available for an HR team); or by a consultant.

2. Trouble-shooting: If you're contending with minimum wage issues and are facing difficult decisions to meet compliance or compression, start with bite-sized pieces. First, bring people to minimum and, second, ensure budgeted dollars go to high-potential performers before turning to regular equity adjustments. If possible, pool budgets and capture residual dollars from staff attrition to reallocate to those compressed by minimum wage. Recognize that not all turnover is bad. Over time and with a prescribed plan, you will be able to re-establish balance and proper separation for higher order and cultural things such as seniority and merit.

3. Alternative solutions: As resorts look for ways to balance costs with fixed overhead, consider variable and incentive pay systems—essentially, self-funded programs with payouts financed through other cost, labor, and efficiency savings. Variable pay need not be added to base wages and are generally re-earned from one fiscal period to the net, making it a more flexible method of motivating and increasing pay.

What are the key take-aways? Realize that everything you do with pay is a form of communication with employees. What are you telling them?

Your intention to "do something about the wage situation" needs to move to the front of the queue. All the signs point to escalating wages, if not through one means then by another, and if not now, soon. A strong methodology toward compensation planning is prudent—a little now can save you a lot later.

Overall, systemizing compensation plans will give resorts the courage to expose "the man behind the curtain," providing legitimacy, guidance, and direction to finally quell some of the mystery surrounding resort compensation practices. N

Resources:

- BLS Bureau of Labor Statistics, United States Department of Labor, National, State, Metropolitan and Non- Metropolitan Area Occupational Employment & Wage Estimates, 1997, 2003, 2013.
- Economic Policy Institute (EPI)
- Sierra Research Associates LLC National Wage & Salary Survey of Mountain Resorts, Charles Riley and Dr. Harold Richins, Principals
- WorldatWork, The Total Rewards Association, WorldatWork Salary Budget Survey - 2014/2015, © 2014
- ERI Economic Research Institute, © 2000 – 2013, Library of Congress Cataloging-in-Publication Data, HF5549.5.C67B45 1987 658.3'2 86-25494 ISBN 0-13-154790-9

Scott Smith is senior human resources director at Waterville Valley Resort and principal of HR Compass Designs (SSmith@Waterville.com). Laura Moriarty, SPHR, SHRM-SCP, is president of Tahoe Training Partners (Laura@TahoeTrainingPartners.com). Smith and Moriarty are expert architects of total compensation systems. They also offer full-service human resources advisory solutions, resort HR audits, talent development workshops for leaders and team members, and customized strategic planning sessions.