



COMPENSATION ISSUES:

SALARY/BENEFITS ESCALATION. WHAT'S THE EFFECT?

The largest expense category for creative services firms is labor—specifically salaries and benefits. It probably accounts for around 70% of your firm's discretionary income.* Which is another way of saying that everything else, including profit, has to come out of the remaining 30%. It also means that when the salary/benefit percentage goes up, the percentage for everything else goes down.

This simple equation is of concern nowadays because salary/benefit costs have been rising sharply. The pool of creative talent, which resulted in an employers' market as recently as a few years ago, has dried up, resulting in an employees' market.

A tight labor market also means that the cost and hassle of filling vacant positions has jumped. Indeed, jobs are actually going begging in some metropolitan markets where unemployment rates are below 3% (3% is considered statistical full employment). Although we know of no statistics relating to creative positions specifically, anecdotal evidence suggests that many are going unfilled.

Turnover is also up as employees are provided with more choices, and technology companies entice them with fat salaries, benefits, and options. This is of special concern when trying to hold on to web designers. Every turnover is costly in disruption and hiring expenses.

In light of this, maintaining creative and service excellence necessitates updating salary/benefit packages. It also requires rethinking ways to attract and hold good employees.

HOW MUCH ESCALATION?

A *Creative Business* survey taken over the last several months shows that average salaries have risen almost 15% nationwide since our last survey two years ago, and in some major markets it has topped 20%. This is considerably higher than the escalation in other business costs that occurred during the same time period.

A DIFFERENT SALARY GAUGE

Our previous reports of average salaries have taken the standard approach of compiling data from selected firms, then averaging it by experience and region. Salary studies using this method have recently been reported in *How* magazine (www.howdesign.com), and more comprehensively in an AIGA/Aquent survey. (Available to AIGA members at www.aiga.org)

*This percentage includes the labor cost of sales, which some firms break out separately.



or from Aquent at www.aquent.com.) It is now also possible to find average salaries for a specific job description by market on the web at www.salarysource.com and www.salariesreview.com, both of which charge about \$30 a search.

So rather than replicate what is available elsewhere, our findings this time are reported in a different format. It not only provides another comparative source, but it also compensates for the disparities that exist among actual situations and individuals. After all, few of us work for, or deserve, an average salary.

The table on page 3 provides a base salary range for four typical professional-level positions, the number we believe is adequate for most creative firms. Factors that influence salaries are then added or subtracted as indicated to provide an appropriate salary for a specific position in a specific firm.

This system is compatible with the job description and salary evaluation process recommended by *Creative Business* and is similar to ones used by most professionally-managed organizations. We recommend even the smallest firm have several job descriptions (a job ladder), each built around a compensation range. (For more detail, see “Defining Who Should Be Doing What” in the sidebar on page 4.)

SO WHAT’S APPROPRIATE?

As an example, here’s how our system works in determining what’s an appropriate salary for a junior position in a non-metropolitan market in the Southwest (SW) for a marcom firm with average clients and reputation, great facilities and environment, but a minimal benefit package and small bonus potential.

From the Base Range for this position (\$24,000 to \$34,000) we subtracted 10% for regional norms, another 10% for being in a non-metropolitan market, and 10% for having great facilities and

environment. 5% was then added back for a bonus potential of several hundred \$, and 10% for having a minimal benefit package.

Thus, a junior-level employee for the firm should make somewhere in the range of \$20,400 to \$28,900, or 15% under our base range. Each of the other three positions in our job ladder would also be 15% under the range.

Of course, how much an individual should be paid within the calculated salary range depends

Salary Isn't Most Important For Most Employees.

on her or his talent and experience. The lower she or he is in the range, the more opportunity there is for salary growth before hitting the ceiling. Conversely, an employee near the top of the salary range has little room for financial growth without promotion to the next job position and the higher salary range that accompanies it.

Using salary ranges for job positions and placing individuals within them allows employees to be compensated at several levels without a promotion or major change in responsibilities. It also makes promotion to a new position more meaningful because it opens up a new range of salary possibilities. And it limits the salary employees can receive unless they acquire the skills that allow them to qualify for a higher position—that is, it eliminates raises based solely on longevity or inflation.

SALARIES AND EMPLOYEE SATISFACTION

As important as money is, it is only one factor in employee satisfaction. In fact, studies show that as long as salaries are within an acceptable range other things are actually more important. Among younger employees especially, one’s salary, actual or perceived, is typically more important as a way of gauging worth or progress than for the lifestyle it enables.

For most creative employees the actual order of importance, listed by declining attractiveness, goes something like this: an opportunity to work on stimulating projects... the working environment... career advancement ... salary... job title... being appreciated... project variety... benefits... and job stability.

In other words, the answer to finding and keeping good employees is as much about qualitative (workstyle) issues as it is about quantitative (money) ones.

SELLING THE INTANGIBLES

The importance creatives place on issues other than their paycheck makes it especially crucial for employers to focus on work-life issues when attempting to hire or retain employees.

Challenging assignments.

They make it fun for employees to come to work, and they allow them to build their portfolios. The clients and assignments you have is all you can offer, but you can enhance them by providing a high level of involvement and emphasizing the positives—in larger shops the opportunity to work on major projects, in smaller ones the opportunity to be involved at more levels.

A pleasant environment.

Sensitive management is the key. The more friendly, accessible, open-to-ideas, non-arbitrary, flexible, and mentoring principals are, the more pleasant the environment, the happier the employees, and the more productive the shop becomes.

A great team. Everyone wants to be a part of a winning

team. Who one works with, her or his co-workers, can make or break the day. Talk up your company's team spirit, and back it up by defining individual responsibilities broadly, encouraging input on issues not directly related to one's function, and involving them with project and client management issues.

A wonderful location.

Wherever you are located it will be an attraction to some individuals. If downtown, for example, you offer a stimulating urban work environment, great shopping nearby, and dozens of trendy lunch spots. If in the suburbs, you offer no commuting hassles, free parking, and the possibility of a jog in the countryside at noon. Those who agree will be impressed; those who don't are probably better off working somewhere else.

Neat facilities. If you've got 'em flaunt 'em. A cool place to work attracts and stimulates employees, especially younger ones. And fast computers and up-to-date software are as much about keeping employees happy as about productivity.

OFFERING SPECIAL ARRANGEMENTS

As it has become harder and harder to find and retain good employees, arrangements that were virtually unknown a decade ago, and still unusual even five years ago, have become mainstream.

Flextime. Allowing some employees to work non-standard hours can be a small concession that makes a big difference. Exceptions to traditional working hours often make positions more attractive to individuals with difficult situations, such as other responsibilities or a long commute during peak traffic hours.

Despite the name, however, flextime should rarely mean total flexibility. Rather, it should be defined as regular, non-standard hours. For example, 10 to 6 rather than 9 to 5. Or 9 to 4 without a lunch hour. (Caution: this

SALARY RANGES AND ADJUSTMENTS

Range By Job Level/Experience* (\$000)			
Junior	Middle	Senior	Crtve/Mktng Dir
\$24/\$34	\$35/\$49	\$50/\$69	\$70/\$90
*Typical titles and experience: Junior= junior designer/copywriter/production assistant with up to 2 yrs experience; Middle= designer/copywriter/account executive/production manager usually with more than 3 years experience; Senior= senior designer/art director/copychief/account supervisor/production supervisor usually with more than 6 years experience; Creative/Marketing Director= a high-talent individual usually having more than 15 years experience.			
Adjustment Factors**			
Location:	NE—none; SE—subtract 10%; MW—subtract 5%; SW—subtract 10%; MTN—subtract 15%; PC—none		
Market:	Major metropolitan—add 5%; minor metropolitan—none; non metropolitan—subtract 10%		
Clients/Reptun:	Top notch—subtract 10%; average—none; could be better—add 10%		
Facties/environt:	Great and relaxed—subtract 10%; average—none; could be better—add 10%		
Benefits:	Extensive—subtract 5%; average—none; few—add 10%		
Bonus potential:	Several thousand \$—subtract 5%; few thousand \$—none; few hundred \$—add 5%; none—add 10%		
Compiled from research conducted by <i>Creative Business</i> in summer/fall 2000. Represents design firms, small ad/PR agencies, and corporate creative groups. No firms with more than 50 employees were included. Abnormally high (creative star) and low salaries excluded. Value of benefits, including bonuses, not included. Survey findings were adjusted after reference to several other published industry surveys.			
**Add or subtract the percentages indicated to the above salary ranges.			

is not an option for clerical or non-exempt staff who must be given regular work breaks.) Or four ten-hour days rather than five eight-hour ones. Structure, including regular working hours, is still a necessary component of any efficiently-run office.

Before offering non-standard hours be sure to carefully analyze the trade-offs. Will the individual be needed for input, client meetings, teaming, and production conferences at hours she or he won't normally be available? If so will she or he be willing to make the effort required to be there?

Also be sensitive to the fact that non-standard working conditions often cause resentment among other employees when not explained properly. Be sure to inform others that the special arrangement was your solution to the unusual problem of how to allow the individual to join or stay with the team. Moreover, that everyone, including them, will ultimately benefit from it. It was *not* a demand that the employee made and that you acquiesced to.

Even so, be prepared to address similar requests from other employees.

Telecommuting. This is the next step up from offering non-standard (flextime) hours. The availability of today's electronic connections opens up the possibility of working at home, part- or full-time, to new moms, those with family responsibilities, and those with disabilities.

Despite its attractions in enlarging a firm's labor pool, telecommuting is usually best kept to the short-term, or started on a trial basis. It is often less than totally successful because it reduces the motivational and symbiotic effects that come about when employees work together.

Telecommuting raises all the same issues as flextime—from the reaction of other employees, to availability for meetings. In addition, since the employee is working off-site it may raise insurance concerns that should be addressed up front. And if the employee doesn't have the necessary equipment—up-to-date com-

SUPPLEMENTARY ARTICLES AND INFORMATION

The articles listed below provide additional detail. Except as indicated, all are available for downloading from www.creativebusiness.com/online.html and are on our CD-ROM containing the last five year's issues. It can be ordered from the above address, or through the order form on the inside back cover.

"Defining Who Should Be Doing What" (sample job descriptions).*

"Employee Performance Evaluation Form.*"

"Looking At Profitability"—March/April 2000.

"Ownership Sharing"—June 1999 special issue.

"Staffing Up. When To Do It"—July/August 1999.**

"Trend Tracking"—November/December 1999.**

"What Is The Right Size?"—March/April 1996.

"Year-End Bonuses"—January/February 1997.

*Available only by downloading.

**Downloadable as part of the entire issue.

puter, software, DSL line, fax machine, etc.—who pays for it? (Equipment purchased by the company and lent to employees is normally tax deductible. Equipment purchased by the employee, even if primarily for company work, probably isn't.)

Other issues to consider include sick time, taking company work into a non-secure environment, and evaluating employee performance.

Creative Business recommends limiting telecommuting to very valuable, senior individuals with needs that would otherwise make them unavailable, or severely limit their productivity.

ADDING BENEFITS, PERKS, INCENTIVES, & FUN

These are the other ways of sweetening the working environment. Some are costly. Some not.

Benefits. This is the most expensive, least flexible way to make your company more attractive because in many cases benefits have to be available on an equal basis to all employees. It is also nearly impossible to compete with the benefits of large organizations. Nonetheless, and assuming you can afford it (see page 5), you may want to consider improving your benefits package.

Here is the norm (average) among mid-size (6 to 12 employee) creative firms**:

Group health insurance—60% of employee premiums, 40% of dependent premiums... group dental insurance—50% of employee premiums... vacation days—2 weeks... holidays—10... sick/personal days—3, but often "anything reasonable"... retirement plan—25% of employers contribute, typically a 25% match... group life insurance—one year's salary, premiums usually paid by company... group short and long-term disability—50% pay most of the premiums... overtime—most match with comp time after two hours (non-exempt personnel must be paid)... profit-sharing bonuses—see incentives below.

Perks. Unlike most benefits, perks—special treatment for special individuals—offer the advantage of custom tailoring. They are especially effective when tied to a promotion or title (e.g., Senior Designer, Vice President, or CCO—Chief Creative Officer), but other employees don't necessarily have to be aware of them. Even when they are, however, it seldom poses a problem unless the perks are overly generous.

Typical perks include a premium workspace, paying for parking, paying association dues, paying for child care, generous expense accounts, cell phones, trips to out-of-town conventions, even a company car or allowance. (Check with your accountant about the tax implications of any perks involving payment.)

Incentives. The most common, although questionable as a

true incentive, is a yearly profit-sharing bonus, which is offered by about 35% of creative firms. Of these, three-quarters provide it to all employees, a quarter only to selected ones. Average is about \$5,000. (For *Creative Business*' viewpoint on bonuses as incentives see "Year End Bonuses" in the sidebar)

Other incentives include titles (e.g., Internet Guru), more frequent eligibility for raises, and ownership sharing. (See "Ownership Sharing" in the sidebar.)

Fun. It's the next step up from the requisite pleasant working environment (see page 2). It can't be prescribed or described. Yet, employees know a fun place to work when they see it. And they want to see it. Group lunches, parties, free sodas, workspace decorating flexibility, weekend outings, and employee retreats are the most common.

LOOKING AT NEW SOURCES

Today's difficulty in finding qualified candidates requires looking in these new places, as well as the usual ones.

Advertising. Traditional small display or classified help wanted ads run in the local newspapers or trade magazines have been eclipsed in cost-effectiveness by listings on internet job sites. *Creative Business* subscribers report that www.monster.com and www.headhunter.net produce more qualified resumes for less cost. And postings on industry sites such as www.aiga.org, or www.howdesign.com, are free, although usually less effective in getting candidates.

Headhunters. Until recently they were considered appropriate only for larger, deep-pocket firms, or ones trying to find a specific type of talent. No longer. The costs of leaving a key position vacant, or of sifting through piles of unqualified resumes often makes their charge of 20%

**Averages may differ from *Creative Business*' recommendations presented in the articles referenced in the sidebar.

or more of the employee's first year salary palatable, if not exactly a bargain.

Foreign nationals. Non-citizens can come to the United States to work if they first obtain an H1b visa, which is a non-immigrant work permit for three years, renewable for up to six. Minimal requirements for getting one to do creative work require the applicant have a Bachelor's degree and a job offer at wages that are at least the equivalent of prevailing market wages. Creative individuals with proper representation have enjoyed a high degree of success applying for H1b visas.

A legal firm specializing in immigration law handles all the paperwork. It typically takes several months, but can be faster in some region of the country. Cost averages around \$3,500. For more information on the process see www.immigration-lawyer.com.

Temp help firms. They've sized the opportunity to branch into employment services. Their try-then-hire-permanently-if-satisfied programs allow you to contract for a freelance, evaluate her or him, and make an offer if it is a good fit. The downsides are the fees, which are comparable to those charged by headhunters, and the fact that they draw from their freelance pool, which is somewhat limited.

Freelancers. You know this already, but it is worth repeating. Taking on a prospective employee as an in-house freelance first is a no-obligation way to try out her or his skills and ability to work in a team.

Interns. Once thought of primarily as a way of trading on-the-job experience for cheap labor, student interns are more appropriately considered today as a way of finding good employees before they reach the job market. If you and the intern like each other, the relationship can be turned into a part- or full-time position. Most schools offer a variety of talent and personalities for internships of varying lengths.

Average pay is about \$10 an hour with no benefits. For what you should know before hiring interns see www.aiga-interns.org.

MAINTAINING AFFORDABILITY

Any discussion of employee salaries, benefits, perks, incentives, and working arrangements has to conclude with a caveat about affordability. Simply, you shouldn't offer what you can't afford, despite trends, competition, or perceived need. The basic criteria of affordability follow.

Income per employee. It should be over \$100,000 annually as measured by AGI, or income exclusive of pass throughs such as client media and printing purchases. (Include principals as employees.) If lower than this figure your firm probably should increase sales before considering increasing salaries or benefits.

The salary multiple. Be concerned about raising the salary of any billable individual whose time can't be billed out at three times her or his hourly salary. If this is not possible, there should be other employees whose time is billed at a higher multiple to make up for it.

What is rewarded. Base 90% of salary increases on performance, 10% on longevity. The pool of money available for raises is only so large, so every time you give an employee a raise based on longevity you deprive a higher-contributing employee of the larger raise they deserve. When longevity rather than performance is the norm, talented individuals will leave because they are undervalued. Employees who remain will be those without the talent to get a good job elsewhere.

Productivity and efficiency.

If you aren't doing it already, start tracking them. Billable efficiency is the single best indicator of how well a firm is managed and, subsequently, when it can afford more of anything. Productivity—how quickly tasks are performed—is a crucial element in

AVERAGE SALARIES FOR PRINCIPALS/FREELANCES

FIRM INCOME (AGI)*	SALARY
<\$100k	\$ 55,000
\$100/200k	\$ 65,000
\$200/400k	\$ 70,000
\$400/600k	\$ 85,000
\$600/800k	\$ 90,000
\$800k/1.25m	\$120,000
\$1.25/2.5m	\$155,000
\$2.5/3.5m	\$170,000
\$3.5/4.5m	\$210,000
\$4.5/6.0m	\$240,000

Figures are rounded to nearest \$5,000, include all bonuses and distributions, and are from firms with single principals or professional management. In firms with more than one principal the salary of each would be proportionately lower. Any retained profits in C corporations are not included.

*Agency Gross Income is discretionary income that excludes pass-throughs such as client media or printing purchases. It is composed primarily of creative fees and markups.

setting shop labor rates. If productivity goes up, labor rates must follow, or the firm ends up with less.

Principals' salary and profit. This is the bottom line: profitability—a combination of principals' salaries, disbursements, and retained earnings—should be increasing at the same rate as employee salaries and benefits. If not, your firm is going backward, not forward. Growth in size or payroll is not the objective. Growth in profitability is.