

2004 Trends and Strategies for Success

by
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Executive Summary

As the economy emerges slowly from a serious recession, companies are once again facing multiple challenges of increasing competition, optimizing limited resources and retaining critical talent. If your organization is going to do better than what you've done in the past, you must create stronger relationships with customers and leadership in target markets. This requires your people to understand and embrace the tasks necessary for your business model and its success. In this context, 2004 is shaping up to become an intensely competitive year, for both the business and talent.

On the surface many people management and reward programs are similar to what they have been in the past:

- Merit pay increases will average between 3.5% and 4.5%.
- Variable pay programs will continue to reward employees with bonuses of 10% and 30% of salary.
- Stock options and other forms of equity participation will be limited to fewer people.
- Healthcare and other employee benefit costs will continue to increase between 10% and 15%.
- Most organizations will continue using several forms of informal recognition with limited structure.
- Recruitment and development programs will increase in importance especially for upgrading talent in key functional and technical leadership roles.

However, many changes are happening with the fundamentals. By fundamentals we mean those elements of plan and program designs that shape *how they work*—for example: the performance measures that determine the rewards, the mix between secured vs. variable pay and the information systems to track and provide real-time performance feedback. Plans are being redesigned to better align with the new requirements of the organization's strategy and to become more meaningful and personalized to the individual. Finally, we see companies integrating their reward programs into a systematic framework in order to use the strengths of one plan to offset the inherent weakness of others. These changes are occurring because executives are increasingly aware of that reward systems send messages and reinforce actions within the organization. The axiom "you get what you pay for" is taking on new meaning. While it is always important to know what other companies are doing, executives find that "how" people are paid is becoming more important than "how much."

This report will provide you with extensive amounts of information and ideas to consider that will directly impact the organization's performance. Look beyond the market data and determine where your organization can create competitive advantages. Then, 2004

can become a pivotal point in time when your organization successfully repositions itself to better serve customers and create enduring stakeholder value.