

Who are dsd Consulting?

dsd Consulting are niche market specialists in the area of Total Rewards Management. As remuneration and rewards are our core business and primary focus, we provide our clients with only senior consultants who are highly skilled and experienced in this specialist area.

We have significant experience in working with Boards and Executives to develop remuneration packages for Directors, Chief Executives and Senior Managers.

dsd has recently been appointed as the Institute of Directors' survey partner and will be producing the IoD Directors' Fees Report.

Senior Executive Remuneration – What are the Current Trends?

Business confidence and GST are up, unemployment and tax is down and the labour market is on the move - just. As Directors it is important to understand what the salary increase trends are in the market and how employers are intending to respond to wage and salary increase demands in 2010.

As part of our service to the IoD, we have summarised information from our extensive database, covering in excess of 300 organisations and more than 70,000 employees, to provide a picture of current changes to the Senior Executive remuneration landscape

Market Movements - 12 Months to March 2010

Actual salary increases in the year to March 2010 are set out in the table below. The table includes information on the incidence of organisations who applied pay freezes during this period.

March 2010 Actual Average Salary Increases - General Market*				Nil Salary Increase - Past 12 Months (% of Orgs)
Career Level	Lower Quartile %	Median %	Upper Quartile %	
Chief Executive Officer	0%	0%	2%	69%
Senior Management/Executive	0%	0%	2%	55%

*Source: **dsd** Market Insights Survey March 2010

These comparatively modest increases reflect the impact of the Global Financial Crisis (GFC) and many organisations' subsequent decision to freeze pay, particularly CEO and Executive pay.

The information in the table above reflects a relatively dramatic shift in historic patterns of remuneration movement in New Zealand. On average, annual salary increases in New Zealand typically track at between **4%** and **5%** for Executives, and **3.5%** - **4%** for non Executives.

Salary Forecast for the Next 12 Months

Feedback from **dsd** clients surveyed in March 2010 is that salary forecasts for the next 12 months are more optimistic than during the past 12 months. Very few organisations are planning nil increases in 2010 – particularly below Senior Management.

The table below shows the distribution of forecast salary increases at all career levels for the next 12 months. The column on the right highlights the percentage of organisations intending to apply a salary freeze in the 2010 year.

March 2010 Forecast Average Salary Increases - General Market*				Nil Salary Increase Forecast (% of Orgs)
Career Level	Lower Quartile %	Median %	Upper Quartile %	
Chief Executive Officer	2.00	2.00	3.00	17%
Senior Management/Executive	2.00	2.78	3.13	6%

*Source: **dsd** Market Insights Survey March 2010

CEO/Senior Management remuneration forecasts remain conservative, however it is anticipated that forecasts will continue to increase over the balance of 2010.

We continue to monitor this data on a quarterly basis and, provided the economy continues to strengthen, we expect that this data will continue to trend upward.

Putting this into perspective – what else should Directors consider?

Although key economic indicators support a modest 2010 pay round, there are indications that 2010 salary increases could be more generous in some areas. The points of greatest pressure on salary budgets include:

- Continuing signs of economic growth both domestically and internationally
- Recent business/consumer confidence surveys showing both business and consumer confidence growing
- Pockets of specialised skills shortages are still being experienced in some industries. This appears to be particularly true for leaders with specialist skills.
- Recruitment freezes are easing. Our contacts in recruitment consultancies are indicating that the level of recruitment activity has jumped dramatically since the beginning of 2010
- The March 2010 unemployment rate, which has dropped back to 6%
- The continuing risk of higher inflation – particularly in light of the May budget announcements.

dsd's view is that Directors may begin to experience wage and salary pressure from Senior Managers in 2010. Most CEOs and Senior Managers had realistic expectations as a result of the recession and accepted cost cutting strategies as a result. However as profits re-emerge, the market stabilises and organisational performance picks up it will be difficult to convince Senior Managers that continued pay freezes and reduced increases are required.

We believe the strength of most sectors of the Australian economy, together with the projections for further significant growth in Australia will translate to increased demand for New Zealand's top talent and as such apply upward pressure on salaries on this side of the Tasman, particularly at the Executive level.

What Will the Likely Trend Be?

Having considered all the information above and reflecting on recent client engagements together with the slow strengthening of most sectors of the New Zealand economy; our view is that actual average 2010 salary increases in Private Sector organisations will be in the following ranges:

- Senior Management (Chief Executive and Direct Reports): **4.0% - 4.5%**
- All other Employees: **2.5% - 3.0%**.

These forecasts may appear particularly 'bullish' but need to be considered in light of:

- Historic data that demonstrates a clear pattern of CEO and Senior Management increases in excess of 4.0% per annum over a long period;
- The increasing trend we are seeing within Private Sector clients, many of whom are negotiating fixed remuneration increase budgets of between 3.5% and 4.0% across the entire organisation.

For more information about dsd, please feel free to visit our website, www.dsd.co.nz.