Understanding how salaries are calculated

Salary is a key motivator for most people, but the way employers come up with this vital number can often seem like a mystery. The more you understand how a salary is determined, the more influence you may have over the final figure. So, how are salaries calculated?

While individual experience and performance always plays an important role in salaries, the figure you are offered sits within a range that is based on a combination of four key factors - Industry benchmarking plays an important role in determining the size of your salary. “Good employers are constantly benchmarking their salaries within the industry and there are companies that assist them with this,” says Peter Noblet, Senior Regional Director of recruitment firm Hays. “Employers then make a decision about where they want to sit within this range. Some will want to be at the very top while others may sit in the middle or lower end of the scale and add other incentives, such as training and development or flexible working conditions in order to be attractive to candidates.”

You can use SEEK’s pay calculator to easily work out what different salaries are actually worth in your hand. The tool also takes into account relevant taxes and superannuation.

You can also access industry benchmarking data from recruitment firms such as Hays, which publishes an annual salary guide across various industries and roles. SEEK also publishes quarterly salary trends based on average advertised salaries across industries. This information can give you more bargaining power.

- **Market trends.** When times are good, companies tend to be more willing to lift salaries. When times are tight, this can also be reflected in wages. “Although the economy is doing quite well, employers are remaining cost conscious,” says Noblet. “We are seeing some movement, but attitudes towards salaries are remaining cautious. In this case, candidates can look at other benefits of a job, such as company culture and career progression.”

- **Skills in demand.** Supply and demand also play a role in calculating salaries. If there is an oversupply of a particular skill in the market, employers may offer a lower salary because they may have more candidates to choose from. The opposite is the case for highly sought-after skills. “There are definitely certain roles that are in higher demand than others, such as healthcare professionals and IT consultants,” explains Lindsey Ruth, Head of Marketing at recruitment firm Adecco Australia. “Therefore, the salaries of these roles will be pushed up a bit by market demand. Quality of the candidate and overall performance in a role certainly contribute to the salary expectation, but the market conditions must also be taken into account when negotiating a salary.”

- **The art of negotiation.** If you’re planning to move jobs, now is the time to polish up your negotiating skills because they may have an impact on your salary. “The way a salary is calculated often comes down to the attitude of the candidate,” says Noblet. “Employers will have a range that they are willing to pay and if the best candidate is willing to push for what they really want, this can make a difference.”

  What are the best ways to negotiate a salary level? Noblet says knowledge is key. “Understand what the current market rates are and make sure you can be clear about what you can bring to an organisation that might be different to other candidates. You can also try to negotiate a salary review within a certain timeframe if you don’t get the starting salary you want.”

Money may not be everything but it’s certainly important. If your job offer doesn’t come with the salary you expect, consider the other benefits a company may offer, such as work-life balance, career progression opportunities and training. If these benefits are attractive, they may form an overall package that’s right for you.