



What do Taylor Swift, Recruiters, and AI Engineers have in Common?

Jumping to the punch line - they all use *marginal pricing* to their advantage.

In this article we'll delve into the world of talent markets, hot skills, marginal pricing and compensation (apologies to microeconomic professors as we do take some liberties). We'll explore what constitutes a hot skill, analyze the current landscape, and unpack the critical role of compensation in securing top talent. By exploring these concepts companies can more effectively equip themselves with strategies to compete for the best and brightest.

Hot Skills: In High Demand, Short Supply

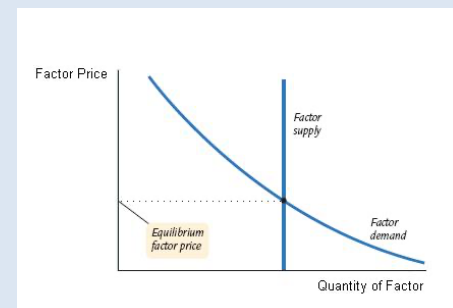
With unemployment at a multi-decadal low and rapid adoption of AI dominating business and economic headlines, in today's dynamic job market the battleground for talent is as fierce as ever. Companies across industries are scrambling to attract and retain skilled professionals, particularly those with expertise in high-demand, low-supply areas – otherwise known as "hot skills."

Hot skills are the burning embers of the talent market. They represent specific skillsets or areas of expertise that are experiencing a surge in demand from employers, often outpacing the available workforce with those qualifications. This imbalance creates a competitive landscape where companies need to pull out all the stops to attract and retain these valuable employees.

Identifying hot skills can be done through various methods. A series of related sources can provide valuable insights into the skills employers are actively seeking: you can start with input from your hiring managers about trouble filling open positions, review publicly available job postings, review industry reports, as well as online talent platforms. Additionally, current and future focused skill-gap analyses conducted by research firms or within companies can pinpoint areas of expertise lacking in the current workforce.

A Refresher on Supply and Demand Curves

*Just as in any market, the price of labor, the wage rate, is determined by the intersection of supply and demand. When the supply of labor increases the equilibrium price falls, and **when the demand for labor increases the equilibrium price rises**. In the long run the supply of labor is a simple function of the size of the population, so in order to understand changes in wage rates **we focus on the demand for labor**.*



*The graph shows that a factor of production – in our case, labor – has a fixed supply in the long run, so **the wage rate is determined by the factor demand curve** – in our case, the marginal revenue product of labor. The intersection of the vertical supply and the downward sloping demand gives the wage rate.¹*

This means that as demand for a specific skill – say AI Engineer – rises the price to secure that talent rises. In “hot skills markets” the factor demand curve rises so fast that the factor equilibrium price rises to levels that return handsomely for the individual with the skill and can be shocking to employers trying to secure that talent.



According to a recent article in Forbes, examples of current hot skills scorching across various industries include²:

Fastest-Growing Health Careers

- Nurse Practitioners
- Medical & Health Services Managers
- Physician Assistants

Fastest-Growing Tech Careers

- AI Engineer
- Data Scientists
- Information Security Analysts
- Software Developers

Fastest-Growing Trade Careers

- Wind Turbine Service Technicians
- Solar Photovoltaic Installers

This list is not exhaustive, and the specific hot skills vary depending on industry, timing and in some cases geographic location. However, understanding the current trends allows companies to adapt their talent acquisition strategies to target the right skillsets.

The Shifting Landscape of Talent Markets

The rise of digital skills and remote work capabilities has significantly impacted the talent market. Today, companies can tap into a wider pool of talent geographically, no longer confined by location. For instance, an article in the WSJ³ claims that *“British software developers, consultants, lawyers, film producers and blokes are doing their high-skilled U.S. jobs remotely from across the pond. U.S. businesses are chuffed to take advantage of depressed U.K. salaries, tax incentives and a weak pound.”* Opportunities and an open mind about hiring, creates new opportunities for both employers and employees.

This globalized talent pool also intensifies competition for top performers. Companies need to be proactive in showcasing their unique value proposition, not just in terms of compensation but also company culture, professional development opportunities, and work-life balance options.

Option 1: Talent Acquisition of Hot Skills

In the hot skills market, competitive compensation is paramount for recruiting external talent. Competitive salaries, bonuses, and a comprehensive benefits package are essential for attracting and retaining top talent.

Setting the Right Price

Companies need to stay informed about compensation trends for hot skills. These trends can include both the magnitude of compensation but also the structural components of pay packages. Companies often target the 50th percentile of the talent market as a general rule for their employee base, but leave the flexibility to utilize a higher target percentile such as the 75th percentile for hot skill and mission critical jobs. Resources like salary surveys conducted by reputable firms and industry reports can provide valuable benchmarks. Additionally, conducting internal skill-gap analyses can help determine the specific value a particular skillset brings to the organization, justifying a competitive salary offer.



Beyond the Dollar Sign

Rewards go beyond just the paycheck. Today's workforce prioritizes factors like corporate mission & purpose, employer brand & reputation, career & leadership development, work-life balance (with vacation being particularly influential in some employee populations), remote & flexible work arrangements, a positive company culture, and opportunities for rapid promotion. Companies offering flexible work arrangements, remote work options, strong mentorship programs, and tuition reimbursement programs can significantly enhance their employer brand and attract top talent, even if their base salary isn't the absolute highest.

The Hot Skill Premium

In a hot skills market, companies may choose to offer a "hot skill premium" on top of base salary. This premium compensates for the in-demand nature of the skillset and helps attract these valuable employees. Some important considerations for applying a hot skill premium:

Quantifying the Premium

- *Research & quantify:* Use salary surveys and industry benchmarks to determine the typical salary range for the position. The hot skill premium would then be added to the base salary for all candidates as well as employees currently in the role to create a more competitive offer.
- *Limit the population:* All pay decisions should be couched in a company's specific requirements, depending on organizational need, companies may opt to offer the premium to only a subset of employees deemed critical in a hot skill role.
- *Recruit 2nd, retain 1st:* Once research has identified a role as a hot skill, companies often preemptively provide a premium to retain existing employees possessing critical skills who are at risk of being poached by competitors.

Challenges of Hot Skill Premiums

- *Sustainability:* As the labor market adjusts and the specific hot skills become more common, the premium may decrease over time. Companies need to weigh the cost of offering a premium against the long-term value of the skill. By setting an annual cycle of review, companies can re-quantify both the need and amount of a premium for specific skills.
- *Fairness:* Offering a premium to some employees can create internal equity concerns. Companies need to ensure their compensation strategy is transparent and justifies the premium for specific skills and individuals within these roles.

Option 2: Developing Internal Talent

Companies navigating hot skills face a choice: develop talent internally or recruit externally. Developing existing employees fosters loyalty and leverages institutional knowledge, but takes time and may not always yield the specific skills needed. The best approach depends on urgency, internal talent availability, cost considerations, and the long-term strategic importance of the skill. Companies pursuing a policy of internal talent development should consider the following approaches to improve the likelihood of program success:

- **Upskilling and Reskilling Programs:** Invest in training and development programs to equip existing employees with the necessary hot skills. This can involve partnerships with universities, online courses, bootcamps, or mentorship programs.
- **Internal Mobility:** Provide opportunities for internal candidates to transition into hot skill roles. This not only fills the position but also boosts employee morale and retention.
- **Skills-Based Hiring:** Shift your focus from traditional job titles to the specific skills required for the hot skills role⁴. This can open up your talent pool to individuals with



transferable skills who may not have a perfect background on paper but possess the necessary capabilities.

Option 3: Consider Alternative Strategies

If you've tried external talent acquisition and internal development and determined that neither of these approaches is meeting your needs additional options include:

- **Outsourcing:** Partner with external agencies or freelancers who possess the hot skills you need. This can be a good option for temporary needs or specialized projects.
- **Project-Based Work:** Consider hiring on a project basis for specific hot skill needs.
- **Automation:** Explore automating tasks wherever possible to reduce dependence on specific skill sets.

Conclusion

The talent market is constantly evolving, and hot skills can quickly cool down. Companies need to stay updated on industry trends and emerging skills to ensure they're attracting the right talent for the future.

By implementing a strategic combination of talent attraction, internal development, and alternative solutions, companies can navigate this competitive landscape. The most effective approach will depend on the specific skill, company resources, and overall talent strategy.

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