NuCompass MOBILITY®

BUDGETING FOR RELOCATION

The missing link to controlling relocation costs

Employers say that they want to control the high costs of employee relocation. Yet, they are not using all of the tools available to them to accomplish that goal. This paper makes the case that the missing link is a budget for each move that determines how the employee will spend corporate funds while completing the move.

THERE ARE TWO PRIMARY REASONS FOR THIS POSITION.

1. First, a budget helps avoid expensive decisions in the first place. It helps determine the cost/benefit of a move. It helps managers decide if the relocation is worth the expense.

2. Second, a budget fosters discipline in the process.

A line-item budget provides the employee with clear financial guidance for managing the move and engages the employee in cost management. It minimizes exceptions and unanticipated costs.

CORPORATE BUDGETS

Don't businesses already require budgets for everything? Yes, they do for most major expenditures, but not for individual relocations.

Corporate budgeting for relocation costs is limited to the annual process of estimating how much money might be spent on relocation activities by the company, or by a division or group. However, when it comes to the individual relocation event, budgeting is seldom part of the process.

A CONTRADICTION

There is an inherent contradiction between relocation policies and cost control. Employee relocation is an expensive business activity.

Today, controlling relocation costs is a major priority for corporations. Cost management and pricing are fundamental criteria in the selection of a relocation management company (RMC). RMCs offer fees and supplier services at pre-determined rates, such as shipping rates for household goods. Competition is fierce and procurement departments wring out every last penny in the final selection process.

On the other hand, relocation programs are implemented using relocation policies. And policies do not encourage cost control. Rather they are "entitlement" driven. They use language like, "employee may move up to 12,000 pounds of household goods," or "employee and family may stay up to 60 days in temporary housing." Policy tiers authorize different levels of entitlements for different levels of employees.

Even though the RMC is selected based on cost controls, once the employee is authorized for a specific relocation the RMC has almost zero ability to control costs. All an RMC can do is to ensure compliance with the applicable policy. Ultimately, cost control is in the hands of the employee.

Frankly, entitlement policies are not a very effective approach to achieve meaningful cost control.

COST ESTIMATING

Cost Estimating is a good first step. Some employers prepare a “cost estimate” prior to a relocation decision. This effort is focused on determinine the total cost of a move so a recruiter or hiring manager can decide if the move makes sense.

Are the costs of the move exceeded by the expected benefits of having the employee on the job at the new location? A cost estimate also gives the hiring manager a preview of costs that will be charged to the business unit.

A good cost estimate examines the costs of an individual relocation given a specific policy, a known departure and destination, and information about the employee (compensation, family size, home ownership, etc.). Cost estimates are a very useful tool. Unfortunately, even costs estimates are not in common use today.

Importantly, a cost estimate is not a budget, mainly because it is not binding on the employee. In most cases, once the decision is made to relocate the employee, even after a cost estimate is prepared, the actual costs are the result of the employee’s decisions made according to the entitlements within the applicable policy.

BUDGETING IS KEY

Budgeting is the ultimate key to controlling costs. There are very few areas of corporate decision-making that involve large expenditures that are not subject to budgets because budgeting is a proven method for controlling costs. For the person responsible for spending the company's money, agreeing to a budget creates a fundamental commitment to cost control.

Corporate clients want to control costs. Hiring managers want to control costs. And RMCs, want to support the goals of their client. However, in today's environment, a major participant in the process, the employee, is not part of the cost control team.

THE MAIN POINT OF THIS PAPER IS:

Budgeting is a way to unite the key participants around the common goals of getting the employee relocated quickly, and doing so while controlling costs.

If, prior to a relocation, the corporate representative, the relocating employee and the RMC were all on the same page as to what was going to be spent on each component of the relocation, then cost control would become a central part of the process.

THE MISSING STEP

As previously noted many companies do cost estimates to determine what a move is going to cost based on policy guidelines and specific information about the relocating employee. We also noted that the final costs of a relocation are not governed by these estimates. Why not? The missing step is simply to convert a cost estimate to a budget for the employee to manage.

HOW DO YOU DO IT? THERE ARE TWO PREREQUISITES.

1. First, it is not necessary to change policies, but the employer needs to change the way the policy is interpreted. In other words, the “entitlement” language should be modified to use words like “maximum allowed”, or “if needed”.

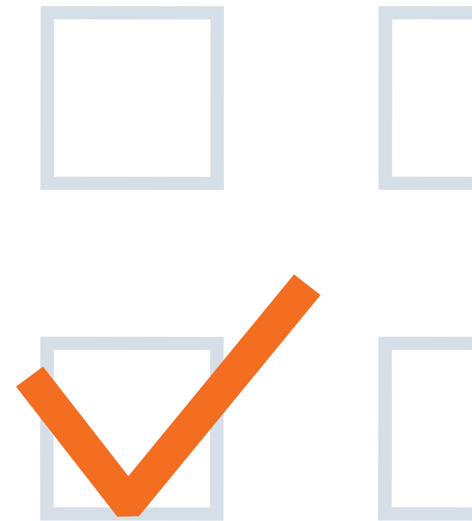
2. Second, the corporate HR representative, recruiter, hiring manager and employee all need to be involved developing the budget and approving it as part of the authorization process.

The preparation of the actual budget is an extension of the cost estimating process. The applicable company policy will outline the services that are available to the employee. The cost estimate is then developed based on information about the specific needs of the employee. A cost is developed for each component (household goods, home sale, travel to the new location, etc.). The cost estimate is shared and discussed among all participants. Once all parties are in agreement, the budget is signed off, and the employee is authorized to begin spending the employer’s money on the move.

A BUDGET APPROACH

From that point forward the budget drives the process. But it would be a fantasy to believe that the existence of a budget will automatically result in the desired level of cost control.

In reality, employees have unexpected needs and not everything goes as originally planned. Nevertheless, under this process, the budget becomes the benchmark against which all adjustments are considered.



Management of “exceptions” is a crucial part of cost control today. Using a budgeting approach won’t eliminate exceptions but it will bring much more discipline to the process. For example, the first alternative for dealing with a proposed exception would be to find money in another part of the budget before asking for an increase in the total. If the corporate client supported this approach the responsibility for dealing with most exceptions could actually be delegated to the employee.

LUMP SUM APPROACH

Payments of "lump sums" to employees to pay for their relocations are a current and popular trend. One could argue that giving lump sums to relocating employees and letting them make all of their own relocation decisions is a form of budgeting.

True, a lump sum payment does limit the amount that the employer spends on a relocation. But is it effective cost control? We think not.

THE LUMP SUM APPROACH HAS TWO MAJOR DEFICIENCIES WHEN COMPARED TO A LINE ITEM BUDGET.

1. First, lump sum amounts are usually arbitrarily determined based on limited criteria such as job level. It's seldom clear whether the amount provided is too much or too little for the particular move.

2. Second, a lump sum doesn't target expenditures to specific activities that will actually get the employee moved to the new location. In reality, the lump sum is the employer's money intended to be spent on a business purpose – a relocation. However, once a lump sum is paid, there is no control over what the employee purchases with the money. Is the employer getting a cost effective result? No one knows.

CONCLUSION

This paper makes the case that budgeting each relocation is the missing link to achieving more effective control of relocation costs. We recognize that converting to a budgeting approach is not an easy change for most employers. It is a significant departure from the way relocation is managed today. However, in recent years employers and RMCs have worked very hard under the current rules to squeeze out every last penny of excess costs. To get to the next level will require the kind of changes recommended here.

Frank Patitucci is CEO of NuCompass Mobility. He has more than 30 years of experience in the relocation, real estate, and mortgage industries. Frank has received the Editorial Achievement Award, Meritorious Service Award, and Distinguished Service Award from the Worldwide Employee Relocation Council in recognition of his contributions to the industry.

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