Controlling Relocation Costs

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Cindy Madden joined Cartus in 2006 as Director of the U.S. Consulting Solutions practice, which supports clients and prospects in the areas of Policy and Program Design, Group Moves, Destination Location Research, and the development of customized mobility websites. She has extensive experience in the development of global programs and policies that are intended to support the company's talent mobility strategy. Cindy has more than 25 years' experience in the relocation industry in a variety of roles, including account management and sales. She has been a speaker at industry conferences and seminars, as well as presenting for Cartus' own eLearning series. She has also served as a member of Worldwide ERC®'s Global Editorial Advisory Committee. Cindy earned a bachelor's degree in French from Southern Connecticut State University and a Master of Science degree from Central Connecticut State University. She holds the CRP designation.

In Cartus' fifth *Trends in Global Relocation: Biggest Challenges* survey, 78 percent of the 148 global relocation managers who participated cited controlling relocation costs as their number one challenge when facilitating moves. Ninety-nine percent stated that cost was either the same or a larger issue than the prior year. Control of costs also outweighed family issues, typically one of the highest rated concerns for relocation managers, by a ratio of five to one. "Massive, continuing improvements in globally connected accounting platforms over the last 20 years have shone a bright light on how very expensive it is to move talent, domestically and internationally," said Matt Spinolo, Executive Vice President, Global Client Services for Cartus. "It is evident in our surveys and in our daily interactions with these employers that cost is where they look first. But we're starting to see attempts to measure the ROI (Return on Investment) of an employee transfer, as well as the use of transfers to develop and retain talent."

This paper serves to provide relocation managers with practical advice on how to streamline costs associated with the relocation process.

Relocation Cost Drivers

As the economic climate changes and companies evolve, relocation professionals are charged with managing the many administrative details and costs associated with relocation. It's interesting to note that, while compliance and compensation issues – often beyond a company's control – can certainly drive cost increases, the most frequently mentioned drivers are factors that are well within a company's ability to regulate.

According to the recent Cartus survey, cost drivers that relocation professionals face include:

- **Exception requests from relocating employees:** Frequent exception requests are usually an indication that a company's policy isn't meeting the needs of its transferring employees.
- **Managers making decisions outside of established policies:** Similar to exception requests, if business line managers find themselves making judgement calls that don't fit within the parameters of a company's existing relocation plan, this suggests that the mobility manager needs to consider a policy review or revision.
- **Housing budgets that aren't accurate, usually due to incorrect housing data.**
- **Policies that are too rich:** Often policies are unnecessarily benefit-heavy in relation to the assignment need or the employee need.
- **Decentralized program management that causes inconsistent policy application:** Companies may have diverse groups involved in policy development or administration, either due to regional or departmental concerns. If decentralization is essential, communication and process need to be controlled to avoid the "too many cooks in the kitchen" syndrome and the potential outcomes of cost overruns, miscommunications and inconsistency.

Beyond these top five examples, other upward cost drivers include allowances that are too generous, inadequate tax planning and policies that aren't flexible enough. These can all lead to exceptions. Poor assignment planning, country-specific issues with tax regulations and housing costs all certainly come into play, as does the importance of helping assignees by managing their expectations throughout the relocation process. Too often, relocating employees have an uninformed, and therefore, unrealistic expectation of the benefits, housing and lifestyle that they are about to experience.

What Are Companies Doing to Manage and Control Costs?

To address mobility needs while containing costs and to respond to the cost drivers described above, companies are utilizing a variety of approaches, policy types and program adjustments, exploring new policy types or adding new nuances to existing policies.

Flexibility and Communication

Companies are increasingly seeing more demands for flexibility in their programs. In fact, 76 percent of respondents to Cartus' *2016 Global Mobility Policy & Practices* survey cited an increase in the need for flexibility, with the two predominant drivers being budget constraints and changing employee needs. While more flexibility can result in fewer exception requests, getting flexibility by making "ad hoc" decisions is basically the same as managing by exception, a distinctly non-cost-effective approach.

One client participant in a recent Cartus discussion, for example, believes that more flexibility in relocation programs ultimately translates into fewer exceptions. Coupling that approach with stronger governance over exceptions, this client has seen a year-over-year decrease in exception costs. The client has been very proactive on this front, building more flexibility into all of its policies in the last two to three years. That being said, they also understand that the ultimate decision on how to best support employees typically rests with the business, and that having HR and mobility managers work closely with the business can help prevent the incidence of decisions that are outside of the expressed policy.

The key is to put a policy in place that allows for flexibility while providing clear guidelines for specific elements. Two policy approaches that can offer the desired combination of cost control and flexibility are core-flex and tiering. While these options are thought of most often, some companies are also exploring lump sum for flexibility. Both core-flex and lump sum have advantages and disadvantages associated with them.

Core-Flex Policies: Instead of utilizing one plan for all employees – which may include benefits that one employee might not need while excluding other benefits that they do – flex programs allow companies to customize individual relocation packages around a standard set of core benefits. Simultaneously flexible and manageable, flex plans cater to the specific needs of each assignee, while honoring a company's established parameters and budget. Roughly 40 percent of clients in one Cartus meeting said that their companies utilize core-flex policies to achieve several different goals: flexibility for the business, cost containment, transparency, and ease of separation from standard policy types. Core-flex policy construction, while offering the advantages of tailoring policy to specific needs, can be complex as it can be based on any number of factors including function, assignment purpose, location, and family need.

When considering core-flex programs, companies that focused on best-in-class practices offered the following guidance:

- Cost estimates should be prepared by the relocation department, up front, to establish the budget;
- Location/country combinations can help to determine flex benefits and
- In a tiered approach to core-flex, the lowest tier should be compliance focused only, with benefits increased based on job level or other attributes.

These same companies noted that core-flex plans greatly reduce exceptions and that limited core-flex approaches prove to be particularly successful in having the ability to offer a higher relocation allowance.

While often beneficial, core-flex policies can be complex and difficult to administer. When David Buchner, Vice President, Global Mobility, suggested a "cafeteria style" approach for MasterCard's relocation program, he found that managers weren't ready to properly administer a flexible program at that point in time. In addition to removing benefits to control costs, additional concerns expressed to him included creating inequity and unfairness across business lines, and a need for mobility programs with clear guidelines and parameters that dictated managers' actions and the provisions they could provide. While some of the cafeteria-style approach was utilized under the supervision of MasterCard's mobility division, for the most part the overall plan was put on hold. The flexibility of the current policies will be monitored, and it's possible that a full cafeteria-style program could be implemented in the future.

John Poklemba, Director of Account Management, Cartus, said, "MasterCard is in a situation where their program is growing, and they're beginning to see more and more authorizations come through for assignees for domestic and international moves.

Matt Spinolo added, "More volume usually translates into more destinations, more family scenarios, more tax scenarios, etc. Larger programs like MasterCard's create complex needs that have to be addressed to both the employer and employees' satisfaction. In most cases, cost and complexity are highly correlated, so anything you can do to reduce complexity typically helps reduce cost as well."

Lump Sum Programs: Years ago, lump sum programs were typically utilized for lower-level employees and U.S. domestic relocations. Today, they are being incorporated into international relocation plans and are increasingly being used for a wider range and higher level of assignees. Complications that many Cartus clients have noted are the potential for inconsistent treatment across their businesses and that assignees might make poor decisions about the use of their funds and end up spending productive business hours filling gaps caused by the poor choices or even end up leaving the assignment early because they are unhappy. There is also a notable issue of employee expectations, whereby relocating employees may expect more support on top of the lump sum amount. The lump sum option for international assignments has other challenges, including difficulty in tracking.

The lump sum only approach for international assignments is a capped move, but if it includes information for the assignee on how to spend the money and which vendors to use, then this approach may be potentially helpful in boosting successful assignments. It is very important in lump sum programs to reiterate that immigration and tax support needs to be offered outside of the lump sum for compliance purposes. In addition, sending employees across borders may require language and cultural training that should also be offered outside of the lump sum for an assignment to be successful. Education support and spouse/partner support are family concerns that can impact an assignment unfavorably if not offered. The development of a lump sum policy includes a number of considerations, such as calculating family size, employee level, distance and tax methodology.

Better Data – and Better Use of It!

Better data is an item frequently cited by companies as key to constructing effective policies and on-target benefit programs. Issues such as housing budgets and policies that are too rich can, in some cases, be the result of inaccurate data. For example, if housing costs in a specific location are very volatile, or differ significantly between neighborhoods, the data used for budget calculations has to be not only up to date, but also accurate in terms of micro-locations to result in allowances that truly work for both the employees and the company.

One client noted that more attention to this area, applying practices such as comparing estimates to actuals, and continually refining estimates as better information (e.g., real time rents in a market) becomes available can help drive better budgeting and employee satisfaction, as well as potentially cutting down on exceptions that result when realities on the ground don't match the planned support.

New Move Types

In addition to the greater emergence of core-flex and global lump sum programs, there has also been an emergence of new move types that influence how companies approach relocation. Many of these are responses to the need to offer career development to employees at cost-efficient prices.

- **Expat lite:** 46 percent of respondents to the Cartus *Biggest Challenges Survey* acknowledged this move type as an emerging trend. Expat lite policies represent a relocation benefits package that is considerably lighter than standard plans. While compensation and taxes are usually covered, other policy features are diminished or removed entirely. This may include a lower limit on household goods shipment weights, decreased housing allowances, and/or clauses that require assignees to pay for private education if they choose not to enroll their children in local schools.
- **Permanent moves:** 37 percent of respondents to the Cartus *Biggest Challenges Survey* noted that this move type is on the rise, and most companies agree that the primary reason is for cost savings: by transferring employees on a permanent move, local benefits apply, avoiding the typical costs associated with expatriate policy support. When the employee is needed back home or at another location, a repatriation is initiated.
- **Talent swaps:** This new trend is gaining in popularity, according to 25 percent of the respondents who took part in the Cartus *Biggest Challenges Survey*. Talent swaps are generally implemented when two individuals, often employees at early stages in their careers, switch jobs for a period lasting three to nine months. Some relocation managers indicate that their companies are using this approach primarily for short-term assignment moves.
- **Employee-initiated moves:** 58 percent of respondents to the Cartus *Biggest Challenges Survey* said that they are observing or utilizing this emerging trend. One contributing factor may be that as more millennials have entered the workforce, there has been a noticeable increase in the number of employees who want the experience of living abroad. Although companies struggle with how to address these requests, at a minimum, most are covering compliance needs, such as immigration and tax.

Regardless of how companies approach their relocation plans, it's highly important that they establish consistent compensation packages, relative to the standard of living in the areas their assignees are transferring to. Put simply, international assignees living in France could have a very different experience than assignees living in the U.S. if their relocation packages are structured in exactly the same way. The assignees living in France, for example, might be able to exist financially, solely on their allowances, and never have to utilize their salaries. Assignees in the U.S. might find that their allowances are not enough to cover expenses, and therefore, would have to supplement costs by digging too deeply into their salaries.

Administrative Process Improvements

Making policy adjustments isn't the only way companies can save on relocation. There are also administrative improvements that companies can implement to make the entire mobility process more cost efficient. Administrative areas of focus should include:

- **Improving employee experience up front:** A positive assignee experience is paramount for any relocation, and that experience should begin from the moment an assignee agrees to take on an assignment. Asking strategic questions to identify the right candidate for the job, educating assignees to be sure they understand what the job and relocation will entail, and outlining assignment goals and succession planning all contribute to a successful relocation. Once candidates have accepted a position they will have many questions and concerns before being put in touch with a global mobility provider. It's important to provide candidates and their spouse or partner with a sense of comfort until those questions can be answered. If frustration or doubt grow from a feeling of being ignored, candidates may withdraw from assignments. Perhaps worse, transferring employees and their spouse/partner may carry tension with them on the move, causing the assignment to be less successful – or unsuccessful altogether. Offering process maps, contact lists and generic timelines can all help initially put the employees and their partners at ease.
- **Moving to a centralized global approach:** A centralized mobility team or leader ensures that all HR partners, vendors and suppliers are all on the same page. Early, cohesive planning for every assignment can set the tone for success by establishing consistency, which contributes to effective cost management. When doing this, of course, companies will want to take into account the need for regional nuance and, possibly, build regional addenda.

By focusing on the administrative contribution to the relocation process, a company helps ensure better talent retention and management for its investment. This does not just include the transferee. It also includes anyone impacted by the move – those authorizing it, those who approve the budgets, account managers, etc. The pre-assignment process, cohesion of HR partners and education of pending transferees is critical to controlling relocation costs throughout the life of any relocation or international assignment.

Improved ROI Through Talent Management

In an effort to better develop and manage their mobility strategies, some companies are shifting toward greater alignment between global mobility and talent acquisition. Tighter linkages between the functions and the implementation of processes designed to retain talent following assignments are significant factors in increasing ROI.

Worthy of noting, the Cartus' survey revealed a number of areas where HR and mobility are already collaborating on some of these practices, including examining employee performance ratings when considering candidates, establishing global talent pools, and incorporating assignment objectives into employees' performance while on assignment.

One way that MasterCard is approaching this issue is by tracking the gender, generational groups and performance of employees to help improve their assignee diversity. Buchner states that, in the future, they hope to utilize this information to provide better insight to the businesses so they can better allocate talent. While this initiative is still in its infancy stages, Buchner says they have a "vision for the future as they move more people."

Another financial services client is examining a number of approaches to addressing talent management with an understanding of the long-term value of its ROI focus. In addition to looking at enhanced repatriation practices, they are also including better support for the returning assignee and aligning the experience gained with the new job position, better utilizing the assignment skills and providing a better career path for repatriated employees. They're also providing additional support in the early stages of the assignment by using a convenient web-based orientation for new assignees.

Respondents to Cartus' 2015 *Biggest Challenges Survey* stated that the top three ways their companies are striving to strengthen ROI through talent management include:

- Collaborating with HR to ensure that employee performance ratings are considered for all international assignees;
- Ensuring that assignment objectives are incorporated into the employee's performance review while on assignment and
- Developing a global talent pool for future assignments.

Expanded Networks

In the long run, hiring a relocation provider with extensive global experience can greatly improve a company's assignment ROI, because those same providers have a wealth of experience and a strong network of vendors and suppliers around the world. Finding ways to cut costs is easier, as they are familiar with a variety of landscapes, cultures and each country's method of governance.

When choosing a relocation provider, companies should look for someone who provides cost savings recommendations and policy approaches to enhance their programs. Possible examples include:

- Using native-based destination service providers in assignees' transfer countries;
- Home sale incentives and reviewing marketing parameters to help homeowners secure the best prices for their homes, allowing them to save costs on the back end, as opposed to taking the home in inventory and incurring additional carrying costs or losses on resale;
- Benchmarking household goods policies and maintaining tighter control over container sizes;
- Policy simplification, reduced exceptions and increased flexibility and
- Changing from a state school requirement to a capped allowance fee when employees apply for extensive exceptions due to a lack of available seats in public schools.

Conclusion

Controlling relocation costs may be the number-one challenge that companies face when facilitating moves, but many of the drivers impacting those costs *can* be managed. By offering flexibility that is built around core parameters, through collaboration between all individuals and departments involved, and by compiling and regularly examining data – who is utilizing a company's relocation plan offerings and how – companies can create relocation policies that effectively address the needs of its assignees, improve their overall experience and secure the company's bottom line.

About Cartus Corporation

Cartus provides trusted guidance to organizations of all types and sizes that require global relocation solutions. With over 60 years in operation, we apply our extensive experience to helping our corporate, government, and affinity clients with their mobility, outsourcing, consulting, and language and intercultural training needs. Cartus serves over half of the Fortune 50 and, in 2015, assisted nearly 168,000 transferees, expatriate assignees, and affinity members into and out of approximately 150 countries.

Our company provides a broad array of services to assist our clients and their employees in developing their global workforces and managing the mobility process—from selling a home and shipping household goods to settling into new communities around the world. For global assignments, we provide not only logistical support for expatriates but also specialized expertise in cross-cultural and language training and in policy development and talent management. These programs are designed to help employees increase their effectiveness while working and living around the world. Our support allows clients to outsource the logistical, financial, and training aspects of global mobility and to access tools that offer the capability of capturing the total cost of an assignment.

With more than 2,800 employees in 18 offices around the world, we are the recognized leader in each of our business areas worldwide. At the same time, we strive always to demonstrate the qualities of a global employer of choice and have received consistent recognition for our efforts in promoting work-life balance, diversity, and citizenship.

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