How to Effectively Customize Your Relocation Program

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Introduction

Today, there are two distinct relocation program trends: a focus on cost containment and the addition of creative offerings. With the relocation process dragging out due to a sputtering housing market, expenses in almost every category have swollen to a point that budgeting is, at best, an exercise in futility. At the same time, the apprehension of prospective transferees has put pressure on employers to provide add-ons and approve exceptions in order to entice reluctant transferees to move.

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So, what is the best solution to address these pressures?

Some employers have punted the idea of customization in favor of a one-size-fits-all approach. In a brisk market, this might work. But, in uncertain times, these programs are not nearly as effective from a cost or need perspective.

Other employers have gone the other way. In effort to customize programs to suit the needs of multiple layers of talent, we have seen companies have as many as ten working policies at any given time. In theory, this is great because it seems you are meeting the needs of the most transferees. But, if you are trying to administer more policies than you can count on two hands, or if you are bleeding money because nothing seems to fit right, you've reached policy overkill. Quantity does not always lead to quality.

Unfortunately, there isn't one recipe that is going to solve everyone's pain points. The first step is to throw out old ways of thinking and take a fresh and dynamic approach to relocation program management. It may sound counter-intuitive, but rather than try to build an equitable program for every transferee lumped into specific categories (homeowner verses renter, pay grades, new hire verses current employee, etc.), it's more important to turn the process upside down and look at the individual challenges of each move. In this whitepaper, we will explore how to analyze your program so that you can customize your policies in the most cost-effective way possible.

The Evolution of Lump Sum Philosophy

The lump sum trend was born out of a desire to be equitable. From an administrative and budgeting perspective, it's easy to just pay every transferee an equal lump sum and be done with it. However, even though lump sum policies appear to be simple on the surface, there are actually numerous flaws that arise with its implementation. In the real world, relocation factors vary. From person to person, you will face different requests surrounding the following:

- Family needs
- Transferee's comprehension of managing the funds/process
- Location costs
- Logistics needs
- Housing needs
- Time constraints
- Financial stakes (home equity position)
- Extended family needs

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As you can see, when you take into account the factors above, lump sum relocation programs are rarely equitable. Surely, there are a number of places where a lump sum is a useful tool, but relocation managers with an eye on recruitment and retention should be wary of its simplicity and try to find alternatives to suit the specific needs of their transferees.

Creating More Definition at the Lower Levels

One of the biggest challenges with lump sum programs is that they are often used for entry-level hires who may not understand what they will need to successfully relocate. As such, they will require some guidance on how to allocate their resources effectively. Further, college graduates are usually so excited to hear that they will be receiving several thousand dollars to move that the level of enthusiasm is akin to a kid in an arcade with a pocket full of quarters. In both instances, the money never goes as far, nor lasts as long, as they think it will. Consequently, their positive attitude quickly changes when they realize the cost of moving, temporary living, leasing fees, travel and other "miscellaneous charges." In no time, the inefficiently spent funds are gone, leaving the transferee to plead his or her case to a manager. More often than not, managers will extend additional monies, which may or may not be captured as a relocation expense. This makes budget tracking all the more difficult when evaluating your relocation program.

For the new hire or lower level moves, employers typically commit a limited amount of resources. This is understandable because the benefit-cost ratio of these moves rarely justifies a bigger program. However, adding structure will help relocation managers use available resources more effectively. If your limit is $2,000, consider direct billing a self-haul rental truck and then extending an allowance of $1,000. If your limit is higher, pay for the cost in actual administered benefits wherever possible and allocate a smaller amount for truly miscellaneous expenses. For example, if you have a target of $10,000, you can break down the cost over specific anticipated cost items, such as household goods movement, temporary living, home finding and final move, while leaving a smaller portion of the benefit to a miscellaneous "catch all" allowance. At the very least, provide your transferee with a menu of relocation services that they will need, including their cost, so that have some reference to help allocate funds.

What is a miscellaneous allowance?

In addition to providing a number of defined benefits, some employers also include an amount of cash to address any items that are not specifically covered in the policy. Frequently, this allowance is provided as cash at the beginning of the process to help the transferee with out-of-pocket expenses along the way. In other instances, the funds are handled as a reimbursement only upon providing a receipt for specifically permitted miscellaneous expenses. In these instances, if funds are spent outside of the approved benefits and approved miscellaneous categories, the funds are not distributed.

Infusing Flexibility into the Upper Tiers

At the other end of the spectrum from new hires and lower level moves are the higher level transferees. Senior personnel requires many more assurances and enticements in order to make the move attractive enough to accept. Challenges include, but are by no means limited, to the following:

Without a doubt, each need adds a layer of complexity to the relocation process.

- Family issues
- Negative home equity
- Senior care
- Children with educational or special needs
- Spousal employment assistance
- Wine/Automobile/Art/etc. collection
- Woodworking equipment/materials
- Extended dual living due to timing of school year, or other family events
- Property management
- Vacant home staging

This list is just the tip of the iceberg when it comes to moving today's relocation savvy executives. Without a doubt, each need adds a layer of complexity to the relocation process, as well as an additional expense. Balancing the need for cost containment with the demands of high-level executives is challenging, but also very possible if you infuse flexibility into your policies.

A New Look at Homeowner Programs
The first step to adding flexibility to the upper tiers is to dismiss the notion that a homeowner move program should cost a certain amount of dollars. This is difficult because it's natural instinct to set limits when trying to contain costs. It also makes budgeting easier. If you set the cost – let's say $60,000 for 30 homeowners - your overall program cost should not exceed $1,800,000. This is a number you can rely on, which is comforting when you have to present to your CFO.

But, when you give every homeowner a one-size-fits-all sum to match, you don't take into account the many variables associated with home sale. This means that in some instances you may be spending way more than necessary while in other, more complicated sale situations or pricier locations, you are not providing adequate funds. Of course, if history has taught us anything, senior executives usually get what they want in the form of an exception and it is these sorts of exceptions that often account for the lion share of ballooning corporate relocation expenditures. If you have a strong understanding of anticipated costs, designing a program around approved benefits can give you the same level of certainty as a capped program, if not more so when you take exceptions into account.

On the surface, benefit driven programs have been less appealing to accounts payable departments because of the perceived uncertainty. However, in the long run, a program with reliable upfront anticipated cost projections can highlight the anticipated cost of each move component, even before the relocation is approved. Further, if the projection comes in too high, you can reduce or remove items from the policy options until the anticipated costs fall in line with the value of the move. Later, we will discuss the actual cost projection process.

Using a cost projection tool up front to determine which benefits are approved not only adds a level of certainty for relocation managers, but it also reduces the stress for the transferee because they will be getting exactly what they need, when they need it. A deliberated program of defined benefits also avoids having to refuse certain benefits to transferees because an arbitrary dollar cap has already been reached.

Although cost projections are not exact expense reports, they can get very close. Benefits that are not used to capacity or at all represent real savings for companies. This is a far better alternative than paying the projected amount in a lump payment, or having a discussion with the transferee who believes they are entitled to the remainder of the policy cap funds because they found ways to save (i.e. cut corners). The more structured defined benefits programs are, the more clearly they define the path for the transferee and the budget for the relocation manager, procurement and/or the CFO.

Combined Lump Sum

Although lump-sum policies are rare for high-level executives, employers have been combining a number of commonly used benefits, such as home finding, temporary living, final move and a miscellaneous allowance into one lump sum in order to simplify book keeping, cut down on processing time and add an element of cost containment and consistency. The problem with combined lump sums is that they rarely match the actual needs of your transferee. The ease of administration is negated by unnecessary cost when paying an employee for services for which there is no need, and granting exceptions when the funds are legitimately inadequate.

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How to Assess Costs Upfront

Clear cost projections are the linchpins that connect cost containment with adequate benefit delivery. In order to ensure clear projections, we must get the most accurate view of anticipated costs right out the gate, preferably before an offer has been extended to the potential transferee.

If possible, the best way to get a true picture is to have a pre-move interview with the move candidate(s) to discuss any specific needs and the overall feasibility of the relocation given the employee particular situation. This interview should cover housing concerns, family needs, financial issues and any other facet of the employee's life that will be impacted by a relocation.

You can expect factors such as the actual home selling price, the size of the household goods shipment and new home purchase price to fluctuate.

Those HR departments that are uncomfortable with such interviews, or that have specific rules preventing probing in these areas, can still execute a reasonable assessment. In these instances, the employer might provide their candidates with a comprehensive prep tool that gives an overview of the company's move objectives. It should also give the transferee insight into the complexities of relocating, what to expect, how to assess financial viability and how to determine if additional services will be needed. After completing the pre-move tool, the candidate will be more informed about the relocation's impact when discussing the potential move with their hiring manager. In turn, the hiring manager will be able to gather valuable information about the employee's needs and the total costs anticipated.

Once specific needs are accounted for and program benefits are understood, the cost of each component can be investigated using a variety of resources, from vendor information to the internet. For future adjustment flexibility, pricing should be broken down into the lowest divisible unit. It's important to remember that, with each component, you must also consider the tax cost to the transferee. If your intent is to limit the tax implications to the transferee, than not only will the taxes be taken into consideration, but also the tax on those taxes being covered. This additional consideration is referred to as a "gross up," which, after home sale and the household goods shipment, is the most expensive line item for a typical homeowner relocation. With each cost and tax treatment projected, adjustments can be made to either reduce or increase the total anticipated cost based on the transferee's specific needs. As the relocation progresses, the projection should be updated to give you more accurate information as it comes in. You can expect factors such as the actual home selling price, the size of the household goods shipment and new home purchase price to fluctuate. A good technology platform will adjust the bottom line in real-time so that you can see how things are proceeding. Keeping current on anticipated expenses provides for better real time budgeting.

Build Your New Program

Relocation programs should always be works in progress that are updated after a careful review of feedback from transferees, recruiters and hiring managers. Exception requests and industry trends should also be taken into consideration.

If you are building a program from scratch, first look at the population of your workforce. Depending on the skill sets and diversity of the population, your program will range in number of tiers and benefits needed to satisfy each segment. For example, if you are running a retail business in markets with a readily available pool of qualified candidates and need only to provide limited assistance to store managers, there might be one policy with straight forward, consistent benefits. However if your company has many layers, such as some employees with easily-replicated skills and others with highly specialized skills, the overall program will need additional flexibility.

When working with multi-tier programs, begin with the most robust offering and work your way backwards. Within the actual policies, begin with the most expensive component and work down through the other elements. For example, a good order might be home sale, transportation of belongings, temporary living, home-finding and so on. You will find that when you write your most comprehensive policy first, it's easier to keep the language consistent throughout all of your policies.

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As you progress, have a sense of the anticipated range of costs for each benefit. You can work with your third-party provider or, if you are in-house, your vendors, to give you an idea if you are remaining within the bounds of your goal program budget. As you move down the list, consider the number of times you might anticipate a specific need. For example, if you want to include elder care but you know that it's not a major concern for your transferees, you may want to reconsider its prominence in your policy. In fact, you might remove it all together, opting instead to add it to a list of options where a miscellaneous allowance might be applied.

Once the most comprehensive policy is formulated, and the anticipated costs are determined, the lower-tier policies can be determined based on anticipated needs and the cost/benefit ratio (i.e. does the benefit of having this candidate at the destination location outweigh the cost of getting them there?)

A Word on Creative Add-Ons and Market Competition

In a competitive market for highly skilled talent, employers will throw in added enticements to address potential concerns and beat out the competition for the hire. These benefits will range in price and scope. The appeal of placing add-ons directly in the policy, as opposed to granting exceptions as they come up, is that not everyone feels comfortable requesting them, especially from a new employer. Thus, if you are in such a business, this is one circumstance where you will include items in the policy that are not used by the majority. The alternative is to clearly define the benefits allowed in the miscellaneous category. Ultimately, if you note creative add-ons in your policy, and the competition does not, it could make a big difference.

Measure Program Results

As noted previously, relocation policies, especially in a turbulent market, should be reviewed on a regular basis. We recommend reviewing them annual at a minimum. Relocation policies should be written to provide guidance and set expectations. Therefore, to evaluate your program, you should first look at the feedback of the transferees for each policy. When the transferees are polled on their experience, they should be asked to review not only their overall experience, but also the clarity of the policy and the convenience of the benefit administration. This feedback with help determine where editing would be useful. Next, you should look at which benefits were used more than allotted and which were used less frequently than expected so that you can make adjustments. Finally, carefully review all exceptions throughout the year to hone in on any trends that can be addressed in your policies.

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Tweak Your Program and Repeat

Once you've taken a comprehensive look at your policies to determine how your program performed overall, you will be able to make minor or sweeping changes as needed. Pick a start date to implement your tweaked program and move forward from there. Per the section above continue the process of review-adjust-implement on a regular basis to ensure that you are responding to current market trends and transferee needs.

About XONEX Relocation Inc.

XONEX Relocation is a third party relocation services company that offers the right solutions for corporate clients – solutions that meet the demands of relocating families in today's hectic business climate.

We help corporate America move their valuable talent with minimal interruption and maximum satisfaction for everyone involved in the relocation process. Our knowledgeable and caring staff combine cost transparency with creativity to structure benefit plans that are sensible and targeted to each client's needs.

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