



The paradox of relocation pricing

Let's talk about the elephant in the room

by Steven John, SCRP, SGMS-T
Strategic Vision, Transformative Leadership
Global Mobility Adviser



Industry Insights
from Global
Mobility Adviser

The giant elephant in the room

There is a paradox in the way most relocation management companies (RMC's) earn money for their services that makes it difficult to align the RMC's goals with their client's goals. It's a giant elephant in the room for the relocation industry and to understand why, we have to go back to the 1980's.

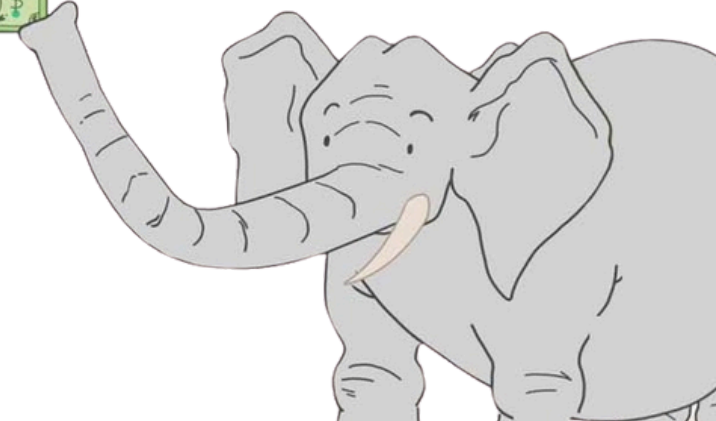
In the early days of the relocation industry, employers paid their relocation partner a fee to administer a tax protected home sale program and all costs of services were passed through with no upcharge. Very much like you would expect for a consultative service company. Fees for professional services.

In the 1990's the industry evolved. Competition grew and relocation companies were forced to drop their fees. Employers thought this was great – no fees are good, right? Well, not always. Relocation companies still had to make money. Gradually fees were replaced by commissions and rebates added to the services managed. With every dollar that an employer spent on things like furnished housing or moving household goods, a percentage went to the relocation company.



The ugly news is that adding commissions and rebates to supplier costs now **INCREASES** your tax bill. And the more these services cost, the more an RMC earns!

And that's how we arrived where we are today. RMC's tout zero or minimal service fees, with their actual service cost buried in pass-through invoice amounts. Supplier rebates received by the RMC are not disclosed and difficult to identify even if a client knew to look.



Fee is not a four-letter word

One of the major goals for RMC's is to reduce the tax assistance burden for their clients. Since the beginning of the industry, RMC's have created various programs to help reduce tax assistance or gross-up costs. Unfortunately, today's practice of adding costs to pass-through amounts to earn money via rebates is in direct contradiction to that goal. Every \$100 added to an invoice increases the employer's gross-up cost by \$50 - \$55. Charging the client that same \$100 as a fee, results in no additional gross-up costs, as fees are treated as business expenses for the employer, not as a taxable reimbursement to the employee.

The paradox gets more complex when you add the procurement duties of the RMC. As part of their portfolio of services, RMC's act as the procurement officer for their clients. They are charged with identifying and managing the best relocation service partners for a vast swath of services: household goods shipment, auto transport, temporary lodging, destination services, etc. Yet from each supplier chosen, they demand a commission which is simply added on top of the cost passed on to the client. How many suppliers are chosen based on the commission offered?

A great Relocation Management Company should do three things:



1
Minimize stress and worry for employees



2
Reduce relocation related tax burden for employers



3
Work in their clients' best interest to control costs

RMC's are also charged with managing usage of services within the confines of the relocation policy. Yet for every service utilized and every dollar spent, RMC's earn rebates and commissions. There is no incentive for utilization to be limited and every incentive to hope relocation services are used and overall costs increase. Every price increase implemented by a supplier is revenue enhancement for the RMC. The entire premise is flawed. Companies would never allow their internal procurement officers to take kick backs from suppliers, yet this is the norm for the relocation industry.

Commissions, rebates and mark-ups commonly hidden in original invoicing



HHG
Transportation



Temporary
Housing



Hotel



Auto
Transport



Appraisal



Inspection

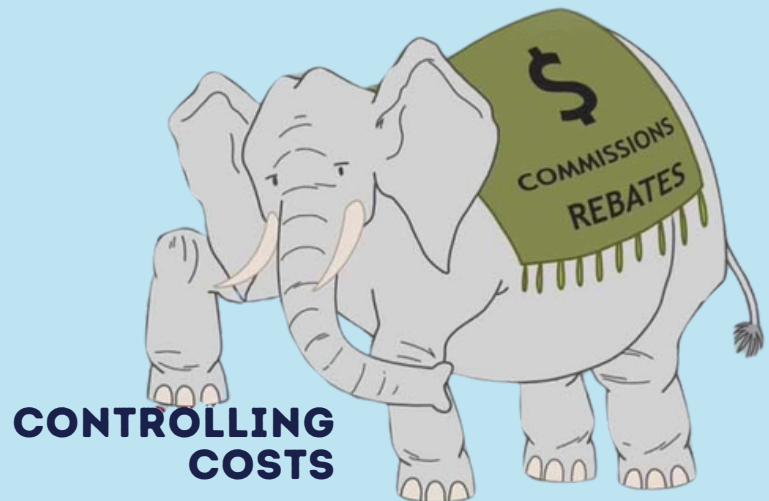


Title

The relocation industry's most trusted partner®

Employers and their relocation partners' goals are out of alignment.

How can a relocation firm say that they are controlling costs when they make more money with every additional dollar spent?



That's why Global Mobility Adviser is implementing an alternative to the paradox of relocation pricing which ensures that your Relocation Partner is working to contain your costs, not increase them. Global Mobility Adviser is committed to be a **TRUE PARTNER**.

Would you expect anything less from a Berkshire Hathaway affiliate?

Aligning with and advocating for our clients' best interest, True Partner® is Global Mobility Adviser's series of insights on mobility topics that matter most to your business. The mission of True Partner® is to promote unbiased information and decision making and deliver clear analysis

and advisement that truly benefits your relocation programs and processes without favoritism or conflicts of interest.

Using HSR's transparent approach, employers can reduce gross-up expenses and ensure that their RMC is working consistently to reduce costs. Think what even a 5% reduction in relocation spend can mean for your bottom line.

Do you know what your true relocation costs are? Would you like to know?

Contact us at
steven@globalmobilityadviser.com
or visit us online at
<https://globalmobilityadviser.com/>



Telephone: (623) 824-1704

Global Mobility Adviser helping organizations build a globally mobile workforce
Solutions, Strategies, Expertise and Advice.

*The information contained in this paper does not constitute tax or legal advice nor a client relationship and should not be used as a substitute for consultation with professional accounting, tax, legal or other competent advisers. The application and impact of laws can vary widely based on the specific facts involved. Before making any decision or taking any action, you should consult with your tax professional regarding your specific circumstances. The author's use of Worldwide ERC®'s material is not, in any way, an endorsement by Worldwide ERC® of the article or the opinions expressed in the article.

