BUYING EXPATRIATE RELOCATION SERVICES: REAL VS. PERCEIVED COSTS

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A WHITE PAPER FROM PRIMACY RELOCATION

CONTENTS

I. EXECUTIVE SUMMARY

From the Phoenicians to the East India Company to today's integrated, multinational corporations, sending an employee to work in another country (a 'global assignment' in HR terms) has carried considerable costs while opening the potential for yet greater financial returns for the employer. However, companies that are contemplating increased expatriate placements, within their home countries (inbound) or overseas in host countries, run the risk of pennywise and pound-foolish decisions unless they are able to weigh perceived costs against real costs.

Perceived costs are easier to identify and therefore receive the most critical attention. *Real* costs are the sum of all direct and indirect expenses associated with the transfer.

Compounding this challenge is the current state of many corporate finance systems, which are not designed to track relocation or assignment management cost data. Relocation cuts across many areas, including travel, transportation, human resources and payroll.

With tax equalisation, housing allowance, cost-of-living adjustment and other benefits, the typical expatriate compensation package is two to three times the home-country base salary. For example, an expatriate with a €100,000 annual salary will cost the employer €200,000-300,000 per year.

Shorter term assignments have lower costs, especially when they avoid taxation thresholds, so the recent trend has been more short-term assignments and extended business trips. The savings pendulum will swing the other way, however, if expatriate employees are not given enough time to accomplish their assignment's specified business objectives, whereby the position becomes a 'revolving desk' lacking in continuity or operational momentum.

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Additionally, if these companies with newly global ambitions have historically moved their employees (domestically) using several decentralised relocation departments, they may face serious financial and regulatory risks unless they refit or re-educate organisation structures for cross-national transfers.

II. WHAT TYPES OF COMPANIES SEND EMPLOYEES OVERSEAS AND WHY?

As mentioned, the average cost of a single global assignment is typically two or three times the employee's annual salary. The reasons for this cost ratio are well documented, but the important point is the value or return an employer can expect from global assignments. Much of the value comes from the networks that expatriates develop and the opportunity to exchange skills and knowledge both in and outside the workplace. As Figure 1 illustrates, different types of corporations have different reasons for exporting or importing their talent.

There are three reasons why a company might give an employee a global assignment: filling functional needs, developing the employee for upper management, and developing the company itself. Anne Wil-Harzig of the University of Melbourne further categorises these employees as 'bears, bumblebees and spiders.' Those playing the role of bears are the long arm of headquarters control. The bumblebees transfer (cross-pollinate) their corporate culture. Wil-Harzig's spiders weave the informal communication networks so important in connecting far-flung branches, subsidiaries and all strategic partners.

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Organisational Characteristics	Multinational Corporations	Global Corporations	Transnational Corporations
Configuration of assets and capabilities	Decentralised and nationally self-sufficient (Unilever, Philips)	Centralised and globally scaled, but trending to decentralised model. (auto makers, Japanese firms)	Dispersed, interdependent, and specialised (Matsushita, Siemens)
Role of overseas operations	Sensing and exploiting local opportunities	Implementing parent company strategies	Differentiated contributions by national units to integrated worldwide operations
Typical global assignments	Engineers, specialists as needed	Senior managers (mid- and line-management localised)	Specialists and managers, depending on cultural climate
Are their expatriates bears, bees or spiders?	Bees & spiders	Mostly bears	Depends on the country or market: mostly bees & spiders

Figure 1: Types of corporations making global assignments

Moreover, recent advances in IT still cannot replace the importance of face-to-face contact with clients and competitors alike, according to Dr. Jonathan Beaverstock of the UK's Loughborough University. Beaverstock accurately predicted that expatriation will become more frequent, short-term and project-based.

III. ADDRESSING RELOCATION PROGRAMME COST DRIVERS

Any strategic assessment of a corporate relocation policy's cost drivers begins near the top with a self-recognition of how the company financially accounts for all relocation costs ('real'), and where those costs are allotted. Applied tactically, a cost recognition function assembles all information on the cost of a transfer, in one place, for case-by-case review and approval.

Relocation cuts across many areas (both organisational and geographic), including travel, transportation, human resources and payroll. Corporate finance systems are usually not designed to track this seemingly unrelated cost data in concert. As a consequence, the decision-maker for any given transfer will be weighing its business value using incomplete ('perceived') cost figures.

The employer's case-by-case recognition of relocation costs means understanding the total cost of any given global assignment before it is originated. Then the finance and HR departments must track and report actual costs to budgets. This represents the smallest category of relocation cost drivers, but the way this 'inexpensive' work is carried out can reverberate, multiplying the size of the other, much larger, cost drivers further down the pyramid (Figure 2).

Tracking and reporting exceptions will usually reduce an employer's overall relocation spend by 7 to 9 percent.

During the relocation process, the people managing the relocations (internal or outsourced) must track, report and especially *manage* exceptions to the relocation policy. Tracking and reporting exceptions will usually reduce an employer's overall relocation spend by 7 to 9 percent.

Responding to a *2005 Survey of Global Assignment Management Practices* commissioned by Primacy Relocation, 31 percent of surveyed employers indicated that they track exceptions on a per-assignment basis for budgetary purposes, 23 percent track exception on an overall basis in order to identify policy components that need review, and 39 percent do not track the cost or type of exceptions granted. (Seven percent were not able to answer the question.)

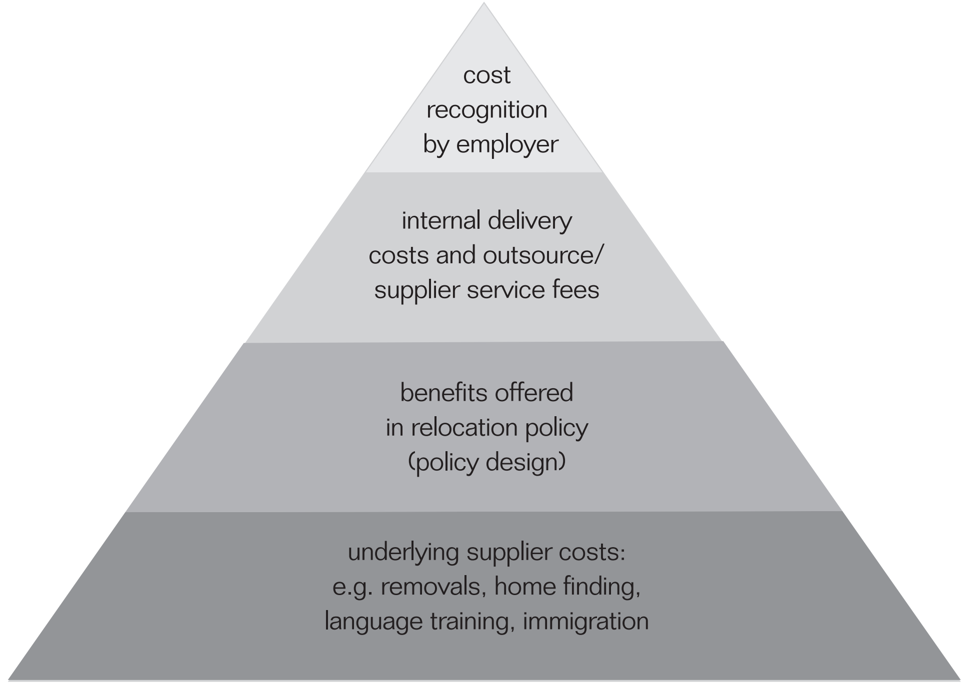

Figure 2: Relative size of cost drivers for relocation programmes

Internal delivery costs and outsourced supplier service fees

The second (and second smallest) relocation cost driver is the process of carrying out the relocation programme, whether it is internal payroll and administrative costs or fees paid to a relocation management service provider.

Depending on the size and organisation of a company, different departments, such as finance or human resources, may administer the relocation programme. Some may lack any formal programmes while others have highly structured processes. Moreover, different operating units (who do not always communicate with each other properly) may administer different aspects of the programme.

Some may manage and execute all of their relocation processes in-house while others find value in co-sourcing or outsourcing them. This is done usually for the purposes of saving time, focusing internal resources on inherent company workforce strengths, or for providing better service to each transferee by assigning him or her with a highly responsive 'single point of contact.'

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Of the companies participating in the *2005 Survey of Global Assignment Management Practices*, 43 percent indicated that they either outsource or co-source some assignment management services (staffing 1:58 assignees, 7 percent declined to answer).

Employers that intend to continue providing all assignment management services internally may consider centralising the internal relocation delivery groups. Among the survey participants who fit this category, 49 percent indicated that they deliver services in-house from a centralised group (staffing 1:31 assignees) and 26 percent deliver service in-house and decentralised by business unit (staffing 1:21 assignees), while 13 percent reported a combination of centralised and decentralised in-house assignment management services decentralised by region (staffing 1:18 assignees), and 12 percent reported a similar combination decentralised by business unit (staffing 1:12 assignees).

Measuring (and revising) the relocation benefits

The third (and second largest) relocation cost driver is the nature of the relocation benefits themselves, also known as 'policy design.' The entire relocation benefit policy ought to be reviewed once every two years by all stakeholders. This process normally involves benchmarking the policy against those of competitors or companies in similar industries. Relocation associations such as Worldwide ERC® provide a forum for this type of process and most relocation providers offer policy creation and review as part of their service.

Between these reviews, while a policy is in place, the employer controls costs by judiciously enforcing it. Some companies can do this with ease, while some may face employee morale or internal political issues.

Between these reviews, while a policy is in place, the employer controls costs by judiciously enforcing it. Some companies can do this with ease, while some may face employee morale or internal political issues. For this reason, outsourced service providers enjoy a natural advantage for enforcing policies. When confronted with unreasonable requests from an transferee (who may be a very senior or well-connected executive), the outsourced provider can play the dispassionate gatekeeper and ensure that policies are consistently applied and that the programme is equitable for all employees.

Underlying supplier costs

The cost of removals, home finding, language training, immigration and other services or processes comprise the largest and most tangible part of the global assignment cost pyramid. These costs also tend to be the least flexible – unless the 'flexing' is upward, given the housing and transport sectors. There are two reliable methods for managing these costs. One is to react tactically and reduce the number of suppliers to gain volume price reductions. The second is to think strategically in the way costs are allocated and choose suppliers of these services who demonstrate the best overall value, not necessarily the lowest prices. That 'overall value' is not normally expressed down here in the base of the pyramid, but rather how the suppliers can interact or comply with the work being done in the upper tiers.

Shorter assignments tend to cost less, but a number of cost items remain constant regardless of length of stay since they are typically incurred at the beginning and end of the assignment:

• Transfer bonus or allowance

• Cultural training

• Language lessons

• Spousal assistance

• Home finding

• Travel to destination

• Air shipment of household goods

• Surface shipment (delivery to destination residence)

While these costs will not necessarily increase for longer assignments, they may achieve much less ROI when applied against shorter assignments. Longer assignments may help amortise the costs listed above, but they also carry larger time-sensitive costs:

• Salary

• Goods & services allowance

• Property management at origin

• Housing expense

• Home leave or return trips

• Dependent education

• Tax preparation

• Taxes

The employee's salary would be less relevant to the calculation if he or she could have been performing a similar function for the same business unit without transferring.

Around the world's tax laws in 180 days

To show all the previous cost items in different contexts, there are three scenarios graphed in the following pages illustrating how transnational assignments (from Germany to the UK) of varying lengths can have cost differences that are not proportional to the differences in length of stay, particularly when the 'tax-residency trigger' is avoided. The base salaries and family sizes given are also different, but the key performance indicator here is not the total number of euros spent, but the ratio of the total cost to the home-country base salary.

Case 1 involves a transferee, a spouse, one child and a 'traditional' length of stay of three years. The total assignment cost is 2.59 times the base salary. Case 2 involves the same size family, but a 25 percent lower base salary and a stay of only 18 months. Despite the shorter stay and lower salary, the total assignment cost was 3.51 times the base salary. Case 3 involves a considerably lower salary, no spouse or other dependent, and a much shorter stay of six months. The total assignment cost is only 1.82 times the base salary. This lower cost ratio was achieved, in part, due to the lack of dependent support, but mainly because the assignment lasted less than 183 days in the host country, therefore no foreign tax cost was incurred by the employer.

In the *2005 Survey of Global Assignment Management Practices*, 54 percent of the employers responding indicated a set policy maximum of less than 180 days in order to avoid the 183-day tax-residency trigger in many host locations. A subset of this group, 39 percent, have also established a policy maximum in some jurisdictions of less than 90 days. The remaining 46 percent of employers surveyed have not set policy maximums for extended business trips.

Multinational employers commonly arrange for expatriates in host countries to temporarily vacate their assignments (good time for training, attending conferences, or going on holiday) in order to avoid tax-residency triggers.

Companies that place too much emphasis on short-term assignments run the risk of creating positions that become 'revolving desks,' lacking in continuity or value-adding operational momentum.

What the numbers cannot reveal, however, is whether or not six months (or even 18 months) was long enough for the transferee to meet the business goals of the assignment, whether he or she serves as a corporate bumblebee, spider or bear. Companies that place too much emphasis on short-term assignments run the risk of creating positions that become 'revolving desks,' lacking in continuity or value-adding operational momentum.

Asia presents a possible benchmarking metric for this issue. Since it takes longer for Western transferees to adjust to Asian cultures, many multinationals extend the defined timeframe of a short-term assignment in Asia versus what they apply in Europe. We've noted that whereas short-term assignments generally last six to 12 months in Europe, they could last anywhere from nine to 18 months in Asia.

Case 1: ‘Traditional-length’ assignment for executive with spouse and two children

Assumptions:

Base Salary:	€100,000/annum	Home Currency:	€uros
Family Size at Host:	Three (3)	Host Currency:	GBP
Assignment Begin Date:	1 June 2006	Annual Projected Increase:	4%
Assignment Length:	Three (3) Years	Foreign Exchange:	€ = .6831 GBP
Home Location:	Frankfurt, Germany		€ = 1.2048 US$
Host Location:	London, U.K.		

	2006	2007	2008	2009	Total	
Compensation:						
Salary	€58,630	€104,000	€108,160	€46,716	€317,506	
Assignment Expenses:						
Transfer Allowance	8,334	0	0	9,013	17,347	
Cultural Training	332	0	0	0	332	
Language Lessons	249	0	0	0	249	
Spousal Assistance	1,245	1,245	1,245	0	3,735	
Property Management	7,470	9,960	9,960	4,150	31,540	
Home Finding	5,490	0	0	0	5,490	
Relocation Airfare	2,831	0	0	2,226	5,057	
Household Goods Surface	12,201	0	0	14,031	26,232	
Household Goods Storage	1,605	2,417	2,514	1,638	8,174	
Goods & Services Allow.	4,041	7,168	7,455	3,220	21,884	
Net Housing Expense	13,188	23,512	24,453	10,596	71,749	
Council Tax-Housing	1,794	3,198	3,326	1,441	9,759	
Dependent Tuition	10,008	10,408	10,825	0	31,241	
Host Country Transp.	13,875	24,612	25,596	11,055	75,138	
Home Leave	2,021	2,102	2,186	0	6,309	
One-Time Expenses	6,563	0	0	664	7,227	
Tax Preparation Services	3,528	2,905	2,905	3,528	12,866	
Total Assignment Expenses	€94,775	€87,527	€90,465	€61,562	€334,329	
Actual Tax Liabilities:						
Germany Social Insurance	6,607	11,327	11,327	4,720	33,981	
U.K. Income	30,681	59,126	70,706	26,832	20,826	208,171
Total Actual Tax	€37,288	€70,453	€82,033	€31,552	€20,826	€242,152
Less Hypothetical Tax:						
Germany	(18,987)	(34,157)	(36,000)	(15,747)	(104,891)	
Employer’s Social Insurance (DE)	6,607	11,327	11,327	4,719	33,980	
Tax Cost to Company	24,908	47,623	57,360	20,524	20,826	171,241
TOTAL COSTS – €uros	**€178,313**	**€239,150**	**€255,985**	**€128,802**	**€20,826**	**€823,076**

Case 1 Summary	**2006**	**2007**	**2008**	**2009**	**2010**	**Total**
Salary	€58,630	€104,000	€108,160	€46,716	€317,506	
TOTAL COSTS – €uros	**€178,313**	**€239,150**	**€255,985**	**€128,802**	**€20,826**	**€823,076**
Total Cost Multiple	3.04	2.30	2.37	2.76	N/A	2.59

Key Performance Indicator: the total assignment cost is 2.59 times the base salary

Case 2: Shorter assignment, lower salary, but a larger cost ratio

Assumptions:

Base Salary:	€75,000/annum	Host Location:	London, U.K.
Family Size at Host:	Three (3)	Home Currency:	€uros
Assignment Begin Date:	1 June 2006	Host Currency:	GBP
Assignment Length:	Eighteen (18) Months	Annual Projected Increase:	4%
Home Location:	Frankfurt, Germany	Foreign Exchange:	€ = .6831 GBP € = 1.2048 US$

	2006	2007	2008	Total
Compensation:				
Salary	€43,973	€71,375	€115,348	€230,696
Assignment Expenses:				
Transfer Allowance	6,250	6,500	0	12,750
Cultural Training	332	0	0	332
Language Lessons	249	0	0	249
Property Management	7,470	9,130	0	16,600
Relocation Airfare	2,835	2,226	0	5,061
Household Goods Air Ship.	4,217	4,638	0	8,855
Goods & Services Allow.	3,266	5,823	0	9,089
Net Housing Expense	13,188	23,553	0	34,741
Council Tax-Housing	1,794	2,932	0	4,726
Furniture Rental	6,398	10,054	0	16,452
Dependent Tuition	10,008	5,204	0	15,212
Temp Living & Meals	11,432	0	0	11,432
Host Country Transp.	13,875	22,561	0	36,436
Home Leave	2,021	0	0	2,021
One-Time Expenses	6,124	664	0	6,788
Tax Preparation Services	3,528	2,905	2,905	9,338
Total Assignment Expenses	**€92,987**	**€94,190**	**€2,905**	**€190,082**
Actual Tax Liabilities:				
Germany Social Insurance	6,607	10,383	0	16,990
U.K. Income	26,022	46,358	26,224	98,604
Total Actual Tax	**€32,629**	**€56,741**	**€26,224**	**€115,594**
Less Hypothetical DE Income Tax:	(12,492)	(20,714)	0	(33,206)
Employer Social Insurance (DE)	6,607	10,383	0	16,990
Tax Cost to Company	26,744	46,410	26,244	99,378
TOTAL COSTS – €uros	**€163,704**	**€211,975**	**€29,129**	**€404,808**

Case 2 Summary	**2006**	**2007**	**2008**	**Total**
Salary	€43,973	€71,375	N/A	€115,348
TOTAL COSTS – €uros	**€163,704**	**€211,975**	**€29,129**	**€404,808**
Total Cost Multiple	3.72	2.97	N/A	3.51

Key Performance Indicator: The total assignment cost is 3.51 times the base salary, a higher ratio than the previous scenario, despite the shorter stay and lower salary.

Case 3: Fast, single and duty-free (but was the job completed?)

Assumptions:

Base Salary:	€75,000/annum	Host Location:	London, U.K.
Family Size at Host:	Three (3)	Home Currency:	€uros
Assignment Begin Date:	1 June 2006	Host Currency:	GBP
Assignment Length:	Six (6) Months	Annual Projected Increase:	4%
Home Location:	Frankfurt, Germany	Foreign Exchange:	€ = .6831 GBP
			€ = 1.2048 US$

	2006 Expatriation	2006 Repatriation	Total
Compensation:			
Salary	37,500	€0	€37,500
Assignment Expenses:			
Transfer Allowance	2,490	0	2,490
Cultural Training	332	0	332
Relocation Airfare	945	742	1,687
Household Goods Air Ship.	2,241	2,465	4,706
Goods & Services Allow.	2,370	0	2,370
Net Housing Expense	9,960	0	9,960
Host Country Transportation	4,337	0	4,337
Home Leave	1,320	0	1,320
One time Expenses	1,702	664	2,366
Total Assignment Expenses	**€26,943**	**€3,871**	**€30,814**
TOTAL COSTS – €uros	**€64,443**	**€3,871**	**€68,314**

Case 3 Summary		2006 Expatriation	2006 Repatriation	Total
Salary	€	€37,500	€0	€37,500
TOTAL COSTS – €uros		**€64,443**	**€3,871**	**€68,314**
Total Cost Multiple		1.72	N/A	1.82

Key Performance Indicator: The total assignment cost is only 1.82 times the base salary.

v. Glossary

Air Shipment: Shipment of household goods by air, usually limited to 225 Kg. in corporate relocation policy; to arrive quickly sometimes followed by a slower surface shipment.

Bear: An expatriate manager who serves as the long arm of headquarters control, enforcing corporate standards and directives. Coined by Anne Wil-Harzig, Univ. Melbourne, along with 'bumblebee' and 'spider' below.

Bumblebee: An expatriate employee who transfers, or 'cross-pollinates,' the corporate culture, generally through exemplary practices and collaboration skills rather than top-down management (see 'bear').

Extended Business Trip: Between 89 and 183 days, depending on destination. Length should be host country tax-driven.

Goods & Services Allowance: A payment to make up for differences in the cost of living between home and host country.

Home Country: Country of origin, typically the nationality of the expatriate employee as well.

Host Country: Country of destination.

Hypothetical Tax: The amount of tax the assignee would have paid if he or she had not gone on assignment. Taken as a credit against what the employer pays on the assignee's behalf.

Long-Term Assignment: Twelve to 60 months.

Property Management Fees: Charged to maintain expat owned origin property, either vacant or with a tenant, while expat is on assignment.

Short-Term Assignment: Less than 12 months.

Spider: A type of expatriate employee whose assignment includes helping to weave the informal communication networks so important in connecting a multinational corporation's far-flung branches, subsidiaries and all strategic partners.

Spousal Assistance: A service to help the spouse or partner of the expatriate find a job.

Third Country Nationals: A person who is not a citizen of either the home or host country (e.g., a Canadian transferring from Germany to the UK).

VI. Profile of employer respondents to *2005 Survey of Global Assignment Management Practices*

Employers surveyed in order of concentration:

1. Information technology
2. Banking and financial services
3. Manufacturing
4. Automotive and automotive suppliers
5. Biotechnology
6. Construction/engineering
7. Petroleum/energy
8. Retailers

Number of employees worldwide:

- 50 percent have 10,000 or fewer
- 21 percent have 10,000 to 35,000
- 29 percent have 35,000 or more with several over 100,000

Employee locations:

- 79 percent large metropolitan centres
- 29 percent remote or lesser developed areas

(overlap is due to some employers selecting both)

VII. Sources

2005 Survey of Global Assignment Management Practices (Primacy Relocation, 2005).

Economic & Social Research Council, Transnational Communities Programme.

Managing Across Borders: The Transnational Solution, Christopher A. Bartlett and Sumantra Ghoshal.

This white paper was originally presented 18 October 2005, at the Institute of Directors in London by Matt Spinolo, CRP, GMS, Chief Executive Officer of Primacy Relocation. A former banking executive, Mr. Spinolo has contributed articles to *Human Resources Executive* and to *Mobility*, published by Worldwide ERC. He holds a BS from Rhodes College and an MBA from Vanderbilt University.

Primacy Relocation is a third-party employee relocation provider, the largest in the world to focus all technology and resources solely on relocation and global assignment (expatriate) management. The company administers programmes for employers throughout The Americas, EMEA and Asia/Pacific regions. Core services include home sales, destination services, household goods move management, and overall programme administration. In addition to its Memphis headquarters, Primacy has offices in Chicago, Dallas, Los Angeles, Minneapolis, Omaha, Sacramento and Washington D.C. (Government Services), as well as Basel, Geneva, Lausanne, London, Montréal, Munich, Neuchâtel, Shanghai and Zurich.

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