The Erosion of Service in the Relocation Industry

MOBILITY Magazine, May 2007

Simon documents three trends that he says have been detrimental to relocation—the business "feeder" process, the erosion or elimination of service or management fees, and procurement. The results, he says, have caused a fundamental deterioration of the quality of service delivered to the corporate client and the transferring employee or expat—and a similar deterioration in the management and disposition of the real estate inventory entrusted to the relocation firm, resulting in unnecessary additional costs to the corporate client.

By Jim Simon

Amokida is the word used by a New Zealand Maori tribe to describe a truth that everyone knows but of which no one speaks.

The decline in the overall health of the relocation industry, the general malaise suffered by its employees, the deterioration in the economic health of the third-party relocation firms and, most of all, the general unease or dissatisfaction on the part of many corporate clients, all represent the truths no one speaks of in the industry today.

The major third-party relocation firms were founded on the concept of delivering a high-quality service level to the transferring employee and the corporate client, while also effectively disposing of the transferee's home in the old location. The concept was a classic outsourcing rationale: outsource what is not core to an organization to a company where it is core. Because relocation services were the core competency of the third-party firms, they were in a better position—with a total focus and a critical mass of well-trained specialists—to best counsel and act as an advocate for the transferee and to deliver proactive policy and program guidance. Among the benefits the corporation received were accurate reporting; saving the client money by expertly appraising, marketing, and managing the sale and closing of the homes—and avoiding costs by providing substantial tax savings.

The financials of the business initially were simple: the corporate client paid the relocation firm the direct (i.e., broker's commission, legal fees, utilities, and the like) and the indirect (the relocation company's overhead apportioned to each home or transferee) expenses, plus a "service fee" (or "profit") of about 1 percent of the appraised value of each home it acquired. Usually there were some performance incentives so that if the relocation firm was able to sell the home expeditiously, it could earn more than the 1 percent—likewise, if the home sold for a large resale loss or took an extended period to sell, the relocation firm risked all or part of the 1 percent fee.

Introducing a Management Fee

The decision in 1978 by IBM to outsource relocation to Homequity (now Cartus, Danbury, CT) and Merrill Lynch Relocation (now Prudential Relocation, Irvine, CA) jettisoned the growth of the industry. The IBM relocation business was so large at the time that it accounted for roughly 20 percent of each of the relocation firms' business. It also introduced the concept of a management fee, which, in essence, combined the "indirect charges" and the potential profit of the relocation firms into a set management fee. This had the effect of truly putting the relocation firms "at risk" for the first time—not only for their profit but for their actual overhead expenses. If a home did not sell in a certain time frame, or if it resulted in an excessive resale loss from the appraised value, the relocation firm's total expenses on that property would not be completely covered by the management fee. These contracts were, for many years, highly lucrative and profitable for both relocation firms—and saved IBM significant dollars as its inventory homes sold faster and IBM peeled away its huge internal relocation department.

It was a simpler world then. The relocation firms were healthy and growing, their employees were energized; the corporate clients and their transferring employees were, by and large, satisfied—and often very satisfied. The single biggest issue was the clients' perception that the appraised value was not high enough. Reports and billings were accurate and generated regularly.

Trends Develop

Several trends have emerged to change the industry. First, relocation companies became mere appendages to what traditionally had been considered by them to be "downstream suppliers." Real estate, household goods, and mortgage companies were starting relocation companies or buying existing ones in order to feed business to those more significant or lucrative ventures. Household goods organizations entered the relocation business to "save" lost business with customers that had outsourced to relocation companies, thereby cutting their direct relationship to the corporate client. Of the top seven relocation companies (by volume, at least), all are attached to or owned by organizations whose primary or significant business is real estate, transportation, or mortgage services.

Anytime a business becomes ancillary or, worse, a "feeder" to another business deemed to be more significant or more profitable, there is trouble looming for that business. Typically, the business no longer is valued as it once was. The investments in technology, people, product research, and training begin to evaporate. Quality declines significantly because the business itself is not "valued" and is truly intended (despite the initial marketing claims of management) to feed the other, core business. The pressure to justify the money spent on the acquisition becomes too tempting and the strategy evolves to simply underprice its services. After all, the "big money" is in those other main businesses.

Elimination of Fees

This leads to the second major trend: the erosion and elimination of service or management fees paid to the relocation companies for U.S. domestic services. The relocation companies have seen the erosion and, in many of the largest corporate accounts, the complete elimination of the service fee. The expectation is that the firm will meet its financial needs (overhead and profit) through the referral fee charged to real estate brokers from the referral of the departure and, in varying degrees, destination properties. In many cases, the relocation firm was, through various avenues, already benefiting from the referral fees, so this was a huge loss of revenue for the third-party firms. The news gets even worse: some relocation companies actually have offered and paid significant upfront payments to the corporate client in return for the business—and the ongoing privilege of servicing the client for no service fee.

This fee erosion and upfront payment situation is being accelerated by the third major trend: corporations' utilization of their procurement departments and expertise to help select the relocation supplier and negotiate the terms.

The Mobility Purchasing Process

The typical mobility purchasing process for corporations involves a "good cop/bad cop" routine. As, admittedly, an oversimplification for purposes of brevity, human resources (HR), the ultimate user and "owner" of the relationship, turns the RFP and negotiation over to procurement after assuring the potential "vendor" that HR really is the decision-maker and that service quality and capabilities will be a major factor in the selection process. Procurement then takes over and assures the vendor the precise opposite: low price will be necessary to win the contract. Once the preferred supplier has been "beaten down"—aided by the relocation firms' insecurity caused by the RFP process, previous service issues, the complete lack of focus on profitability, a total inability to inject a focus on the "value" of its services (perhaps believing they can raise the fees later or change the "mix" of services) or simply because of irrational exuberance—the relocation firm eagerly accepts and proudly publicizes the deal. HR emerges again to take charge of the ongoing relationship with the provider—only to be surprised at the resulting mediocre or unacceptable service delivery. Procurement disappears—until the next round of negotiations—and has no day-to-day responsibility, accountability, or involvement in the relocation process.

Cutting Costs and Pricing Problems

The relocation companies have tried to "rationalize" the eager acceptance of this pricing by fantasizing about the savings through technology (self-service, increased efficiency, greater productivity) or synergistic business model (also known as "hidden costs" or "revenue streams"). Savings from technology have been spotty, at best. In some cases, poorly conceived technology has made it problematic for some firms to even produce a timely and accurate bill or report—let alone atone for the loss of fee revenue.

Some of this is because of the lack of proper technology investment over the years—again, a common symptom of businesses that are not valued on their own. The additional "revenue streams," often hidden but ultimately paid by the client, usually come through such sources as closing or title fees and "marketing agreements" between a relocation company and other downstream suppliers, such as mortgage companies.

Mostly, however, relocation companies simply have had to dramatically cut costs to survive. Some have been successful in creating enough scale to have an efficient, high-volume business with minimal customization (except for their largest accounts) and a solid financial return. Many, however, have attempted to continue to do business the way they did 20 years ago—but without the same revenue or return.

As a result, these relocation firms have seen a steady decline in profitability while they attempt to reduce their costs. To make matters worse, some firms are trying to reduce their costs while globally expanding. For too many third-parties, cutting costs has meant throwing everything overboard that is not absolutely necessary for survival. It also has meant eliminating the very things that made them unique or successful in the first place—their talent and expertise. In too many relocation firms, for example, training is nonexistent (despite the urgent needs presented by the expansion of U.S.-based relocation companies into the global markets).

The results of all this are a fundamental deterioration of the quality of service delivered to the corporate client and the transferring employee or expat—and a similar deterioration in the management and disposition of the real estate inventory entrusted to the relocation firm, resulting in unnecessary additional costs to the corporate client.

Much of this has been shielded from the corporate client because of the low return rate of customer surveys, the loss of relocation-savvy in-house personnel after waves of corporate outsourcing, the decade-long great real estate market and the narrow focus of procurement on fees (partly because of the virtual impossibility of comparing the direct operating costs of homes acquired by relocation firms to any reliable "control" group) instead of overall operating costs incurred through the relocation firm.

Service Levels

The perception of a declining level of service has been an undercurrent within the industry for the last several years—mirroring the time frame of the industry's "takeover" by real estate, mortgage, and household goods suppliers and the ensuing fee deterioration. It is interesting to note that, in my personal experience, virtually every relocation company reports service satisfaction levels (from the transferred employee) of never lower than 92 percent and never higher than 98 percent. The low number is the minimum acceptable number that could be reported in an RFP without being laughed at, and the higher number is the highest that could be reported and still be credible. The problem is that almost no one within the front lines of relocation companies and their corporate clients truly believe that the service levels are that high.

A widespread perception is that the service has eroded from being a true advocate with proactive guidance for the transferee to one of "coordination" of increasingly expanding, multiple suppliers with no one really in charge. This is a logical result of the decreased staffing and increased caseload of the counselors who work with the expats and transferees. As a result, corporations just are not satisfied with the level of service they are receiving from their third-party supplier—and many of the third-parties are not satisfied with the level of service they are providing.

When a relocation company has to cut significant costs, it really only has one place to go. In my experience, nearly 70 percent of a typical relocation company's costs are its people. The easiest way for a relocation company to cut its costs and overhead is to eliminate the very ingredient that is indispensable to its service—the people who deliver it. So, as a procurement person looks to the company that has the lowest fees, it naturally is going to the supplier with the fewest and least experienced people proportionately dedicated to delivering the very services they are buying. Much of this rationalization for fewer people has been masked under the name of increased "productivity," but the reality is that it is mostly fewer people struggling to deliver an increasingly complex service and just not able to do it as well as they know they should.

Staffing

In addition to cutting back on customer service personnel or counselors, relocation firms will eliminate staff from the area responsible for managing the disposition of the client's inventory or acquired homes. This tends to be less visible to clients because it is perceived as a "back office" function that can be pushed off to the real estate broker. The outcome of cuts in this "back office" function, however, can be costly to the client.

There is a direct correlation between the expert, objective management of inventory homes (proper pricing, broker selection, determining the marketing strategy, ensuring the home is in proper condition, managing the broker to ensure maximum exposure, and the like) and the resale costs. It also is well-known that the homes that are inspected by the relocation company—not just the broker—will sell quicker. But all these functions require people.

This was a major rationale for the original argument to companies to outsource to relocation firms: they had the expertise and people to manage inventory more effectively and, therefore, would save the company money. While relocation companies slash costs so they can cut their fees, they eliminate these specialists and, therefore, increase the caseload of the people remaining. The result? Homes are less likely to have an actual "marketing strategy" and are not "managed." They rarely are inspected personally by an actual employee of the relocation firm. The implication of all these issues is simple: the client's homes, adjusted for the market, will take longer to sell and will sell for less, thereby increasing the costs.

So, as corporate clients and their procurement teams have focused on minimizing or eliminating a relocation firm's service fee, the big money is going out the back door in additional inventory home costs. Yet the service fee that is so vital to the health of a relocation firm is a miniscule percentage of the total costs of a relocation.

Making Pizza Cheaper

The strategy of many of the relocation firms reminds me of the great pizza analogy of Gordon Bethune, former CEO of Continental Airlines. He said, "If you're being rewarded for finding ways to make pizza cheaper, eventually you'll take the cheese off. You'll make it so cheap that people won't eat it."

Too many relocation companies are in danger of forgetting why the industry became successful: service and saving companies money. If these firms continue with their strategy of "buying the business," not valuing their services and, in turn, cutting out vital infrastructure, they will be in danger of taking the "cheese off" and undercutting their reason for existence. In the process, they also will put themselves out of business or choose a more "graceful" exit through a takeover by a healthier competitor.

Many of these firms are now in the midst of a vicious cycle of undervaluing and under-pricing the business, adjusting their cost structure to accommodate the low pricing, watering down their services, delivering mediocre service and then having to cut their price further at renegotiation time (or sooner!) to simply retain the business. The client, likewise, is unwilling to raise the supplier's fee because of the lackluster service. The downward spiral then just perpetuates itself.

Where do we go from here? First, I believe relocation companies must pull back from the predatory and fiscally irresponsible pricing practices of some of the worst offenders. The seriously declining real estate markets no longer will forgive some of these pricing excesses. Today's firms will be forced to reevaluate the fundamental financial foundation of their business. Ultimately, relocation firms need to determine if they have a truly differentiated product with value-added quality service that justifies a reasonable service fee that allows them to make a good margin—or, equally viable, are they selling a "commodity" in which a lower fee is justified—but those firms will have created a standardized process whereby they deliver a competent and reliable service and have the size and scale to achieve solid financial returns.

The companies that fall out will be the firms that try to straddle both camps and misjudge or delude themselves into believing they are delivering a differentiated product when, in fact, it is a commodity. Those firms are the ones that have failed to recognize that they have taken the cheese off of the pizza but still are trying to charge gourmet prices and cannot figure out why no one is buying.

Many relocation firms will need to focus on a profitability priority and forget the marketing babble about valuing the customer or the employee above the interests of the shareholder. In the end, an organization that does not achieve sustained profitability will lose both its clients and its employees. The failure to identify sustained profitability as the number-one priority has created an industry culture whereby profits are an unspoken word—resulting in undervalued services, constant "scope creep," the reluctance by client and relocation firm to talk about the need for profitability and, therefore, fiscal irresponsibility, poor service, and an industry in deep trouble.

At the same time, corporate clients will need to evaluate the level of service they expect from a relocation company and ensure that they truly evaluate the cost of that service delivery. What is the amount of necessary staffing, reasonable caseload, critical technology, service philosophy, and culture to meet their needs?

Although it is very difficult to truly measure counselor caseloads, they do matter. Likewise, careful analysis of the "back office" real estate management infrastructure is critical to ensure that acquired properties truly are marketed and not simply handed over to a captive broker network. HR needs to ensure it does not "wash its hands" of the pricing issues and truly partners with and educates procurement to understand the factors that will support excellent service and lower overall costs (not just low fees). Just finding procurement professionals who actually have relocated would be a great start.

For corporations whose priority is service to its employees, consideration also should be given to alternative pricing structures that allow them to control the staffing level on their accounts.

Although it should not be up to the purchaser of services to look out for the financial well-being of a supplier, both procurement and HR need to realize that, in the end, you will get what you pay for.

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