



# HOW MUCH DOES IT COST TO SAVE MONEY?

BY PAM DUNLEAVY, CRP, AND  
DR. SHERI SINAGA, SCRIP, GMS



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*With the world still reeling from the near collapse of the global financial marketplace,*

*Dunleavy takes the opportunity to explore the question, “how much does it cost to save money?”*

**H**ave you ever watched in awe the “super shopper” in action? You know the person: virtual site map to every store sale, expandable coupon folder, and an amazing ability to pile their grocery cart high with family favorites and still check-out having spent only \$35. These are the people who understand how to get the most out of their dollars. They are organized and disciplined in their buying habits.

Now let us take a look at want-to-be super shoppers. They cut coupons in a renewed effort to save money, run to the store inspired to demonstrate their cost-saving savvy, are relentless in using every coupon (if they can find it when they get there), and are sadly disappointed when their significant other kindly points out that their spree cost more money than it would have without coupons. Purchases were made based on perceived savings for items they did not need or a pretty package displayed next to a “sale” item that lures a less sophisticated shopper into ultimately missing the underlying costs.

### The Balancing Act

Whether managing business or personal finances, the ability to save money is an essential skill in today’s economy. With relocation spend in the top tier of costs for many organizations, it is not hard to understand why requests for proposals (RFP) are at a ten-year-high; nor is difficult to imagine relocation professionals

scouring their policies to identify areas of potential hard dollar savings. The delicate balance stems from fully understanding the cost of a relocation program, distinguishing the essential from the expendable and, most important, ensuring that the added cost of a pretty package does not increase costs in the long run.

### Short-term Fixes

There are substantial cost risks for the organization that through the RFP process views service fees as the simplest method to achieving internal cost-cutting initiatives. Take for instance the hypothetical company that intends to cut supplier costs 10 percent across the board. The initial review of relocation costs reveal a \$6,000,000 spend or perceived \$600,000 in savings that can be achieved by driving a RFP. Immediate excitement occurs for the procurement or supplier manager who reports this mathematical finding to leadership. With expectations set, budgets are established and the mission to save \$600,000 begins.

So starts a series of events for the tenured relocation manager and supplier/partner to ensure that the organization understands that 95 percent to 98 percent of these perceived savings are directly attributed to the relocation policy; sacrificing one relocation benefit for another may, in the long run, increase spending; and employee productivity is a hard dollar cost. For example:

**1)** Policy cost components include, but are not limit-

ed to, homefinding, miscellaneous allowance, homesale, household goods shipments, new home purchase, final move, and tax gross-up. The combination of these program categories equate to the 95 percent to 98 percent of relocation spending and largely are dependent on the policy parameters established by the company.

**2)** While amending or redefining a program component such as a GBO to a BVO may minimize potential loss-on-sale and inventory costs, it also may increase costs in the area of temporary living and subsequent tax gross-up. The key is in ascertaining the potential increase in spending for the move population in totality measured against the individual move risks.

**3)** Lump sums do reduce administrative burden and transferees will find less expensive alternatives when it may add a few dollars to their wallet. This does not account for the time it will take an employee to self administer the relocation benefits contained in the lump sum. Take a transferee making \$75,000 annually who spends even one week (fully understanding it currently takes an experienced relocation management company consultant six to nine months to move a transferee from one location to another) self administering their relocation program. At \$1,400 per week (far more than the service fee likely paid to the supplier/partner), combined with the lack of work focus contributing to the organiza-



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tion's bottom line—not to mention the direct expenses that occur regardless of who administers the policy—and it becomes clear that there are hard dollar costs associated with employee productivity.

### **One Size Does Not Fit All**

Much has been written to assist organizations to find methods for reducing their relocation spending within their relocation policies; however, like the super shopper, organizations must be disciplined and buy into policy changes for its impact to be realized. A relocation policy is a compensation plan. For instance:

- Changing tax gross-up methodologies from true up to supplemental will reduce spending unless, at the end of the year, the company makes exceptions to the policy providing relief to the executives or to a “squeaky wheel.” A handful of such exceptions quickly will eliminate any savings and, in fact, cost the company more.
- Including an incentive to sell homes quickly will produce results. The question is the right type of incentive for the organization. If achieving a 50 percent amended value rate (AV) currently, will a 10 percent bump in the AV rate cover the costs of paying an incentive on the other 50 percent of homes that were already going to sell? Perhaps a more strategic and selective incentive focused on the “difficult to sell” will better produce the hard dollar savings organizations are seeking.
- Eliminating a benefit such as cultural training from a global assignment policy may on an Excel spreadsheet appear to reduce significant dollars across the move population; however, if an assignment costs \$500,000 and it fails, has the organization saved even one dollar?

Whether it is the economy as a whole or the individual savings that a single organization needs to achieve, money has to be spent to make more. Expertise will be required in new locations to make the technology advances needed for the future. Prudent decisions save money. Reactionary decisions cost money. All decisions need to be evaluated (relocation or otherwise) to ultimately determine how much it will cost an organization to save money.

### **Revisiting (or Reliving) the Past**

Economists have theorized and historians have documented in significant number the cause, effects, and recovery of The Great Depression. Triggered by the total collapse of the stock market, the impact of the Great Depression was felt around the world. Unemployment in the United States affected some 25 percent of the population, while personal income dropped significantly. Countries/cities most impacted were those reliant on heavy industry. Construction came to a halt. Bank failures, credit constraints, market correction, economic bubble, consumer spending, global overproduction, and massive debt are just some of the buzzwords one can anticipate in considering the causes of the Great Depression. Sound familiar?

Similarly, in the first half of 1930, business and government spent more than in any previous year. By 1933, Franklin Roosevelt's “New Deal” offered a method to reduce unemployment through work creation with projects such as the Hoover Dam and the painting of post offices. More important, historians report that the beginning of the end of the Great Depression began in 1933. By 1939, 15 percent of Americans remained unemployed. Recovery was

not swift and while many economists disagree whether it was the New Deal, The Second Deal, or the flood of orders and jobs that came with the U.S. entry into World War II, all agree that the depression ended completely in 1941.

Many years from now, your grandchildren may ask you what you were doing on September 16, 2008. What story do you tell? The one where investors like Warren Buffet stepped up and bought American stocks, or the one where people cried with fear and hid under their desks.

That day, failures of large financial institutions in the United States, caused primarily by the exposure of securities to packaged subprime loans and credit default swaps issued to insure these loans and their issuers, rapidly devolved into a global crisis resulting in a number of bank failures in Europe and sharp reductions in the value of equities (stock) and commodities worldwide. In the United States, 15 banks failed in 2008 (compared to more than 9,000 during the Great Depression), while several others were rescued through government intervention or acquisitions by other banks. On

October 11, 2008, Dominique Strauss-Kahn, the head of the International Monetary Fund (IMF), warned that the world financial system was teetering on the “brink of systemic meltdown.” The economic crisis caused countries to temporarily close their markets.

On October 24, many of the world’s stock exchanges experienced the worst declines in history, with drops of around 10 percent in most indices. In the United States, the Dow Jones Industrial Average fell 3.6 percent, not falling as much as other markets. Instead, both the U.S. dollar and Japanese yen soared against other major currencies, in particular the British pound sterling, and Canadian dollar, as world investors sought safe havens. Later that day, the deputy governor of the Bank of England, Charles Bean, suggested that, “this is a once in a lifetime crisis, and possibly the largest financial crisis of its kind in human history.”

What history illustrates is that in economic cycles of boom and bust, we will recover. Recovery takes place based on innovation, government and consumer spending, and creation

of jobs. Recovery changes the face of how we traditionally do business. It forces us to look at better financial management of companies. It creates environments for new technology, innovations, and new rules of doing business.

It can be a time of great opportunity for companies in making sure their relocation policies are right for the current business times. Benchmark policies to see what industry peers are doing to provide benefits and contain costs then fully consider what, if any, effect this could have on your program.

Last, but not least, economic business cycles are like a roller-coaster ride. As the world works toward economic recovery, keep a cool and steady head. Think long term and focus on innovative ways to be productive. This is an era of opportunity. ■

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**Pamela Dunleavy, CRP**, is vice president, business development for Primacy Relocation, LLC, Memphis, TN. She can be reached at +1 734 354 1910 or e-mail [pam.dunleavy@primacy.com](mailto:pam.dunleavy@primacy.com).

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**Dr. Sheri Sinaga, SCRP, GMS**, is business development director for Primacy Relocation, LLC, Memphis, TN. She can be reached at +1 949 502 4734 or e-mail [sheri.sinaga@primacy.com](mailto:sheri.sinaga@primacy.com).

