The Relocation Pricing Paradox

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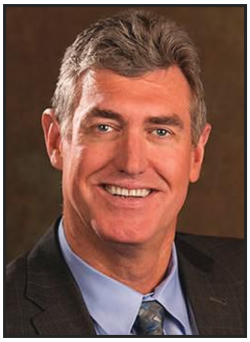

Steven John
President and CEO

with Steven John, President and CEO, HomeServices Relocation

As the global landscape created by COVID-19 continues to evolve, organizations that rely on employee relocation programs have been challenged in new and unprecedented ways. From contending with travel restrictions to navigating shifting government regulations, mobility professionals have had to act swiftly in response to the needs of their distributed talent. With so much complexity abroad, organizations should be able to rely on their relocation management companies (RMCs) to manage their programs simply and reliably—but many fall into the trap of pricing models that only increase costs and tax burdens. HomeServices Relocation has shifted the paradigm, adopting a new pricing approach that delivers a more transparent and efficient mobility program.

Q What is the traditional price structure of relocation programs and how has it evolved?

A Historically, going back 20 to 25 years, RMCs earned revenue based on fees charged to clients. Over the years, as the industry became more competitive, that morphed into what is euphemistically called a "supplier revenue model" where RMCs' fees decreased and, in many cases, dropped to zero.

Instead, RMCs began to collect commissions and rebates from organizations in the relocation supply chain. So, brokers paid a referral fee on real estate transactions, household goods vendors paid a commission on transactions, temporary lodging facilities paid a rebate per night, and so on. As the industry developed, these revenue streams became more intertwined with the supply chain structure so that now, it is not uncommon to see rebates for every transaction, from appraisals to spousal counseling—so much so that the average relocation file might have five to seven different revenue sources.

None of these rebates come out of supplier profits. Except for the real estate referral fee, every single piece of supplier revenue is really just embedded into what the client would otherwise pay. For instance, in temporary lodging, if you can usually get a hotel room for $100 a night but the RMC wants a $5 rebate, the hotel charges the client $105 a night. This is not transparent to the client.

Q What are the drawbacks of the supplier revenue model?

A Firstly, while this pricing structure generates the same amount of revenue for RMCs as a fee-based model, it is far less transparent. Many RMCs maintain that their services are free, but that is a bit disingenuous.

Secondly, this model is incredibly inefficient. An RMC may have to collect five checks from five different suppliers in order to earn their revenue, complicating transactions from a back-office processing perspective. That is inefficient for both the RMC and its suppliers.

Thirdly, RMCs that operate a supplier revenue model can be tempted to make biased procurement decisions. Rather than choosing the best services for their clients based on price, quality, and service, they select suppliers that are willing to pay a higher rebate.

And lastly, with the advent of the Tax Cuts and Jobs Act (TCJA) of 2017, the practice of inflating costs in order to get a rebate is driving additional tax expense to RMCs' clients. For example, if a client receives a $10,000 invoice for household goods, they are really paying $9,000 for the service and a $1,000 fee to the RMC. Most clients pay for tax assistance on top of that, which might amount to an additional $5,000. Under the TCJA, that $10,000 invoice is taxable, but professional service fees are not. By embedding the $1,000 fee into the invoice, clients are forced to shoulder a higher tax burden than they would otherwise. The company winds up paying a total of $15,000 for a $10,000 service when it should have paid $13,500 for a $9,000 service and $4,500 worth of tax assistance.

That's why HomeServices Relocation has developed a pricing methodology that is entirely fee-based. We guarantee that we will not accept any rebates, commissions, or kickbacks from our suppliers, resulting in a simpler, more transparent, and easier process that benefits everyone involved.

Q How can organizations get a clear view of their current RMC spending?

A The first thing HR leaders need to do is understand their current RMC contract. If not specifically delineated in their contract, they need to ask their RMC what rebates or commissions they are receiving. If your RMC is not willing to provide the detail, that's the first sign that you need to reevaluate the partnership.

We've gone through a process of disclosing to our clients what we're collecting because we think it's reasonable. We've also gone through a change in methodology where even where we do collect rebates, we invoice it in such a way that it's completely transparent. Rather than burying the rebate amount in the total amount of the invoice, we break it out as a separate fee. This makes it transparent and ensures that the client knows exactly what they're paying and how they pay it. It also saves the client an additional tax assistance cost.