

#relosolutions

Do the Math

Evaluating Relocation Program Costs

Most of us work for companies that are expected to make a profit at the end of the day. Even for non-profit or start-up entities, there are budgets and other financial measures that must be tracked. Why is it then, that so many people fail to incorporate simple mathematical analysis in their decision-making processes? I get it. Math can be scary. Means, medians, standard deviation, derivatives, sines, and cosines are daunting concepts. The good news is that most business math can be accomplished with just addition, subtraction, multiplication, and division. The even better news is that modern spreadsheet tools do much of the work for you. Once set up, spreadsheets also allow for ease of repetition of analysis as needed.

Many of our day-to-day business decisions involve risk versus reward or situations where we must choose where to allocate resources when not all activities can be funded. Doing the math on these decisions can provide the facts that allow for confident action, unburdened by doubt. In the relocation world several decision points lend themselves to simple mathematical analysis.

“Sell or Stay” – Inventory Homes

Homes in inventory represent an opportunity to apply some very basic math to your decision-making processes. Mobility professionals are often tasked with approving a purchase offer on a home in inventory that will result in a loss on sale. How best to evaluate the offer? A good rule of thumb is that a home in inventory will incur carrying costs each month equal to 1.5% of the home's value. A \$300,000 home will therefore cost approximately \$4,500 for each month it remains in inventory. When presented with an offer by the relocation consultant for \$290,000, simple math says that the proposed \$10,000 loss is just slightly more than the cost to carry the home for another two months. Unless the consultant and real estate professional think that more offers are likely, it's probably a safe bet to take the loss and avoid the carry costs hoping for a better offer down the road.

A quick comment on authority. In some programs, HR has the authority to reject an offer, but cannot accept an offer with a loss. Losses must be escalated to Finance for approval. This creates conflict as it means that otherwise reasonable offers may be rejected out of hand, rather than go through

the finance review and approval process. GBO program guidelines should be set so that losses may be approved at the HR level or require all offers to go to Finance for evaluation, regardless of loss or profit.

Relocation Budgets and Caps

What is the right amount to pay for a relocation? Too often, we see relocation caps set arbitrarily, based on how much the company is willing to spend rather than what it will take to accomplish the goal. If you needed an operation and are told it will cost \$100,000, you would never say, "let's cap it at \$50K and see what happens." Yet, relocation caps are set this way all the time. We need to understand the goals in order to best understand what it will cost. Typical goals for relocation benefits include:

1. Get the employee or recruit to accept the offer and relocate.
2. Get the move done quickly so as to avoid second thoughts or counter offers.
3. Keep the employee sane and productive during the move.
4. Enhance employee engagement by demonstrating that the employer really does care about the employee and their family.

Relocation can be an expensive proposition, but failing on any of these goals can be even more expensive. Avoiding costs of turnover, recruiting and training should all be included in evaluating relocation program costs. The productivity value of an experienced employee must also be given value over the productivity of a new hire when evaluating transfers.

BVO Versus Direct Reimbursement for Home Sale

The BVO, or Buyer Value Option program is designed specifically to save employers on tax assistance (gross-up) expense when home sale benefits are included in the relocation package. When home sale expenses; commission, title, etc. are directly reimbursed to the employee, such reimbursements must be included in W2 taxable income, thus incurring additional gross-up expenses. Traditionally, home sale costs run approximately 8% of the value of the home. Assuming a \$300,000 home, selling expense would be \$24,000 and gross-up will add \$12,000 on top of that. For those employers wishing to provide home sale benefits to their transferees a BVO program is a no-brainer, saving \$12,000 per home versus the direct reimbursement method.

Some employers still resist and provide direct reimbursement instead. Concern as to the cost of "fall-outs" is the rationale provided. A fall-out occurs when the third-party buyer contracted to purchase the home is unable to perform and the employer must incur additional costs to sell the home. But how often does this happen and at what additional cost? And is it enough to erase the savings on gross-up? A little math shows that this is not a valid concern.

Historically, fall-outs occur approximately 2% of the time. At that rate, in a program with 50 home sales annually, one home would "fall-out" each year. A fall-out will drive additional expenses. Between

additional carry costs and loss on sale, expect another 6 – 8 points of cost. For arguments sake, 15% total versus the expected 8%. That means that on a \$300,000 home, a fall-out would cost \$45,000 or \$21,000 more. However, each home sold saves \$12,000 in gross-up. Multiplied by 50 homes, the BVO program saves \$600,000. Less the additional costs on the fall-out of \$21,000, still drives a net savings for the employer of \$579,000 annually.

Summing it up (no pun intended)

Uncertainty is a big cause of stress. Doing the math will give you the facts you need to support your decisions and give you the certainty you need. So, avoid stress. Next time you have a decision to make, be sure to look at the numbers. Or, give us a call, we are happy to help.

“...people think math is complicated. Math is the simple bit. ...It's cats that are complicated.”

- John H. Conway, mathematician