



State of the Relocation Industry and Introducing a Paradigm Shift for

The Effective Alignment of Relocation and Talent Management Programs

State of the Relocation Industry:

Domestic relocation policies and programs of today are mostly a reflection of business needs and concerns of 10 to 15 years ago. Policies were developed, or evolved, for the most part, in times when real estate in the U.S. was strong and experiencing rapid appreciation in home values.

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As companies became more cost conscious due to the cost incurred with relocation programs as homes appreciated in value, tactics were introduced to reduce relocation cost. Many companies migrated towards Buyer Value Option programs, employee restrictions or mandates were introduced, transparency in pricing with referral fees became common place, fixed fee pricing was reintroduced as a cost containment measure, lump sum programs grew and more. By and large, these changes were accepted and tolerated by the transferee population, with little ill affect on recruiting and retention in talent management programs.

Today, we are experiencing a situation with relocation where the national real estate and mortgage industries are in chaos and causing havoc with corporations and relocation programs. While relocation costs are increasing, we are also finding that relocation programs of today are now ineffective in supporting the needs of the business and their talent management programs. This situation occurs while HR is reporting the number one issue in corporate HR, as reported in Deloitte & Touche's annual, 2008 Top Five Total Rewards Point Survey, is finding qualified talent for key positions.

The policies of today, designed and maturing over the past decade or more, are no longer effective in addressing the market realities of today. Not only are HR and their talent management leaders reeling from ineffective relocation policies that are extremely expensive, but the reality and significance of what is occurring today is the fear prospective transferees have with real estate and their personal finances.

It's no wonder then the best talent is reluctant to put their hat in the ring for a new assignment involving relocation. The most expensive cost companies are feeling today, realized or not upfront, is the impact to the bottom line when top candidates are reluctant to be considered for new opportunities. Refusals to relocate or those that quit mid-move because of the reality of the move on their personal financial and family situation are placing the companies at greater risk than the actual cost of relocation.

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Are We Helping or Hurting the situation?

At a recent relocation conference, a noted economist predicted we are not out of deep water yet as it relates to the economy. That's a pretty safe statement to even the least informed. Interestingly though, were comments made regarding the U.S. government and how government intervention with programs to correct the problem, will only exacerbate and prolong the real estate problem in the U.S. Is the government helping or hurting the situation?



After attending a number of national and local relocation events, where the same refrain is being offered time and again on solutions to relocation policies and programs to address problems caused by the decline in real estate and the mortgage meltdown, it makes one question whether all that we are doing is really in the best interest of transferring families and the corporate employer, relocation management companies and the many suppliers involved throughout the relocation process.

Differing Views of The issues

From the Transferees Perspective:

- 1) The time to sell homes and declining property values in many areas of the country create fear and doubt by potential transferees about whether to put their hat in the relocation ring. Reluctance to relocate is increasing.
- 2) Once in the process of relocation, homeowners face more stress factors than ever before, such as: longer family separation (especially in BVO programs), request for policy exceptions to cover duplicate housing or additional temporary housing, higher than expected loss on sale problems, negative equity situations requiring bringing a check to the relocation company at closing, additional return trips to visit the family, not to mention the toll all this takes on the employee and their productivity.
- 3) In programs where there is no safe harbor of a Guaranteed Buyout, employees choices become returning to the old location (an option that may not exist) or resignation, a losing situation for everyone.

From the corporate perspective:

- 1) For many companies, either budgetary concerns and/or company culture, they are prohibited from making exceptions to policy. The pain is felt by all, but there is no viable solution available, and the consequences are inevitable.
- 2) Many companies react by addressing transferee issues case by case, increasing exceptions to their relocation policy and the associated cost of doing so, and if the noise level becomes

excessive, policy changes are implemented.

- 3) The remedies offered are familiar to past market declines and we see Loss on Sale programs reintroduced or expanded upon, temporary housing increased and/or adding/increasing duplicate housing payments, incentives to buyers on inventory properties (with extreme creativity being used) and many more.
- 4) Companies once again are re-thinking mobility strategies, however with the shrinking talent pool in the U.S., relocation remains the most viable strategy for developing leaders in corporate America, and a new model is needed.

From the Supply Base Perspective:

Over the years, as “transparency in pricing” became vogue, the supply base that services our transferees has been the silent victim in the relocation arena. It began with real estate referral fees and now any area possible that relocation management companies can find to extract revenue from suppliers is exploited, all in the interest of transparency. As if the declining real estate market wasn't driving away many from real estate and related industries, add-on fees of many varieties from some relocation management companies are adding to the dilemma of retaining top producing professionals to support transferees.

Not only is the supply base experiencing lower volume overall, the cost of being in the game is increasing, making it impossible for many to participate. Granted, a cleansing in the ranks of real estate agents who benefitted during the good times and don't understand the ins and outs of marketing properties in bad times, may be a positive thing to some degree. However, the supply base across all disciplines has been severely impacted by volume decreases and the cost to participate.

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An unfortunate consequence of this belt tightening and squeeze on margins, is the adversarial relationships that now exist between on the ground suppliers in real estate and some of the relocation management companies.

Corporate clients and their transferring families are not benefitting in this environment.

Helping or Hurting?

Is it no wonder, then, that as real estate losses mount, transferee reluctance increases, talent management programs suffer, corporate cost increases, mobility strategies are challenged and the supply base is shrinking, we have to ask, "Are we helping or hurting the situation by intervening and throwing more money at the problem to get people to relocate?"

In our view, the answer is YES and YES. To sit by idly accomplishes nothing and our corporate leaders and relocation managers are trying their level best to be proactive and responsive to the needs of their company and their transferees, within the framework possible in their respective companies. In lieu of what we are seeing today in the marketplace however, we are remiss if we ignore the reality of the market and challenge current thinking on how relocation programs are structured and managed in this environment.

A look at how we got to where we are today...

If one analyzes how relocation real estate programs in general have evolved over the years, going from Lump Sum > Direct Reimbursement > Guarantee Against Loss > Home Purchase, it can be seen where monies allocated to relocation expenses are spent after cost have been incurred and with little control being exerted on the spend at a time when it would make a difference.

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In recent years, programs such as Lump Sums were a change from the traditional approach of after the fact expense reimbursement. Lump Sum Programs have been very well received and have been adopted by many corporations.

Having relocation management companies buy homes on a fixed fee basis pays for housing cost upfront quantifies the risk; however, as we have witnessed once again, this approach is not sustainable in down markets. Recent trends have seen "managed" programs evolve where supplier choice is limited for transferees and certain requirements are expected in order to receive full benefits. These include list price restrictions and using qualified network brokers.

These and many other program changes have occurred in recent years. As we go from down markets to good markets and to bad again, we go to our quivers for another arrow to quell new challenges. In the end, we continue to deal with real estate issues mostly after the fact when we have lost control of those items that incur the greatest human and capital cost.

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A Proactive Solution that is Sustainable

A history teacher would say if we don't learn from history, shame on us. Or, in today's jargon, we say what goes around comes around. Using this thinking, relocation programs, prior to third party relocation management companies, evolved in some situations to In-House Home Purchase Programs. While some programs like this still exist today, the vast majority of corporations accept the logic that prevailing tax practice applies to third party relocation management companies and that outsourcing makes more sense than staffing for this benefit internally.



From a historical perspective though, there is a nugget to be found from the practice involved with those early In-House Purchase Programs that may apply to today's situation. This may appeal to those companies with Guaranteed Buyout Programs where program extensions have been added to increase Amended Value sales and those with Buyer Value Option programs who are now confronting policy exception requests and/or they acknowledge current practice in relocation is not meeting business needs.

The New Arrow in the Quiver – Introducing a Paradigm Shift in Relocation Management

Early on in the development of home purchase programs, companies with in house purchase programs would offer employees a Guaranteed Buyout offer and allow two weeks for them to accept the offer. This was not a market driven approach, but a philosophical and business approach. Companies then, as now, needed their leadership, sales team, etc., at the new location as quickly as possible to take on a new assignment. We suggest that this approach, in recognition of current market conditions, is ideally suited to the relocation and talent management challenges of today.

Why Would Such an Approach Work Today?

There are two dynamics in play at the same time. First, corporate talent management programs require the best people, in the right position, at the right time in the right location. On each of these fronts today, companies are struggling. This is not a generational, gender or any other type of issue. It's a fact that the market of today is preventing the best people from being considered and those that do enroll in a career move, find their productivity hampered and their careers threatened because of their inability to satisfactorily complete their relocation.

Secondly, from a cost perspective, companies are challenged and failing to find the answer to moving critical people to important assignments on

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a cost effective basis. Even if the right person is willing to move, all of the market dynamics of today are making the odds of a successful relocation a risky proposition. A failed relocation is doubly costly as it affects human and financial capital.

A home sale program solution to consider and the benefits:

Reverse thinking to save human and financial capital – assess and be proactive:

- 1) First and foremost, being proactive means to utilize talent management tools that allow immediate and accurate assessment of "relocation readiness." Key parameters that are a must for immediate assessment are the financial, tax and legal issues for families to consider. Also important for the overall strategy of talent management programs are lifestyle issues such as cultural adaptability at the new location, skill sets, family and dual career issues.

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- 2) Create a decision making process for families that requires one decision action relative to the job offer and the relocation offer. Learning from previous in house purchase program experience, this can be accomplished by developing a Guaranteed Buyout Offer upfront and prior to any relocation activity, including listing of the home and homefinding at the new location.
- 3) Extend the Guaranteed Buyout Offer and marry it with the job offer, providing a short window of time to accept both. (Suggest maximum of two weeks)
- 4) Upon acceptance of the job offer, the employee has two options with regard to accepting the Guaranteed Buyout Offer:



- a) Accept the Guaranteed Buyout with a pre-determined equity calculation position.
 - b) Choose to market the property for a 60-90 day period (per company policy) in an effort to realize an Amended Value Offer. Their opportunity is to gain more equity, with the risk being if they are unsuccessful they would contribute to the cost of the program in the way of reduced equity (e.g.: 90-95%).
- 5) Assuming both offers are accepted simultaneously, the relocation management company immediately cashes the employee out and the family is free to go at once to the new location and begin the new assignment.
 - 6) Companies have historically offered incentives to sell homes as Amended Values to prevent inventory. In this model, it would be advantageous for employees to be incented to accept the Guaranteed Offer instead of the Amended of bypassing the Guaranteed Offer program.

What are the Benefits of Reversing the model with RELO® Assess and Fast Track Homesale Programs?

- 1) Employees and family are at the new work site, together and being productive sooner.
- 2) Expensive policy exceptions such as increasing temporary housing, duplicate housing, return trips and more are eliminated or significantly reduced, thus allowing more flexibility in adopting initial marketing strategies to sell homes within 30-90 days of listing.
- 3) Company knows upfront they will be able to recruit and retain a valuable employee more successfully.
- 4) Employee is unlikely to resign due to a failed relocation.
- 5) All real estate decisions will be made by the company/relocation company objectively and upfront prior to listing. This means all marketing strategies will be considered immediately and implemented based on sound, informed decision making. Removing the employee

from this process ensures an objective and market acceptable strategy from the beginning.

In summary, a paradigm shift creating a proactive solution to today's homesale dilemma will, in the long run, most likely be less costly, sustainable for the future and will produce a better return to companies with their talent management programs.

Considering a paradigm shift, as presented, requires challenging current wisdom and practice by HR leadership who are open to new strategies. The possibility of developing a better model in relocation that supports the companies mission with talent management is a positive investment in time for HR, employees/families who are considered for opportunities involving relocation and the company overall.

We at RELO Direct® invite you to consider the possibilities through challenging and probing discussions. We trust you will come to value and appreciate our thought leadership in the relocation industry, regardless of the outcome of these discussions. We promise to analyze, with a critical mindset, the information you share and to provide you with the written results of our overall analysis of your program and the challenges you face, with comments, observations and recommendations.

Our request in return is simple. In the event you determine a change in policy and program administration is warranted, RELO Direct® will be included among the select companies you offer the opportunity of partnership to. As they say, we like to earn our business the old fashioned way – we earn it!