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Fees, Costs, Competition - & Us!
Do We Have to Surrender?
Helmut Berg - EuRA President

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One of the objectives of EURA is monitoring and analysing the trends and developments within the Relocation Industry. The individual members can compare their own findings with those of EURA.

The greatest challenge at present is, in line with substantially increasing costs, the pressure on the fees. This pressure is induced by the clients and – quite irritatingly - also by competitors within the relocation industry. The clients want to lower their costs; the competitors want to "buy" market share, often at any cost.

The situation is increasingly challenging; however, we do not have to resign ourselves to this situation.

Client's Demands

International employee transfers are expensive but necessary. Since they cannot be "abolished", the companies try to make them as cost effective as possible. The relocation part in the overall assignments cost is comparatively small. Nevertheless, the price pressure has increased considerably in our line of business.

There are three scenarios

- The fees are to be reduced and in return the scope of services may be reduced as well; neutral effect
- The fees are to be reduced but the scope of services is to remain the same; detrimental to the service provider
- The fees are to be reduced and at the same time the scope of services which are to be delivered is extended; *extremely* detrimental to the service provider

The term "client" includes companies as well as RMC's and other customers. The RMC's take an "exceptional position", however. They are service providers and customers at the same time. The pressure is most intense where there is a service chain, i.e. where the ultimate service provider does not receive the work order directly but where there are one or two intermediaries involved.

Stronger Influence of the Procurement Departments

Up until a few years ago our primary contact persons were to be found solely in the HR departments. In 1987 when I started out, I often spoke with HR directors or even board members since they were themselves interested in this new service complex. Later when Relocation Services were better established, a more "normal" situation set in and our contact persons were HR Managers and increasingly also HR Consultants or Assistants.

In the last few years we can observe an increasing involvement of purchasing departments when relocation services are contracted. It is their objective to keep the costs of goods and services as low as possible. They focus on figures and technical synergies. Verbal negotiations are increasingly replaced by on-line auctions. The value of our services are tied to the price and other quantitative criteria.

This is an unfortunate development in my opinion.

Relocation Services are no commodity which can be manufactured in shifts around the clock or where production can be moved to a country with low labour costs. Even various transfers at the same time only generate marginal synergy effects, if any. A quantity discount is therefore not logical. Every individual transfer requires its volume of assistance regardless whether it is just one or one of many at the same time.

And to enter the auction with high fees in order to give a "generous" discount in the process is risking to be considered unprofessional and unreliable.

Market Influences of Competitors; Cut-throat Competition?

Various new and occasionally also "older" service providers assist the clients enforcing their demands by trying to secure market share with partly extremely low fees.

This is facilitated amongst other factors by the heterogeneous structure of the Relocation Industry. Very different sizes of companies allow for different/varying calculations and contribution margins. It is more perplexing when providers of a similar size and structure offer significantly different conditions / fees.

And then there is the situation where a service provider yields to enormous pressure because he cannot afford to lose a client who makes up a large share of his total turnover.

Pricing pressure or competitive pricing arises mostly in a saturated market situation and resulting in crowding out – but this is by far not yet the case for the Relocation Service Industry.

There are two areas of potential growth:

- Not nearly all companies that could use Relocation Services are using them.
- Those who do use them do not use the full scope of the services.

So there is horizontal and vertical potential for growth. From this perspective there would be room to sell services at a higher price level, if it was not for those providers who are intent on gaining an advantage through slashing prices.

There are providers who prefer to offer low fee structure as a result of cross-subsidisation. This is, however, not possible for most "pure" Relocation Service Providers, who consequently suffer a considerable disadvantage in the price competition. However, the "Cross-subsidisers" should be prepared, that the exclusive relocation service providers may devise a counter-strategy.

Whenever a service provider decides to try and secure market share by price slashing, he will need to be prepared to temporarily generate a high turn-over, which may, however, not cover his costs. He may need to reduce capacities which will then endanger the service delivery.

Evaluation of Our Services by Others – and Internally

The higher the value our services are rated by our clients, the easier it will be to realize adequate fees. So how do our clients see/ evaluate us Relocation Service Providers? Well, we do not know! I do not mean the individual service, but Relocation itself as an industry. This is an unpleasant fact which highlights a prevalent feature in our industry: reluctance to collate, analyse and publish facts and figures. This is a topic which will need to be covered at a later point in time.

Our observations lead to the assumption that relocation services are increasingly viewed as comparatively low-value. We operate in a neighbouring area with lawyers and tax consultants, who are also involved in the international assignment processes. Their services are understandably considered high value. Consequently they can charge and are paid fees in the range of € 200 – 300 per hour for their consulting services. It would be presumptuous to expect this kind of fee in the relocation service industry. However, a more adequate positioning will only be possible if we manage to move the expectations of our services and our services themselves, more in the direction of consulting.

Here we have struck a fundamental issue in my opinion:

Relocation services are often not viewed as high value consultancy but merely as the transactional delivery of simple services.

From the point of view of many clients Relocation Services do not generate added value through additional know-how and an optimised assistance but are solely a replacement of services which the clients would have to deliver themselves at a higher cost.

This lack of appreciation leads automatically to the question of a fee reduction. If this then meets with a lack of self-confidence on the part of the service providers (since they are themselves not certain of the value of their own services) we will face an erosion of fees which will damage the entire industry and eventually also the clients.

Only Adequate Fees will Provide a Sound Basis - for us and our Clients

The price pressure in the companies is enormous. We have all come to feel it in our role as entrepreneurs. Our clients are intent on reducing the high costs of international assignments. We get the impression that they are mainly focussing on direct costs which include the costs of relocation services.

These services comprise of know-how and expertise and efficiently used time; time in which we and our employees implement this know-how and expertise. This is what we get paid for. The greater and more in-depth the know-how and expertise of the relocation staff (plus reliability and experience) and the better the implementation, so the higher value the quality of the services. And high-value services are a key factor for the lasting success of an international assignment. The delivered quality needs to be remunerated in a way that makes it worthwhile for everybody involved to continue offering quality services at this high standard. This includes professional consulting of the client, excellent assistance of the expatriate and his family and a reasonable profit for the service provider.

In order to deliver the required quality, the service providers need to hire, pay and train sufficiently qualified personnel. If money is taken out of the process in order to reduce costs, this money comes from the salaries required for services, which can then no longer be delivered, or from funds to pay for materials, which are then no longer available.

If as a consequence of lowered fees one ore more of these components needs to be reduced or cut this will result in a decline of quality standards. Either there is too much time pressure (not sufficient staff available to deliver high quality consulting and assistance in the given time) which will increase the fault ratio or the required work equipment cannot be utilised.

Where to look for a solution to this problem?

The solution lies with us. It is necessary to describe the situation. To complain about it, provides temporary emotional relief but a solution is neither of the two.

Let us look at the situation from the client's point of view. We ourselves purchase goods and services. And we also try to get the best price. For goods and services with a low complexity and little variance in quality (e.g. still mineral water, postal service) we aim for the lowest possible price and take advantage of special offers. Where the products we want to purchase are of high value (e.g. car, law or tax consulting) we pay more attention to quality. We look for an adequate price or good value for money.

We need to achieve this also in our line of business. WE have to generate awareness in the market for the high value of our services. We can, of course, not just hope that our clients will find out about it by themselves. We need to enter into a dialogue with the clients and the head purchasers, which will portray us not as petitioners but as responsible partners. A reduction of fees alone is not very creative. And more importantly it is nearly impossible to reverse. Where will this spiral end?

A very strong argument in this endeavour is the EuRA Quality Seal. In a time, in which the term "DSP" is becoming increasingly common, we EuRA members ought to make sure that our quality standards and the EuRA Quality Seal, as the first world-wide and independent quality certification for the relocation service industry is the benchmark for providers and clients. The further development of the EuRA Quality Seal needs to be a prime objective for EuRA in the years to come.

Furthermore we need to consider how we can make our services more attractive. We have to take the clients' point of view and look at their objectives and expected benefits. However, we do not all need to do the same things. Innovation can favour diversity.

The important thing is to keep our self-confidence – or to re-build it.

We need to be proud of what we are doing.

This self-confidence requires to occasionally answer with a charming but firm "No" when the demands for price cuts become too keen. Looking at the current practice, one can expect that any stated price, no matter how low, will be "attacked" by providers who are prepared to undercut any price. The quality is in danger - and with it the reputation of the industry. This will damage us all.

Every single one of us is called to action. We do not want to be part of the problem but part of the solution.