Harmony
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Network

Buying Move Management Services

Real vs. Perceived Costs

A White Paper by Harmony Relocation Network

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1. INTRODUCTION & SUMMARY

The aim of this white paper is to discuss the technical issues and offer guidance to companies so that they get the best value for money for move management services. One of the hurdles facing companies in achieving this goal is being able to make a fair comparison of services offered.

Furthermore, through an understanding of how to structure and what to include in Requests for Quotations (RFQs) and effective procurement management, significant costs, which may not be initially apparent, can be saved.

To obtain value for money in move management services there are three key areas of the procurement process which will be examined in detail:

1. Request for Quotation (RFQ)
   Moving services companies draw up a quote from the information provided by the potential customer. The more accurate and the relevant information included in the RFQ, the closer the quote will be to the actual cost, and the less the risk of a premium over the budgeted cost of the move. It is also important to define costs such as insurance, which have a large impact on the overall cost, at this stage.

2. Service Level Agreement (SLA)
   An agreement specifying the required levels of performance is absolutely essential if value for money is to be determined. Non-performance can have a great impact on overall cost. For example, there is the direct additional cost of alternative hotel accommodation if the movement of a transferee's household goods is delayed, while in the case of an insurance claim there is an associated indirect or hidden cost derived from the employee not being able to perform their job while dealing with it.

3. Joint Cost Savings
   By the supplier and the customer working together, both can reap the benefits of cost savings. For example if the customer provides longer notice periods for moves, suppliers can reduce moving costs and agreeing to simplify cost structures and invoicing, will allow considerable savings on administrative costs.

Another important factor is the tender process and supplier selection criteria which, although not the main focus of the white paper, for completeness will be briefly discussed in the next chapter.

2. THE TENDER PROCESS & SELECTION

Four tender processes are compared:

1. Three Supplier Quotes
2. Exclusive Supplier Agreements
3. Fixed Panel
4. Two Global Suppliers.

In the case of large volumes of expatriates being moved, selection of a moving company by having the expat obtain three quotes is not recommended. It involves excessive administration, involving the purchasing officer having to deal with three surveys for each move, seasonal price fluctuations and other issues such as companies making local agreements and expats making private arrangements at company expense.

Exclusive supplier agreements offer the benefit of a streamlined and integrated purchasing process with uniformity of service. The volume of business can generate cost savings, further enhanced by savings made through partnership with the supplier to reduce administration and other costs. However, a disadvantage is the lack of competitive pressure on pricing, especially when only a limited number of traffic lanes have been agreed to fixed rates.

Alternatively, a fixed panel of suppliers could be used to provide competition. The difficulty in this approach is that it requires a dedicated in-house move management team to compare the quotes and services of each company.

Combining the advantages of exclusive agreements and a fixed panel of suppliers is to appoint two global suppliers, with the work allocated on the basis of competitiveness and quality of service.

Other criteria in selecting a move management services provider include price, network coverage, past performance and experience, appropriate references, health and safety standards, quality standards, culture, and insurance claims history. Each criterion will have a weighting, which together will determine the final selection.

3. REQUEST FOR QUOTATION

As outlined, the supply of accurate and necessary relevant information is essential in reducing the risk of incurring additional costs to those budgeted for moving services. Along with other information it is important to ensure the following details are within the Request for Quotation (RFQ):

- Based on recent historical data, the routes or often called in the industry, traffic lanes, and their volumes of traffic
- Allowances for different transferee groups such as single people, couples and families
- Comprehensive request of the rates for different traffic lanes
- Levels of transparency concerning a breakdown of costs such as management fees and freight booking fees
- Management of shipping and airfreight costs; and the required service levels

Additionally, the supplier must request details of what is excluded and included in the fixed price of the move and make sure the RFQ takes account of additional charges, currency fluctuations, insurance and liability.

3.1. Providing Information – history of traffic lanes and allowances

It is essential that a detailed picture of traffic lanes and volume is built-up, encompassing which traffic lanes company employees are moving along and for each lane the volume of movement and the demographic breakdown of their traffic, that is the number of singles, couples and families. For example of a total of 30 international moves of company employees in a year 27 or 90% of them were between London and New York, of which 12 were couples (40%) and 15 were single (50%) with the remaining 3 or 10% of people moving between London and Beijing, comprising couples. Even though the history of traffic moves may not accurately reflect the future, it is better than nothing.

Allowances for company employees need to be detailed, such as single people allowed a volume of 25m3, couples 30m3 and families 60m3. These allowances are used as an average to calculate the quote. Obviously, the lower the allowance the lower the average and total volume of the moves.

By being comprehensive in the request for traffic lane rates, prospective customers are less at risk of being charged excessively. A few suppliers are tempted to quote an attractive rate on a small number of traffic lanes, such as London to New York, and make up the losses on others that were not specified in the original quote, for example London to Sydney. If rates are not defined for all traffic lanes in the quote, prospective customers are providing a ‘Trojan Horse’ for the supplier to ramp up the costs.

Understandably, it may not be possible to predict the addition of a new traffic lane generated, for example, by a new business win and the need to send an employee to a new destination. If this occurs, it is important when adding this to the contract that the rate quoted is benchmarked for competitiveness.

3.2. Transparency & Simplicity in breakdown of costs

When drafting an RFQ it is essential to define the level of transparency required regarding various component charges of the move such as management fees, freight booking fees, shipping and airfreight costs. Typically, the customer may want freight charges at cost with the associated administration cost quoted separately by the supplier.

Concerning transparency, special attention is needed for dealing with shipping and airfreight costs. These rates are variable, so that if it is demanded they are fixed within the contract for a long period of time, the supplier will charge a higher rate to cover the risk of any increases in these costs. To avoid this, shipping and airfreight costs should be quoted separately and reviewed either every six months or annually.

When a customer requests a detailed breakdown of costs, it is important to balance the need for sufficient information for effective monitoring and what is practical in terms of administration for the supplier. For example, stipulating the labour cost of packing based on time and hourly rates would present the supplier with an onerous administrative burden, which in itself would generate costs.

3.3. Defining Service Levels

Within RFQs the required service levels must be defined. Obviously, the time taken to complete the move or maximum transit time will be one of the most important elements, and must be established for different traffic lanes for example within Europe, from Europe to America, and from Europe to the Far East. Additionally, the lead time or how much notice for the supplier to carry out the move must be highlighted. Because the level of performance given by a supplier is such an important determinant of value for money for move management services, the service level agreement is discussed in detail separately.

3.4. Currency Rates, Additional Rates, Insurance & Liability

Currency rates fluctuate so that if the supplier fixes the rate in US dollars, euro, pounds sterling or some other currency, a premium will need to be added for the supplier to take account of the risk. The longer the period, the more the risk. To limit this it is best to provide a mechanism within the contract to periodically apply the actual currency level operating at a particular time. Alternatively, rates can be quoted in multiple currencies.

To avoid nasty surprises when the invoice arrives there are many additional costs of a move such as storage costs, handling charges, ferry crossings, parking costs, an outside elevator and other standard additional charges, which should be itemised in the quote.

The insurance premium for items in transport and storage must also be examined thoroughly as it can have a considerable impact on the overall cost. Many suppliers use the insurance premium to generate income to subsidise costs of the move. As shown in Table 01, just a difference in the premium of 1% will lead to an overall move cost difference of 16.2%.

Table 01. Insurance effect on direct cost

Difference in premium %	Cost increase %
0.2	3.2
0.4	6.5
0.6	9.7
1.0	16.2

Where the customer is self-insured, while the supplier has unlimited liability, to cover the risk of the cost of damages through subrogation there will be a premium charged at a high rate. It is best to limit liability so that the supplier can easily obtain insurance and lower the risk premium.

3.5. Inclusions & Exclusions

Within the RFQ it is important for the customer to ask what standard services are included by the supplier in the cost of a move at point of origin and at the destination. This will allow fair comparison and avoid any unbudgeted costs appearing on the invoice.

3.6. Rate Structures

A rate structure comprises a grid showing the change in rate with consignment size and distance transported. Each mode of transport - road, air and ship - will have a grid and set of units. Consignments taken by road will have a volume-distance rate matrix (in cubic metres and kilometres) for domestic and European cross-border journeys.

Airfreight is charged on gross size or weight, whichever is the greater, as directed by the airlines.

Shipping rates are based on lift-vans, steel container loads with lengths of 20ft, 40ft and to some locations, 45ft. In addition there are so-called ‘super cube’ containers which have extra height. Rates are charged for a full container load (FCL) or less than a container load (LCL).

To draw up a grid it is best to consult with experts from the supplier, as this will avoid potential misunderstandings. When requesting rate schedules it is necessary to provide for an additional 25% to the allowance categories. This will cover the majority of all moves. It is also important to define minimum volume and use small incremental steps when drawing up a grid.

4. SERVICE LEVEL AGREEMENT

The Service Level Agreement (SLA) defines the levels of performance the customer requires from the supplier. Poor performance will affect not only the direct and indirect cost of a move, it will also have a hidden cost associated with it. For example, if there is a delay in delivery then there will be accommodation costs for the employee or even the employee's family, while they wait for their belongings to be delivered. Furthermore, there is the opportunity cost of the employee being less productive through spending time on activities such as buying essentials, which should already have been delivered. Overall, the cost of poor performance can have a major impact on the overall cost of the move.

To be effective, the SLA needs to be Specific, Measurable, Acceptable, Realistic and Time bound (SMART). Its contents should include:

- Time limit in which to contact the transferee, e.g. 24 hours
- Time limit in which to submit a budget and schedule, e.g. three days
- Accuracy of estimates
- The maximum allowed transit time
- The proportion of satisfied transferees – usually expressed as a percentage, e.g. 99%
- The proportion and severity of complaints
- An insurance claim per value of consignment or claims/value ratio
- Performance score; invoicing accuracy, e.g. 100%; and timely invoicing, e.g. 30 days

The transit time must be carefully defined. To optimise load utilisation, suppliers for LCL will consolidate the load with other customer loads, which are then secured into a shipping container prior to being despatched to the port for shipment. This presents the risk of the whole shipment being delayed if there is a delay or withdrawal of any of the other consignments. By defining the transit time, the supplier will be able to offer and cost the service to match the customer's requirements. Usually, the supplier will provide a grid of transit times against the variables of consignment size and distance for different moves, such as within Europe or overseas.

Table 02. Transit Time Europe

km/m3	0 to 5	6 to 10	11 to 15	16 to 20	21 to 25	etc.
000 - 100	1	1	1	1	1	
101 - 200	2	2	2	2	2	
201 - 300	2	2	2	2	2	
301 - 400	3	3	3	3	3	
401 - 500	5	5	5	4	4	
etc.						

One common mistake by potential customers is to request irrelevant unit prices in the rate schedules. For example, using airfreight rates per kg net of packing (correct units in gross kg or m3), FCL packing per gross kg and FCL freight per cubic metre m3 (correct units by cubic metre m3, respectively as a lump sum rate). Additionally, insisting on hourly rates for packing and a breakdown of packing material costs is not practical because of the large administration costs involved, so these are normally charged inclusive within the service.

As discussed earlier, delays due to direct and indirect costs, such as accommodation and opportunity costs, will have considerable impact on the overall cost. This is shown in Table 03, which is based on average moving costs, where a four day delay can add up to 43% of the cost of the move.

Table 03. Transit Time Delay & Cost Increase

Number of Days Delay	Cost Increase %
1	11
2	22
3	32
4	43

Table 04. Complaint Severity

Complaint Severity	Maximum (5% of total moves)
Light	50
Normal	40
Serious	10

The proportion of satisfied transferees should be set, and while 100% is unrealistic, 99% is the recommended level. The seriousness of complaints from transferees and their proportion will also affect overall cost. Therefore the service level agreement needs to refer to the maximum acceptable level of complaints and the nature of their severity (See Table 04). Examples complaint severity include the surveyor being half an hour late categorised as a light complaint, rising to a minor misestimation classed as a medium level complaint, while at the other end of the scale, not enough crew members being provided, leading to a delay, would be classed as a serious complaint.

Table 05. Summary – Complaint

Difference in Complaint Frequency %	Cost Increase %
1	0.1
3	0.3
5	0.5
10	1

In Table 05, based on the average cost of a move and taking into account the opportunity cost just a 10% increase in frequency of complaints will result in a 1% increase in overall cost.

These opportunity costs involve the cost of a transferee taking time off work to sort out the consequences of poor performance, for example, having to phone various people because of missing or delayed items. However, if there is an increase of 10% in the number of serious complaints as shown in Table 06, tying up even more of the transferee's time, the impact on overall cost will increase to 2.4%.

Table 06. Increase in complaint frequency and increase in cost of move

Difference in complaint frequency plus severity	Cost Increase %
1	0.6
3	1.0
5	1.4
10	2.4

Table 07. Claim Ratio

Difference in Ratio %	Cost Increase %
0.1	2.5
0.3	7.5
0.5	12.6
0.7	17.6

5. JOINT COST SAVINGS

There are considerable cost savings to be made by the supplier and customer working in partnership. Increasing the lead time by informing the supplier of a potential move well in advance will allow the supplier to plan more effectively and reduce moving costs which can be passed on to the customer.

Customers can spend considerable time on checking and approving invoices. To avoid this and associated indirect costs, the customer should work with the supplier to simplify the rate structures. Furthermore, including in the fixed charge the relatively minor additional costs, such as bad access charges, which frequently arise from a move, makes invoices far easier to check, helping to reduce indirect costs.

6. PRESENTING THE WHITE PAPER

Harmony is presenting 'Buying Move Management Services' across the world, to assist organisations in ensuring they secure the services of the right move management supplier for their requirements. During the presentation the cost elements of a tender are discussed in detail.

Also provided by Harmony is a similar presentation about creating the perfect tender. 'The Perfect Tender' is a natural follow-on topic, covering more than a dozen key elements that should be addressed when considering a tender, and then interpreting and evaluating the responses received. Harmony helps delegates create tenders for their own organisations that will result in the right supplier selection.

For more information on 'Buying Move Management Services' or 'The Perfect Tender' please contact the international head office of Harmon Relocation Network.

7. HARMONY & CONTACT

7.1 About Harmony

Harmony is a global network of locally owned relocation companies, upholding strong family values through generations of heritage. We are a network of committed partners, brought together in one truly global and solid infrastructure with cutting edge technology, an ISO-tested quality system and leading sustainability criteria.

Our network (founded in 1992) consists of over 140 members in 60 countries, serving 180 countries across 6 continents, providing the same level of high quality services, local expertise and personal commitment. All our members are co-owners of Harmony Relocation Network.

harmonyrelo.com

7.2. Contact Details

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