Mobility cost optimisation
Managing the whole mobility investment

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“We don’t have budget for this!” is a common cry from business unit managers throughout the globe who have now started to associate the words assignment package as a synonym for exceeding budget or too expensive.

As growth in emerging markets remains and developed markets continue to expand post the global economic recession, companies are using global mobility (both in volume and various assignment types) extensively to fulfil their global supply and demand of talents. However, this significant increase in the use of mobility and hence overall increase in employment costs, has led to greater scrutiny from business units who begin to question mobility’s overall effectiveness or return on investment. In this article, we share our perspective on how companies can manage their global mobility investments to harness their full value and create a sustainable competitive advantage.

The money spent on global mobility adds up quickly, even for companies with small populations of mobile employees. In our experience, the typical cost for multinational organisations offering market-standard international assignment packages can reach £15 to £25 million for every 100 assignees (Figure 1).

Most global mobility functions measure their success in terms of how well they manage internal administrative and operational costs and external vendor contracts; however, these components typically comprise only 5 to 10 percent of a company’s total global mobility investment.

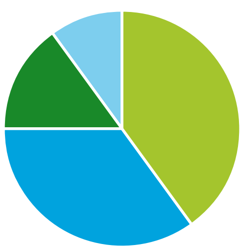
This narrow perspective has led many global mobility functions to focus too much attention on the tactical aspects of mobility – such as offering only rigidly defined packages – services that in the end may not meet the needs of the assignees and business units – and place too much emphasis on operational efficiency. We believe that companies can dramatically improve the return on their global mobility investment by refocusing their globally mobility functions on more strategic issues, such as determining the right number of globally mobile employees to support the business, the right level of investment in global talent deployments, and managing tax and social security costs and benefits. These are the kinds of issues that have a real impact on the bottom line.

Now more than ever, cost optimisation within the mobility function is an exercise that needs consideration. This increased cost scrutiny is no different to any other function of an organisation. In a recent Deloitte study, more than 3 quarters of FTSE 100 companies are undergoing cost reduction programmes and are closely reviewing every area of operations, however mobility with a higher than average cost per assignee compared to an employee is being targeted to contribute its proportional share to such initiatives.

Figure 1. International Assignment Programs & Economics – Standard Benchmarks

Typical investment by standard-policy multinationals:
£15M-£25M per 100 assignees

Typical program cost breakdown:



- 40-50% Base, Bonus, LTI
- 40-45% Home & Host Tax
- 10-20% Expatriate Allowances
- 5-10% Service Delivery

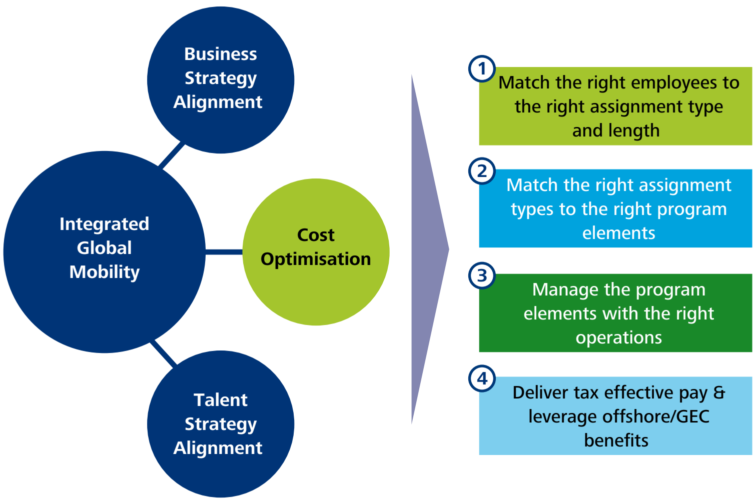
Typical Global Mobility Mandate:

- Be an efficient transactional cost centre.
- Manage the 5-10% administrative cost component within budget.
- Deliver a set package of services to the assignees and business units.

Frequently Un(der)-Managed Portfolio:

- Be a true business partner.
- Responsibility for 100% of the investment.
- Determine the “right” number of mobile employees to support business success.
- Determine the “right” level of investment in global talent development/deployment.

Figure 2. Global Mobility Cost Optimisation Levers



What is cost optimisation?

Oh, you mean cost cutting! Not necessarily. Cost optimisation efforts for mobility must not simply be about cutting costs, but focus on how to make current spend work better – delivering the best possible service to both the assignee and the business, at a reasonable cost. With more efficient uses of the resources available or, even better, ensuring the right resources are in place, opportunities to enable a more effective mobility service will be created. With efficiency gains and cost reductions realised over time, mobility practitioners should, after all this, be able to focus their capacity on where this is arguably needed the most – helping to achieve the overall strategic objectives of the business.

Within a typical mobility programme, regardless of size, standard cost levers exist which organisations can apply in order to achieve their cost optimisation ambitions.

The costs of mobility and the potential to cost optimise

When determining the area of focus for cost optimisation, the organisation should consider both the area of the highest cost, but more importantly, those with the greatest potential for savings (Figure 3).

Figure 3. The Business Case for Cost Optimisation
Our experience has illustrated that by taking a multi-disciplinary view to global mobility programs, companies have been able to reduce costs significantly and target mobility investments to where the value really lies.

Cost Lever	Savings Opportunity (% of total program costs*)	Lever Example	Components	Savings Realisation		
				Year 1	Year 2	Year 3
Mobility Segmentation	5% – 15%	1	Assignment type/length	5%	10%	15%
		2	Assignment type/program elements			
			Exception management			
Service Delivery	5% – 10%	3	Vendor rationalisation	5%	7%	10%
			HR portal & self service			
			Enhanced SLA's/KPI's and governance			
			Redefined scope, policies, procedures, responsibilities,			
			Process, reporting & analytics			
			Enhanced technology support			
Tax Optimisation	3% – 8%	4	GEC – Offshore benefits	3%	5%	8%
			Tax Planning and Effective Pay Delivery			
Total Savings	13% – 33%					

* Total cost includes operational costs, compensation and assignment related compensation, employee support and associated tax costs.

1) Match the right employees to the right assignment type and length

Due to the level of spend in this area and much of this being at the company's discretion, these costs tend to lend itself to a high potential for savings. Generally, the most effective solution is to revisit/create an appropriate policy suite. Most organisations will have a long term and short term assignment policy, however these alone are unlikely to maximise the savings available. Organisations are now starting to expand their policy suite to support various deployment types. As a result Global employee rewards should align with the value of each assignment, meet the needs of assignees, and help break down barriers to global mobility with programmes that reflect the value of the many different possible types of assignments. Also, they should focus on career development and personal growth, not just compensation and benefits for the duration of the assignment.

Financial Services example:

A business value-based global mobility framework can significantly improve talent development and the bottom line. For example, a well-known financial services company developed a structured decision-making process to help the business systematically assess the fit between open positions and global mobility candidates.

This enabled business leaders to make value-driven decisions about which candidates and assignment types best met the company's business and talent development objectives. A year after the company adopted the new process, the proportion of international assignees that fit its target talent profile for assignments had increased significantly, and the total cost of its global mobility programme had decreased by 15 percent as assignments involving people outside the target profile were not renewed.

Even more important, executives now feel confident they can develop the future leaders the company needs – people with the right skills and perspectives to create innovative opportunities and drive growth in new businesses and geographies.

Suggested activities

Develop Mobility "Cornerstones":

- Define mobility guiding principles to align mobility programmes and decision-making with strategic business and talent priorities for mobility
- Create value-based mobile workforce segmentation
- Development of a policy framework including baseline policy archetypes (e.g. home based, equalised) with defined policy fundamentals
- Develop mobility decision-making framework and model business impacts from cost and talent perspective

2) Match the right assignment types to the right programme elements

Allowances and benefits, not surprisingly, represent the largest proportion of mobility spend per assignee. These costs can vary significantly by industry and policy type, however their importance is consistent given that the level of such allowances will have a direct impact on whether the assignment even begins. Only a few years ago, assignment allowances were determined based on the individual and at the discretion of the budget manager – leading to the level of allowances being inconsistent and adhoc. However, organisations are now looking for smarter ways to reward their assignees, which is becoming very much dependent on the reason for the assignment and, therefore, the policy type applicable.

Suggested activities

Construct Policy Components/Blueprint:

- Determine compensation and benefits for each policy type, including defining potential flexible elements core benefits and those provided under higher or lower touch polices or associated with certain job profiles/cadres
- Conduct peer group benchmarking and socialise and obtain approvals
- Review recommendations with key stakeholders (e.g. legal, tax, talent, payroll, technology
- Conduct side by side comparison of total current vs. future policy costs (straw man comparison)
- High level implementation impact and risk analysis on culture, process, technology, vendors, tax, social security and resources

3) Manage the programme elements with the right operations

We believe that an effective global mobility programme should be able to support the business and assignees with high-quality service that is cost-effective, consistent, and easy to use, manage, and administer. The purpose of global mobility operations is both to help businesses make smart assignment decisions, and to help assignees with their moves. In addition, companies should strive to offer both mobile and non-mobile employees (and their managers) a service experience that is as consistent as possible. Organisations can take significant steps toward achieving this consistency by integrating certain aspects of global mobility service delivery into the company's HR operations and infrastructure.

Suggested activities

Current State Assessment and Future Model Design:

- Review the role of global mobility and the scope of work to be performed in house, outsourced or moved to a specific department
- Review roles and responsibilities required for key mobility stakeholders and process partners
- Conduct detailed process deep dive review sessions with global mobility team and functional stakeholders (e.g. Payroll, Finance)
- Analyse the use of tools/templates/technology
- Calculate estimated baseline costs of current service delivery model
- Conduct comparator organisation model benchmarking
- Design insource/outsource vendor model and ways of working
- Design for future-state organisation (roles, scope, FTE's, governance)
- Design future job aids, processes & technology

4) Tax planning, effective pay delivery and offshore benefits

With an upsurge in scrutiny from tax offices, the ability for an organisation to lower their overall mobility tax spend is even more challenging. An innovative cost optimisation approach would be to look at the organisation's major home and host country combinations and design compensation elements that are both delivered and structured in light of the tax legislation in the home and host countries. For example, the host country may not tax accommodation allowances if delivered or paid in a specific manner. As such, an organisation should consider the main home and host country combinations both in present and predicted future context and invest in understanding the tax legislation and specific tax efficient approaches available to ensure these are built into both the policy suite and overall assignment making decision process.

As with expatriate tax costs, in the majority of cases, social security is a mandatory cost for employees and employers, which is normally payable in at least one location for each assignee. Historically, though, organisations have tended to focus more on tax costs rather than social security costs, despite social security being a higher cost than tax in some locations. As with tax, it would be recommended that a review of the most common home/host location combinations takes place. This would be to ensure that opportunities for cost savings are maximised and may look at potentially different employment models, such as the use of a global employment company which can align certain deployment types with an optimised overall social security position for both the employee and employer.

Leading organisations are also taking this concept further by combining the dual objectives of offshoring mobility transactional operational tasks with the establishment of global employment companies which must fulfil criteria of substantial operating presence and activities in today's tax environment to be effective. This has the advantage of achieving cost optimisation not only through social security optimisation but also by leveraging the benefits of offshore operational cost efficiencies.

Suggested activities

Key location and traffic lane analysis:

- Review home and host country combinations for tax planning and tax effective pay delivery in the following areas:
  - Global tax planning
  - Country specific planning
  - Social Security
  - Pensions
- Conduct GEC feasibility study based on country location analysis and service delivery model requirements
- Assess current process for assignment initiation and pay delivery

Final thoughts

True cost optimisation takes time. Savings are unlikely to be realised in the first year and many initiatives will require an initial cost investment to achieve an overall cost optimised position. The key for organisations is to ensure they understand both the cost of mobility but also how they manage and improve their cost base over time. This is much easier said than done but due to the increased scrutiny in the cost of mobility, this is an absolute mandatory requirement for a global organisation.

Whilst the above initiatives could be implemented by most organisations, consideration needs to be given to the overall business and talent objectives of the organisation before any change is executed. An organisation must therefore first determine their overall drivers for their mobility programme e.g. assignee experience, consistency, speed of deployment in conjunction with any overall cost optimisation initiative in order to and understand how mobility can continue to help achieve the business objectives without them being compromised. From this, an organisation can then determine where the focus needs to be placed and mobility can provide a framework within which an effective and targeted cost optimisation initiative can be implemented.

Authors

Andrew Robb
Global Mobility Transformation Director, Practice Leader.
Deloitte LLP,
United Kingdom
+44 20 7303 3237
anrobb@deloitte.co.uk

Beth Warner
Global Mobility Transformation Manager.
Deloitte LLP,
United Kingdom
+44 20 7007 8643
bewarner@deloitte.co.uk

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

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