

Business Relocation— Pricing The Moving Component

by Robert N. Merryman

Robert Merryman is a member of the Gateway Chapter 37 located in St. Louis, Missouri. He is a vice president of O.R. Colan Associates, Inc. and is currently involved with airport and highway projects.

In 1988, the Federal Highway Administration contracted O.R. Colan Associates, Inc. to prepare and present a course for the various state highway departments dealing with estimating and controlling business moving costs. Bob Merryman served as the principal author and instructor for the project. The course has been presented 25 times to employees of 40 state highway departments and other federal agencies. The following article is a summary of several chapters of the course text.

Business relocation presents many complex challenges for those administering the program. The cost to successfully relocate a business can be high. More importantly, the cost of improperly administering the program can be even higher.

One of the apparent difficulties with business displacements is determining the correct amount to pay for the moving¹ portion of the relocation claim. The simple answer often encountered is to "get bids." However, there is much more involved than just obtaining bids. Proper control of the process necessitates a greater effort.

A review of the regulatory requirements found in CFR Part 24 calls for payment of the "actual and reasonable" cost of the move. An additional concept of paying only the "necessary" cost arose from the 1987 amendment to the Uniform Act. The broad latitude of the regulations is necessary to cover the wide variety of application within the scope of the Uniform Act. However, the latitude also necessitates that cost control must be tailored to the individual situation.

In an attempt to provide the basis of

a cost control strategy, this article will explore fundamentals of the moving industry's pricing and suggest some practical ways to control cost.

LABOR COST

A basic precept that must be kept in mind is that the moving industry is a service industry. As such, labor costs are typically the major expense. The total cost of van rental, boxes, packing materials, etc., are small when compared with cost of the labor for conducting the move. In some moves, labor may be as high as 80 percent of the total cost of the move.

When the cost of labor is discussed, we mean the total cost of labor, i.e., the billing rate you pay per hour. This total billing rate will be substantially higher than the wages actually paid to the laborers. The difference is typically termed the "overhead" expressed as an additive to the hourly wage. An example may clarify this:

Assume a "packer" is being billed to the consumer at \$12 per hour. The actual gross wage paid to this individual may be \$5 per hour. The difference, \$7, represents what is needed by the mover to pay overhead and may also include a profit allowance.

A logical question is "What is the overhead?" And the corollary question is "What do we get for paying it?" Overhead represents those costs necessary for the business to survive, but which cannot easily be billed specifically. Some examples include the wages of the secretary that answers the phone, general business expenses and utilities to run the office. Overhead also includes employee payroll burdens such as FICA, health insurance, vacation pay, etc. In summary, overhead represents necessary business costs which are recovered through an additive on wages paid.

Armed with these bits of knowl-

edge, we can now apply them to controlling moving cost. Since labor is the major element of cost, any control effort should be targeted at the labor component. There are several ways to address this:

- Require price quotations to detail by category and quantity the different labor skills proposed for the move
- Require the mover to provide the hourly billing rate for each labor skill
- Require the price quotations to include adequate breakdown to permit segregation of labor and materials costs

These cost details can then be used as the basis of comparison for those situations where more than one price quote is obtained. This information may also assist in the preparation of independent estimates for moves.

BID OR ESTIMATE

Another important aspect of understanding the moving industry, is its method of providing price information. There are generally two methods of seeking a price quotation:

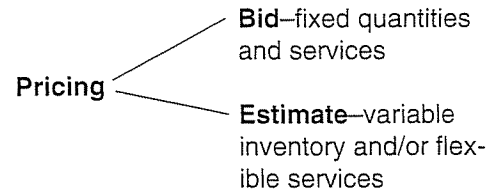
- Bid-a fixed, lump-sum price quote for a particular move
- Estimate-an approximation of the cost of providing a given service. The actual charge may vary

Each of these two methods of quoting prices has its advantages and disadvantages.

A bid facilitates ease of cost comparison. However, for a bid to be of merit, the details of the move must be spelled out exactly. Further, if an aspect of the move which is outside the control or responsibility of the mover is changed, an adjustment to the bid may be warranted. These adjustments may cause another entire set of difficulties in determining the dollar value of the change.

In some jurisdictions, the use of a firm bid for moving services may be

$$\begin{array}{c} \$ \\ \text{wages + overhead + profit = billing rate} \\ \$ \end{array}$$



restricted or even prohibited by state law or local ordinance. However, many of these regulations provide some exception for moves that ultimately will be paid for with public funds.

Estimates, on the other hand, provide virtually no ability to compare cost since the true cost will not be known until after the move is completed. Unscrupulous movers frequently will provide a low estimate to obtain the job only to inflate the actual bill. However, estimates do provide flexibility for moves where the inventory is fluctuating or certain aspects may be beyond the control of the movers. An example may help illustrate this point:

A seafood processing plant warehouse is being acquired on a project. The plant continuously accepts frozen product from its nearby plant and ships product from the warehouse based on order received. A replacement warehouse is under construction and as soon as it is completed, the move will take place. The stored inventory is constantly changing. However, other personal property such as fork lifts and the com-

puter system are fixed quantities. One solution for pricing this move is to obtain a bid for the quantities that can be fixed, and obtain an estimate for the fluctuating stock.

It is also possible to have a move in which some parts are priced by bids and some parts are priced by estimates. These hybrid combinations are useful when a few items of the moving inventory fluctuate but others are fixed.


It's important to develop the ability to analyze a potential move and determine the best technique to address the issues. This may be a bid, estimate, both techniques, or a hybrid.

CONCLUSION

Several reviews of federal-aid projects concluded that a significant dollar amount of relocation funding was improperly spent on improper or excessively priced moving services. One simple example, a printing plant was overpaid by several hundred thousand dollars because no cost control was exercised on bidding and other aspects of the move. A general lack of knowledge about pricing methods and industry practices resulted in some of the problem. A

thorough understanding of these issues by practitioners of business relocation services represents the best approach to solving these problems.

Labor, as the largest ingredient of moving cost, must be understood through its components. This understanding provides a control mechanism. Knowing the labor cost component of moving services can facilitate negotiations for adjustments to bids caused by unavoidable changes. It also permits a relocation agent to prepare in-house moving estimates with a solid basis.

It is also necessary to seek a price quotation for moving services in the proper format and broken down to provide detail. The price quote should also match the requirements of the move, i.e., an estimate if the aspects of the move are variable or changing, or a bid if quantities and other specifications can be ascertained and will not change. 

ENDNOTE

1. As used, herein, "moving" means the packing, hauling (cartage), and unpacking of personal property. It does not include other eligible costs such as removal, insurance or reinstallation.



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