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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS, AND READINESS DIVISION

B-159783

APRIL 6, 1982

The Honorable Caspar W. Weinberger
The Secretary of Defense

Attention: Director, GAO Affairs

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Dear Mr. Secretary:

Subject: Use of Shipper Associations Would Reduce DOD's Transportation Costs (PLRD-82-61)

Our recent survey of the Department of Defense's (DOD's) freight consolidation practices indicated that the Department could save several million dollars annually by using selected nonprofit shipper associations to transport less-than-truckload (LTL) freight shipments over long distances nationwide. By not using these associations, DOD is depriving itself of an economical source of transportation that is extensively used by several firms in the private sector. These associations not only save firms money, but they also appear to provide service equal to or better than that provided by commercial carriers.

DOD has not used the services of shipper associations because some officials believed that it was illegal to become members of such associations. However, after discussions with key officials at the Military Traffic Management Command, DOD officials appeared willing to pursue the use of selected shipper associations, assuming they could obtain appropriate authorization and guidance.

Although we planned to perform more detailed audit work to further develop our findings, this willingness to explore the concept of shipper associations makes further audit effort unnecessary at this time.

BACKGROUND

According to DOD transportation regulations, freight shipment consolidation offers a substantial cost savings not otherwise available when each of several small, compatible shipments are shipped separately. Consolidation is a procedure whereby two or more small lot shipments are consolidated into one container or into a single shipment or where LTL shipments are combined into carload or truckload shipments on one bill of lading. The objective of freight consolidation is to take advantage of the lower rates available on larger shipments.

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DOD regulations cite several ways that freight consolidation can be achieved, including mixing Government freight with a contractor's commercial cargo, combining shipments from one or more contracts, assembling numerous parcel post mailings into one freight shipment, and participating in freight consolidation programs offered by freight forwarders. Another means of achieving freight consolidation, which was not cited in any of the DOD regulations we reviewed, is by using shipper associations to move DOD's numerous small shipments cross-country.

Shipper associations are unregulated nonprofit organizations established by shippers wishing to consolidate their small shipments into truckload and carload lots to obtain benefit from volume transportation rates. These associations are organized and controlled by the shipper members and all savings accrue to the benefit of the members. The associations operate like surface freight forwarders, except they are exempt from economic regulation. About 130 shipper associations are operating in the country today, involving thousands of member commercial firms. These associations tend to be located in major U.S. cities and rely primarily on "piggyback" (trailer on a flat car or container on a flat car) rail service as a mode of transportation. Shipper associations account for about 30 percent of all piggyback movements by rail, making them the country's largest single source of piggyback traffic and a primary supporter of the intermodal movement.

To determine whether shipper associations could provide economical freight consolidation and transportation services to DOD, we visited several shipper associations, met with some of their members, and compared actual LTL motor freight shipment costs to what it would have cost had those shipments been handled by a shipper association. We also reviewed a March 1980 Department of Transportation study of shipper associations and discussed these associations with various DOD officials at the Military Traffic Management Command and the Defense Logistics Agency.

COST COMPARISONS IDENTIFY POTENTIAL SAVINGS

In one comparison involving a small number of freight shipments moved by common motor carrier from the east coast to the Defense Depot, Tracy, California, we found that the savings would have averaged 12.8 percent if the freight had been moved by an association. Most of these shipments weighed less than 10,000 pounds and included such items as steel, wire rope, and electrical and medical supplies. All the shipments were from

DOD suppliers located in east coast States, such as Virginia, Pennsylvania, New Jersey, Connecticut, and North Carolina. The percent of savings per shipment varied from 3.2 percent to 29.5 percent, depending on the distance from the supplier to the association's nearest consolidation center.

We also made a similar comparison for a small number of actual motor carrier shipments from west coast suppliers located in California cities, such as San Francisco, Palo Alto, Sunnyvale, and Oakland. All of these shipments were to east coast destinations, such as New Cumberland Army Depot, Charleston Naval Shipyard, Norfolk Naval Air Station, and New London Naval Ordnance Station. The shipments weighed less than 1,000 pounds each and involved such items as pressure regulators, engine parts, electronic parts, bearings, and small arms ammunition. The cross-country movement of these items was handled by common truck carriers--Yellow Freight System, Inc.; IML Freight; Roadway Express; and Watkins Motor Lines, Inc. Had a California shipper association moved this freight, the savings on each of these shipments would have varied from 5.1 percent to 19.8 percent. The average savings for all shipments was 11.6 percent.

We projected the 11.6-percent savings to substantially all of the calendar year 1981 cross-country LTL common motor carrier shipments from San Francisco Bay Area Government contractors to east coast DOD depots. We estimate that DOD could have saved $27,000 if a shipper association had moved this freight. The actual freight costs on these shipments were about $234,000.

SHIPPER ASSOCIATIONS APPEAR WILLING AND ABLE

To determine why shipper associations can offer its members savings of this magnitude, we met with representatives of four California associations and reviewed their operations. Three of the four associations we visited appeared to be well organized and managed. Their equipment included computers and computer terminals for use in controlling and tracking the movement of hundreds of shipments weekly and for use in billing members and in paying transportation bills. The general manager of one shipper association said that all associations reduce transportation costs for their members because the associations operate on a nonprofit basis and because they can efficiently and effectively consolidate small shipments into the less costly to handle trailer or container loads, much of which moves cross-country by rail piggyback. The director of traffic stated that his association can move freight at a lower cost than common motor carriers can move freight because it is "simply less expensive to move trailers on railroad flat cars than it is to move those trailers cross-country by truck." He also stated that, to obtain lower rates, his association guarantees two railroads they will each receive 1,400 trailers per year. He said this guarantee is not difficult to meet because the association actually handles more trailers than that each year. The general manager stated that while transportation costs nationwide are increasing, the association's costs are actually decreasing. Since the rail industry was deregulated, the association has been able to negotiate with a leading railroad for a 10-percent discount in its rates to haul the association's trailers cross-country.

The general manager also stated that while his organization is one of the oldest shipper associations in the country (established in 1933), it is in a sense one of the newest since it has some of the most modern equipment and facilities in the industry. He said that the association owns a new ultramodern facility in Los Angeles, as well as a terminal in Jersey City. The association also owns a modern fleet of pickup and delivery trucks used at five locations around the country, plus a large fleet of piggyback trailers. In addition, the association has freight consolidation centers in Boston, Jersey City, Philadelphia, Chicago, Cincinnati, Charlotte, Greenville, Atlanta, and Memphis. From these centers, freight is shipped overland via rail piggyback to Tucson, Phoenix, Los Angeles, Reno, and Oakland. The association also has eastbound shipping routes.

According to the general manager, the association has about $28 million in sales per year and saves its members at least 20 percent on the average. On 500-pound shipments or less, the association saves its members about 40 percent off of what it would have cost had they shipped via common motor carrier. He explained the association practices "base loading" of its trailers. This involves striving to load a trailer with about 35,000 pounds of a heavy commodity, such as paint, and then topping it off with the lighter and bulkier items, such as lampshades and pillows. This results in a fully utilized trailer with a maximum trailer weight of about 44,000 pounds. He thought that DOD freight would be ideal for loading in association trailers because he expected that much of it would be the heavier type items which the association could then mix with other members' lighter material. This official, as well as officials at all associations we visited, was enthusiastic about the possibility of handling DOD freight.

We asked shipper association officials if they kept any statistics on shipment transit times. While none of the associations regularly accumulated such data, they had occasionally tracked shipment transit times. These limited studies indicated that the associations' average shipment transit times were reasonable and probably comparable to those experienced by common motor carriers. A transit time analysis one association performed of shipments during the period July 7, 1981, through August 7, 1981, showed that none of the shipments took more than 11.9 days to go from various east coast cities to Los Angeles, and that most of the shipments took only 6 days or less. For example, the freight in 63 trailers moved piggyback from this association's New Jersey terminal to Los Angeles in an average time of 6.32 days; 7 trailers from the Boston terminal to Los Angeles travelled that distance in 6 days, while 133 trailers from Memphis to Los Angeles took an average of only 4.02 days.

USERS OF SHIPPER ASSOCIATIONS SATISFIED

To obtain some indication of what shipper members thought about the associations, we met with key transportation officials of three large and prominent private firms who were members of shipper associations. Two of the three firms were members of the same association located in Oakland, California. These three firms were the Pacific Gas and Electric Company, Montgomery Ward, and Macy's.

Our meetings confirmed that all three of these private firms used the services of shipper associations for basically the same reason--lower cost and better service. Not one of the officials had anything negative to say about associations. In general, they said the associations saved them money and provided shipping service that was at least as good as what LTL common motor carriers provided in terms of transit times and freight loss and damage.

A Gas and Electric official told us the company's redundant freight bill for purchased material was between $40 million and $50 million per year. While the transportation of this material was handled by various means, much of it was handled by the Oakland shipper association we visited. A great deal of the purchased material came from suppliers located on the east coast and in the Chicago area, and about 40 percent of the material coming from these areas was consolidated and transported by the Oakland association via trailers on railroad flat cars to the Gas and Electric Company's distribution center in Oakland. From there, the association delivered the material to its approximate 150 warehouses located throughout California.

The Gas and Electric Company official provided us with a copy of the company's transportation manual wherein we noted there were complete instructions on how to use the services of the shipper association, including a routing guide for use in directing suppliers on how to get their material to the association's nearest consolidation center. These consolidation centers were located in such cities as Atlanta, Charlotte, Chicago, Memphis, Jersey City, Philadelphia, Greensboro, and St. Louis. In all, there were 11 such centers.

The director of transportation for Macy's, a large department store operator, told us that about one-third of the store's freight business was handled by a shipper association, which transported retail goods from east coast suppliers to the west coast. He said he was very satisfied with the services provided by the association and was also pleased with the savings involved, which he estimated at 15 percent over what the transportation cost would otherwise be. He said Macy's also uses the services of other shipper associations, including one air transport association and another association which handled only furniture.

From our discussion with transportation officials at Montgomery Ward's regional headquarters in Oakland, California, it appeared Ward had a comprehensive transportation system, which included the use of shipper associations. Ward has its own transportation system called "WARDEX" which appeared to operate like a shipping association. This system consisted of a number of freight consolidation centers on the east coast where Ward's suppliers were instructed to send merchandise for consolidation into trailerload lots for movement, primarily by railroad, to Ward's distribution centers located throughout the country. Some of the consolidation centers are operated by Ward, while others are operated by a contractor. Ward officials said the company was also a member of four shipper associations, citing low cost and good service, including low freight loss and damage experience, as its reasons for moving freight by this mode.

OTHER STUDIES CITE ADVANTAGES OF USING SHIPPER ASSOCIATIONS

Both the Department of Transportation and the Military Traffic Management Command have done limited studies of the usefulness of shipper associations in the transportation industry. These studies indicated that associations provide good service to its members at significant savings.

Department of Transportation study

The Department's March 1980 report was based on a study which included interviewing representatives of nine shipper associations and comparing the rates of five associations to the rates of LTL motor carriers and freight forwarders. The representatives from the associations indicated the primary reason firms join shipper associations was to save money, although better service was a common second reason. Most responded that association service was equal to or better than that provided by forwarders and motor carriers--at least in terms of transit time, variability, and loss and damage rates. Several commented that the association provided extra services for their members that were not available from common carriers. In effect, the associations acted as a traffic department for smaller members that had no traffic personnel. One commented that trip times were better than the largest LTL motor carriers because those carriers used numerous terminals which slowed the freight. In contrast, this association provided direct service between origin and destination with no intervening terminals, and was thus able to have shorter trip times.

The study also included an interview with the traffic manager of a firm which used shipper associations to ship toys it produced from the east to the west coast. Regarding service quality, the traffic manager of the toy firm stated that the association's trip times were comparable to LTL motor carriers and that the association also provided other help in traffic matters when requested.

The rate comparisons performed in this study involved 25 different city pairs at distances ranging from 300 to over 3,000 miles. The comparisons indicated that a wide range of savings was available and that association rates were lower 97 percent of the time, some 40 to 49 percent lower. Sixty percent of association rates were between 11 percent and 29 percent lower than those of LTL motor carriers, with the median rate 18 percent lower. The same range resulted from a comparison with freight forwarders' rates, although the median rate was 21 percent lower.

Military Traffic Management Command study

In a meeting with Command officials, we were told that a limited study they had done indicated savings in transportation charges of about 15 percent by routing certain LTL freight shipments via shipper associations. In a briefing paper provided us at that meeting, the Command pointed out that the operations of shipper associations appeared to be compatible with DOD requirements and that associations offered transit times that were equal to or better than LTL motor carriers. The Command found that associations offered full tracing service on freight shipments and that freight loss and damage claims by association members were lower than the national motor freight average. In its study, the Command also found that both the Navy Exchange and the General Services Administration had used the services of shipper associations for several years and that these organizations had experienced service that was equal to or better than other available transportation at savings of at least 10 percent.

The Command estimated that DOD could have saved $10.8 million in fiscal year 1980 if shipper associations had moved certain shipments weighing less than 10,000 pounds.

DOD CONCERNS

In our discussions with various DOD transportation officials, it seemed that most were aware of the advantages of using shipper associations, but they indicated a need for guidance on how to proceed with joining these associations and using their services, where appropriate. There was also some concern about whether associations would accept Government documentation and payment procedures, and more importantly, whether the Government could legally join shipper associations.

Officials at various associations we visited believed they could handle any special shipping documentation needs DOD might have, as well as any special payment procedures. They basically believed DOD agencies could be treated the same as any other members of their associations. Regarding the legal question, we pointed out to DOD officials that in 1972 the Comptroller General held there was no legal objection to Government agency membership in shipper associations.

CONCLUSIONS AND RECOMMENDATIONS

Our limited survey strongly suggests significant benefits to DOD through selective utilization of the services of available shipper associations. DOD officials we discussed this matter with seemed willing to use this source of transportation, at least on a trial basis, providing they could obtain guidance. In our opinion, such action would be appropriate and prudent.

Accordingly, we recommend that you authorize the Military Traffic Management Command to undertake a DOD-wide program for using selected nonprofit shipper associations to move LTL freight shipments over long distances nationwide. Such a program should include the development and dissemination of appropriate guidance to DOD transportation officials who would be responsible for working with association officials in implementing the program.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report

We are sending copies of this report to the Chairmen, Senate and House Committees on Armed Services; the Director, Defense Logistics Agency; and the Director, Office of Management and Budget.

We would appreciate receiving your comments on the matters discussed in this report.

Sincerely yours,

Donald J. Horan

Donald J. Horan
Director