DOCUMENT RESUME

07622 - [C2787910] (Restricted)

[Negotiation of Freight Rates by the Department of Defense]. LCD-77-231. September 29, 1978. 4 pp.

Report to Maj. Gen. H. R. Del Mar, Commander, Department of Defense: Military Traffic Management Command; by Henry W. Connor, Associate Director, Logistics and Communications Div.

Contact: Logistics and Communications Div.
Organization Concerned: Department of Defense.

A review was conducted of the Department of Defense's (DOD's) procedures and practices with regard to the negotiation of freight rates to determine if negotiations are conducted in the most efficient manner and result in the lowest rates obtainable for moving DOD cargo. Duplication of effort between headquarters and area commands was found on actions involving volume shipments, and shipping offices were generally not providing the Military Traffic Management Command (MTMC) with the required 30-day advance notice of shipment. MTMC analysts generally used existing rates on analagous commodities and prevailing rates on other shipping patterns as the basis for negotiations without considering either rates available by using other forms of transportation or making a comparison of the carrier's costs and revenues. Improvements in procedures would help MTMC to avoid some administrative costs and obtain more favorable consideration by carriers of its rates proposals. (RRS)

7910

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS DIVISION

SEP 29 1978

Major General H. R. Del Mar
Commander, Military Traffic
Management Command

Dear General Del Mar:

We have been reviewing the Department of Defense's (DOD's) procedures and practices relative to the negotiation of freight rates. An objective of our study was to determine if negotiations are conducted in the most efficient manner and result in the lowest rates obtainable for moving volume shipments of DOD cargo. Our review of the Military Traffic Management Command's (MTMC's) policies and procedures for rail and motor carrier rate negotiation was performed under our assignment code 943266.

Much of our work at your headquarters was conducted some time ago and our observations were discussed with your staff during the course of our study. In subsequent contacts with your staff we understand that changes have taken place in the Negotiations Division that may impact on our observations. While we plan no further review or reporting on the results of our study, we believe it would be mutually beneficial to provide you with this brief summary of our observations.

<u>Duplication of effort between headquarters and area commands on actions involving volume shipments</u>

Under current procedures, the various service transportation officers must request specific routing instructions from the appropriate MTMC area command office for their planned movements of larger shipments--generally those weighing 10,000 pounds or more. Requests are commonly submitted several days prior to the planned release date of the shipments to the carrier, and the area commands generally furnish routing instructions in one to three days.

Shipments considered "volume" movements--those consisting of at least 25 carloads or truckloads, or weighing 500,000 pounds or

LCD 77-231/943266

more--must also be forwarded to the headquarters Negotiation Division for review to determine if they offer potential for reduced rates. The local officers are to submit information on volume movements to MTMC headquarters prior to requesting routing instructions from the area commands and at least 30 days prior to release of a shipment.

At headquarters, information relative to the volume movement is reviewed and the applicable rates researched. A decision is then made as to whether or not the volume movement should be routed at the existing rates or if the carriers should be contacted and attempts made to negotiate lower rates.

We found that the 10 rate technicians in the headquarters Negotiations group reviewed more than a thousand such volume movements each year. We noted, however, that negotiations were initiated for only about 10 percent of the volume movements reviewed. For the remaining cases, the local shipping officers were advised that no negotiations were planned and that they should request routing instructions from the appropriate MTMC area command office. A net result of these procedures is that many volume shipments and their applicable rates must be reviewed by both headquarters and the area command with a resulting duplication of effort.

We believe this effort could be minimized if the referral process for volume shipments were changed so that local service shipping officers would first submit information on these movements directly to your area command offices.

Since the area commands must ultimately route every volume shipment they have the necessary historical data and the personnel with technical expertise to research rates. Therefore, we believe they could initially screen planned volume shipments and forward to your headquarters Negotiation Division only those movements which offered real potential for negotiating a reduced rate.

This procedure would not only eliminate the duplication of effort which exists in current procedures but would also reduce the time spent by the headquarters staff in researching cases which have little or no potential for rate reductions. The time saved could be used to better develop those cases with high negotiating potential.

<u>Inadequate lead time available to negotiate rates</u>

The Military Traffic Management Regulations give explicit instructions to shipping officers to advise MTMC at least 30 days prior to any planned volume movements. Thirty days generally allows the headquarters negotiators 15 days to review the notifications and prepare a proposal for reduced rates and the carriers or their rate bureau 15 days to decide whether to offer the Government the rates requested.

We found that the shipping officers are generally not providing MTMC the required 30-days advance notice. In a sample month, we reviewed in depth, fewer than a quarter of the notices submitted met the 30-day lead time. Almost 40 percent of the notices were submitted either on the day the shipments were to have begun or after the shipments had already begun. This obviously limits MTMC negotiation actions and frustrates the entire process.

Recognizing that this has been a long standing problem, and that MTMC does not have direct control over the actions or lack of actions on the part of field transportation officers, perhaps a system could be developed to obtain information on volume movements from another source. It might be worthwhile to explore the possibility of receiving advance notice on volume shipments directly from the item managers at the various service national inventory control points.

Consideration of additional cost and service data might enhance the rate negotiation process

Once a freight rate negotiator has concluded that his shipments could move at a more fair or reasonable rate, the next step is to develop some basis for proposing a rate which is mutually acceptable to the carrier. There is no magic formula to do this, but information and techniques are available to establish a basis for negotiation. The most common bases are generally (1) existing rates on analagous commodities, (2) prevailing rates on other shipping patterns, (3) rates available by using other forms of transportation, and (4) making a comparison of the carrier's costs and revenue. In our review, we found MTMC analysts generally used only the first two bases. However the other two bases could provide MTMC with valuable negotiating leverage in dealing with the commercial carriers. Modal comparisons--comparing and using the rate of one mode, such as a motor carrier, to get the same or similar rate for another mode, as a rail carrier--are common justifications used to get lower rates, yet the Negotiations Division rate analysts did not use them. Negotiation on the basis of modal comparisons would have given MTMC opportunity to broaden the availability of carrier services at similarly low rates.

Cost vs. revenue comparisons were seldom used either. This would require that rate analysts "cost out" shipments based on the ICC cost study formulas. The benefit of such analyses would be that the negotiators could ascertain how low they could go in proposing a rate that would still be attractive considering the carriers' costs of providing the services.

The Negotiations Division generally reviewed comparative shippers' rates and the rates on analogous commodities but even here we found that the rate analysts did not always go far enough, often because they lacked adequate shipment information. In order to justify lower rates based on such comparisons, it is usually necessary that the justification be based on comparison of shipments made under substantially similar conditions, i.e., similar quantities shipped in similar lots during similar time frames. MTMC's negotiators generally had no knowledge whether the rates they were comparing actually moved traffic at all, much less under similar conditions. Moreover, they did not know whether DOD itself was already moving the same traffic under similar conditions. Rarely did the analysts request a rate reduction on the premise of historical shipment information even though such information was readily available. Instead, the justification was simply that if a certain rate had already been published, DOD was entitled to the same one.

We believe that the rate negotiators should use all available information when developing their rate reduction proposals so they may conduct their negotiations from the strongest and most informed position.

- - - - -

It is difficult to judge the effect these observations may have on your negotiation practices. We are aware that the MTMC Negotiations Division does save close to $3,000,000 a year through its negotiation efforts. However, we believe that certain improvements in procedures would put MTMC in a better position to avoid some administrative costs and obtain more favorable consideration by the carriers of its rate proposals.

As mentioned earlier, we do not plan to further report on these matters at this time, but we would appreciate receiving your comments and being informed of any actions taken or proposed on the matters discussed.

We appreciate the excellent cooperation and consideration our staff received during the study. If you or your staff have any questions or desire additional information on the matters discussed in this letter, please contact Charles R. Comfort or Kenneth Brubaker on 275-3637.

Sincerely yours,

Henry W. Connor

Henry W. Connor
Associate Director