Comparative Rate Analysis
Future Department of Defense
Personal Property Program

Exploring the Feasibility of DOD's Projected Cost Increase of 13%

Prepared for the Benefit of the Military Surface Deployment and Distribution Command

November 15, 2004

Analysis of the Future DOD Personal Property Program
Projected Cost Increase of 13%

I. Overview: The members of the Household Goods Forwarders Association continue to support the notion that the "time for change to the outdated DOD Future Personal Property Program is now." The Association has been a willing participant along with SDDC and the Military Services over the past two years to streamline and improve the existing personal property program.

Throughout our meeting process, the Association has expressed concern that an across the board projected cost increase of 13 percent for the future DFPPP is insufficient for the program as currently reflected for the international marketplace. SDDC's contractor, IBM, previously presented an analysis to industry on military versus commercial costs for domestic (CONUS) shipments in an effort to support their proposed cost projections for this future segment of DOD business.

In an effort to support our position, the HHGFAA has made a rate comparison of military shipments vs. commercial and military vs. GSA. The results of this analysis are presented along with related comments on items contained in the 26 August 2002 MTMC document entitled "DoD Future Personal Property Program" (hereafter referred to as the "2002 Report")

SDDC plans to limit the rate increases for "Families First" to no more than 13% (upwards per channel). One purpose of this report is to draw attention to this arbitrary percentage cap and to communicate how incongruent it is in relation to the service expectation and quality requirements of the future International Program.

The current DOD Domestic Personal Property Program has experienced significant rate increases over the past 5 years and now equals or exceeds that commonly received for commercial sector service. During the same time period, rates for the volume driven international program have remained suppressed, significantly below current commercial or other government markets. The long overdue rise of the domestic program rates (in response to market forces) caused SDDC to establish a cap on rates based on the recent comparison report prepared by IBM. The IBM report noted that a cap was not necessary for the international programs because international pricing had experienced minimum rate growth over the same period as that examined for DOD domestic business. SDDC is aware that as a result of increases, the rates in the domestic program have found parity with those of the commercial marketplace. The HHGFAA participants are unaware of any past or present studies by SDDC that may have identified the cost of providing international services under the future "Families First" Program or any assessment of the impact and feasibility of applying a 13% cap per distribution channel. Further, it is uncertain whether any comparison has been made by SDDC using international military rates against those in the commercial or GSA marketplaces.

Therefore, this report is being provided as a review of these issues, utilizing previous SDDC documents, along with available government rate information and current research and analysis by various industry participants.

II. New Program Cost of Liability and Direct Settlement: Appendix B of the 2002 Report contains the cost analyses used by SDDC in determining that "Families First" will not result in a greater than 13% increase in costs over the current program. The following HHGFAA analysis shows that the costs of Full Replacement Valuation and direct claims settlement alone will exhaust most of the 13% cap and that when other costs necessarily incurred in providing the services required under "Families First" are also considered, "Families First" service requirements cannot be obtained within the allotted cap of 13 percent. In fact, SDDC itself estimated the cost of servicing international shipments for the "Families First" would increase by an amount between 22 and 27% over the current program. (Table B-12).

Table B-9 Claims Offset Methodology

SDDC TABLE B-9	**With DPM**
Shipments	612,616
Percent w/damage	65%
Potential Claims (65% of Shipments)	398,200
Pct of Claims Submitted to Government	35%
Claims Processed (35% of Potential Claims)	139,370
Average Claim Amount	$667
Claims Paid to Member (Claims Processed * Avg $)	$92,959,883
Replacement Value Addition (25% of Claims Paid $)	$23,239,971
Value of Non-Pursued Claims (Potential – Processed) * 25% of $667)	$43,159,946
Un-recovered Claims (W/O DPM = $49,821,701 less 11.5%)	$49,821,701
Total Claim Cost	**$116,221,618**
Claim Cost / Shipments	**$189.71**

TABLE B-9 indicates Claims Offset Methodology:

- New Cost for Industry: Replacement value as an addition to the cost estimate @ $23,239,971 (approx. 25%) (If the government had paid FY 97/98 at Full Replacement Valuation coverage)
- Shift Cost to Industry from Frustrated Shippers: Value on non-pursued claims (by Service Members who choose not to pursue claims through the Military Claims Offices but pursue under direct carrier settlement) now pursued under FRV @ $43,159,946
- Shift cost to Industry from Military Claims Office: Un-recovered claims proposed under FRV @ $49,821,701 (The claims offices would no longer have the risk of receiving less from the carrier than they paid to the shipper)

The table further converts this cost shift to a per shipment basis at $189.71 per shipment. However, it is fundamentally flawed to assume that a universal claims cost per shipment can be applied to programs with dramatically different weight averages as demonstrated by Table B-10. The average cost of claims would therefore be more appropriately linked to “per hundred pounds shipped.”

Table 9 adjusted for the deletion of DPM factor

ADJUSTED TABLE B-9	**without DPM**
Shipments	542,165
Pct w/damage	65%
Potential Claims (65% of Shipments)	352,407
Pct of Claims Submitted to Government	35%
Claims Processed (35% of Potential Claims)	123,343
Average claim amount	$667
Claims Paid to member (Claims Processed * Average $)	$82,269,473
Replacement Value Addition (25% of Claims Paid $)	$20,567,368
Value of Non-Pursued Claims (Potential - Processed) * 25% of $667)	$38,196,541
Un-recovered Claims (W/O DPM = $49,821,701 less 11.5%)	$44,092,205
Total Claim Cost	**$102,856,114**

Claim Cost / Shipments	**$189.71**
(Total Claim Cost / Total Weight) / 100 = Claim Cost per net hundred weight	**$5.19**
Additional 2% per year inflation for HHG (12%)	**$5.81**

Note: In the Adjusted Table B-9, the number of shipments was reduced by 11.5% reflecting the exclusion of DPM.

TABLE B-10 lists the average weight of the markets as follows:

DHHG (Domestic Household Goods): 5849 lbs
IHHG (International Household Goods): 3864 lbs
IUB (International Unaccompanied Baggage): 453 lbs

TABLE B-11 subsequently breaks down the percentage of shipments by type. The table below reflects percentage of shipments with and without DPM figures

	Percentage of Shipments by Type					**No of Shipments**
	All	**dHHG**	**iHHG**	**IUB**	**DPM**	
W/DPM	**100**	**36.2**	**25.7**	**26.6**	**11.5**	**612,616**
W/O DPM	**100**	**41.0**	**29.0**	**30.0**		**542,165**

Using Tables B-10 and B-11 (w/o DPM) the Estimated Annual Weight and Hundred Weight are as Follows:

DHHG (41%)	222,287 x 5849 lb =	1,300,156,663 lbs or	13,001,566/ncwt lbs
IHHG (29%)	157,227 x 3864 lbs =	607,525,128 lbs or	6,075,251/ncwt lbs
IUB (30%)	162,650 x 453 lbs =	73,680,450 lbs or	736,805/ncwt lbs
Total	**542,164**		**19,813,622/ncwt lbs**

- **102,856,114 divided by 19,813,622 = $5.19 ncwt**
- **Additional 2% per year for inflation (12%) = $5.80 ncwt**

The following examples show the percentage increase in current rates which would result from the addition of the $5.80 pncwt claims expense alone. (These figures do not reflect any overhead costs associated with the administration of FRV or the administration of direct claim settlements by the Transportation Provider.):

EXAMPLE 1

From Virginia Single Factor Rate (SFR) Code 4 (Door-to-Door Surface):

Germany	SFR $68.20	8.50%
Puerto Rico	SFR 57.45	10.09%
Italy	SFR 82.36	7.04%

EXAMPLE 2

To California South SFR Code 3 (Modified Door to Door, Principal Mode to Far East):

Japan 01	SFR $49.60	11.69%
Korea	SFR 44.78	12.95%
Okinawa	SFR 35.73	16.23%

EXAMPLE 3

From Texas North SFR Code 4 and 3:

Germany Code 4	SFR $77.09	7.53%
Guam Code 4	SFR 93.41	6.21%
Japan 03 Code 3	SFR 79.10	7.33%

Note: The above examples represent only the direct claims cost of the future Personal Property Program. In addition to the above, International Transportation Providers will also have to factor-in additional costs for the following new provisions associated with the DOD "Families First":

III. Elements of the New Program Presented as a Percent Increase Over Current Program Cost *(in addition to liability)***:**

A. Electronic Billing & Payment via PowerTrack:

- A current and known future cost increase of at least 1%

B. Administration of the Claims Process:

- Represents an *approximate* cost increase of 2%

The TSP will assume full responsibility for claims processing from the Service Member; a procedure previously administered by the Military Claims Offices (MCOs). Additionally, the TSP is required to meet the enhanced response requirements established by the "Families First" Program that will meet or exceed those currently provided by the MCOs.

C. Direct Customer/Transportation Provider Communication:

- Represents an *approximate* cost increase of 4%

One of the major philosophical and operational changes in the future program versus the current program, is that the responsibility for management of the entire move process shifts from the Military (staffed, operated and funded) Traffic Management Offices (TMOs) to the Transportation Service Providers (TSPs). With the exception of pre-move counseling, the TSPs in the future will be required to communicate and coordinate all details of relocations directly with the Service Members or his/her representatives. The current DOD program does not promote communication between the Transportation Service Provider and the Service Member. The need for this direct communication was identified in all of the previous pilots as a benefit; not just in setting up the move, but also in determining the status of shipments while in transit, as well as making the arrangement for delivery or placement into temporary storage once the shipment has arrived at destination. Minimal future involvement is envisioned for the TMO, therefore the TSPs will not only need to increase the level of customer service personnel, but will be required to make significant additional investment in the development of web-based and enhanced computer systems to support the "Families First" Program.

D. Best Value: The Quality Factor

It was previously established in the SDDC methodology that projected cost increases for DOD international business (over the current program) will run a minimum of 22-27%.

Moving from a low rate, volume incentive program to one that is judged primarily on quality will require significant investment from the transportation industry for increases in technology and to ensure consistent service performance levels that are comparable to those of commercial marketplace accounts and other quality government agency programs such as the GSA.

SUMMARY

The additional costs discussed above, which are inherent in the "Families First", raise a serious question as to whether "Families First" can be made available, particularly in the International Military Program within the cost parameters established by the DOD. The average cost of the future program including Full Replacement Valuation (FRV), electronic payment through U.S. Bank's PowerTrack, administration of program elements that were previously the responsibility of DOD and the installation of a Best Value Quality Methodology may increase the international program cost by as much as 35 to 50% over the current program. The quality of service to the Service Member and the overall program cost would then compare to that of both the commercial and other government markets.

IV. Program Cost Analysis by SDDC: Total program cost estimates in Appendix B of the 2002 SDDC Report shows a projected cost increase of 22-27% for the future DOD International Program.

Table B-12 indicates Total Direct Cost by Shipment Category: Total program costs in 2005 are forecasted at $2,256 million for the DOD Future Personal Property Program (DFPPP), a 13.4% increase over the estimates for the current Personal Property Program. However, the same comparisons when applied to type of service, shows that the DHHG cost increase for DFPPP (Families First) is 12% (915 vs. 1031) over the current program while the IHHG increased by 22% (756 vs. 964), IUB was reported at a 22% decrease (267 vs. 210) and DPM remained static.

Recently, SDDC advised transportation provider participants that it was going to apply a firm increase cap of 13 percent over present rates for the future International Military Program and that SDDC would reject any rates which exceeded this cap. SDDC also advised that it would not consider current market rates for providing international services in determining price reasonableness, although SDDC commissioned IBM to make this determination previously and considered only commercial rates in establishing price reasonableness for their future Domestic Personal Property Program.

Table B-12 in the SDDC report shows that the 13 percent cap cannot be applied to the International Program as SDDC's own figures show that "Families First" will involve, for the International Program alone, a 27 percent increase over present costs for FY2004 and a 22 percent increase over FY2005. Even if international rates are obtained during the first year within this arbitrary cap, SDDC's own prior study indicates that those rates cannot be maintained.

(This space intentionally left blank)

SDDC TABLE B-12
Total Program Direct Costs by Shipment Category

Fiscal Year	2001					2002				
	Total	dHHG	IHHG	IUB	DPM	Total	dHHG	IHHG	IUB	DPM
MTMC pilot full rollout	2,705	1,129	1,272	256	47	2,764	1,154	1,300	261	49
FSMP pilot full rollout	2,838	1,250	1,189	352	47	2,901	1,277	1,216	359	49
MTMC constructed	1,696	671	714	264	47	1,734	686	729	270	49
FSMP constructed	1,910	706	892	265	47	1,952	721	911	271	49
Current PPP	1,846	849	702	248	47	1,887	868	717	253	49
Current PPP (with claims)	1,962	891	732	278	61	2,005	911	748	285	62
Current w/ 400N tariff & ISFR	1,938	976	667	248	47	1,981	998	682	253	49
DFPPP	2,094	957	895	195	47	2,140	978	915	199	49

Fiscal Year	2003					2004				
	Total	dHHG	IHHG	IUB	DPM	Total	dHHG	IHHG	IUB	DPM
MTMC pilot full rollout	2,814	1,175	1,323	266	49	2,862	1,195	1,346	271	50
FSMP pilot full rollout	2,953	1,300	1,237	366	49	3,003	1,322	1,259	372	50
MTMC constructed	1,765	696	742	275	49	1,795	710	755	279	50
FSMP constructed	1,987	734	928	276	49	2,020	747	943	280	50
Current PPP	1,921	883	730	258	49	1,953	896	743	262	50
Current PPP (with claims)	2,042	927	761	290	63	2,076	943	774	295	64
Current w/ 400N tariff & ISFR	2,017	1,016	694	258	49	2,051	1,033	706	262	50
DFPPP	2,179	995	931	203	49	2,216	1,012	947	206	50

Fiscal Year	2005					2006				
	Total	dHHG	IHHG	IUB	DPM	Total	dHHG	IHHG	IUB	DPM
MTMC pilot full rollout	2,913	1,216	1,370	276	51	2,966	1,238	1,395	281	52
FSMP pilot full rollout	3,057	1,346	1,281	379	51	3,112	1,370	1,304	386	52
MTMC constructed	1,827	723	769	284	51	1,860	736	782	289	52
FSMP constructed	2,057	760	960	285	51	2,094	774	978	291	52
Current PPP	1,988	915	756	267	51	2,024	931	770	271	52
Current PPP (with claims)	2,114	960	788	300	66	2,152	977	802	305	67
Current w/ 400N tariff & ISFR	2,088	1,052	718	267	51	2,125	1,071	731	271	52
DFPPP	2,256	1,031	964	210	51	2,296	1,049	981	214	52

Fiscal Year	2007					2008				
	Total	dHHG	IHHG	IUB	DPM	Total	dHHG	IHHG	IUB	DPM
MTMC pilot full rollout	3,019	1,261	1,420	286	53	3,073	1,283	1,445	291	54
FSMP pilot full rollout	3,168	1,395	1,328	392	53	3,225	1,420	1,352	400	54
MTMC constructed	1,893	749	797	295	53	1,927	763	811	300	54
FSMP constructed	2,132	788	995	296	53	2,170	802	1,013	301	54
Current PPP	2,061	948	784	276	53	2,098	965	798	281	54
Current PPP (with claims)	2,190	995	817	311	68	2,230	1,013	832	316	69
Current w/ 400N tariff & ISFR	2,164	1,090	744	276	53	2,203	1,110	758	281	54
DFPPP	2,338	1,068	999	217	53	2,380	1,087	1,017	221	54

Fiscal Year	2009					2010				
	Total	dHHG	IHHG	IUB	DPM	Total	dHHG	IHHG	IUB	DPM
MTMC pilot full rollout	3,129	1,306	1,471	296	55	3,185	1,330	1,498	301	56
FSMP pilot full rollout	3,283	1,446	1,376	407	55	3,342	1,472	1,401	414	56
MTMC constructed	1,962	776	825	305	55	1,997	790	840	311	56
FSMP constructed	2,209	816	1,031	307	55	2,249	831	1,050	312	56
Current PPP	2,135	982	812	286	55	2,174	1,000	827	291	56
Current PPP (with claims)	2,270	1,031	847	322	70	2,311	1,049	862	328	72
Current w/ 400N tariff & ISFR	2,242	1,130	771	286	55	2,283	1,150	785	291	56
DFPPP	2,422	1,107	1,035	225	55	2,466	1,127	1,054	229	56

V. Government Accounting Office (GAO) Concerns: The GAO previously warned in their report of April 18, 2003 that "DOD may find a repeat of what occurred during the pilots, where the military services terminated participation in one of the pilot programs due to costs exceeding projections." GAO first found that "DOD had not provided a level of assurance to the Military Services and to Congress that its projected 13 percent increase over the current program costs can be achieved." (GAO Report #03-367.) Second, the recent SDDC report makes clear that the 13 percent estimated increase applies to the entire program and that the calculation does not override SDDC's own study which shows that even when taken at face value, "Families First" will involve an increase in cost in the International Program of 27 percent based on FY2004 data and 22 percent based on FY2005 data.

The domestic and international military programs are very separate and distinct. Many transportation providers participate in the domestic program but not in the international program; the converse is also true. This results from the fact that different types of services and skill-sets are required in each of the programs. More important is the fact that the present International Program is cost-driven and incentivizes providers by guaranteeing certain volumes for filing low rates. On the other hand, the Domestic

Program does not have such incentives and the GAO previously determined in published reports that the domestic household goods program is not a cost competitive program. This explains SDDC's conclusion that converting the International Program from a cost-driven to a quality-driven program, as envisioned by "Families First", will require an increase of between 22 and 27 percent, whereas the Domestic Program, because of its presently higher rates, can possibly be converted to "Families First" within the 13 percent cap.

VI. Action Required: As shown above, GAO has advised Congress that is has not been furnished the data by DOD, which it states it requires in order to validate DOD's estimated 13 percent cost increase. *Because the "Families First" is to be applied to all of the traffic moving under the present DOD military program, without any testing, it is critical that the validity of the estimated 13 percent cap be determined so that the Military Services and Congress may fully rely on this increase in making budget determinations and in considering requests for military appropriations.* In addition, this request is essential in order to enable each Branch of Service to determine whether "Families First" is a program worthy of the funding required in order to achieve the same quality of international service that is provided to both the GSA and the commercial or "national account" sectors.

Figure A

International Military Rate Comparisons (IWO4) - Raw Data

Note: The rates below are LOWEST cost with no adjustments for shipping requirements such as use of new lift vans, service fees or Foreign vs. American flag costs. (2004 figures utilized)

From D.C, To:

	GSA	Military	$ Diff	%	Commercial	Military	$ Diff	%
Germany	114.80	66.97	47.83	71.42%	116.00	66.97	49.03	73.21%
UK	126.08	71.93	54.15	75.28%	134.00	71.93	62.07	86.29%
Japan	160.93	96.59	64.34	66.61%	124.00	96.59	27.41	28.38%
Puerto Rico	95.33	59.62	35.71	59.90%	100.00	59.62	40.38	67.73%
Belgium	113.78	72.41	41.37	57.13%	97.00	72.41	24.59	33.96%
Turkey	129.15	79.86	49.29	61.72%	116.00	79.86	36.14	45.25%
Guam	133.25	81.21	52.04	64.08%	150.00	81.21	68.79	84.71%
Korea	118.90	75.38	43.52	57.73%	118.00	75.38	42.62	56.54%

From Southern Florida To:

	GSA	Military	$ Diff	%	Commercial	Military	$ Diff	%
Germany	120.95	72.67	48.28	66.44%	103.00	72.67	30.33	41.74%
UK	130.18	72.26	57.92	80.15%	136.00	72.26	63.74	88.21%
Japan	167.07	90.53	76.54	84.55%	129.00	90.53	38.47	42.49%
Puerto Rico	93.28	55.65	37.63	67.62%	115.00	55.65	59.35	106.65%
Belgium	111.73	72.62	39.11	53.86%	98.00	72.62	25.38	34.95%
Turkey	131.20	80.09	51.11	63.82%	108.00	80.09	27.91	34.85%
Guam	139.40	84.78	54.62	64.43%	150.00	84.78	65.22	76.93%
Korea	146.58	80.28	66.30	82.59%	126.00	80.28	45.72	56.95%

From Southern California To:

	GSA	Military	$ Diff	%	Commercial	Military	$ Diff	%
Germany	125.05	83.64	41.41	49.51%	114.00	83.64	30.36	36.30%
UK	130.18	86.83	43.35	49.93%	136.00	86.83	49.17	56.63%
Japan	147.60	69.53	78.07	112.28%	129.00	69.53	59.47	85.53%
Puerto Rico	113.78	70.54	43.24	61.30%	138.00	70.54	67.46	95.63%
Belgium	123.00	86.24	36.76	42.63%	96.00	86.24	9.76	11.32%
Turkey	139.40	94.19	45.21	48.00%	119.00	94.19	24.81	26.34%
Guam	137.35	65.77	71.58	108.83%	104.00	65.77	38.23	58.13%
Korea	118.90	63.55	55.35	87.10%	100.00	63.55	36.45	57.36%

Figure B

International Military Rate Comparisons - Adjusted Analysis

Note: The rates below have been adjusted for requirements such as use of new lift vans, service fees and Foreign vs. American Flag costs.

From DC To:

	GSA	Military	$ Diff	%	Commercial	Military	$ Diff	%
Germany	104.80	66.97	37.83	56.49%	128.00	66.97	61.03	91.13%
UK	116.08	71.93	44.15	61.38%	148.00	71.93	76.07	105.76%
Japan	160.93	96.59	64.34	66.61%	150.00	96.59	53.41	55.30%
Puerto Rico	85.33	59.62	25.71	43.12%	103.00	59.62	43.38	72.76%
Belgium	103.78	72.41	31.37	43.32%	109.00	72.41	36.59	50.53%
Turkey	119.15	79.86	39.29	49.20%	148.00	79.86	68.14	85.32%
Guam	123.25	81.21	42.04	51.77%	153.00	81.21	71.79	88.40%
Korea	108.90	75.38	33.52	44.47%	145.00	75.38	69.62	92.36%

From Southern Florida To:

	GSA	Military	$ Diff	%	Commercial	Military	$ Diff	%
Germany	110.95	72.67	38.28	52.68%	115.00	72.67	42.33	58.25%
UK	120.18	72.26	47.92	66.32%	150.00	72.26	77.74	107.58%
Japan	157.07	90.53	66.54	73.50%	155.00	90.53	64.47	71.21%
Puerto Rico	83.28	55.65	27.63	49.65%	128.00	55.65	72.35	130.01%
Belgium	101.73	72.62	29.11	40.09%	110.00	72.62	37.38	51.47%
Turkey	121.20	80.09	41.11	51.33%	140.00	80.09	59.91	74.80%
Guam	139.40	84.78	54.62	64.43%	153.00	84.78	68.22	80.47%
Korea	136.58	80.28	56.30	70.13%	153.00	80.28	72.72	90.58%

From Southern California to:

	GSA	Military	$ Diff	%	Commercial	Military	$ Diff	%
Germany	115.05	83.64	31.41	37.55%	126.00	83.64	42.36	50.65%
UK	120.18	86.83	33.35	38.41%	150.00	86.83	63.17	72.75%
Japan	137.60	69.53	68.07	97.90%	155.00	69.53	85.47	122.93%
Puerto Rico	103.78	70.54	33.24	47.12%	141.00	70.54	70.46	99.89%
Belgium	113.00	86.24	26.76	31.03%	108.00	86.24	21.76	25.23%
Turkey	129.40	94.19	35.21	37.38%	151.00	94.19	56.81	60.31%
Guam	127.35	65.77	61.58	93.63%	107.00	65.77	41.23	62.69%
Korea	108.90	63.55	45.35	71.36%	127.00	63.55	63.45	99.84%

Factors for Comparison:

GSA

* Deduct $10.00 for new lift vans (total cost $10.00+$3.00 = $13.00 per net hundred weight *i.e. the cost of a new lift van*
* Military Rate assumes $3.00 per ncwt for lift vans

COMMERCIAL LOOSE LOAD

* Add $3.00 ncwt
* Foreign Flag adjustment on 5,000 lbs consolidated in a 40ft sea container

Figure C

U.S. FLAG VS. FOREIGN FLAG OCEAN FREIGHT COST

From U.S. East Coast	TO	$US Flag	$Foreign Flag	$Diff	$Diff per ncwt
	Belgium	1,183.00	671.00	512.00	9.28
	Germany	1,183.00	671.00	512.00	9.28
	Japan	2,329.00	1,010.00	1,319.00	23.98
	Korea	2,329.00	1,010.00	1,319.00	23.98
	Turkey	3,406.00	1,325.00	2,081.00	32.15
	UK	1,313.00	671.00	642.00	11.28