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DOD Says Outsourcing Its Freight Management has Produced a Drop in Transportation Costs
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Recent moves by the U.S. Department of Defense to outsource management of freight shipments and put in place a system for handling personal property of military service members appear to be paying off by reducing transportation costs, although some trucking industry officials continue to raise questions about the effectiveness and long-term savings of both programs.

In 2007, Menlo Worldwide Logistics was awarded a $1.6 billion contract to manage freight from more than two dozen military supply depots across the country through August 2014.

The military's top logistics officer, Gen. Duncan McNabb of the U.S. Transportation Command at Scott Air Force Base in Illinois, has called the Defense Transportation Coordination Initiative "a huge success." Military logistics officers said the program has met or exceeded most performance objectives, including a provision that at least 23% of participating carriers be small businesses.

From March 2008 through November 2010, DTCI-approved carriers handled 758,293 shipments and moved 3.2 billion pounds of freight for the Defense Logistics Agency and the four branches of the military — Army, Air Force, Navy and Marines — at a cost of $424 million. That compares with a "baseline" cost for freight movements in 2006 and 2007 of $606.4 million, saving $182.5 million, or 30.1%, according to data supplied by Menlo.

The largest share of freight spending — $305.9 million — was by the Defense Logistics Agency, which provides everything from food and fuel to uniforms, medical and construction supplies and spare parts to the military. The agency operates 26 distribution centers in the United States and more than two dozen other nations. Additional freight spending under the DTCI program consisted of $56.4 million by the Army, $29 million by the Navy, $24.5 million by the Air Force and $8.2 million by the Marine Corps.

Likewise, the Defense Personal Property Program, or DP3 (formerly known as the Families First program), has cut the average cost of moving household goods for military personnel by more than 10% in the past year, said executives of several participating carriers.

A top official at the Military Surface Deployment and Distribution Command, which coordinates the delivery of equipment and supplies used by the military and oversees relations with commercial carriers, declined to provide data on the cost of moves but said the program had "come a long way" since its launch in 2008 and has been effective in improving the quality of service to service members.

"As a customer, [DOD] was not getting the same service as counterparts in the commercial industry," John Johnson, personal property branch chief for SDDC, said in an interview with Transport Topics.

Under the new program, service personnel work directly with transportation-service providers rather than going through a federal office. Carriers are awarded business based largely on the quality of service they provide rather than the lowest rate.

The change "has redefined how we move," Johnson said.

Results of these programs appear to be in line with savings and performance levels achieved by other contractual arrangements between the U.S. military and private contractors, but some carrier executives and industry analysts are critical of the changes and argue that lower costs are more a consequence of the recession than anything else.

"All shippers, including the military, benefited from this dramatic price-cutting," said Thomas Swartz, a former director of government services at Overnite Transportation and UPS Freight who now works as an industry consultant.

"While DTCI undoubtedly can lay claim to savings, I suspect the savings were a clear effect of the recession rather than the innate execution of a third-party logistics program."

Tye Beasley, chief of DTCI operations for the Defense Department, conceded the point but said the program is performing "very well" and has met all performance targets except one — on-time delivery.

"The biggest driver of cost-avoidance has been the ability to negotiate better rates with carriers," Beasley said in an interview with Transport Topics. "We still have not taken full advantage of Menlo's ability to optimize and consolidate freight."

Those additional savings have not been realized because current government information systems are not compatible with those used by the private sector, Beasley said. Efforts to modify software to allow data exchange are under way but aren't expected to be completed until 2012 for DOD's largest shipper, the Defense Logistics Agency.

Swartz said some carriers have stopped hauling military loads because they don't want to sign a contract with a company that a competitor owns. Menlo is a division of Con-way Inc., which operates Con-way Freight and Con-way Truckload. The parent company ranks No. 6 on the Transport Topics 100 list of the largest for-hire carriers in the United States and Canada.

For some carriers, hauling military loads no longer is as profitable as it was, and that change has raised concern in some quarters about whether there will be sufficient capacity as demand for commercial freight hauling picks up.

“The military is demanding higher-quality service and lower prices. That is difficult to do,” said Scott Kelly, president of the government services division for Suddath Cos. in Jacksonville, Fla. “The number of drivers is significantly less, and just about every week, we hear about local movers closing.”

By shifting much of the responsibility for data entry and customer service from government transportation officers to service providers, carrier executives said, the program has raised the cost of doing business while making it harder to raise prices.

“We’re doing the same amount of business but with significantly more overhead,” Kelly said. “We’re working harder, and it’s costing more to maintain service.”

Suddath ranks No. 71 on the TT 100 list of for-hire carriers.

Under the DP3 program, SDDC officials assign business to movers at four different times during the year, based on price levels, which are filed once a year on specific traffic lanes, and quality of service, which is based largely on results of a customer satisfaction survey.

A low number of survey responses and a complicated claims process can skew those scores and make it harder for some firms to compete, carrier executives said.

“Survey returns are only 20% to 30%,” said Matt Dolan, chief operating officer and senior vice president of military services at Arpin Group, a household goods mover based in West Warwick, R.I. “One poor survey can kill you.”

To help bolster its military moving business, Dolan said Arpin, which ranks No. 99 on the TT 100 for-hire list, recently acquired an Oklahoma-based agency, Affiliated Transportation Systems Inc.

The peak moving season is expected to be especially busy this summer because, in addition to an estimated quarter-million station moves by military personnel, about 17,000 people are relocating as a consequence of base closings and realignment activity.

“The summer peak will be a challenge,” said J.D. Morrissette, president of Interstate Van Lines, Springfield, Va.

In addition to handling more military moves, Morrissette said, the peak time for private and commercial moves has become more compressed so that what used to take place throughout the summer months now occurs in about 60 days.

“It’s hard for our industry to gear up for 60 days,” he said.

To address capacity concerns, Johnson said, the SDDC is giving carriers more flexibility about where they put goods in storage and has agreed for the first time to allow service members use of containers.

“We’re trying to be smarter with capacity,” he said.

More than 940 carriers currently participate in the DP3 program.

Critics of logistics outsourcing point to signs that military officials are backing off from the use of contractors in the face of media criticism and increasing budget pressure.

In 2009, President Barack Obama directed federal agencies to wring $40 billion more out of procurement processes in the next two years.

The trend toward contractor support “has gone too far in some areas,” William Lynn III, defense deputy secretary, said in a speech last year to the American Federation of Government Employees. He said DOD would establish 20,000 new civilian positions over the next two years, primarily in acquisition oversight, logistics support, program management and cost accounting.

U.S. Air Force Secretary Michael Donley said his agency already has replaced outside contractors with 2,500 Air Force civilians, saving $790 million in future program costs. He said the Air Force added another 2,400 full-time positions in 2010 and “have more planned in the future.”

Daniel Goure, who wrote a report, “Back to the Future: The Perils of Insourcing,” said the record of public-private partnerships and performance-based logistics is very good, has improved parts availability by 20% to 40% and has reduced costs by 15% to 20% across numerous platforms, including the Stryker vehicles, aircraft and vehicle engines.

“The Department of Defense has never shown an ability to manage the costs of transactional logistics or of running a lean and effective supply chain,” Goure concluded in his report for the Lexington Institute, a nonprofit think tank in Arlington, Va., where he is a vice president.

“Just when the Department of Defense needs innovative ways to contain costs while improving performance of its maintenance and logistics system, some with-in the department want to go back to the government-run approach,” he said.

Goure said the basic problem is that government officials don’t want to give up control, and long-term contracts such as the one between DOD and Menlo “could be in jeopardy.”

For now, though, top military logistics officials appear to favor expansion of programs such as DTCI.

Lisa Roberts, acting deputy undersecretary of defense for transportation policy, said the agency is considering expanding DTCI to include other types of freight and possibly other federal agencies.

“We’re past the pain of DTCI implementation,” Roberts said in remarks at a Naval Operations Logistics Support Center symposium in 2010. “Now, we’re ready for what’s beyond DTCI.”

Roberts said a steering committee of military transportation officers has formed to analyze alternatives for what happens after the current DTCI contract expires in 2014.

Initial results show potential for cost savings in the handling of freight shipments from vendors to DOD distribution centers and in the movement of arms, ammunition and explosives, Roberts said.

Noting a directive from Secretary of Defense Robert Gates to find more than $150 million in efficiencies, Roberts said, “Essentially, we were directed to open the aperture of possibilities.”

DTCI chief Beasley said he expects the program to continue and expand.

“We see DTCI as a prime example of how to gain efficiencies,” he said. “We’re the poster child for many DOD logistics improvements.”

J. David Patterson, executive director of the National Defense Business Institute at the University of Tennessee at Knoxville, said he expects the military to continue to rely extensively on private transportation providers while taking steps to save money by getting rid of duplication among various branches of the military and reforming the contracting process.

“My sense is that the Army is going to continue to do things that provide the best value to the American taxpayer,” Patterson said.