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Lt Col Derek Oliver
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Lt Col Oliver,

In early April of 2011 at the Personal Property Forum (PPF), which was held in conjunction with the SDDC Symposium, you and Mr John Johnson laid out a number of topics that would be covered in what the Personal Property Directorate has termed a "Program Management Review" (PMR). Both individuals challenged the industry to provide feedback and alternatives to what was presented during that meeting.

Following the less than effective peak moving season of 2010, as well as, the continuing issues already seen in the 2011 peak season, the IAM staff and elected leadership support SDDC's initiative and its on-going Program Management Review. It is our membership's hope that the PMR will identify substantial and substantive changes to both the DP3 Business Rules and the Defense Personal Property System (DPS).

It is public knowledge that the Office of the Secretary of Defense has received funding for and is currently contracting to conduct a Business Case Analysis (BCA) for the potential outsourcing of all or portions of the DOD Personal Property Program. This BCA initiative certainly raises the priority of identifying and outlining possible improvements to the DP3 Business Rules and the DPS system, so those planned improvements and enhancements may be also considered under the BCA in addition to the "as is" program and system.

To that end the International Association of Movers (IAM) took the challenge coming out of the PPF to heart and in early May convened a two day summit of leaders from all of the major segments of the DOD household goods industry, agents, international TSPs, domestic TSPs – large, medium and small and TSP management companies, to discuss the items being addressed in the Program Management Review. The recommendations that came out of that meeting were brought to IAM's Executive Committee for consideration. The following suggestions, propositions and ideas come directly from the IAM Executive Committee and represent the positions of the over 2400 member companies of the Association.

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IAM lauds SDDC for the goals they have set for their program management review. No one could possible argue with goals that will:

- Improve efficiencies
- Reduce complexity
- Standardize practices and rules
- Incorporate best commercial processes
- Remove outdated business models

The question is how those goals can and will be achieved.

We have taken most of the topics that were to be addressed in your review and tried to pinpoint where there may be industry consensus on a topic and where there may be no consensus we have tried to point out some of the positives and negatives surrounding that particular issue.

The area that seems to be the most critical issue in the review is a focus on the number of Transportation Service Providers (TSPs) in the DOD personal property program and even more importantly the number of TSPs filing rates in each channel. SDDC seems to be looking for a way to reduce these numbers.

CFAC

One of the key areas included in the SDDC review that could have an effect on the number of TSPs is "Common Financial and Administrative Control" (CFAC). This phrase has always been a bit nebulous and difficult to define especially in the area of "Administrative Control". SDDC must be very careful in trying to redefine this area. A redefinition or "clarification" of this term may have numerous pitfalls that could lead to unforeseen and unintended negative consequences. SDDC should be very aware of some of the following issues as a review of CFAC is conducted:

- What affect will any redefinition/clarification of CFAC have on capacity? Will a company be able to bring all of its full capacity to bear if companies in declared CFAC are unable to file rates in the same channels?
- If companies in CFAC are unable to share personnel and resources how will that affect how companies are able to bring about efficiencies and synergies to the DOD marketplace? How will that affect the pricing they are able to offer DOD?
- There are a number of major van line groups that could be negatively affected by a change in the current SDDC stance toward CFAC in the domestic market. Once again how will that affect the capacity and pricing currently available to DOD?

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- If CFAC, as it is currently understood, is implemented in the domestic arena how will punitive actions be addressed? Will rules in the Quality Control area also need to be changed? Capacity across an entire Market could be dramatically affected by a single punitive action.

Administrative Burden

With almost 900 TSPs currently approved in the Defense Personal Property Program (DP3) Domestic Market we fully understand SDDC's wish to reduce the "administrative burden" of managing that many companies. But you must recognize that this number of companies and their relationship to one another has developed over a very long period of time. Many were brought into existence for one reason……..to bring capacity to the DOD market. The CFAC relationships developed so that companies could garner more of DOD's business. Is bringing greater capacity to DOD and trying to capture more DOD business a bad thing? We think not!

Has this meant that over time SDDC has been forced to deal with a large number of TSPs? Definitely! But if this has brought about an administrative burden for SDDC then that must be balanced by the capacity that has been brought to the DOD program. Some of the burden can be lessened by taking advantage of technology. Much of what has been done previously in a manual fashion can be overcome through the use of technology. The capabilities that can be brought to bear by the Defense Personal Property System (DPS) have not yet been fully realized. When the Customer Satisfaction Survey (CSS) process is fully automated, when the yearly qualifications process is seamless in DPS and the rate filing process does not require manual intervention then much of the administrative burden which SDDC currently faces will surely be reduced. The argument to reduce the number of TSP in the program due to the administrative burden it places on SDDC is then made less important.

Shipment Distribution

If there is a reason to somewhat reduce the number of TSPs involved in the DOD program it should be focused on making the distribution of traffic viable. Shipment distribution needs to be made more orderly and predictable. Currently it is not!

More transparency should be brought to the distribution process! During the Peak Season TSPs face what has been termed as "feast or famine" in the shipment distribution process. They have no idea when, where or how much traffic will be awarded to them. When shipments are awarded to them they come in waves and after the wave clears they typically see no awards until the next wave hits. Fixing this phenomenon should be the focus of any changes that come out of the Program Management Review.

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<u>TSP Definition</u>

Another item that we have been told will be part of the review and is also aimed at reducing the number of TSPs participating in the program is a re-definition of what is means to be considered a Transportation Service Provider. We do NOT believe that using "assets" – equipment, trucks, packing crews or warehouse space – is a viable way to define a TSP.

A TSP should be defined as an entity that has the "CAPABILITY" to effectively coordinate the movement of a shipment from origin to destination. Most TSPs currently involved in the DOD personal property program do not own or fully control packing crews or warehouse space. This is typically an "asset" owned by the agents involved in the program. Using these as factors to define a TSP is completely off base in our opinion.

The use of "equipment/trucks" may also be incompatible in trying to define a TSP. The domestic arena is dominated by the "owner-operator" concept. The tractor or power unit is owned by a single individual that then align themselves normally by contract with an agent or a van line. The agency or the van line will probably own the trailer that the owner-operator pulls but they do not normally own the power unit. If "trucks" are used as a way to define a TSP, how will this owner-operator situation be handled? To whom would that truck be allocated? There are many other questions that must be answered as well:

- How will van lines be defined? Many large van lines own very few, if any, trucks. The trucks are owned by the van line's agents or by owner-operators working for those van lines or agents.
- How many trucks will a TSP need to "own" to be considered a true TSP? Is one truck enough?
- What about alternative means of moving domestic traffic, i.e. Code 2? Will that play any role in the determination of what entity is a TSP? Will liftvans be considered assets? What else could be considered an asset?
- If companies are in declared CFAC can they divide their "assets" between their affiliates to make each TSP viable under any new definition?
- Will international TSPs need a different definition than domestic TSPs?

If a TSP has the capability to draw on its resources, e.g. hauling agreements, liftvans, agency agreements, contracts, ocean service agreements, etc., to move a shipment from origin to destination then they should be considered a viable TSP!

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Open Season

SDDC has not held an Open Season since 2006. We realize that SDDC is under a great deal of pressure to allow new candidates an opportunity to apply for entry into the DOD personal property program. But the fear is that this will lead to a further proliferation of TSPs in an already flooded market. We share that fear.

Our primary wish would be that SDDC not have an Open Season through at least the end of 2013 so as to allow the DP3 program to fully mature. But, keeping in mind the pressures on SDDC we believe that an Open Season may be inevitable. Thus, IAM believes that at a minimum the following measures should be put in place to ensure that only TSPs which bring new capabilities to the program be allowed to participate:

- Ensure that any new applicant has a minimum of three years of experience in the commercial or GSA household goods arena and that they are required to provide at least three years of audited financial reports which must meet the same minimum criteria which approved TSPs must meet.
- No new applicants would be granted an approval if they are in CFAC with any currently approved TSP.
- Increase the requirements needed to become a newly approved international TSP. Currently all that is needed for an approved domestic TSP or a new applicant, which may never have moved an international shipment, to become approved in the international Market is to “check the box” requesting international approval and obtaining an international bond. The expertise required to move an international shipment is quite different than is necessary to move one domestically. Historically the Certificate of Responsibility (COR) was very detailed in the international Market. It spelled out every facet of an international move which needed to be handled within the offices of the TSP. We suggest SDDC revive that document and add it to the requirements needed to become an approved international TSP.
  The international Market has not experienced the same proliferation of TSPs that the domestic market has experienced. Making the guidelines for approval more stringent in a Market that requires a specific knowledge set in order to successfully move a shipment may be one way to avoid a large increase in the number of approved TSPs in that market. No one would want to see the International Market begin to mirror the problems being experienced in the Domestic Market.
- Should there be a cap on the total number of TSPs allowed in the DOD HHG program?

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CSS Statistical Validity

In IAM's view one of the major infirmities in the Defense Personal Property Program is the ability of a TSP to move very few shipments or even a single shipment and be considered a high quality TSP. If TSP moves a single shipment and receives a high score on that shipment they may be able to leapfrog to the top of the Quality Bands based on that single score. That is blatantly unfair to TSPs that offer up considerable capacity and move a significant number of shipments for DOD.

IAM favors a move toward requiring a minimum number of CSS scores in order for a TSP to be considered statistically valid. The idea that one shipment delivered and one scored Customer Satisfaction Survey is all that a TSP needs to be considered valid is a flawed concept!

IAM has already provided the Command a report issued by a noted statistician who reviewed the current CSS statistical validity model and indicates that a minimum of 25 scores should be required for a TSP to be considered valid. IAM fully supports this position! This change must be made as quickly as possible.

IAM appreciates the Command's willingness to accept input from the industry regarding its Program Management Review and hopes that it will take into account the information and positions provided in this document. If there is any way in which IAM can assist the Command in moving forward with the review and in making any changes deemed necessary do not hesitate to call on us. If other topics not addressed in this document require our feedback you need only ask.

Terry Head

President
International Association of Movers