



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

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116877

November 6, 1981

GENERAL GOVERNMENT  
DIVISION



The Honorable Francis X. Biglin  
Senior Assistant Postmaster  
General  
Administration Group  
U.S. Postal Service



Dear Mr. Biglin:

Subject: The Postal Service Should Increase  
Competition and Reduce Costs When  
Buying Vehicle Batteries (GGD-82-14)

This report, one in a series addressing restrictive conditions and specifications in Postal Service solicitations, concerns the Service's formally advertised solicitation for firm fixed price bids to supply its fiscal years 1982 and 1983 requirements for 6 types of vehicle batteries. This solicitation could have resulted in a single national supplier for each type of battery--a maximum six awards. The Service expected to buy about 60,000 batteries at an estimated cost of \$2 million.

Beginning in June 1981, we met with Service officials to discuss several conditions and product specifications contained in an April 29, 1981 solicitation. On July 16, 1981 the Service cancelled this solicitation because "it was impossible to determine from the face of the bids received if the product offered was the product specified." A new solicitation issued on September 18, 1981, corrected some but not all of the problems. Both solicitations, we believe, restrict competition and increase costs.

Our analysis of the original solicitation indicated the Service needed to revise the contract conditions and product specifications to:

- Allow separate awards for supplying all battery types in each geographical zone (9) or alternative geographical areas such as the Service's 5 regions.
- Limit the awards to a single year or use a periodic price adjustment clause to reduce the cost uncertainty caused by fluctuating lead prices.
- Allow bids for batteries which use either the Society of Automotive Engineers (SAE) or Battery Council International (BCI) size/capability descriptions.

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The Service Could Reduce Freight  
Costs by Allowing Separate Awards  
in Geographical Zones or Areas

The new battery solicitation now requires separate national awards for each of 7 battery types. This approach may require some batteries to be shipped long distances and thus tends to preclude bids from single plant companies which cannot be as competitive outside their "local" areas. Transportation costs could be reduced by allowing separate awards to provide all 7 battery types in each geographical zone with a maximum 9 awards, or an alternative such as one award in each Service region with a maximum 5 awards.

Since the Service can order as few as 8 batteries at a time, and expects to place many orders during the contract period, transportation will be a significant cost (6 to 11 percent). If the Service allowed separate awards to provide all batteries in each zone or region, freight costs would be reduced, more firms could submit bids, and cost reduction opportunities would exist when these suppliers could use their own trucks to provide faster delivery and warranty service.

However, service officials feel that a company with a national distribution system provides more assurance of supplies and responsive service returns. In addition, they do not believe that transportation costs are a significant factor in this procurement.

The Service Has Reduced Cost  
Uncertainty by Limiting Contract  
Term To One Year

The original battery solicitation requested separate prices for supplying batteries in the first and second year. Since lead prices (a major portion of battery cost) fluctuate sharply, the bidders would have to allow for possible large price rises and estimate what the probable cost would be over the contract's duration. According to the American Metal Market magazine, the price of lead (in carlots) in February 1981 had dropped over 50 percent from September 1979. Limiting the contract awards to only one year would thus help to minimize the need to guess at prices subject to such large changes.

Another approach would be to include in these awards a periodic adjustment clause based on lead market prices. This approach, while resolving the bidders estimating problems, does however, require additional administrative costs to track and adjust for fluctuating battery prices.

The new battery solicitation will make awards for one year, thus reducing the impact of lead cost fluctuations.

The Service Has Deleted Unnecessary Restriction by Accepting Commonly Used Battery Designations

The Service's original solicitation required battery size/capability to be defined only by the Society of Automotive Engineers designations. The battery industry normally uses the Battery Council International designations. Officials in both organizations agree that these new designations are comparable to SAE and either one can be used to specify the required battery size/capability. However, as long as only SAE designations are accepted, any bid which uses BCI designations can be construed as nonresponsive. Although Service officials say this would not be the case, some contractors we talked with did not bid on this solicitation because they used BCI designations and felt this was not going to be acceptable to the Service. Allowing BCI as well as SAE battery designations will preclude this confusion on future solicitations while giving the Service the same battery capability.

The new battery solicitation accepts both SAE and BCI battery designations, thus making clear which battery size/capability is being requested and allowing suppliers of each type to bid.

The Service Should Collect and Evaluate Data on Battery "Returns" to Justify Warranty Requirement

The current solicitation requires that each battery be "maintenance free" and have a 2-year or 24,000 mile (free replacement) warranty. The Service's description of maintenance free is "those batteries that do not require the addition of water during their life in normal service." We found that the industry warranties for returns offered on such batteries usually involve a pro rata formula based on mileage and age. The warranty provisions required by the Service depart from those normally provided by the battery industry. Thus, bidders must build into their prices an estimate of the additional cost for replacing returned batteries for a normally unwarranted time period.

Major battery producers stated that the required extra warranty time will often stop them from bidding, as they consider it a bad business practice. Because the estimated cost for free returns throughout the 2-year contract term is built into any bid, the Service pays this additional cost regardless of actual returns. Service officials have indicated that returns in the prior battery contract were very small--about \$3,000 on a total

contract of nearly \$900,000--but did not have any current data on second year returns. However, Service officials feel the second year returns will be much higher. Large second year returns and the administrative costs involved in processing pro rata returns are the basis for the Service's warranty requirements.

Requiring 2-year free replacement is asking for more than the battery industry normally provides. While the Service feels that such a requirement is beneficial, it does not have hard data to support this belief. Such data will be available in fiscal year 1982 as the prior contract's batteries enter their second year of service.

Service officials will be collecting data on second year battery returns. This information will be evaluated during this fiscal year to see if the next battery solicitation should maintain or alter the warranty requirements.

#### Recommendation

To obtain batteries which will have the least overall cost, we recommend that the Postal Service:

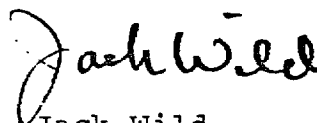
- Allow separate awards for all battery types in each of the 9 geographical zones, or alternatively in each of the Service's five regions. This will increase the number of local bidders, enhance competition, and reduce transportation costs.

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Please convey my thanks to your staff, who have been most cooperative in providing information and technical assistance on this matter. We would appreciate being informed of the actions taken by the Service in response to our recommendations.

If you have any questions concerning this report, please contact me or Mr. Roy Karadbil on 245-5397.

Sincerely yours,



Jack Wild  
Group Director