



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

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GENERAL GOVERNMENT
DIVISION

The Honorable William F. Bolger
Postmaster General
United States Postal Service

FEBRUARY 12, 1981

Dear Mr. Bolger:



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Subject: Contract Conditions and
Specifications Unduly
Restricting Competition (GGD-81-39)

This report is one of a series which will address restrictive conditions and specifications in Postal Service solicitations and contracts and their impact on Postal relationships with private industry, competition and cost.

This particular report concerns the Postal Service's formally advertised fixed price contract number 104230-81-V-0300, which was awarded to Union Camp Corporation in November 1980. The contract totals \$2.7 million for fiscal year 1981 production (an annual requirement) of 7.1 million corrugated mail trays and 1.6 million sleeves to cover these trays in transit. These units, in varying amounts, will be delivered to 26 postal locations scattered from coast to coast for use in shipping first-class letter mail by air. Union Camp was also the awardee on the prior three contracts for these items.

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As discussed below, Postal solicitations and resulting contracts contain conditions and product specifications which unduly restrict (1) the number of eligible bidders and (2) the most efficient way an acceptable product can be made.

1. Limiting bidding to large firms. The solicitation permitted bidding only by firms which could furnish all production requirements to all postal regions located throughout the United States. This precludes well over 500 "local" firms from competing for this award. Only the few companies such as Union Camp which have plants throughout the country (seven Union Camp plants will be used on this contract) can hope to reduce overall freight costs to a competitive level. Since freight amounts to about 6 percent of overall contract costs and increases dramatically with distance, a single firm is unlikely to be able to compete on awards outside its area.

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However, within its own area, a firm does have a distinct competitive edge over plants located elsewhere. To obtain the benefits from such conditions and increase competition on this contract, the Postal Service should allow multiple awards by splitting up production requirements into several geographically colocated segments. This gives the Postal Service the option to award each segment to the "best" responsible bidder. A firm can bid on the single segment in its area, or in the case of a bigger company, bid on several or all segments.

Since there are many more local plants which can supply postal needs than there are plants controlled by large nationally based companies, the Postal Service can expect strong competition for each contract segment. Several local firms contacted on these requirements indicated interest in getting this business.

In commenting on a draft of this letter Postal Service officials expressed concern about allowing multiple awards, as the possibility exists for many small unreliable companies to get contract segments (as low bidder). However, this situation can occur on any award, and is usually avoided through pre-award survey information and decisions on bidder responsibility. The actual number of contract segments can reflect a balance between increasing competition and costs to administer separate awards.

2. Requiring a specific process. The contract currently requires the corrugated trays and sleeves to be cut with a specific type of cutter (flatbed-die). Using another type of cutter, now commonly available in industry, permits more automatic production techniques and increases cutting speed 2 to 10 times. Current restrictions preclude a bid based on the labor savings from using different cutting methods. Requiring the acceptable product be made using this specific process also prevents any bid which uses improved manufacturing techniques or new technology that does not use a flatbed-die cutter.

Postal Service officials recognize that this requirement is restrictive, but feel it is necessary to insure quality control not available from alternate cutting techniques. However, according to the Association of Independent Corrugated Converters, alternate cutting methods do offer equal quality

control. Also, potential quality control problems can be handled in the contract section which defines quality control requirements, not by restrictions to manufacturing specifications.

3. Requiring a specific product composition.
The contract requires the tray and sleeve be made from a very strong corrugated product (275 pounds per square inch bursting strength with 90-pounds maximum carrying weight). Currently the tray carries 16 to 20 pounds of mail, is wrapped in its sleeve, and shipped by air (with each unit bound by a strap) stacked 12 to 15 high. According to the industry association, nothing in the contract's specifications or known product use appears to justify the need for such a strong construction material. One material suggested as a possible alternative was corrugated having a 200 pounds per square inch bursting strength and 65-pounds maximum carrying weight. A tray/sleeve made of this material would cost about 15 percent less as material costs (over 50 percent of overall costs) would be reduced by one-third.

The lesser strength corrugated material also would provide a tray/sleeve unit which weighs about 10 percent less than the current one (over a 2-ounce reduction). The lower weight can yield considerable savings. The Postal Service estimates that each 1-ounce reduction in unit weight can save (depending on the distance shipped) up to \$500,000 annually in air freight costs.

Postal Service officials feel that the high strength material is needed to keep up product life, and any reduction in strength would considerably reduce durability. While the large potential savings in freight costs makes using a lesser strength material very attractive, this must be weighed against the resulting loss in durability and product life. We recognize that the Postal Service has an active program to continually test alternate tray/sleeve weights and configurations. For example, units made of a lesser weight corrugated material were received in January 1981 with tests on them expected to start in February. Postal officials informed us that these test results, if positive, will be used to modify fiscal year 1982's solicitation for trays and sleeves.

Other provisions in the specifications, such as using different widths of corrugated material and packaging requirements, also need to be reassessed to eliminate any unnecessary restrictions.

To obtain the best product at the best price, the Postal Service must clearly define its actual needs and allow the private sector maximum participation and the widest possible latitude in providing a product which meets these needs. To accomplish this objective the Postal Service should, whenever possible, express its needs in terms that describe required performance characteristics and intended uses rather than a specific product or process used to make it.

RECOMMENDATIONS

We recommend that the involved Postal departments get together with private sector groups and interested firms to develop a solicitation without any unnecessary restrictive conditions or specifications. This process should at least resolve current restrictions by:

- Allowing multiple awards for different geographical areas.
- Deleting the requirement for any specific type of cutter.
- Permitting material which provides the best tradeoff between strength, durability, weight and cost. In addition to the current test program, industry should be asked to propose other new materials/configurations which meet Postal needs.

Copies of this report are being sent to the Chairmen, House Committee on Post Office and Civil Service, Senate Committee on Governmental Affairs, House Committee on Government Operations, and the House and Senate Committees on Appropriations.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of actions taken on our recommendations to the Senate Committee on Government Operations within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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 Postal Service in response to our recommendations. If you have any questions concerning this report, please contact Mr. R. B. Hall or Mr. Roy Karadbil on 245-5397.

Sincerely yours,

A handwritten signature in black ink that reads "W. J. Anderson". The signature is written in a cursive style with a large initial "W".

William J. Anderson
Director