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

GENERAL GOVERNMENT DIVISION

SEP 23 1981

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Mr. Robert L. Ely
Director, Office of Contracts
Procurement and Supply Department
United States Postal Service

Dear Mr. Ely:

Subject: Procurement Costs of General Purpose Mail Containers Can Be Reduced (GGD-81-99)

This report is one of a series originating from our review of restrictive conditions and specifications in Postal Service solicitations and contracts and their impact on competition, cost, and the Service's relationships with private industry. This particular report concerns the Service's formally advertised, fixed price contracts numbered 104230-80-V-2324,-5, and -6, for General Purpose Mail Containers and Shelf Inserts. The companies which bid on or requested the solicitation for these containers were generally pleased with it and they did not identify any unduly restrictive conditions or specifications. However, there is one matter regarding transportation costs which we would like to bring to your attention.

The contracts for these containers were awarded in September 1980 to Bonus-Bilt, Inc. (Glendale, California), Soder Steel Products, (Martin, Tennessee), and Bathey Manufacturing Company (Plymouth, Michigan), respectively. These contracts totaled about $9 million for 47,315 containers and 12,102 shelf inserts to meet the Service's fiscal years 1980 and 1981 requirements. These containers, in varying amounts, will be delivered nationally to 168 locations for use in transporting mail within and between facilities. The primary functions of the containers are to reduce the number of mail handlings, accelerate truck loading and unloading, and increase vehicle cube utilization. Because so many containers were needed for the 2 fiscal years, it was decided to have four separate awards covering requirements for four Service regions (see enc. I).

TRANSPORTATION COSTS CAN BE REDUCED

Several manufacturers located throughout the U.S. bid on this solicitation. Most bid on all four requirements. To determine the lowest total cost, the Service added an estimated transportation cost to the five lowest bidders on each award.

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The Manager, Traffic Branch, requested that these awards be made on an f.o.b. origin basis. The reason given was that using government bills of lading instead of f.o.b. destination contracts gave the Service more flexibility and cost less. Thus, the Service arranged and paid for all transportation from the manufacturers' plants to the final destination points.

Although the container specifications were not found to restrict competition, we believe that the requirements for award number 1 (17,000 containers) resulted in excessive freight costs. This award required 8,325 containers to be delivered in the Northeast Region and 8,675 containers in the Western Region.

By regrouping delivery requirements for award number 1, the Service could have saved about $61,000. The transportation cost estimate for this award was about $289,000, of which about $243,000 was for shipping the containers from the manufacturer's plant in California to the Northeast Region. While various combinations of requirements are possible which could yield different savings, one alternative would have been to simply split award number 1 into two separate awards--one for each region. The remaining awards would have been the same. According to our calculations based on the same bidder's unit prices and transportation rate charges as the Service, a savings of about $61,000 would have been achieved (see enc. II).

RECOMMENDATION

To obtain containers at the best cost, we recommend that the Office of Contracts group future requirements in a way that minimizes freight 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 in response to our recommendation.

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

Sincerely yours,

Jack Wild

Jack Wild
Group Director

Enclosures - 2

 ENCLOSURE I

Number of Containers Awarded to
Meet Regional Requirements (note a)

		REGIONS				TOTAL
Award	Contractor	Northeast	Western	Southern	Central	
1	Bonus-Bilt, Inc.	8,325	8,675			17,000
2	Soder Steel Prod.			10,200		10,200
3	Bathey Mfg. Co.	3,840		600	5,760	10,200
4	Bathey Mfg. Co.	9,915				9,915
	TOTAL	22,080	8,675	10,800	5,760	47,315

a/A fifth award for 12,102 shelf inserts was also included as part of the contract awarded to Bathey Manufacturing Company.

Savings Achieved By Splitting Award
Number 1 Into Two Parts (note a)

	Costs for 8,325 Containers (---thousands---)			
	Production	Freight	Royalty	Total
Current Award Bonus-Bilt, Inc.	$1,498	$243	$ -	$1,741
Alternative Award Bathey Mfg. Co.	1,530	89	61	1,680
Net Savings				$ 61

a/Calculations are based on splitting out the 8,325 containers for the Northeast Region and "awarding" to the lowest total price bid received on the existing contract.