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Estimating DoD Transportation Spending

Analyses of Contract and Payment Transactions

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In fiscal year (FY) 2003, the U.S. Department of Defense (DoD) spent nearly $7 billion on transportation, travel, and relocation services from commercial enterprises. These purchases included a broad variety of expenditures related to the movement of personnel and things such as equipment, spare parts, vehicles, food, clothing, fuel, and household goods.

Given a continuing need to make the most of existing resources, including those used for transportation, the U.S. Transportation Command (TRANSCOM) asked the RAND Corporation to conduct a spend analysis of transportation purchases. This work represents the most rigorous attempt to date to estimate DoD transportation expenditures and to identify opportunities for improving transportation spending and supplier management. In addition to analyzing data on transportation purchases, this research also examined changes in the transportation service market and how they might affect DoD purchases.

Of particular concern to DoD is whether the transportation industry has been consolidating. The question of consolidation is important for two reasons. First, consolidation could affect the options that DoD has for procuring transportation services and thereby limit options for improving purchasing and supply management (PSM) of transportation services. Second, a decreasing number of firms could also affect overall efforts to meet congressionally mandated goals for procurement from small businesses. Data limitations prevent us from looking directly at this issue, but our analysis of the available data on firm employment by industry found little evidence that transportation firms are consolidating or increasing in size. The vast majority of firms in these industries also remain far below the size thresholds used to define small business for procurement purposes, although some of these industries do have a large amount of business concentrated among relatively few firms.

Regarding DoD purchases specifically, two principal data sources are available. These include Individual Contracting Action Report (ICAR) data (DD350) on contract transactions and PowerTrack data on payments for transportation services. Unfortunately, no single data source is available on transportation purchases; rather, analyses of total purchases must be pieced together from differing sources.

DD350 data accounted for $5.2 billion in transportation purchases in FY 2003. They offer information on buyers, suppliers, industry classification, competitiveness of a market for transportation services.
a given service, and whether a business is considered small or disadvantaged. DD350 data show that transportation spending is largely in competitive markets for which best PSM practices are most easily implemented. They indicated that TRANSCOM offices are the leading, and sometimes exclusive, buyers for the services they purchase, indicating in turn that those with the most expertise in making such purchases are indeed making them. They appear to indicate only a few limited additional opportunities for further leveraging of TRANSCOM’s transportation contracts. Nevertheless, some additional leverage might be gained by partnering with other agencies that would pay a fee to benefit from TRANSCOM’s leverage and expertise in purchasing transportation services. Additional leveraging opportunities might be available in using contracts rather than tenders (i.e., voluntary or negotiated offers by a qualified carrier to provide transportation services at specified rates or charges for a period of time) for many purchases. Finally, still more leveraging opportunities might be found through compilation of more exhaustive data gathered explicitly for spend analysis purposes.

Unfortunately, DD350 data do not include data on firms paid by tenders rather than by contracts, nor do they offer information on shipment characteristics such as mode and channel. For these characteristics, we analyzed PowerTrack payments for transportation services, totaling nearly $1.9 billion in FY 2003 (with a small overlap with DD350 data). These are particularly helpful for identifying data for trucking firms not appearing in DD350 data; indeed, two trucking firms among the top 10 transportation providers to DoD appear only in PowerTrack data. PowerTrack data also show a large number of shipments by the Defense Logistics Agency (DLA) not completely captured in DD350 data. Limited implementation outside the United States confines inferences that can be made from PowerTrack data, although the details they do show were primarily for shipments from the United States to overseas locations made by air rather than sea. DoD shippers may wish to explore these data further and to separate truly urgent air shipments from those that can be consolidated and shipped by cheaper, water modes. Within the United States, the very large majority of shipments are made by land rather than air routes. PowerTrack data also provide additional insights on small businesses. In fact, including PowerTrack records in calculating small business procurement would show that 14.3 percent, rather than 11.6 percent, of transportation spending goes to small firms.

Combining DD350 and PowerTrack data and eliminating overlaps between them shows that DoD spent about $6.7 billion for transportation services in FY 2003. About 69 percent of these expenditures was for freight transportation; about half of the freight transportation was by air freight transportation. About a third of freight transportation expenditures was for sending freight over water, largely by ocean vessels. The remaining freight transportation expenditures were for motor and rail. Motor freight was particularly fragmented, with most motor freight spending being spread over nearly 600 firms. Passenger travel expenditures accounted for the remaining 31 percent of transportation expenditures, much of which appears to be concentrated among a relatively small number of air travel firms. The combined data also show that the U.S. Air Force and the U.S. Army are the two biggest purchasers of transportation services but that understanding the purchases of other branches and agencies, particularly those of the U.S. Navy, requires analysis of PowerTrack data.

Our analysis of combined data indicates that DoD has additional opportunities to consolidate transportation spending, particularly where it uses tenders to purchase transporta-
tion services. With such consolidation, TRANSCOM could better manage all carriers; reduce rates; and improve quality, delivery, and visibility of services. Such improved management of spending and carriers could reduce DoD’s total transportation spending while continuing to meet user requirements. Bringing business currently conducted through tenders under contracts would also help DoD better meet small business goals. Any moves to bring tender transactions under contract would have to address the concerns of local transportation managers about the loss of autonomy and flexibility that tenders offer them. Nevertheless, if shippers are selected and contracts written to reflect requirements, this should not affect options to meet customer needs. In fact, bringing more spending under contract could improve incentives and accountability for carriers.

For additional future analyses, both DD350 and PowerTrack data could be improved to offer more insights on transportation expenditures. TRANSCOM should work to obtain regular access to DoD and federal contracting data for analytic purposes, not just query capability. In addition, it should develop capabilities to aggregate spending to parent carriers, linking subsidiaries to their parents. In addition, it should seek to propagate valid contract numbers to PowerTrack, which can help eliminate double-counting of dollars when combining DD350 and PowerTrack data. Having contract numbers in PowerTrack data would also allow TRANSCOM to identify the extent to which shippers use its contracts and to improve analyses of shipping channels, modes, weight, and volume.