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A FEASIBILITY ASSESSMENT OF A  
 SINGLE CONTRACTING OFFICE FOR  
 COMMON-USER TRANSPORTATION SERVICES

THESIS

Gregory M. Hayley, Captain, USAF

AFIT/GCM/LSM/90S-5

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A FEASIBILITY ASSESSMENT OF A SINGLE CONTRACTING  
OFFICE FOR COMMON-USER TRANSPORTATION SERVICES

Presented to the Faculty of  
the School of Systems and Logistics  
of the Air Force Institute of Technology  
Air University

In Partial Fulfillment of the  
Requirements for the Degree of  
Master of Science in Contracting Management

Gregory M. Hayley, B.S.

Captain, USAF

September 1990

Approved for public release; distribution unlimited.

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Abstract

The purpose of this study was to determine the feasibility of consolidating the contracting functions that purchase common-user transportation services and occurs within the headquarters of the three component commands of USTRANSCOM. Included is a review of the development of the defense transportation system and DOD reliance on the commercial transportation system. Through interviews and documentary research, descriptions and flow charts were developed of the contracting processes for each of the following transportation services: international airlift, domestic airlift, government vessel operating contracts, ocean chartering agreements, liner agreements, group passenger moves, and volume freight movements. Similarities and differences of the contracting processes were noted and presented in a table. A literature review on mergers and acquisitions was conducted to determine the rationale, tasks, and impact of consolidating activities. Based upon the literature review and the comparison of the contracting processes, recommendations were made to maintain the status quo for the contracting of international airlift, government vessel operating contracts, and ocean chartering agreements; and to consider the consolidation of the contracting for

domestic airlift, liner agreements, group passenger moves,  
and volume freight movements.

**A FEASIBILITY ASSESSMENT OF A SINGLE CONTRACTING  
OFFICE FOR COMMON-USER TRANSPORTATION SERVICES**

**I. Introduction**

Concern over the federal deficit and the rising costs of new weapon systems resulted in concerted efforts to increase the efficiency of the Department of Defense (DOD) and the DOD procurement process in particular. Executive Order 12526, which called for the formation of a Blue Ribbon Commission on Defense Management, represented a recent attempt to increase efficiency within the DOD. Known as the Packard Commission after the chairman David Packard, the commission's charter was to:

study defense management policies and procedures, including the budget process, the procurement system, legislative oversight, and the organizational and operational arrangements, both formal and informal, among the Office of the Secretary of Defense, the Organization of the Joint Chiefs of Staff, the Unified and Specified Command system, the Military Departments, and the Congress. (65: Apd B:27)

A major recommendation of the Packard Commission called for the consolidation of DOD transportation management into a single agency. The commission noted "there are demonstrated managerial shortfalls in our ability to allocate available air, land, and sea transportation among many claimants" (65:36). Although the poor results of a 1978 Joint Chiefs of Staff command post exercise, Nifty Nugget, resulted in the formation of the Joint Deployment

Agency (JDA) to provide coordination between the transportation operating agencies, and a direct reporting chain to the Joint Chief of Staffs, managerial shortfalls still existed as of the 1986 Packard Defense Management Study (9:54). As a coordinating agency, the JDA did not have the authority required over the transportation operating agencies of the three branches of service to insure the development of an integrated transportation system (9:54). As a result of these shortfalls the Packard Commission recommended:

The Secretary of Defense should establish a single unified command to integrate global air, land, and sea transportation, and should have flexibility to structure this organization as he sees fit. (65:38).

Similar recommendations have been made repeatedly as far back as the National Security Act of 1947, and the 1949 Hoover Commission (16:71-73). These previous recommendations established useful precedents from which the Packard Commission could recommend consolidation of military transportation functions.

While the 1949 Hoover Commission recommended a unified transportation command, the DOD settled on the single manager concept. The single manager concept sought to "eliminate duplicative and overlapping of effort between and among military departments, Defense Agencies and other DoD Components" (19:2; 20:2; 21:2). As the single manager, a transportation operating agency was responsible for providing a specific type of transportation service to the

DOD. The three transportation operating agencies were the Air Force Military Airlift Command (MAC), the Navy Military Sealift Command (MSC), and the Army Military Traffic Management Command (MTMC). Single manager assignments were as follows: airlift to the Military Airlift Command; sealift to the Military Sealift Command; and military traffic management, land transportation, and common-user ocean terminals to the Military Traffic Management Command (19:1; 20:1; 22:1).

With the consolidation of various aspects of transportation under three single managers, the difficulty of integrating the different aspects is reduced. Therefore the next logical step was the implementation of a single unified command. The result was the formation of the United States Transportation Command (USTRANSCOM). On October 1, 1987 USTRANSCOM was activated and became fully operational a year later when the Commander-in-Chief USTRANSCOM "took operational command of the common-user transportation forces of USTRANSCOM's component commands" (66:22). The transportation component commands (TCCs) that USTRANSCOM is comprised of are MAC, MSC, and MTMC, the transportation operating agencies that evolved under the single manager concept (67). The formation of USTRANSCOM added a layer of command with the authority required to insure the development of an integrated transportation system.

## Recommendations Concerning Procurement

The Packard Commission also recommended several initiatives concerning the procurement process. The intent of these initiatives was to:

simplify the acquisition system by consolidating policy and oversight, reducing reporting chains, eliminating duplicative functions and excessive regulations, and establishing an environment in which program managers and their staffs can operate as centers of excellence (65:55).

Although some of the Packard Commission recommendations on procurement were enacted with the passage of the Goldwater-Nichols Defense Reorganization Act of 1986, several were not implemented. In July of 1989, the Secretary of Defense ordered a Defense Management Review (DMR) in response to President Bush's directive to "develop a plan to accomplish full implementation of the recommendations of the Packard Commission" (17:1). As part of the DMR, the Secretary of Defense directed the Under Secretary of Defense/Acquisition to chair a task force to:

provide for comprehensive review of management structures within OSD [Office of the Secretary of Defense], the Military Departments and Defense Agencies, and of field and headquarters functions and operation processes, to meet the cost reduction goal and enable DoD to perform its acquisition and related missions with improved efficiency and effectiveness. (17:17)

The DMR defined the mission of the Packard Commission and the Goldwater-Nichols Act as trying to:

improve the requirements process, i.e., DoD's efforts to define military needs, their links to national strategy and deficiencies in existing capabilities, and

the characteristics of specific systems to meet those needs. (17:17)

Previous attempts to meet the intent of the Packard Commission have been directed at the procurement of major weapons systems. However, as a result of the DMR, study groups were formed to investigate the consolidation supply depots, maintenance depots, inventory control points, accounting operations, research and development laboratories, and automated data processing design centers (58). Also in response to the DMR, the Military Airlift Command suggested the procurement of transportation services be centralized into a single transportation contracting agency reporting directly to USTRANSCOM (59). Although USTRANSCOM is exploring areas to consolidate operations no reductions have been made.

Commercial transportation services are a vital part of the Defense Transportation System. This system is totally dependent on the commercial sector to provide ocean vessels for common-user sealift capability (75). On the airlift side, commercial airlines provide "nearly 50 percent of the Air Force's total airlift assets (25 percent of cargo and 95 percent of passenger capability)" (39:2). Presently, the procurement of transportation services is divided between the three component commands of USTRANSCOM.

In the area of airlift, the division of procurement responsibility sometimes results in the duplication of effort and oversight that the previous recommendations were

attempting to eliminate. For example, MAC and MTMC may compete against each other for use of an airplane to fulfill identified mission requirements. Because of the limited number of available commercial aircraft and the differences in the procedures used to acquire service, an air carrier could select the mission that would pay the most regardless of which mission is more essential to national security. Presently there are no procedures to prevent this occurrence.

Also, MAC and MTMC may duplicate each other's efforts in order to award an airlift mission. If MAC cannot award a mission prior to 21 days of the operating date, the requesting unit is notified and may contact MTMC to attempt to award the mission (14). While these occurrences are infrequent, they do occur when both agencies need service that is best satisfied by an B-727 or DC-8 aircraft (14).

The volume of transportation service expenditures is enclosed in the brief synopsis provided below. This description lists the general transportation services that each TCC is responsible for and the dollars spent in the procurement of those services. A complete breakdown of the services purchased is in chapter three.

The Military Airlift Command (MAC) contracts for international passenger and cargo airlift services, and domestic or intra-theater airlift requirements that exceed

90 days in duration (19:7). MAC obligated \$619 million for common-user airlift during fiscal year 1989 (55).

The Military Sealift Command (MSC) contracts for sealift services. Sealift services include 1) shipping agreements/contracts, 2) berthing terms, 3) time and voyage charters, 4) government owned-contractor operated, 5) bareboat charters-contractor operated, and 6) bareboat charters-government operated (49:15). MSC obligated \$993 million during fiscal year 1989 (55).

The Military Traffic Management Command (MTMC) is responsible for the procurement of passenger and cargo transportation within the continental United States (CONUS) and operating common-user ocean terminals within and outside of the CONUS (18:1). MTMC obligated \$66 million during fiscal year 1989, and influenced another \$2.5 billion through tariff negotiations (55).

The commercial transportation sector provides a variety of services to augment the defense transportation system, and may be one area where managerial control can be improved. The Packard Commission initiatives to eliminate duplicate functions and the DMR study groups to examine the potential consolidations of other activities provide the impetus to examine the procurement processes used to acquire the different transportation services.

## Problem Statement

The purpose of this study is to determine the feasibility of consolidating the contracting of transportation services into a single transportation contracting office.

## Research Objectives

To determine the feasibility of a single transportation contracting office this study examines the similarities and differences of the current procurement processes used by each component command; identifies the potential impacts of consolidating the contracting of transportation services; and enumerates the essential elements of a consolidation plan.

## Research Questions

To understand the current DOD processes used to acquire commercial transportation services the following questions were answered.

- Who generates a transportation requirement?
- To whom is a requirement sent?
- How and when is the requirement forwarded to a TCC?
- How is the requirement funded?
- What type of contractual agreement is used to award the service to a commercial carrier?
- How is the contractual agreement negotiated with the commercial carrier?
- How is the requirement communicated to commercial carriers?
- Who is responsible to administer the contract after award?
- How do the contracting offices interact with each other and USTRANSCOM?

A literature review on mergers and acquisitions, organizational structure, and implementing computer information systems was conducted to determine the potential impact and essential tasks required to form a single contracting agency. The literature review seeks to answers to the following types of questions:

- Why was the decision made to consolidate?
- What were the expected benefits of consolidating?
- What tasks were taken to consolidate the offices?
- What were the actual benefits?
- What, if any, were the differences between expected and actual benefits?
- Why did the differences occur?
- What problems occurred in the consolidation effort?
- What lessons can be learned from other consolidation efforts?
- What suggestions do other consolidations efforts provide in evaluating the decision to consolidate?
- How can the contracting processes be centralized and the mission satisfied?
- What are the essential tasks to a successful consolidation?
- In what order should these tasks occur?
- What events should occur during each of the tasks?
- Who should be involved during each of the events?

#### Scope and Limitations

This research only addresses consolidating the contracting of common-user commercial transportation services that occurs at the headquarters of the transportation component commands, as opposed to the procurement of common-user commercial transportation services. For the purpose of this study, the difference between procurement and contracting is that procurement is the "totality of effort" to acquire supplies and services

for the DOD; "to include necessary interfacing with requiring offices and various supporting organizations," while contracting is the process a contracting officer completes to satisfy a funded purchase request generated in response to a identified requirement (55).

This research does not address the responsibilities and procedures of the local Installation Traffic Officer (ITO) or Traffic Management Officer (TMO), except to note how they interact with the procurement processes occurring at the TCCs. In addition, this research does not address how contract administration is carried out except to note who is responsible for contract administration. Also, this research does not address classified plans concerning how commercial transportation will be used in training for or in the event of a national emergency.

#### Summary

A consolidated transportation contracting center may result in a more efficient procurement process while at the same time helping USTRANSCOM better achieve its mission to "provide global land, sea, and air transportation to meet national security needs" (66:22). By meeting the research objectives and answering the research questions this study will assist in the feasibility determination of a single defense transportation contracting activity, provide insights into the consolidation process, and recommend

preparatory actions for the actual consolidation should such a decision be made.

This chapter provided an introductory look at the United States Transportation Command (USTRANSCOM) and an overview as to how USTRANSCOM relates to this research. Also it provided a general background on recent emphases to increase the efficiency of the procurement process. It stated the purpose of this research. Also included are specific research objectives, research questions, and the scope and limitations of this study.

Chapter two contains a literature review on 1) the rationale for consolidating offices, 2) the tasks used to consolidate functionally similar offices, and 3) the anticipated and actual results of the consolidations. Chapter three details the method of data collection and evaluation. Chapter four contains a generic government contracting process; a breakdown of the services purchased by each TCC, and the procurement processes used by each TCC. Also explained are the similarities and differences of the contracting processes. Chapter five presents the analysis of the data, and the conclusions and recommendations.

## II. Literature Review

### Introduction

Chapter one provided a justification for research in the consolidation of transportation services contracting activities because of pressures to eliminate duplicate functions. The Packard Commission, Defense Reorganization Act, and ongoing Defense Management Review (DMR) provide ample justification to consider the consolidation of the transportation contracting activities under the purview of the United States Transportation Command (USTRANSCOM). The number and volume of proposed consolidations recommended by the DMR process required a deliberate evaluation of organizational consolidations.

To facilitate a better understanding of consolidations, the literature review focused on the mergers and acquisitions literature. The literature review addressed two areas concerning mergers and acquisitions: rationale and implementation. Aspects of organization design and the conversion of computer information systems were explored to provide more information on the implementation of mergers. The terms "mergers" and "acquisitions" will be used interchangeably throughout the remainder of this chapter.

### Rationale and Types of Mergers

Using Webster's definition of consolidate, "(1) to combine into a single whole; merge, unite (2) to make or

become strong, stable, firmly established" then consolidations is defined within this paper as the combining of activities to strengthen or improve the value added or reduce the costs of the activity (71:303). Using this definition of consolidations, the stated purpose of improving the value added or reducing cost was compared to the rationale for each type of merger. This examination provided a general typology of merger types, and treats the consolidation of transportation contracting offices specifically.

Mergers have been classified according to many different types of schemes. Most commonly used schemes\taxonomies are based on the motives or objectives of the acquiring firms, degrees of relatedness between firms' products and\or markets, and degrees of interaction after the acquisition (52:273).

Two general categories of motives for mergers were noted by Napier (52:272). The first category was financial or value maximizing motives, where managerial intent was to increase shareholder value (52:273). Rationales included in this category were economies of scope and scale, transferring skills or assets, and improving the acquired firm's performance (52:273).

The second general category was managerial or nonvalue maximizing motives (52:273). Rationales included were reducing uncertainty from the external environment,

increasing sales or asset growth, and "increasing management's prestige and power" (52:273).

In their study, Walter and Barney developed a more specific taxonomy of five categories. These categories were developed by performing cluster analysis on survey data concerning 20 managerial objectives (68:80). Table 1 contains a list of the 20 managerial objectives. Statistical tests were conducted to compare the variance within and between categories to determine the nature and number of merger types (68:81).

The survey data was collected from 32 merger and acquisition professional "intermediaries who have conducted or scrutinized the analyses associated with numerous M&As [mergers and acquisitions]" (68:79). The survey required the intermediaries to rank the managerial objectives in order of importance for each of five categories of objectives (68:80). The objectives were based upon degrees of relatedness between the firms' marketing, production, and/or distribution technologies (68:80). The categories of objectives were distinguished by their descriptions which are presented below.

The objectives of Walter and Barney's first category were to "obtain and exploit economies of scale and scope" (68:81). The objectives of the second category were to "deal with critical and ongoing interdependencies and others in a firm's environment" (68:81). The third category

Table 1.

Managerial Goals for Mergers and Acquisitions.

---

1. Promote visibility with investors, bankers, or governments, with an eye to subtle benefits later.
2. Accelerate growth or reduce risks and costs in a particular industry in which the acquiring company has a strength such as executive wisdom.
3. Utilize interlocking and mutually stimulating (synergistic) qualities of the acquiring company.
4. Attain improved competitiveness inherent in holding a sizeable market share or important market position.
5. Utilize financial strengths of the acquired company such as foreign tax credits or borrowing capacity.
6. Gain complementary financial features such as those that balance earnings cyclicity [sic].
7. Reduce risks and costs of diversifying products and services delivered to customers within an industry.
8. Utilize the acquiring company's expertise in marketing, production, or other areas within the acquired firm.
9. Divest poor-performing elements of the otherwise undervalued acquired company, in portfolio management style.
10. Improve efficiencies and reduce risk in the supply of specific goods and/or services to the acquiring company.
11. Penetrate new markets by utilizing the acquired company's marketing capacities.
12. Improve economies of scale by utilizing the acquired company's distributional capacities to absorb expanded output.
13. Gain valuable or potentially valuable assets with the cash flow or other financial strengths of the acquiring firm.
14. Broaden the customer base for existing goods and services of the acquiring firm.
15. Create economies of scale by relevant capacity expansion.
16. Reduce risks and costs of entering a new industry.
17. Expand capacity at less cost than assembling new facilities, equipment, and/or physical assets.
18. Fulfill the personal ambitions, vision, or some particular goal of the acquiring company's chief executive.
19. Pursue opportunities to sell stock at a profit by such acts as pressing management of the acquired firm for improved earnings.
20. Utilize the acquired company's personnel, skills, or technology in other operations of the acquiring company.

(68:80)

---

objectives were to "expand current product lines and markets" (68:81). The fourth category objectives were to "enter [a] new business" (68:81). The fifth category objectives were to "maximize and utilize financial capability" (68:81). Although not addressed by Walter and Barney, Napier noted that Rhoades identified still another objective. That is, mergers were a means of increasing managerial prestige and power (52:273).

Table 2 represents the integration of Napier's two general merger categories with the categories of merger objectives noted by Walter and Barney, and Rhoades. The six categories of merger objectives presented in Table 2 are discussed below in greater detail.

Table 2.

Classification Schemes for Mergers

---

I. Financial - Value Maximizing (Napier)

1. Economies of Scale and Scope (Walter and Barney)
2. Maximize Financial Capability (Walter and Barney)
3. Product Line and Market Expansion (Walter and Barney)

II. Managerial - Non-Value Maximizing (Napier)

1. Critical Interdependencies (Walter and Barney)
  2. Enter New Business (Walter and Barney)
  3. Managerial Prestige and Power (Rhoades)
- 

Economies of Scope and Scale. Porter noted economies of scope and scale encompass a variety of potential costs

savings and objectives (56:303). Economies of scale depend first upon the internally required volume of product or service relative to the size of the efficient production facility (56:302). If the firm's requirement is smaller than the output of an efficient production facility, the firm must decide what to do with the excess capacity (56:302). The firm can either accept the overhead of the excess capacity or sell the excess output, possibly to competitors (56:302).

Porter noted if an efficient production facility can be operated to the firm's advantage, other economies may result (56:303). A firm may achieve greater efficiency by combining operations (56:303). Examples were given of reduced costs of production, handling, and transportation due to combined operations (56:303). A firm may achieve greater internal control and coordination by co-locating operations which facilitates trust (56:303). A firm may reduce the cost of collecting information and improve the speed and accuracy of the information (56:304). A firm may reduce cost by "avoiding the market" (56:304). That is a firm may avoid negotiation, selling, advertising, and procurement cost (56:304). Stable relationships between firms was the last economy noted (56:304).

In a later book Porter called these economies achieved through "common buyers, channels, technologies, and other factors" tangible interrelationships (57:323-324). Porter

noted firms try to utilize the tangible interrelationships to share the cost of value adding activities in order to achieve economies of scale (57:324). Within any organization there are five areas of operations where value activities are performed; production, market, procurement, technology, and infrastructure (which includes human resources) (57:337). There are three types of value activities performed within the operations areas: direct, indirect, and quality assurance (57:43). A direct activity created value for the buyer of the product or service (57:44). An indirect activity contributed to the efficient operation of a direct activity or activities (57:44). Quality assurance activities insured quality of the product or service (57:44).

Transferring skills was an attempt to create value between firms that have no buyer-seller relationship (57:324). Porter noted these intangible interrelationships can exist when two firms have one or more generic similarities as to the "types of buyers, channels, [and] technologies" (57:350). Examples were given where skills were transferred in the cases of similar buyers and similar marketing activities (57:351). However, the benefits obtained from transferring the skills must be greater than the costs incurred as a result of the transfer (57:350). Also, a firm may identify an intangible interrelationship that does not exist or fails to significantly enhance the

organizational performance (57:352). Therefore it is important to test the relevance of the intangible interrelationship (57:352). Porter provided three key tests:

How similar are the value activities in the business units?

How important are the value activities involved to competition?

How significant is the know-how that would be transferred to competitive advantage in the relevant activities? (57:352)

Maximize Financial Capability. Napier noted the objective of maximizing financial capability can be achieved by:

decreasing expected bankruptcy costs, increasing borrowing capacity and cash flow, create "P/E [Price/Earnings] magic" (when one firm buys another what has a lower P/E ratio, the P/E ratio of the combined firms is often higher than the acquirer's was prior to the purchase), gaining tax exemptions from corporate reorganizations, redeploying excess capital, and reducing agency costs by bringing related assets under common ownership. (52:279)

Lew noted two accounting differences when a firm is acquired; as a purchase when the acquired firm operates as before, and as a pooling of assets when the acquired firm is merged into the operations of the acquiring firm (45:27).

Product Line and Market Line Expansion. Product line objectives pertained to how a firm deals with the combining of related products or services in order to differentiate the product from competitors' products, thereby increasing market share (56:307).

Market expansion refers to a firm using the distribution and marketing strategies to strengthen and

expand the current markets for one or both of the firms (56:351). This represents the transfer of skills in an attempt to create value between firms based on the intangible relationships discussed above.

Critical Interdependencies. Critical interdependencies addressed important buyer-seller relationships. Porter noted several reasons related to critical interdependencies why a firm may acquire another firm. In addition to the economies of scale and scope mentioned above, a firm could acquire and gain understanding of important technology (56:305). Also, a firm could assure the supply of a raw material or the demand for their product (56:306). Porter pointed out that a competitor could force one firm to acquire another to assure supplies or market (56:308). Additional reasons given were to offset bargaining power and input cost distortions from a supplier, and to elevate entry and exit barriers for the industry (56:307-308).

Entry to New Business. Mergers as a means to enter a new business were typically "for a 'growth related' reason, e.g., as a managerial pursuit, as a way to diversity, or as a way to take advantage of a 'good buy'" (52:278). Managerial pursuits as an objective are discussed below, under the category of managerial prestige and power. Diversity objectives pertain to a manager's attempt to reduce a firm's risk by using another firm's strengths in an portfolio type manner (52:278). A "good buy" could occur

when the acquired firm is in financial trouble and the acquiring firm expected their performance to improve or to improve performance by replacing top management (52:278).

Managerial Prestige and Power. Managerial prestige and power may be "to increase sales or assets, or gain control of a larger empire" (52:278). However, the manager's objective may be mistaken; he or she may be using the time following the acquisition to analyze the acquired firm's operations to best decide how to combine operations (52:278). A lack of acquisition experience may cause the senior managers to be over-committed to completing the acquisition (35:151). The manager "may feel pressure from both peers and subordinates to play out the role of the decisive, risk-taking leader," which thereby increases the difficulty of stopping a bad merger in the early stages (35:151).

Given the first five categories of managerial objectives discussed above, Walter and Barney then examined the relationships between the categories of objectives and specific product/market relationships between the two firms, discussed below. In keeping with other research, Walter and Barney used modified Federal Trade Commission (FTC) definitions of product/market relationships between firms (68:80). The FTC definitions provided five categories of product/market relationship between firms (46:674). The five FTC categories were vertical, horizontal, market-

concentric, product-concentric, and conglomerate. A vertical relationship existed when firms were or could be involved in a buyer-seller relationship (46:674). A horizontal relationship existed when firms produced similar products in the same market (46:674). Market-concentric relationships existed when firms "produce similar products in different" markets (46:674). Product-concentric relationships existed when firms "produce noncompeting products that share similar production or marketing technologies" (46:674). Conglomerates described the absence of a relationship in either products or markets (46:674).

Table 3 below incorporates the categories of product/market relationships into the taxonomy of mergers presented in Table 2. These categories were incorporated based upon the results of Walter and Barney discussed below.

Walter and Barney modified the FTC definitions by combining the horizontal and market-concentric definitions, and deleting product from the product-concentric title (68:80). Hence, the definitions used by Walter and Barney were,

**Vertical:** Mergers in which a buyer-seller relationship exists or could exist between two firms.

**Horizontal:** Mergers between firms with identical products operating in the same or different markets.

**Concentric:** Mergers between firms with highly similar production or distributional technologies.

**Conglomerate:** Mergers between two firms that have no buyer-seller relationship, no technical and distributional relationship, and do not deal with identical products. (68:80)

Table 3.

Classification Schemes for Mergers

---

- I. Financial - Value Maximizing
    - 1. Economies of Scale and Scope
      - Horizontal Mergers (Walter and Barney)
    - 2. Maximize Financial Capability
      - Conglomerate Mergers (FTC)
      - Horizontal Mergers (Walter and Barney)
    - 3. Product Line and Market Expansion
      - Market Concentric Mergers (FTC)
      - Horizontal Mergers (Walter and Barney)
  - II. Managerial - Non-Value Maximizing
    - 1. Critical Interdependencies
      - Vertical Mergers (FTC)
      - Horizontal Mergers (Walter and Barney)
    - 2. Enter New Business
      - Conglomerate Mergers (FTC)
      - Horizontal Mergers (Walter and Barney)
    - 3. Managerial Prestige and Power (Rhoades)
      - Conglomerate Mergers (Napier)
- 

Given these four definitions of relationships and the five categories of objectives, Walter and Barney requested their interviewees to rank the individual goals presented in Table 1 in order of importance for each of the four product/market relationships (68:80). Based on these rankings, Walter and Barney computed the average ranking of each product/market relationship within each category of

objective. By using the overall average ranking, overall standard deviation, and the individual rankings, the association between each relationship and objective was determined. If the individual ranking was one or more standard deviation above the overall average, the association was designated high (68:83). If the individual ranking was one or more standard deviation below the overall average, the association was designated low (68:83). Within one standard deviation, the association was designated moderate (68:83). The resulting designations are discussed below.

The participants responses indicated a vertical merger relationship between firms was highly related to deal "with critical and ongoing interdependencies," (68:83). Vertical mergers were rated low as a way of maximizing financial capability, while the other objectives were moderately related (68:83).

Horizontal mergers were moderately related to all categories of objectives (68:83). The authors noted this is consistent with Chatterjee's proposition that horizontal mergers can create three types of synergy; collusive, operational, and financial (68:83).

Companies with a concentric merger relationship were highly related to the objective of expanding current product lines and markets (68:83). On the other hand, concentric mergers had a low relationship to the objective of

maximizing and utilizing financial capability, and a moderate relationship to the other objectives (68:83).

Conglomerate mergers were "very strongly" motivated by getting into new businesses and maximizing and utilizing financial capability (68:83). Also noted were the:

very low averages for the other objectives, suggesting that economies of scale and scope (cluster I), managing ongoing interdependencies (cluster II), and expanding current markets (cluster III) are not important objectives in conglomerate mergers. (68:83)

Napier noted a relationship between conglomerate mergers and the objective of increasing prestige and power (52:278).

#### How Mergers are Implemented

There are two sequential stages to a merger; pre-merger and merger (62:71). Pre-merger activities consist of identifying a partner, and negotiating the agreement (34:73). Merger activities involve communication with the affected employees, the resolution of critical personnel issues, the integration of two or more organizations into a new organization structure, and the development of new computer information systems.

Pre-Merger Activities. Brown, Rizzuto, and Eastland advocated the use of a standardized framework to analyze a potential partner (5:55). The framework addressed areas of operations or production, special financial benefits, non-operational assets, non-operational liabilities, operating liabilities, and net present value (5:56). They found that a standard framework facilitates analysis, provides an

outline for presentation to senior managers, and permits senior managers to concentrate on strategic fit and postmerger conversion (5:56). Sturges recommended a thoroughly planned acquisition process, and stated "a good plan saves many times its initial cost (64:62).

Although the partners were predetermined in the case of the transportation component commands, the degree of integration is not. Fundamental to identifying a partner and the degree of integration is first defining the objective of the merger (22:14). Dionne pointed out the objective of an acquisition should reflect the corporate mission and strategy (22:14). The objective determines if a vertical, horizontal, concentric, or conglomerate merger should be utilized.

Sturges noted human resource issues could change the financial outlook and therefore contends it is important to determine corporate culture of the candidate firm during this stage as well (64:61). Corporate culture is defined as "the set of shared values and beliefs which guide the activities of the employee of a particular company" (63:46). The merging of organizations with differing cultures are likely to result in high turnover, lower morale and productivity, and management turmoil (63:44). The different cultures of the branches of service are so diverse that the services have been referred to as separate personalities (7:3). Kleinman noted the top executive's actions

communicated the corporate culture as strongly as his/her words (40:58). Napier pointed out that the type and objective of the merger affects the planned degree of integration and, therefore, the requirement to assess culture compatibility (52:280).

Negotiating the agreement. In the next phase, negotiating the agreement, the objectives help to determine who should be involved. Dionne advocated placing one person, an "acquisition champion," in charge of the study group and the negotiation team (22:15). Areas represented should include legal, finance, corporate planning, data processing, and human resources (22:15). Hunt noted that during this phase the tone, friendly or hostile, of the merger is set which will affect the following stage and may affect the ultimate success of the merger (34:74).

Due to the disruptive nature of negotiations on the staff and operations of both companies, Dionne suggested keeping this phase as short as possible (22:15). This is accomplished by planning in advance the information required to further analyze the potential partner (22:15).

During this phase, objectives are clarified, and obstacles identified. Obstacles may arise due to legal constraints. The Hart-Scott-Rodino Act (1976) required proposed "mergers of significant size" be reported to the Department of Justice (DOJ) and the Federal Trade Commission (FTC) for "a review of potential antitrust problems" (36:9).

The DOJ or the FTC rarely prevent a merger, but may require the acquiring firm to take action and "fix-it-first" if a potential antitrust problem exists (36:9).

Communication is important during this phase (62:71). Dionne stressed communication as a means to manage the expectations of the acquired employees (22:15). Napier, Simmons and Stratton, Schweiger and Weber, and Sturges noted rumors abounded at this time as employees become concerned about job security and related matters (53:110; 62:72; 64:67). Napier et al. observed when management did not communicate, employees attempted to gain information on their own (53:110). In addition to the internal grapevine, information sources included neighbors and customers (53:110).

As a result of the stress and anxiety, Kleinman, Schweiger and Weber, and Sturges recommended top management, not the task or project managers, "communicate to the affected employees even if it meant admitting that 'nothing has been decided yet'" (40:64; 62:72; 64:67). Kleinman and Sturges recommended open and honest information be conveyed as soon as possible in order to counteract rumors (40:64; 64:67). Schweiger and Weber noted when publicly owned and traded firms are involved, the Securities and Exchange Commission limits the amount of information that can be passed to the employees without the public being notified first (62:72).

Based on an example of a zealous manager, who demanded the accounting books of a nearby branch of a newly acquired bank, Kleinman suggested that a written communication strategy be established and disseminated to the entire staff of the acquiring firm (40:63). He further suggested only a limited number of personnel be designated to speak for the company during the early phases of the merger (40:63).

Merger Activities. Daft and Steers observed that "change is a fact of life for organizations" and successful implementation of change in an organization requires the consideration of all areas of the organization (15:567).

The implementation of change may require knowledge of job design, new organizational structures, improved leadership skills, sophisticated approaches to organizational communication and control, an understanding of group behavior, new methods for motivation and performance evaluation, or the resolution of internal conflict. (15:567)

While Daft and Steers wrote an entire text covering the above areas, this research focused on only four of these areas: increased importance of communication, resolution of personnel issues, organizational structure, and the integration of computer information systems.

During the merger activities stage the firms begin working together to integrate operations and personnel. Schweiger and Weber noted that plans to integrate operations may be formulated while negotiations are ongoing or wait until the agreement is completed (62:72). Dionne, Kazemek and Grauman, Sturges, and others promoted the use of teams

with representatives from both firms to plan the implementation (22:16; 37:82; 64:62). Benefits from using teams include the facilitation of communication, broader perspectives and greater knowledge can be applied to the task, and participants are more satisfied and committed to the plans (15:446). Dionne and Sturges advocated including the eventual line manager in the team during this planning stage (22:15; 64:66).

#### Increased Importance of Communication.

Communication increases and is even more important during this stage (53:11). Schweiger and Weber noted that many of the recommendations pertaining to the release of information in the pre-merger stage also apply to this stage (62:72). Communication is required to inform the employees of the organization's goals, strategies, and objectives; to define formal characteristics through policy, procedures and structural arrangements; to provide instruction and rationale; and to reflect the corporate culture (15:537-538). Establishing a formal mentor program is one method of facilitating communication that also increases productivity, enhances innovation, reduces turnover, and conveys the corporate culture to new employees (77:47, 50).

Lew stressed that "a company can operate no better than the people who run it" (45:28). Schweiger and Weber concluded from interviews conducted:

with numerous acquiring top managers we found that almost all of them reported that they underestimated

the impact of and the difficulty in managing, organizational and human resource issues. Asked if they would manage future mergers and acquisitions differently, most responded that 'people' issues would have much higher priority in the future than they had in the past. (62:70)

Burns provided the following statistics to emphasize the impact that personnel can have on the success of a merger.

- At least 25% to 33% of all acquisitions fail.
- 33% to 50% of all acquisitions fail to achieve their financial objectives due to employee related problems.
- 84% of acquisition-experienced executives learned by bitter experiences that people problems are more likely to affect the long-term success or failure than any other single factor.
- In one major study, CEOs [Chief Executive Officers] identified 26 pre-merger factors, only 3 in the top 12 were people-related. These same CEOs, post-merger, identified 7 of their top 12 factors as people problems and issues. (62:15)

Schweiger and Weber noted several studies (see appendix of related bibliography), that cited problems of culture shock, decreased productivity, and turnover of key personnel; and that pleaded with managers to pay greater attention to human resource issues (62:69-70). Napier, Simmons and Stratton noted "there never seems to be enough communication" (53:120).

In their determination of which communication tools were actually used, Schweiger and Weber noted the following techniques: a merger newsletter, the normal newsletter, town hall meetings with the top management of the acquired firm, and town hall meeting with top management of acquiring firm (62:80). Also used were letters, memos and/or videotaped messages from the acquiring top management, small group

meetings between managers and their employees, a 24 hour telephone hot-line, exchanging literature between firms, and using the grapevine (62:80). Galosy reported the use of a survey to determine employee concerns, a publication on the merger for managers, and a discussion guide for managers and employees, (28:91).

Personnel Issues. Colby and Galosy listed a number of "losses" or sources of stress that employees experience during a merger. In addition to the potential loss of job security, the following losses were noted: hierarchical status, familiarity and predictability of the firm, trusted subordinates, a network of contacts, control over decisions, future career path, job definition, physical location, and friends and peers (11:65-66, 28:90). Also the loss of personal identity is a possibility, as many personnel closely identify their relationship with others by the job they perform (11:67) Schwab and Weber also noted concern about benefits and compensation programs (62:73).

To determine who is displaced, Kleinman advocated using the human resource staff and supervisors of both companies. He further noted, "The degree to which the company treats this group with care and dignity impacts the confidence, productivity and commitment of those remaining" (40:67).

This concurs with the finding of Leana and Feldman:

Treating departing employees with dignity and social support is better for the laid-off workers themselves, better for the employees who remain, and better for the public image of the company as well. (44:132)

Leana and Feldman noted there are four types of assistance a company could provide: advance notification, severance pay and extended benefits, retraining programs and outplacement activities (44:124). Advance notification, severance pay and extended benefits help to minimize the financial impact, and provide a time frame to recover from the initial shock of being fired (44:125). Retraining programs and outplacement activities, such as resume workshops, career counseling, and placement assistance, help provide structure for the laid-off employees and instill confidence (44:127, 129).

Organizational Structures. Nienstedt offered a five step process for implementing objectives that affect management structure (54:155). The first step was to determine and depict the current organization structure and the various reporting relationships (54:159). Various reporting relationships includes the delegations of authority, span of control, and how information and the product is processed (54:159). Next, determine the efficiency of the current structure (54:159). This requires answering some tough questions concerning the firm's processes, and the efficiency of the managers (54:159). Next is to determine the optimal organizational structure (54:159). Given this optimal structure, the final step is to determine unnecessary positions (54:160). This is accomplished by comparing the current structure with the

optimal structure (54:160). Nienstedt observed there are associated personnel concerns with any organizational restructuring (54:161).

Daft and Steers provided insights into the application, advantages and disadvantages of different organizational structures. They observed organizational structure is comprised of two parts, departmentation and integration mechanisms (15:365). Departmentation is the decision on how employees are grouped to accomplish a goal, such as by task or product line (15:365). In turn, departmentation determines the integration mechanisms or procedures which facilitate information sharing and coordination between departments (15:366).

Departmentation is how employees are grouped, and typically is what is represented on a formal organization chart (15:365). The decision on how to group employees is significant because it determines the system of supervision, how resources are allocated, how performance is measured, and encourages coordination within the department (15:365-366). There are four departmentation possibilities, functional, self-contained unit, hybrid, and matrix (Table 4) (15:365). Examining the advantages and disadvantages of organizational structures should provide insights on the effectiveness of consolidating the contracting for transportation.

Table 4.

Possible Organizational Structures

---

Functional	Similar Tasks, Similar Resources
Self-contained	Product Grouping of all Functions
Hybrid	Mix of Functional and Self-contained
Matrix	Dual Use of Functional and Self-contained

---

A functional structure exists when "employees are grouped together according to similar tasks and resources (15:366). Functional structure also is known as a centralized structure because decisions involving more than one department are resolved by the top managers (15:367). Functional structures tend "to work best in small- to medium-sized organizations," when the technology is routine, the environment is stable, the "primary interdependencies are within functions" and the firms goals are for efficiency and technical quality (15:367).

The strengths of an functional structure are: efficient use of scarce resources resulting from economies of scale, skills are developed in-depth because grouped employees perform similar tasks, functional expertise is the basis for career progression, strategic control is facilitated because "decisions and directions are centralized," and "excellent coordination occurs within functions" (15:368) Weaknesses of a function structure are: poor coordination between

departments, decisions are pushed to the top, responsiveness to change is slow due to the functional orientation of employees, functional contribution to mission impact may be difficult to determine, and training of general managers is limited due to functional career progression (15:369).

A self-contained unit structure is where all of the "functions needed to produce a given product or service are grouped together into an autonomous department or division" (15:369). A self-contained unit structure is also known as a decentralized structure because decisions concerning the product or service are made within the department or division (15:370). Self-contained units may be based upon products, geography or customers (15:372).

A self-contained unit structure are appropriate when rapid innovation is required due to an uncertain or changing environment; clear distinctions can be made based on products, geography, or markets and the organization is large and complex; the success of the product or service spans across the close interaction of functional areas; and the organizational goal is to excel at satisfying a customers within a specific market (15:373). The strengths of a self-contained unit structure is responsiveness to change, high customer satisfaction, high coordination across functions, ability to control several product lines, provides training for general managers, and product goals receive priority (15:374).

A hybrid structure is the combination of a functional structure and a self-contained unit structure (15:376). Not unlike the self-contained unit structure, the hybrid is useful when the rate of change is moderate to high, the organization is large, high levels of coordination are required across functions, and the firm's goals are customer satisfaction, rapid change, and functional efficiency (15:378).

Advantages of a hybrid structure are rapid coordination within and between product divisions, alignment of corporate and divisional goals, and the promotion of adaptability and efficiency within a firm (15:378). Disadvantages of a hybrid structure include the emergence of conflicts between headquarters and divisional managers, and the high administrative overhead required to maintain headquarters and divisional staffs (15:379). However, if the headquarters staff become too involved in the operations of the divisions, the organization might "take on the characteristics of a functional structure (15:379).

The matrix structure is the fourth possibility of departmentation (15:365). A matrix structure results from the dual implementation of functional and self-contained unit structures (15:380). Both functional and product managers have equal authority and employees may report to both types of managers (15:380). Matrix structures tend to form under three conditions:

1. When there is strong outside pressure for a dual organizational focus.
2. When managers need to process large amounts of information for coordination.
3. When organization experiences pressure to achieve economies of scale and efficiency in the use of resources. (15:381)

Dual organization focus refers to the firm attempting to be responsive to change and place emphasis on functional and product goals (15:381). The need to process large amounts of information results from a highly uncertain and fast changing environment (15:381). Pressures to achieve economies of scale and efficiency arise due to a lack of resources, either capital, facilities, or personnel (15:381).

A matrix structure is best suited when the firm requires both functional and product expertise to remain competitive in an highly uncertain and fast changing environment (15:383). Matrix structures typically appear in medium-sized firms "with a moderate number of products" (15:383). Due to the problems of dual lines of authority and coordination, matrix structures are not very effective in larger organizations, and informal communication channels are adequate for the needs of small organizations (15:383).

Advantages of matrix structures are the ability to respond to more than one changing environmental sector by reassigning personnel as required to meet the workload, and both functional specialist and general managerial skills are fostered (15:384). Disadvantages resulting from the dual

lines of authority are: frustration and confusion, the need for excellent interpersonal skills to resolve conflicts, frequent meetings are required to coordinate activities and resolve conflicts, and participants must understand the need for dual lines of authority to insure success (15:384). Also, there must be genuine pressure from the environment or the side of the matrix that is "most closely aligned with meeting organizational objectives will gradually become dominant" (15:385).

Types of integration mechanisms described were information systems, plans and schedules, liaison positions, task forces, teams, and integrator positions. Information systems refer to the formal procedures and written documentation used to share and coordinate information between departments (15:388). Daft and Steers defined plans as "organizational and departmental targets for future performance," while schedules are "the defined sequence of activities needed to accomplish those targets" (15:388). A liaison position describes a person who was the formal representative of one department and worked within another department to facilitate coordination (15:389). A task force is designed to solve specific problems by the formation of "a temporary committee composed of representatives from several departments" (15:389). A team is different from a task force in that a team is permanent while a task force is considered temporary (15:390). An

integrator position represents a person or department whose responsibility was to expedite the coordination between other departments (15:391). An integrator is different from a liaison in that an integrator is not a representative of either department (15:391).

Integration of Computer Information Systems. The integration of Computer Information Systems was chosen as a critical merger activity because as Ahituv and Neumann noted, "every new information system replaces something that prevailed before," and therefore analogies can be made to the integration of other technical activities (1:297). Kroenke defined an information system as "a group of components that interact to produce information" (42:716). As such, an information system is comprised of people, procedures, data, programs, and hardware (42:720).

Ahituv and Neumann noted three issues normally involved in the conversion to a new information system: files, programs, and procedures (1:297). They treated the training of operating personnel as an inherent part of the conversion process (1:246). Koory and Medley stated that conversions often require changes in hardware as well as programs or software (41:235). Therefore all five components of a computer information system are involved in the conversion.

Koory and Medley asserted that the first requirement is to understand what is to be accomplished and to determine the impact on each component of the system (41:235). Ahituv

and Neumann observed assessing the variety of components and possible impacts can result in several miniprojects (1:298). Koory and Medley emphasized that whenever possible system managers should follow a fundamental rule of thumb. That is, "CHANGE ONLY ONE THING AT A TIME" (41:235).

The timing of the changes also is important and two separate contexts must be considered (41:236). The first context is the organizational workload; whenever possible the conversion should occur during a slow business period or at the beginning of an accounting cycle (41:236). The second context considers the system workload, such as converting the files, programs, and hardware over a weekend when the system is idle (41:236).

The method of conversion is as important as the timing. The most preferred method is to operate both the old and new system simultaneously (1:299). Although the most costly, operating the systems in parallel allows the new system to be proven effective before the transition (1:299; 42:274). The modular or piecemeal conversion involves the gradual transition to the new system, by implementing one module or piece at a time (1:300; 42:274). A pilot conversion is implementing a complete system "on just part of the organization" to test system effectiveness (42:274; 1:300). A crash or plunge conversion is the immediate replacement of the old system with the new system (1:300; 42:274).

People affiliated with computer information systems are divided into two categories, designers and users. The users are responsible for determining the outputs required, the available inputs, and accepting the final system (42:247, 250; 1:302). The designers are responsible for determining possible solutions and the feasibility of the solutions in terms of costs, schedule, technical, and cultural considerations (42:242).

Procedures must be revised to reflect the new operating instructions. The procedures should cover normal operations: data entry, backup and recovery, and output generation (1:302). The operation instructions should be well written and easy to understand (1:302).

File conversion refers to the creation of new data files or the modification of existing files (41:236). The users' dependencies must be considered in file conversion to determine the "appropriate cutover timing [of equipment] and for appropriate times to perform both data capture and operational cutovers" to new programs (41:237).

Program conversion is the modification of current operating system or software, and/or the selection or creation of new software (1:298). The operating system may be changed in order for the computer hardware to handle larger capacities of data or to operate faster (42:207). Program or software conversion represents a change in how the computer processes the data to achieve the desired

output (1:298). Program conversion determines the extent of the data file conversion (41:236).

Hardware conversion requires determining the computer requirements necessary to operate the system. Hardware conversion is normally intended to increase the capacity and/or speed of the system, or to support a new programming application (41:241). In addition to considering the input, output, processing and storage devices that form a computer, the facility constraints, and future growth must be considered. Facility constraints include space, power requirements, climate control, security, access, and communication links (41:188).

A changes to a computer information system will affect all of the components of the system just as the consolidation of contracting functions will affect all aspects of procuring transportation services.

#### Summary

First, this chapter examined why firms merger. Firms undergo mergers for a variety of objectives. Six categories of merger objectives were noted: economies of scale and scope, financial capability maximization, product line and market expansion, critical interdependencies management, new business entry, and increase managerial prestige and power. Then the nature of product or market relationships between firms was examined to determine how to best achieve the merger objectives.

Second, this chapter examined some of the tasks involved in merging firms. Pre-merger activities involving selection of a partner and negotiation of the merger agreement were reviewed. Merger activities examined were the importance of communication and personnel issues. Different organizational structures were examined to provide insights on how the selection of a structures may affect the effectiveness of a merger. The conversion of computer information systems was examined to highlight those areas to consider when changing processes or technologies.

An horizontal merger would allow economies of scale and scope to be pursued. Potential economies to be obtained are improved internal control and coordination, and improved speed and accuracy of information. Intangible interrelationships based on combining the contracting technical expertise might result in increased efficiency. However, the possible benefits of intangible interrelationships need to be determined by using Porter's three tests. The tests measure how similar and important the activities are to the firm, and how significant is the skill or knowledge to be transferred.

During pre-merger activities the objective of the merger must well understood in order to select a partner. Although the partners for consolidating the contracting of transportation services are predetermined, the degree of integration is not. The selection of the partner influences

the negotiations to follow. A planned analysis is important in evaluating the potential partner to insure all aspects of the firm are represented. During this phase substantial communication is important to counteract rumors and calm employees.

During the implementation of the merger, communication plays a vital role in sustaining employee productivity and morale. Using teams to plan and implement changes insures all aspects and areas are addressed, and facilitates communication and employee commitment. The manner in which lay-offs and terminations are conducted affect the remaining as well as the departing employees.

### III. Methodology

#### Chapter Overview

Organizational consolidations have significant impact on operations. Chapter two provided a literature review on how various aspects of mergers, acquisitions, and consolidations affect organizational operations. This chapter provides the rationale behind the fields of research that were reviewed and an examination of the methodologies used to meet the research objectives listed in the introductory chapter.

#### Research Methodologies

"Most scientific research can be placed in one of three broad categories. The first, descriptive research, is aimed at describing the characteristics of subjects of the science. The second, correlational, explores relationships between variables. The third, experimental, manipulates one or more variables and measures the effect of these manipulations on another set of variables." (3:154)

Research of a topic or phenomena tends to advance from one category to another, as the level of understanding increases. However, as depicted in the model of research development (Figure 1), prescriptive observations precede the three categories of scientific research.

Research starts with the observation of an event and assigning prescribed or customary explanations (cell 1). These explanations may be casually assigned and are far too often "in the form of untested, or worse, untestable statements" resulting from practice or experience (30:28).

Although such prescriptive statements often fail to "raise serious questions about matters of cause and effect," when considered together, related statements "can lead to hypotheses requiring (and deserving) testing" (30:28).

**Sophistication of Research**

		Immature	Mature					
Prescriptive	<table border="1" style="width: 100%; height: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center; vertical-align: middle;">1</td> <td style="width: 50%; text-align: center; vertical-align: middle;">2</td> </tr> <tr> <td style="width: 50%; text-align: center; vertical-align: middle;">3</td> <td style="width: 50%; text-align: center; vertical-align: middle;">4</td> </tr> </table>	1	2	3	4			Testing
1		2						
3		4						
Empirical				Hypothesis				
Descriptive			Generation					
		Subjective	Objective					
<b>Nature of Explanation</b>								

(30:28)

Figure 1. Maturation of Research

"Much of the early work in a new science is descriptive, since it is necessary to know something about the characteristics of our subjects" (3:154). This is the first category of scientific research (cell 3), and requires conceptual boundaries of the subject or phenomena to be defined (3:154; 30:28). The research examines subjects and events "in order to describe, compare, contrast, classify, analyze, and interpret" so that more complex research

questions can be undertaken (10:70; 3:154). Conceptual development, creativity, and insight mark this research (30:28). While the purpose is to establish a foundation for more complex research, the generation of hypotheses is also possible (30:28).

As the characteristics of the subject become established, possible relationships between characteristics are observed (cell 3). Determining the degree of association between the relationships is correlation research, the second category of scientific research (3:190, 154). However, because correlation does not mean causation, further hypotheses are generated to determine cause and effect (48:287).

The final category of scientific research is experimental research (3:154). "Here research is oriented toward testing hypotheses, at developing causal models, and ultimately with validating predictive theory" (30:29). Experimental research focuses on manipulating one or more independent variables to determine the changes in the dependent variable (3:13). With the determination of cause and effect, the researcher then can observe another subject or phenomena and begin developing the body of information on this new topic.

Selection of Methodology. The initial thrust of this research was to conduct a cost-benefit analysis, however a suggestion was made to examine the different procurement

processes because the feasibility of consolidating contracting for transportation services had not been examined (6).

Initial research on the procurement of services failed to reveal any substantial description on the procurement of transportation services. Therefore, descriptive research was selected to provide a conceptual framework of the procurement process in general and for the procurement of transportation services. Then, this framework was used to search for similarities between processes. These similarities were used to assess the feasibility of a consolidated contracting office. The literature review of mergers and acquisitions was used to assess the rationale for consolidating contracting functions and the potential problems resulting from consolidation.

#### Research Methods Utilized

To determine the feasibility of a single transportation contracting agency, this study first examined the current processes used to acquire services; and second, examined the literature on mergers and acquisitions to explore why and how two firms are combined.

To describe and document transportation contracting processes this study examined two of the six question methodology proposed by Gitlow and Gitlow. These six questions are provided below.

- (1) What is the flow of the process?
- (2) What are the boundaries of the process?
- (3) Who owns the process?
- (4) What are the objectives of the process?
- (5) How is the success of the process in meeting objectives being measured?
- (6) Are the measures being taken on the process valid?  
(29:42)

Details of how the flow and boundaries of the processes were determined is provided below. The procurement processes are "owned" by many claimants. The regulatory agencies that determine the rules, Congress which passes laws, the users who determine the specifications, and the contracting offices with their internal procedures all "own" part of the procurement processes. Because of the many claimants, ownership of the process is not explicitly examined. Each process has the common objective of procuring transportation service that provides the best value to the government by providing for the timely movement of government personnel and cargo. In order to focus on the flow and boundaries of the processes, and because of the wide variety of processes examined, the measurements of the success of the objectives were not included in this study.

Telephone interviews and documentary research were conducted to determine the flow and boundaries of the current procurement processes. Telephone interviews were selected as a method since: 1) the number of regulations and procedures vary within each TCC requiring unique approaches and resolutions; 2) the regulations often tell what is to be accomplished and how, but not who accomplishes it or when;

3) often the regulations do not reflect actual practices; 4) it was necessary to quickly determine which documents apply to this study; 5) understanding can be enhanced by clarifying vague responses to inquiries; 6) a greater diversity of sampling over a larger geographical area was possible; and 7) all interviewees can be reached by telephone.

Interviews were conducted with personnel of each component command. These personnel were selected based on their current position in the procurement process and/or the recommendation of their peers within their command. The majority of the personnel were the division chief or deputy division chief of the contracting offices. Other personnel were from the requirements forecasting offices or from policy and procedures offices. The number of personnel interviewed varied with each command based upon the number of offices involved in the procurement process, and the number of different types of services purchased.

Documentary research was conducted in conjunction with the interviewing process. Documentary research was conducted to complement and validate the information gathered in the interviews. Documentary research is a form of a literature review that "tends to emphasis [emphasize] contemporary sources and present-day issues" (43:68). Therefore, documentary research coincides with the objective to describe the current procurement processes as they exist.

"Contemporary sources" were interpreted to include those regulations and directives that apply to the current processes, regardless of when the regulations were implemented.

The material researched included solicitations, agreements, DOD Directives, regulations, manuals, operating instructions, reports, and other studies that directly related to the procurement process. These documents were identified during initial telephone interviews with the TCCs and by reviewing allied documents referenced in additional sources.

Based upon the interviews and documentary research, a written description and a flow chart of a generic procurement process and of the procurement processes for each component were drafted. EasyFlow 6.1, a charting program, was used to construct the flow charts (33). With one exception, the interviewees examined the generic and their office specific process descriptions and flow charts for accuracy and precision. Corrections were made as necessary. The one exception was the procurement process for Liner Agreements. Due to workload requirements of the Liner Agreements Division, the procurement process for Liner Agreements was not reviewed by that office. The descriptions and flow charts then were used for a comparative analysis, noting the similarities and the differences of the processes.

The similarities and differences of the processes were drawn by comparing how different phases of the procurement process were accomplished for each type of transportation service. The phases examined were: requirement identification, solicitation preparation, advertising and notification procedures, contract type, basis for evaluation, and administration and payment.

#### Rationale for Literature Review Topics

The review of the literature on merger and acquisitions was to develop insights into the process and problems of combining two or more organizations. The review on organizational structures was to explore the relationship between form and function, i.e., which organizational form is best to satisfy the organization's function and meet the its objectives. The review on implementing computer information systems was to depict one area in which operations and procedures would be affected at the worker level.

#### Summary

This chapter provided a brief review of the stages of research maturity and an explanation of how this research fits within the descriptive research stage. Then, the chapter described the methodologies employed to determine the procurement processes within each component command. Using the procedures described within this chapter, Chapter

4 provides a generic procurement process, and the actual procurement processes used to acquire commercial transportation services. The literature on mergers and acquisitions, organizational structure, and implementing computer information systems was conducted to analyze to determine the potential benefits and problems of consolidating the contracting for transportation services.

#### IV. The Contracting Processes

##### Chapter Overview

This chapter contains an outline of the contracting process for services in general, and some of the additional requirements mandated by the Federal Acquisition Regulation (FAR). The distinct FAR requirements are noted because statutory and other authority exists that permits other than FAR procedures to be used in the procurement of certain transportation services.

Given this outline, the contracting processes used by each of the transportation component commands (TCCs) is then explained. The contracting process will trace how a requirement for service flows from the originating office to contracting, to accounting and finance, and to the contractor. Functional office symbols and process flow charts will be introduced in the text to facilitate reading. Finally, the similarities and differences of the different procedures are noted in the next chapter. The specific TCCs processes examined are:

MAC: International Air for Passenger and Cargo  
Domestic Air for Passenger and Cargo  
MSC: Operating Contracts  
Chartering Contracts  
Liner Agreements  
MTMC: CONUS Group Passenger Moves  
Volume Freight Movements

## The Contracting Process

The procurement process, depicted in Figure 1, starts when a consumer or user identifies a requirement for service. The user is responsible to determine what services are required (i.e., transportation services) and, in DOD, to obtain funding for those services. It is the user's responsibility to correctly define their requirements in operational terms. The requirement definition may be called several different names to include Work Statement, Performance Work Statement, or Statement of Work. Once the type of service is defined and funded, the contracting process starts when the user notifies the contracting officer of the responsible agency of the requirement.

The contracting agency reviews the requirement and modifies the Statement of Work (SOW) to reflect the contracting language used in both government contracts and commercial industry. If major revisions are required or there are technical aspects to rewrite, the contracting officer may return the requirement, or seek the assistance of other staff personnel, or rewrite the SOW with the assistance of the user. The SOW specifies the type of service to be provided, when the service will be provided, and the manner in which the service will be provided. A solicitation is formed by combining the above information with how the service will be evaluated and scheduled, the basis for contract award, how the contractor will be

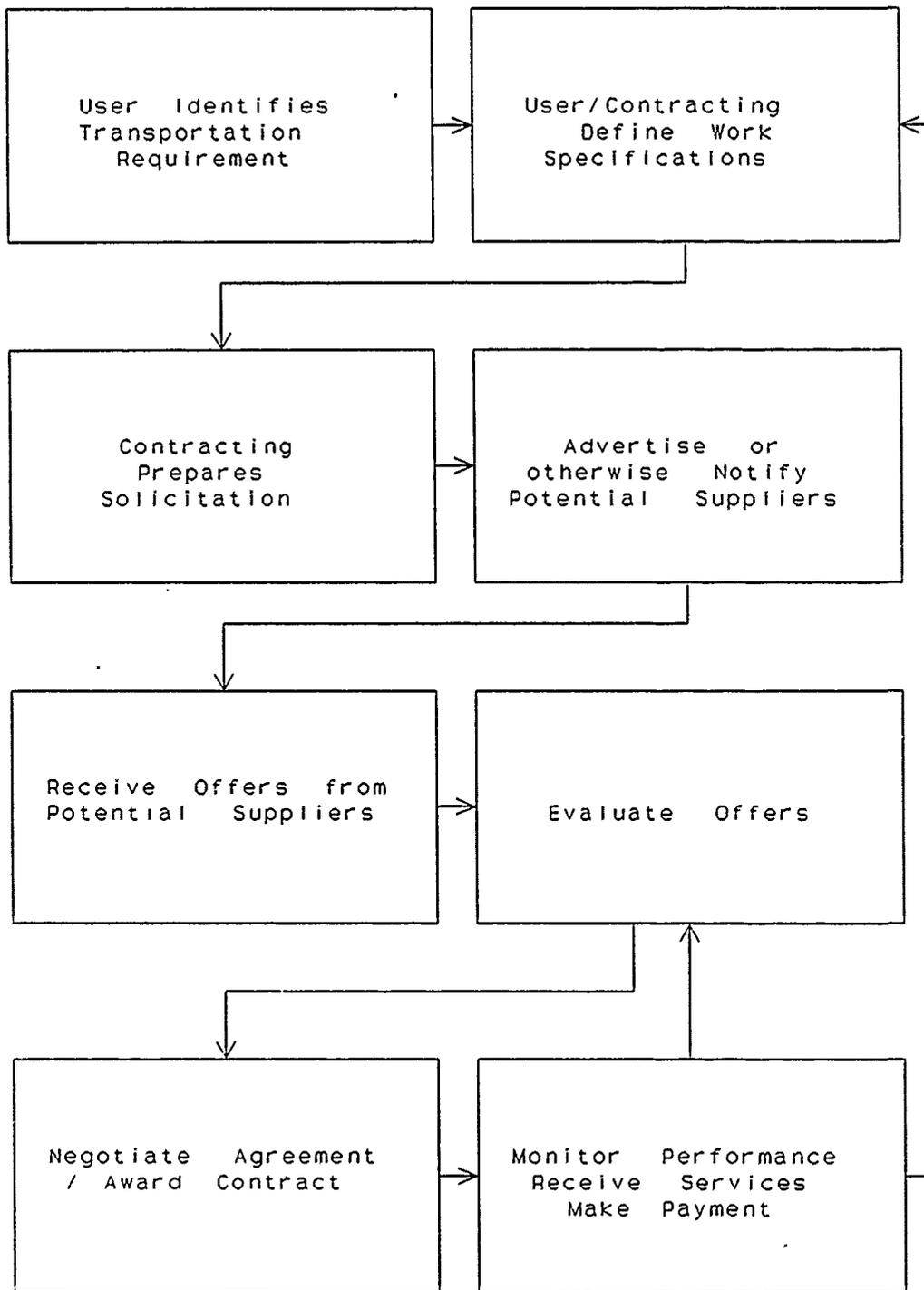


Figure 2. The Basic Contracting Process

reimbursed, a fund cite, any equipment or services to furnished by the government, and any other clauses required by the Federal Acquisition Regulation (FAR) and other applicable laws.

The format specified by the FAR for a solicitation is an Invitation For Bid (IFB) if no negotiations are required, or a Request For Proposal (RFP) if negotiations may be needed. If negotiations are conducted, the FAR requires the contracting officer to conduct negotiations with all offerers whose proposal is in the competitive range (25:15.609a; 74). The contracting officer is responsible for determining the competitive range:

on the basis of cost or price and other factors that were stated in the solicitation and shall include all proposals that have a reasonable chance of being selected for award. (25:15.609a)

Additionally, the FAR prohibits government personnel from discussing competing proposals with offerors or engaging in auctioning techniques (25:15.610).

Prior to its release to potential suppliers, the solicitation goes through a technical, legal, and contracting review. The reviews are to insure the solicitation accurately defines the services to be provided, contains all of the clauses required by the FAR, and when signed by both parties, forms a legally binding agreement.

While the solicitation is being prepared, the contracting agency will advertise or notify potential suppliers of the requirement. The FAR and the Competition

In Contracting Act mandate using full and open competition to the fullest extent possible (25:6.1). The FAR gives specific guidance concerning the format and advertising of the solicitation.

The FAR requires most contractual actions to be advertised in the Commerce Business Daily (CBD). The CBD is "the public notification media by which U.S. Government agencies identify proposed contract actions and contract awards" (25:5.101). The FAR requires: "A notice of the contract action shall be published in the CBD at least 15 days before issuance of a solicitation" (25:5.203(a)).

In addition, the FAR requires a minimum advertising and response period. The FAR states:

Contracting officers may, unless they have evidence to the contrary, presume that notice has been published 10 days (6 days if electronically transmitted) following transmittal of the synopsis to the CBD. (25:5.2).

After the synopsis is published in the CBD and the solicitation is made available to the public, the contracting officer "shall allow at least 30 days response time for receipt of bids or proposals from the date of issuance of a solicitation" (25:5.203). Also, the FAR requires a copy of the solicitation be mailed to whomever requests a copy, or has asked to be placed on a bidders list (25:5.1).

While the intent of these provisions is to promote competition, the effect on the government contracting officer is to increase administrative lead time required to

award a contract. In commercial industry, the contracting officer may continue to use a previous supplier without any advertising, and it has been noted that there is a "general tendency of favoring existing vendors over new suppliers" (76:11).

If the solicitation is an IFB, the evaluation of offers is conducted on the bid closing date at the time and place specified within the IFB. The contracting officer evaluates the offerors bids and makes contract award on the basis of price and other factors specified in the IFB.

If the solicitation is an RFP, the offers are evaluated and negotiations are held. At the conclusion of negotiations, the contracting officer requests all offerors to submit a Best and Final Offer (BAFO). The contracting officer evaluates the BAFOs and awards the contract. Negotiations may be necessary to clarify ambiguities in the solicitation, the offerors proposal, or technical issues of operation (25:16.104). Negotiations also may be conducted to equitably distribute the award between two or more offerors (18:125). The FAR prohibits the use of negotiations to engage in auctioning techniques to obtain a lower price (25:15.610).

The contracting agency awards the business to the offeror that satisfies the requirement at the lowest price or cost and/or meets other factors, such as departure and arrival times. The FAR requires the solicitation to

describe the basis for award when other factors will be considered. Contracts awarded under the FAR may go through a technical, legal, and contract review prior to contract award dependent on the expected dollar value. Also, the FAR requires publicizing the award of contracts over \$25,000 in the CBD (25:5.3).

During the period of contract performance, the administrative contracting office may be responsible for approving payment for services received, monitoring performance, and notifying the purchasing contracting office of the contractor's performance. Unsatisfactory performance may result in a reduction in payment, temporarily suspending business, termination of the contract, and it may affect future negotiations on similar contracts.

The FAR specifies the steps the contracting officer must take to terminate a contract and allows the contracting officer to consider past performance in awarding a contract. However, the FAR allows the contractor to appeal the contracting officer's decision to the General Accounting Office, the Armed Services Board of Contract Appeals, and/or the United States Claims Court (25:33.102, 33.211). This appeal is known formally as a protest, and a protest halts the contracting process until the matter is dropped by the contractor or resolved to the satisfaction of the appellant agency. Thus the contracting officer may be required to justify and defend all decisions.

Payment for transportation services may be provided after a single mission or based on the amount of traffic moved during a period of time. The type of service being purchased usually dictates the method of payment.

In summary, the elements of the contracting process are requirements determination, preparation of statement of work/solicitation, notification of potential suppliers, receive offers, offer evaluation, negotiation of an agreement, contract award, contract performance, and remuneration. In addition, the FAR mandates several requirements concerning the manner in which these activities are executed.

This is the general contracting process when a requirement is known in advance or can be estimated with a high degree of accuracy. However, if it is known that a requirement will occur, but the size and timing are unknown, then a Basic Ordering Agreement (Figure 2) may be entered into by possible suppliers and the responsible contracting agency (25:16.703). The agreement includes all of the information of a solicitation except for when and where the service is to be provided and the fund cite. This information is defined each time an order is placed under the agreement. The advantage of such an agreement is that the terms and conditions of how service will be provided is agreed upon in advance, but the government is not bound to award any business to the supplier. This provides a pool of

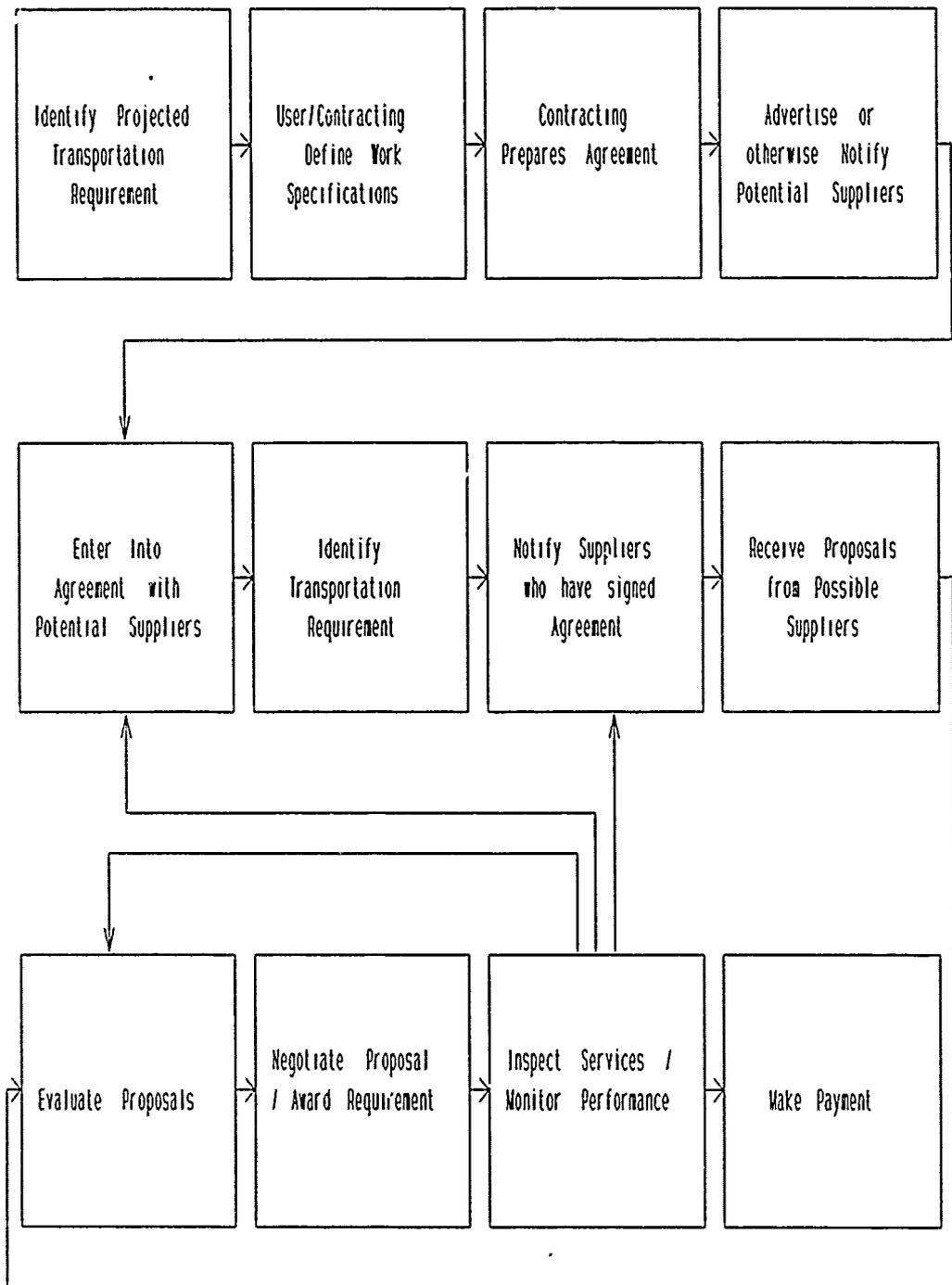


Figure 3. The Basic Ordering Agreement Process

suppliers that understand how the service is expected to be provided, and allows each supplier an equal chance to compete for individual requirements that arise on short notice.

The process for entering into such an agreement is: a requirement for service is expected to occur in the future, prepare a generic statement of work to satisfy the requirement, prepare an agreement, notify potential suppliers of a possible requirement, distribute agreement, and enter into an agreement with all willing and capable suppliers. When a specific requirement is identified and funded, the administrative contracting office notifies those suppliers that have signed the agreement of the requirement, and invites them to submit a bid or a proposal in accordance with the procedures specified in the agreement. The responsible agency evaluates the supplier bids or proposals, and awards the requirement to the supplier that best satisfies the requirement. After the services are received, payment is made to the supplier. Performance is monitored to determine the adequacy of services. Performance data may be used in the evaluation of offers or to prohibit using a supplier with a poor performance history.

#### The Contracting Processes of the Military Airlift Command

The Military Airlift Command is responsible for all commercial airlift for international and domestic airlift requirements that exceed 90 days in duration (19:7). The

contracting processes are different for international and domestic requirements, and will be examined separately.

Contracting Process for International Airlift.

International air transportation services are contracted for by the International Airlift Branch (TRCAI), Airlift Procurement Division (TRCA), Directorate of Contract Airlift, (TRC), Deputy Chief of Staff (DCS) Air Transportation.

Requirements Definition. The procurement process for international airlift (Figure 3) starts when the Directorate of Passenger and Traffic Management, Reservation Management Division, Capability Control Branch (TRPRC) forecasts the passenger movement requirements of each branch of military service for each route (61). These forecasts are based upon historical data maintained at TRPRC (2). Forecasts are forwarded to the military services for review and validation (61). Upon receipt of the validated forecasts TRPRC forwards the requirements for scheduled seats to the Industrial Fund Accounting Division (ACIA) for funding and the requirements for channel airlift to the Airlift Operations Branch (DOOMA), Airlift Management Division, Directorate of Current Operations, DCS Current Operations (61).

The services submit initial cargo forecasts 23 months in advance of the fiscal year (2). The services submit the forecasts in terms of volume per month on a per channel

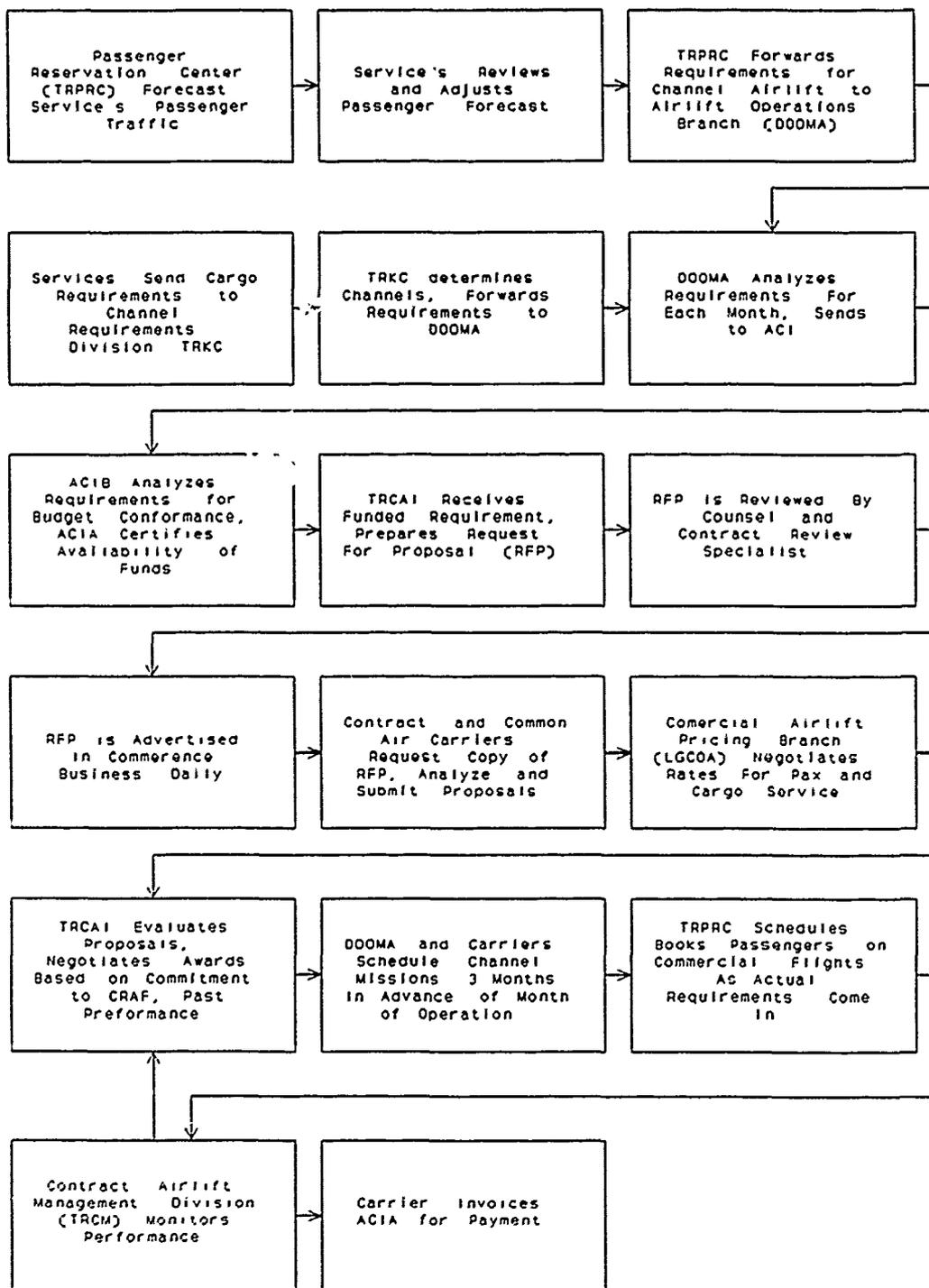


Figure 4. International Airlift Contracting Process

basis (2). The requirements are reviewed against historical data by the Channel Requirements Division (TRKC) of the Directorate of Cargo and Requirements (TRK), DCS Air Transportation (2). Significant differences from historical volumes are questioned for accuracy (2). TRKC uses the forecast for budgeting, determining military airlift rates, and planning of military and commercial channels (2). The commercial channel forecasts are the basis for the cargo requirements stated in the RFP. TRKC sends the channel requirements to DOOMA.

DOOMA consolidates and schedules the passenger and cargo channel requirements for each month (38:13). DOOMA then forwards the requirements as a purchase request to ACI (38:13). Within ACI a copy of the requirement is sent to ACIB where budgets for the airlift industrial fund are formulated, and to ACIA where the purchase request is funded (38:10).

The funded purchase request is passed to the International Airlift Branch (TRCAI) of the Airlift Procurement Division, Directorate of Contract Airlift, DCS Air Transportation. The requirements stated in the purchase request are the basis for the fixed award stated in the RFP (38:10). TRCAI prepares the RFP in accordance with the Federal Acquisition Regulation (FAR) and applicable DOD and Air Force supplements to the FAR. Once prepared, the RFP is reviewed for clarity, conciseness, and completeness. An

initial review is conducted by the Contract Reports, Review, and Analysis Division (TRCR), of the Directorate of Contract Airlift (14). A final review is conducted by the Contracts Review Division (LGCR), of the Directorate of Contracting and Acquisition, DCS Logistics. The Contract and Air Law Division (JAN) reviews the RFP for legal sufficiency (13).

After the review and correction process is complete and the required advertising of a synopsis in the Commerce Business Daily, the RFP is issued to the commercial airline industry. Individual airlines submit their proposals for the routes, time frame, and type of business (cargo or passenger) they would like to perform during the contract period (12:B-1). TRCAI consolidates the airline proposals and negotiates the contract awards (14). The contracting officer may consider poor performance on previous contracts during negotiations (14). The topics of negotiations concern the routes and the time of year of the missions awarded.

All air carriers seeking to transport DOD passengers and cargo must pass an operational and financial review. The operational review examines the carriers aircraft operation and maintenance procedures. The financial review examines the carriers ability to meet financial obligations. The intent of the reviews is to

identify and verify any significant quality or safety problems that could jeopardize safety of flight or the ability to satisfy contractual requirements. (38:52)

The DOD Air Carrier Survey and Analysis Office is responsible for conducting these reviews for MAC, MTMC and any other DOD agency (4, 14, 73).

After negotiations but prior to award, the proposed contracts are again reviewed by counsel and by LGCR before the Director of Contracting and Acquisition (LGC) will approve the contract for signature (13).

Basis for Contract Award. Contracts for international airlift are the primary part of the Civil Reserve Air Fleet (CRAF) program. Air carriers are awarded missions/business based upon a computed mobilization value for the types and numbers of aircraft committed to the CRAF and the category or sub-category of service offered (12:M-7). The greater a carrier's mobilization value proportional to the total mobilization value for all aircraft within a category or sub category, the greater the share of business offered to the carrier. The categories of service are: scheduled service, channel wide-body passenger, channel narrow-body passenger, channel wide-body cargo, channel narrow-body cargo, and channel mixed configured aircraft (12:M-7). A mixed configured aircraft is one that has been designed to carry cargo and passengers on the main or upper deck (14). Sub-categories of service exist within both wide-body categories, cargo and passenger, based upon the type of aircraft (12:M-7).

Mobilization value is computed for each aircraft based upon the aircraft's speed, and payload capabilities (12:M-6). For example, if a carrier's committed aircraft represented 25 percent of the total mobilization value for all aircraft committed to the narrow-body cargo category, then that carrier would be entitled to 25 percent of the international narrow-body cargo business (12:M-6-8). The mobilization value for each carrier is determined and updated monthly by the Assistant for Civil Air (XPW), DCS Plans.

Payments and Rate Determination. Payment is based upon a rate per mile multiplied by the number of trip miles multiplied by the degree of utilization of the aircraft (12:B-227). If the entire aircraft is chartered by the government, then the payment is based upon the aircraft's allowable cabin load (ACL). If only part of the aircraft's ACL is used during a regularly scheduled flight, then payment is based on the contracted ACL as stated on the service order. The passenger rate is expressed in a seat per mile basis, and the cargo rate is expressed in a ton per mile basis (12:B-1, B-8). The passenger and cargo rates are determined from airline operating data from the previous year. An economic price adjustment clause is included to adjust for fluctuations in fuel prices during the contract period (12:B-227). Prior to contract award the rates are negotiated by the carriers and the Commercial Airlift

Pricing Branch (LGCOA), Pricing Division, Directorate of Contracting and Acquisition, DCS Logistics. During the life of the three year contract, the rates are renegotiated on an annual basis.

After award, the contracts are administered by the Contract Airlift Management Division, (TRCM) (12:A-3). Full-plane-load passenger and cargo missions are scheduled between the carrier and the Airlift Operations Branch (DOOMA), up to 30 days in advance of operation, within 30 days the missions are scheduled by the 21st or 22nd Air Forces (AFs) (12:F-1). Booking of passengers on regularly scheduled missions is accomplished by the Passenger Reservation Center (TRPR) (61).

Expansion Buys. During contract performance additional airlift is purchased under the expansion clause (Figure 4) (12:B-226). The requirement for additional airlift may originate from the above mentioned sources (DOOMA, TRPR), or the Special Assignment Airlift Mission (SAAM) Requirements Division (TRKS), or the Exercise Management Branch (DOOXX), or the 21st or 22nd AFs. The International Airlift Expansion Branch (TRCAB) is responsible for notifying the carriers and awarding the expansion business (14). Expansion business is awarded on the basis of CRAF commitment and matching the requirement to available aircraft.

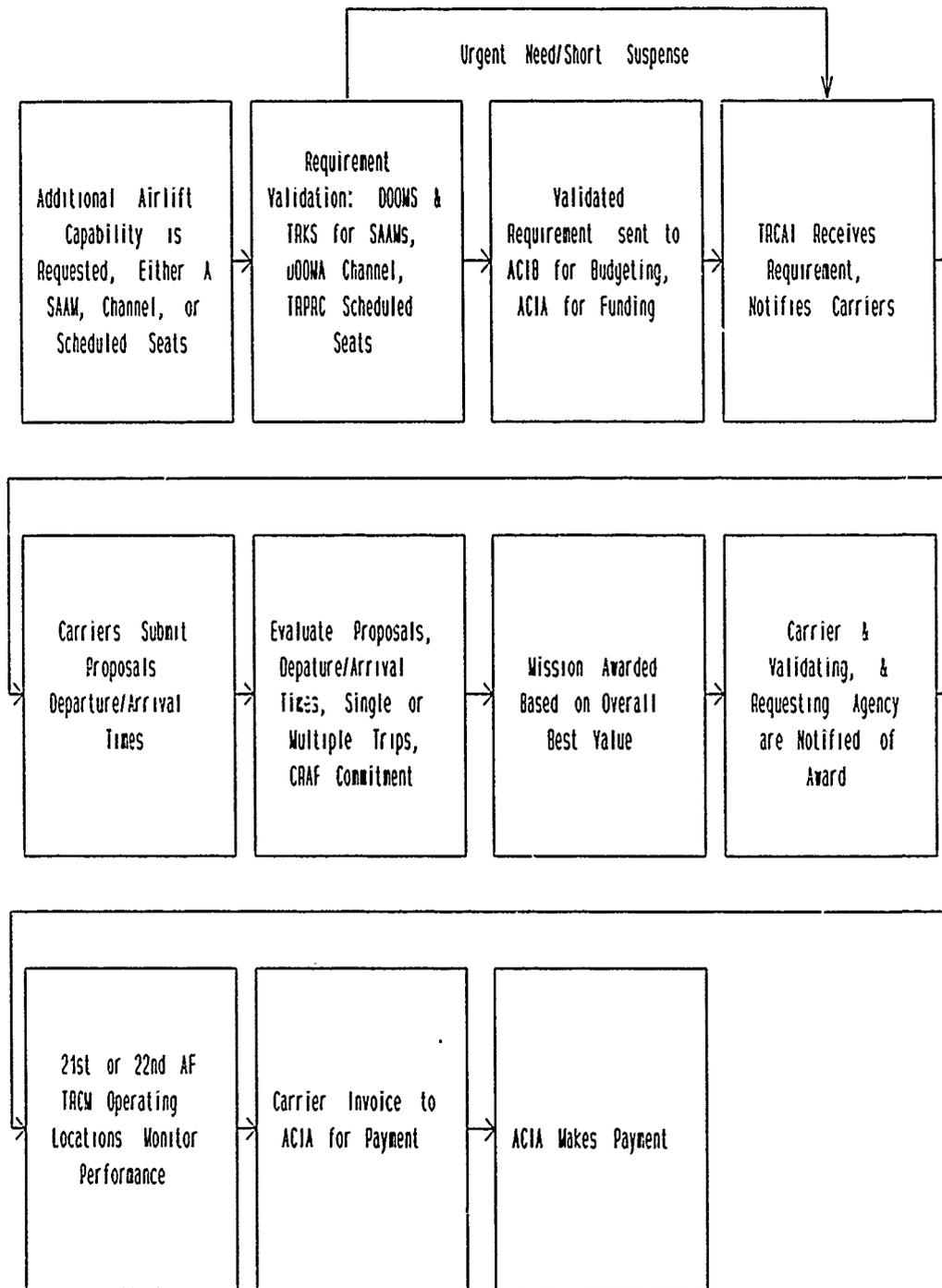


Figure 5. International Airlift Expansion Award Process

Domestic Airlift. With two exceptions, the procurement of domestic airlift (Figure 5) is essentially the same process as the purchasing of international airlift. Domestic airlift differs from international airlift in two major aspects. First, the contracts are awarded on a competitive basis, price and other factors considered (32). The carrier that submits the lowest offer and is technically and financially capable is awarded the contract (32). However there are two exceptions, the contracts awarded to fly domestic logistical support, known as LOGAIR and QUICKTRANS, undergo the same rate-making process as do the international contracts (31). Second, the requirements for domestic service do not go through another office within HQ MAC before being sent to the Support Airlift Branch (TRCAS). Instead, the using agency, or user, defines and validates their airlift requirements. The user contacts TRCAS after validating the requirement and securing funding.

TRCAS prepares a solicitation in accordance with the FAR and other applicable regulations (32). The solicitation goes through the same review process as does the international contracts. The proposed procurement is advertised in the Commerce Business Daily and the RFP is issued to anyone requesting a copy (32). The carriers submit offers, which as noted before are evaluated on the basis of price, and technical and financial capability. TRCAS evaluates the offers, and the proposed contract is

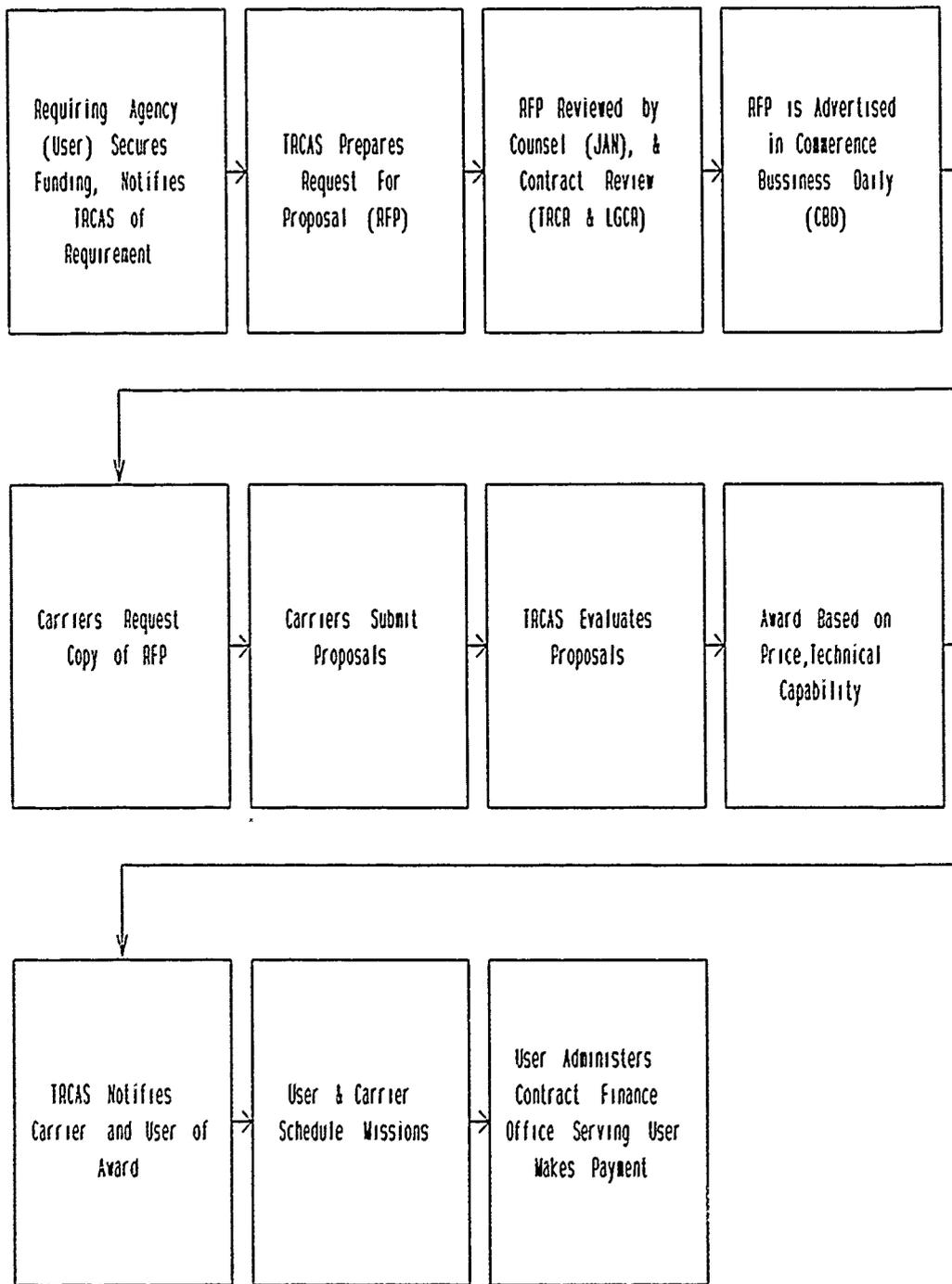


Figure 6. Domestic Airlift Contracting Process

reviewed again as in the international contracts. After the proposed contract has been approved, TRCAS awards the contract. Upon award, TRCAS delegates contract administration and mission scheduling to the user. Except in the event of a termination for convenience or default, TRCAS will not normally interact with the user until it is time to closeout the contract (31).

#### Contracting Process for Military Sealift Command

The Military Sealift Command procures three types of common user transportation services using three different contracting processes. First is the procurement of commercial firms to operate government owned vessels, called "operating contracts." Second is chartering of commercial vessels to move government cargo. Third are "liner agreements" with commercial operators to move government cargo on scheduled commercial voyages.

Contracting Process for Operating Contracts. Operating contracts engage a contractor to operate and maintain a government owned vessel (50:5; 74). During the five year period of the contract MSC directs all cargo related matters, and ports of loading and discharge (75).

Requirements Definition. The procurement process for operating contracts, (Figure 6), starts eighteen months prior to the completion of the current contract with preparation of the performance work statement (75). The performance work statement describes the services the

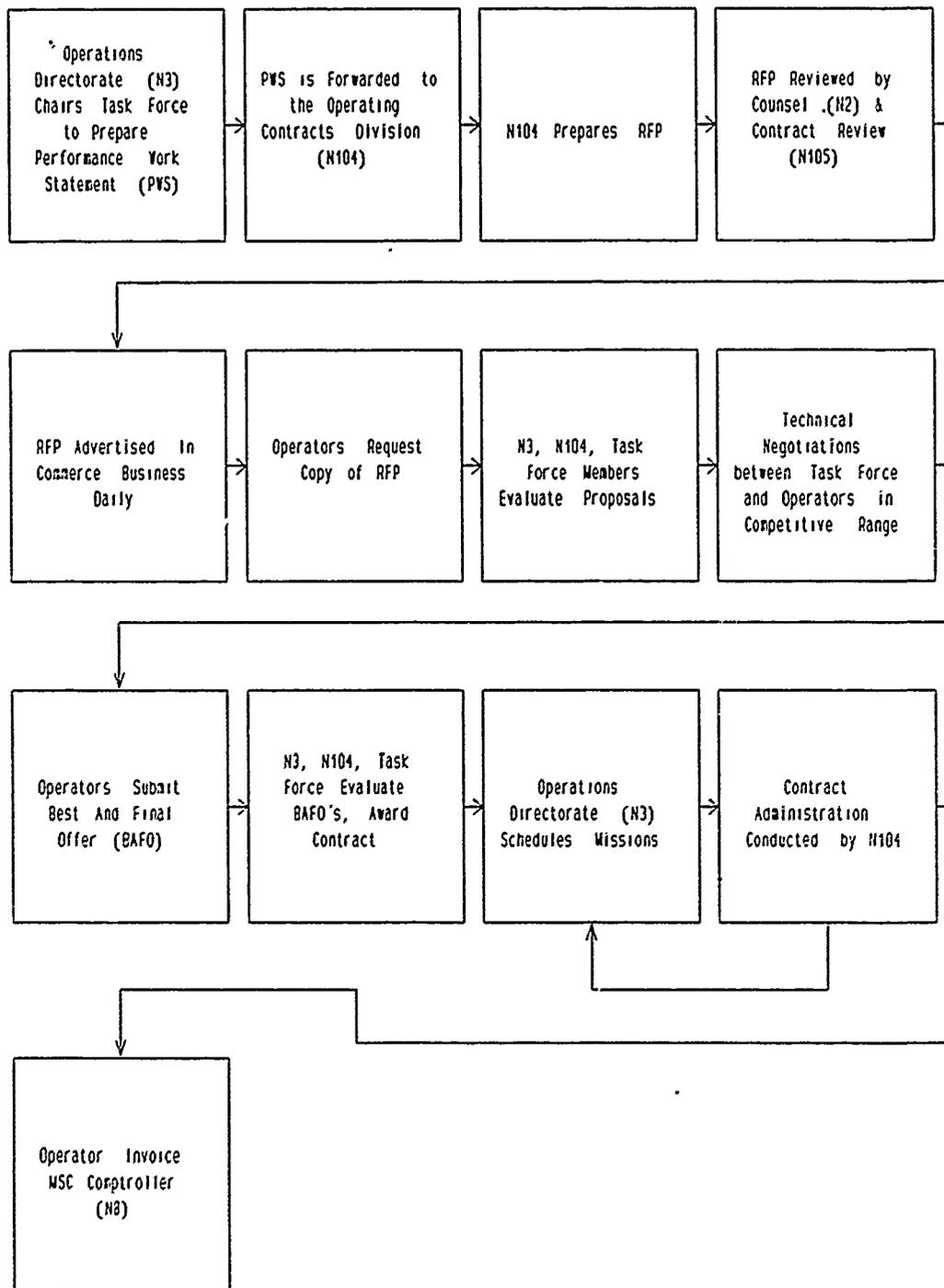


Figure 7. Operating Contracts Contracting Process

contractor is expected to provide in technical terms. The Operations Directorate (N3) is responsible for reviewing and updating the performance work statement (75). A task group comprised of Operations, Engineering, Supply, Medical, Personnel, and Safety is formed to insure the performance work statement is current and accurate in all areas of vessel operations (75).

The completed performance work statement and a purchase request is forwarded to the Operating Contracts Division (N104), Contracts and Business Management Directorate. The Operating Contracts Division prepares a Request for Proposal (RFP) by incorporating the performance work statement with the clauses required by the FAR, DOD FAR Supplement and Navy Acquisition Procedures into a single document (50:6-7). The RFP is reviewed by counsel to insure legal sufficiency.

In accordance with the FAR, a synopsis of the RFP is advertised in the Commerce Business Daily for thirty days prior to release. The RFP is distributed to all operators who request a copy or have requested to be placed on a mailing list (75). The offering operators submit proposals to N104, the Operating Contracts Division for evaluation. The evaluations are conducted by N3, the Operations Directorate with the assistance of those offices that participated in preparing the RFP (75).

Negotiations are conducted by N104, the Operating Contracts Division with members of the evaluation team

participating (75). In accordance with the FAR, negotiations are held with all offerers whose proposal is in the competitive range (75). The purpose of negotiations is to allow each party a chance to clarify their interpretations of contract provisions and the service to be provided. At the end of negotiations, the contracting officer requests each offerer submit a Best and Final Offer (BAFO) (75). The evaluation team reviews the BAFOs and a contract is awarded to the offeror that provides the best value to the government (75). Best value is determined by analysis of the technical and pricing aspects of each proposal by the task group (74). The FAR defines "technical analysis" as:

the examination and evaluation by personnel having specialized knowledge, skills, experience or capability in engineering, science, or management of proposed quantities and kinds of materials, labor, processes, special tooling, facilities, and associated factors set forth in a proposal in order to determine and report on the need for and reasonableness of the proposed resources assuming reasonable economy and efficiency. (25:15.801)

During the five year period of the contract, performance is monitored by MSC area commands. Contract administration is conducted by N104, the Operating Contracts Division. Payment is made from the Navy Industrial Fund. An operation normally submits an invoice and receives payment every two weeks (75).

Contracting Process for Chartering Contracts. The Chartering Division (N101) is responsible for contracting "for the charter of all tankers, dry-cargo vessels, special

projects ships, and ocean tows and transportation systems," and for "the transportation of bulk petroleum products in full or partial shipload lots" (50:2). To accomplish this mission the chartering division "is divided into the Tanker and Dry Cargo Branches" (50:2). Three types of contracts are awarded by both the tanker and dry cargo branches; Time Charters, Voyage Charters, and Contracts of Affreightment. Under all charter agreements, the contractor is responsible for "managing and navigating the vessel" while MSC controls the "ports of loading and discharge, cargo carried, and related matters" (50:18).

Time Charters are charters for a vessel and crew for a specific period of time. During this period of time, "the vessel may be required to make as many voyages as can be completed" (50:18). Time Charters may be in effect for various periods of time (26).

Voyage Charters are charters for a vessel and crew for a single trip, port-to-port, or for consecutive trips (27).

Contracts of Affreightment are used when a requirement for a vessel and crew within a specific geographical area is forecasted to recur over a period of time (27, 50:28). For example, the requirement may happen twice a month over a period of six months to a year, or even longer.

The general procurement process for charters is similar for each type of contract and is shown in Figure 7.

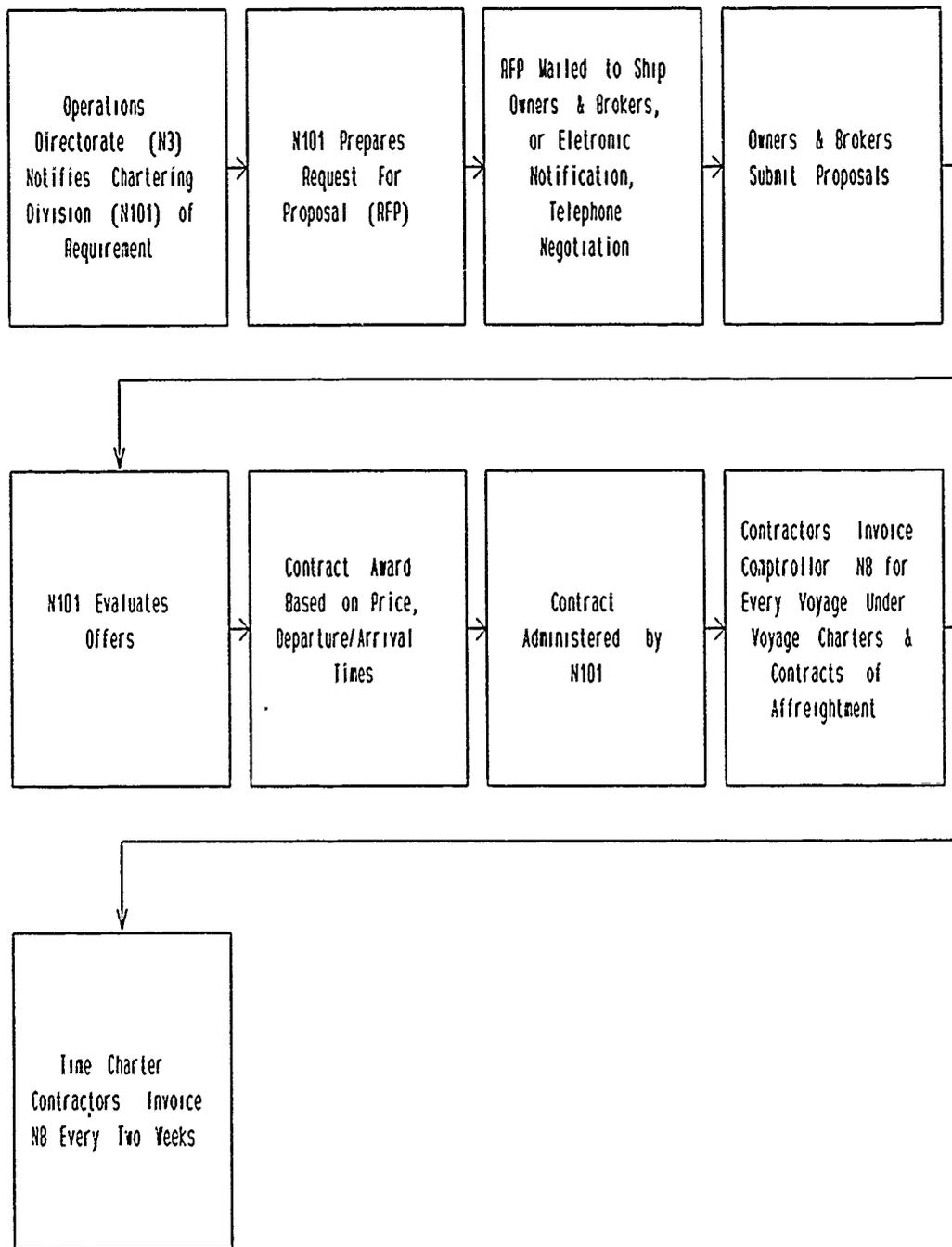


Figure 8. Chartering Agreements Contracting Process

Requirements Definition. The Operations

Directorate (N3) notifies the Chartering Division (N101) of the need to charter a vessel or of a continuing need for a vessel. Depending upon the type of cargo either the Tanker Branch or the Dry Cargo Branch prepares an request for proposal (RFP) in accordance with the FAR and supplemental regulations (50:2, 6-7). If sufficient time is available, the RFP is advertised in the Commerce Business Daily. However, due to the usually short response time to satisfy the requirement, a waiver to the advertising required by the FAR has been obtained. Instead, the responsible branch will issue the RFP to all ship owners and brokers on the MSC bidders list (50:11). A ship owners or brokers request is all that is necessary to be placed on the bidders list.

If sufficient lead time exists then the RFP is mailed to interested parties. However, "in the procurement of voyage charters there is often little lead time available" (50:12). In this event, ship owners and brokers are notified by electronic mail and negotiations are conducted by telephone (50:12).

By using a standard contract format, electronic notification, and telephone negotiations, and the existence of an urgent and compelling need and/or only one available source to satisfy time constraints, it is possible to issue an RFP and award a contract in the same day (27).

Upon conclusion of negotiations and contract award, (in commercial terms) the vessel is fixed with a confirming

wire, known as a fixture message, sent to the owner or his or her broker. This message sets forth the salient points agreed to upon negotiations. (50:12)

A formal agreement is then prepared by the contract specialist and goes through a legal review (27). After review comments or questions are answered, the agreement is signed by or on behalf of the owner, and by the contracting officer.

Contract award of charter agreements is normally made on the basis of price, provided the proposal is technically acceptable and the contractor can satisfy the time requirements for movement (27). However, agreements sometimes are awarded on the basis of a price and technical analysis of the offerors capability to perform (27).

Contract administration is conducted within Headquarters MSC by N101, the Chartering Division (27). Performance normally is monitored by the MSC area commands; however, Headquarters MSC monitors the performance of tanker and other special interest charters (26). Contractors may invoice for each voyage under contracts of affreightment and voyage charters (27). Invoices may be submitted every two weeks under time charters (27). Payment is made from the Navy Industrial Fund.

Contracting Process for Liner Agreements. The Liner Agreements Division (N102) is responsible for the procurement of less than shipload lots of "commercial ocean and intermodal transportation of DOD cargo worldwide" with

liner operators (50:4). Liner operators are commercial firms that sell scheduled transportation services over established trade routes on a first-come, first-serve basis (50:13).

A Liner Agreement is similar to a basic ordering agreement, or a tender of service agreement, in that the agreement specifies the rates that will be charged in the event business is awarded to the operator. Figure 8 shows the contracting process for Liner Agreements.

Requirements Definition. The Directorate of International Traffic (MTMC-IT) of the Military Traffic Management Command holds conferences with representatives of the military services and N102, the Liner Agreements Division, to review the current contract; to listen to suggested changes to improve performance; and to receive service requirements for liner transportation service (50:17). In addition, N102, the Liner Agreements Division, and MTMC-IT holds conferences with the liner operators to obtain their recommendations for change (50:17). Based on these comments, MTMC forwards the requirements as a purchase request to N102, the Liner Agreements Division for action.

N102, the Liner Agreements Division prepares an RFP based on the routes and expected cargo to be moved (47). A synopsis of the RFP is advertised in the Commerce Business Daily. The RFP is reviewed by counsel for legal sufficiency in accordance with the FAR (47). The finished document is

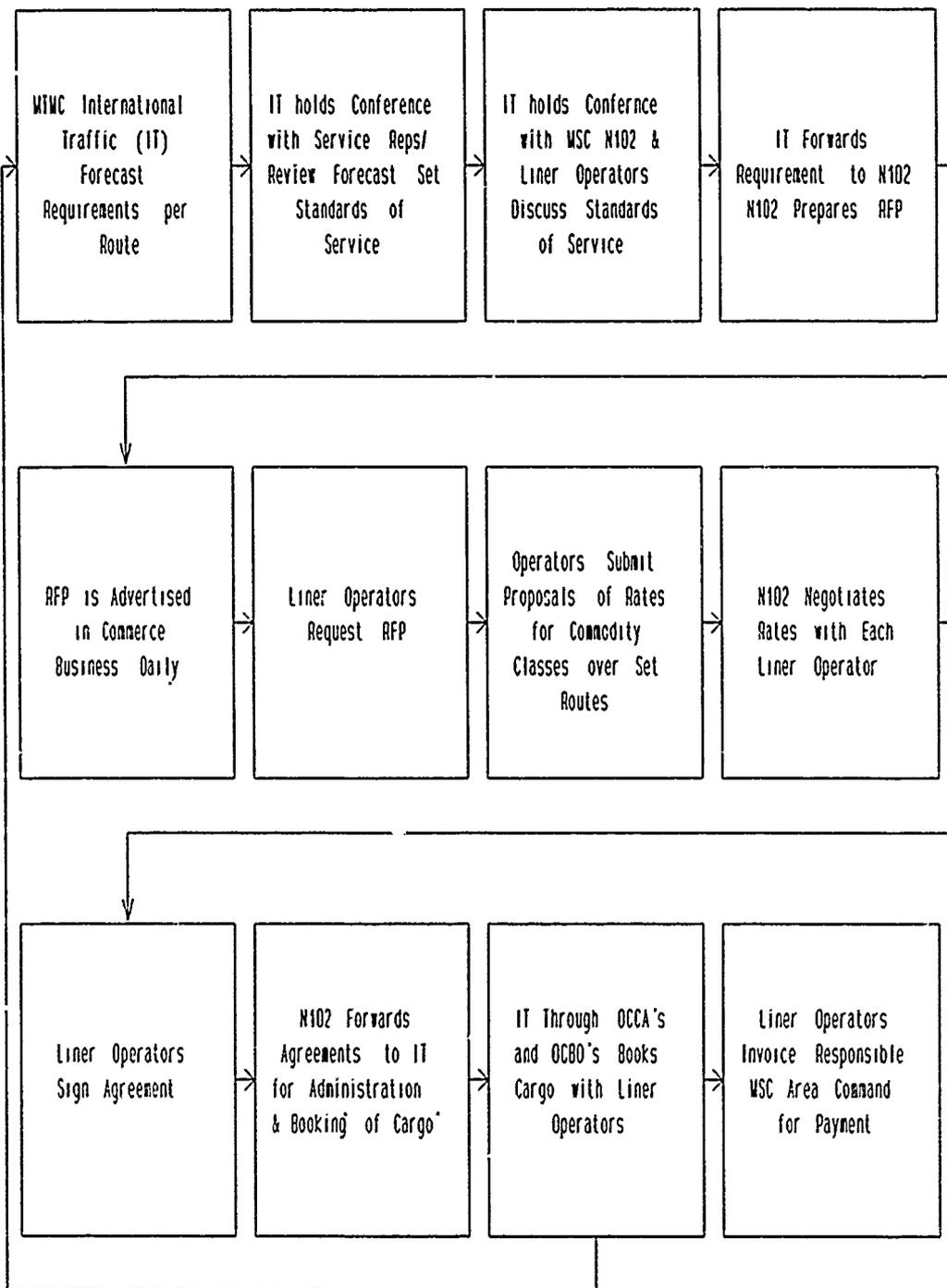


Figure 9. Liner Agreements Contracting Process

sent to interested offerors, those liner operators having requested a copy of the RFP (50:17).

The purpose of the RFP is to solicit rates "for general classes of cargo along with specific commodity rates on numerous routes" (50:17). Initial offers are received and evaluated by MSC, then negotiations are conducted with each offeror to establish a best rate for each route and commodity (50:17-18).

Upon the conclusion of negotiations, the offerors submit a "Best and Final Offer" (50:18). The final rates offered for each operator are listed in an agreement (50:18). The agreement then is turned over to MTMC-IT, the Directorate of International Traffic, for contract administration and the booking of cargo (50:14, 18). Liner Agreements remain in effect for a period of six months (47).

MTMC, through 13 worldwide offices know as Ocean Cargo Clearance Authorities (OCCA) or Ocean Cargo Booking Offices (OCBO), awards business to the liner operators (23). Business is awarded to or "booked" with the liner operator who has the lowest rate and available space over a needed route (23). If the operator with the lowest rate does not have available space, then the cargo is booked to the next lowest operator (23). The OCCA or the OCBO may book the cargo under a commercial tariff, if the commercial tariff is lower than the rate stated in the agreement (23).

When a liner operator accepts cargo under a liner agreement, the operator receives an ocean cargo manifest from the OCCA or OCBO (23). One copy of the ocean cargo manifest is sent from the manifesting activity to the responsible MSC area command (23; 47). If the cargo is accepted under a commercial ocean tariff, the operator will receive a Government Bill of Lading (GBL) from the OCCA or the OCBO (23). An invoice, (or an invoice and a copy of the GBL), are submitted to the responsible MSC area command for payment (23). Liner operators are paid from the Navy Industrial Fund (47).

The Contracting Processes of the Military Traffic Management Command.

As specified in DOD Directive 5160.53 and the Defense Traffic Management Regulation, the commander of MTMC is responsible for traffic management within the CONUS, and the operation of common user ocean terminals. Traffic management includes:

- the direction, control, and supervision of all functions incident to the effective and economical procurement and use of--
- a. Freight and passenger transportation services from commercial for-hire transportation companies, including rail, highway, air, pipeline, inland waterway, coastal, and intercoastal carriers. (18:9).

To accomplish this mission MTMC establishes, reviews, and modifies freight and passenger movement procedures used by individual Installation Transportation Officers (ITOs) and procures group passenger travel and volume freight

movements for all services (18:9). As stated in the scope and limitations portions of chapter one, this paper will not examine how ITOs satisfy local requirements. This portion of the paper will describe under what conditions a requirement is forwarded to MTMC for procurement, and under what conditions ITOs forward requirements to MTMC area commands for procurement. The ITOs forward information on local moves every month to assist in the rate making processes.

The movement of passengers is accomplished under a transportation agreement and a tender of service; the movement of freight is accomplished under a tender of service (69). MTMC uses procedures similar to those developed by commercial practices under the provisions of the Interstate Commerce Commission (ICC) to procure transportation services (70). MTMC does not use FAR procedures, but those developed by ICC policies and regulations (73, 70). A transportation agreement is similar to a basic ordering agreement (BOA) in that both specify the standards of service, however under a basic ordering agreement the rates or charges may be specified in advance. Whereas, a transportation agreement does not specify rates, except when the agreement is for traffic between two predetermined points.

There are several differences between a transportation agreement and a tender of service. One difference is that

the government drafts the agreement specifying standards of service without specification of rates, while a carrier submits the tender of service which "stipulates charges and rules applicable to official military traffic" (18:110). Also, a copy of each transportation agreement is distributed by MTMC to each local transportation office responsible for ordering service, while the carrier distributes the MTMC approved tender of service to only those offices it desires (18:110; 69). Another difference of the transportation agreement and a tender of service, is that the agreement remains in effect until cancelled in writing by either party, while a tender of service is good for a specific period of time. A similarity between an agreement and a tender is that the carrier specifies what type of service it is capable of providing. To be eligible for DOD traffic, a carrier must file either a transportation agreement to move passenger, or a tender of service to move cargo with MTMC (4; 69).

When obtaining transportation services, MTMC and the ITO are required to obtain the service at the lowest overall cost considering price, consolidating cargo and:

the extent to which expedited movement will contribute to economies through reductions in--

- (1) Pipeline or stored supplies.
- (2) Shipment preparation costs.
- (3) Cargo loss and damage.
- (4) Cost of transportation space procured for the DOD by the Transportation Operating Agencies.

(18:9)

The contracting process for group passenger movement will be examined first, then the process for volume freight movement.

CONUS Group Passenger Movements. The agreements for air, bus, and rail service are prepared and negotiated by the Agreements and Negotiations Branch (PTS-N), Passenger Services Division (PTS), Directorate of Passenger Traffic (PT). The agreements for air and bus formally are known as either a Military Air Transportation Agreement or a Military Bus Agreement. These agreements are not formally advertised (4). Because of the approval processes for air and bus carriers, notices of the agreements are spread by ITOs (4). When an ITO has a transportation requirement to be satisfied and has identified a potential carrier, the ITO can request PTS to forward an agreement to the carrier. If the carrier is willing to sign the agreement, then the approval process starts. Air carriers must be approved by the DOD Air Carrier Analysis and Survey Office to receive DOD business. Bus Carriers must be approved by the Quality Assurance Branch (PTS-P), Passenger Services Division, Directorate of Passenger Traffic, MTMC (4).

All "group" passenger moves awarded by HQ MTMC, are offered to air, bus or rail carriers having a signed agreement on file. The Passenger Traffic Operations Division (PTO) is responsible for acquiring "group"

passenger transportation services within the CONUS, and passenger bus transportation into Canada (72).

If any one of three conditions of a "group" are met then the local transportation officer notifies MTMC, and PTO contracts for the service. A "group move" occurs when any one of the three following conditions are met: (1) when twenty-one or more passengers are traveling a one-way distance over 450 miles by any mode, (2) when twenty-one or more passengers are traveling 450 miles or less by scheduled air, or (3) when any number of passengers are traveling 450 miles or less by charter air (18:115; 51). If none of the three conditions are met then the ITO is responsible for satisfying the transportation requirement, unless the requirement is for air transportation with a duration exceeding 90 days, in which case the Military Airlift Command is responsible. A carrier can be awarded non-group business under a tender of service. However, the carrier must file the tender with the local transportation officer and PTS (4). PTS uses the rate information in the negotiations of similar services (4).

Requirements Definition. After a unit or organization identifies the need for movement, the unit notifies the serving Installation Traffic Office (ITO) (73). The ITO then forwards group movement requests to the Passenger Operations Division (PTO) (72). The request may be forwarded by electronic data link, telephone, message,

fax, or mail (73). The information included in the request is: requesting organization, point of contact, telephone number, number of passengers, amount of baggage and impedimenta, origin, earliest available departure time, destination, latest acceptable arrival time, and special requirements (i.e., meals, mode) (51; 72). If official equipment or "impedimenta" is to accompany the unit, information is collected concerning the number, weight, cubic volume of the pieces, and the dimensions of the largest piece (51).

Upon receipt of the information (Figure 9), PTO prepares a request for service and notifies all carriers or their representative by fax or by telephone if time requires (73). The carriers submit a bid, called a Rate and Service Proposal, which contains departure and arrival locations and times, price per passenger, impedimenta, meals, total price, and any restrictions (73). Then the Rate and Service Proposal is evaluated and the requirement awarded to the carrier that offers the best service at the lowest overall total cost and satisfies the mission requirements (72).

PTO may split the award between different modes of travel, if doing so is the most logical and economical method of transporting a group (73). For example, consider a group of thirty new privates is being transferred from basic training at Fort Leonard Wood, MO, to an infantry division at Fort Lewis, WA. PTO would prepare a request for

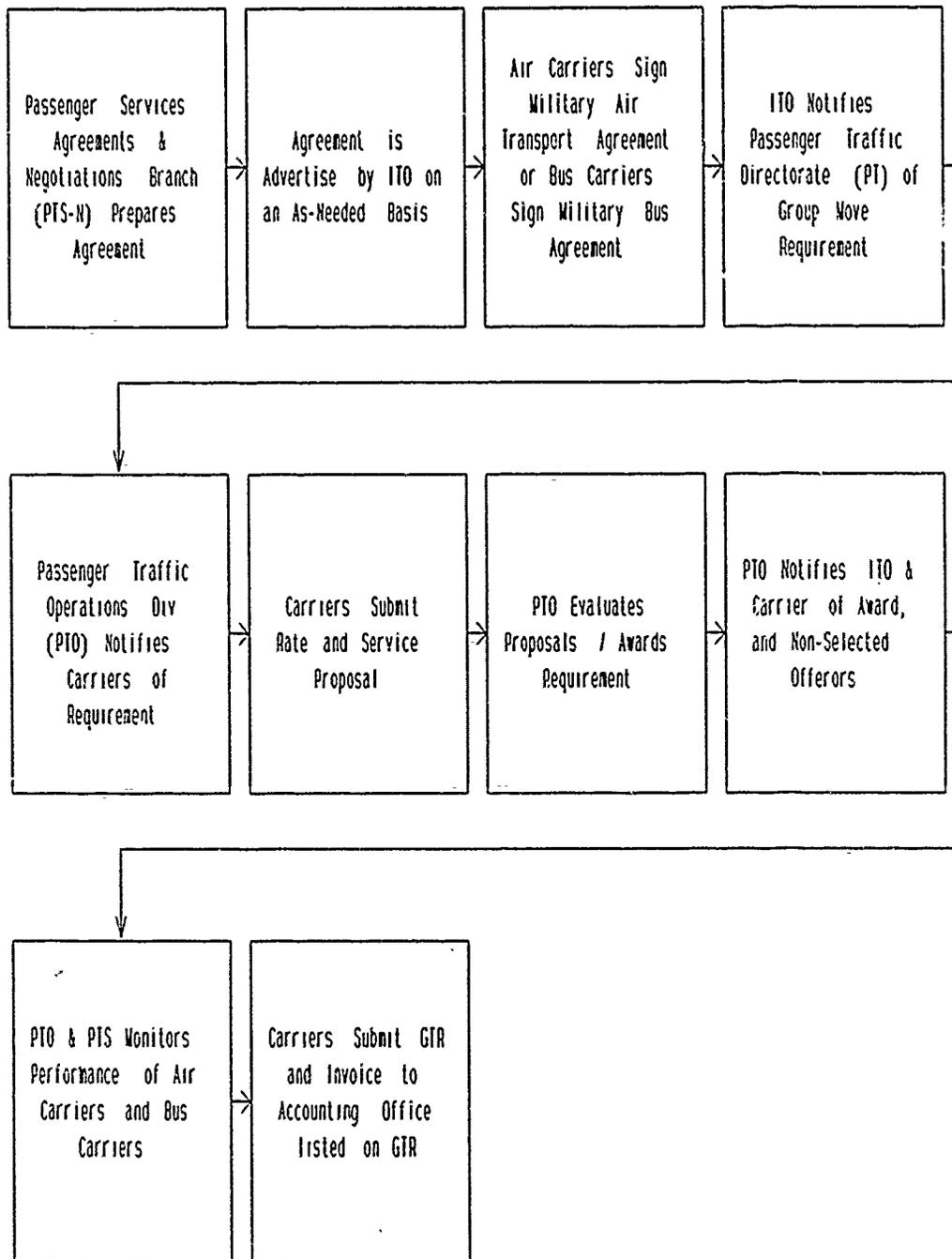


Figure 10. Group Passenger Procurement Process

service and notify all carriers of all modes (72). If air transportation between St. Louis, MO, and Seattle, WA, was selected as the most cost effective mode, PTO would then issue additional requests for service between Fort Leonard Wood and St. Louis, and between Seattle and Fort Lewis (72).

Upon acceptance or delivery of passenger traffic, the air, bus, or rail carrier receives an Standard Form 1169, U.S. Government Transportation Request (GTR) (18:117, 118). The GTR contains the address of the responsible accounting and finance office, the actual number of travelers and baggage, and other pertinent information (18:126). To receive payment for services, the carrier submits the GTR and an invoice to the accounting and finance office listed on the GTR (72).

#### CONUS Volume Freight Movements

The Directorate of Inland Traffic (IN) of MTMC is responsible for negotiating domestic rail and truck volume movements, and negotiating/monitoring tender rates offered for rail, truck, pipeline and domestic water carrier movements.

Requirements Definition. The contracting process for Volume Freight Movements (VFM) (Figure 10), starts when a unit or agency notifies the Negotiations Division (INN), Directorate of Inland Traffic (IN), MTMC, of a requirement. The ITOs serving the defense agencies are required to notify INN of every freight movement where negotiation may result

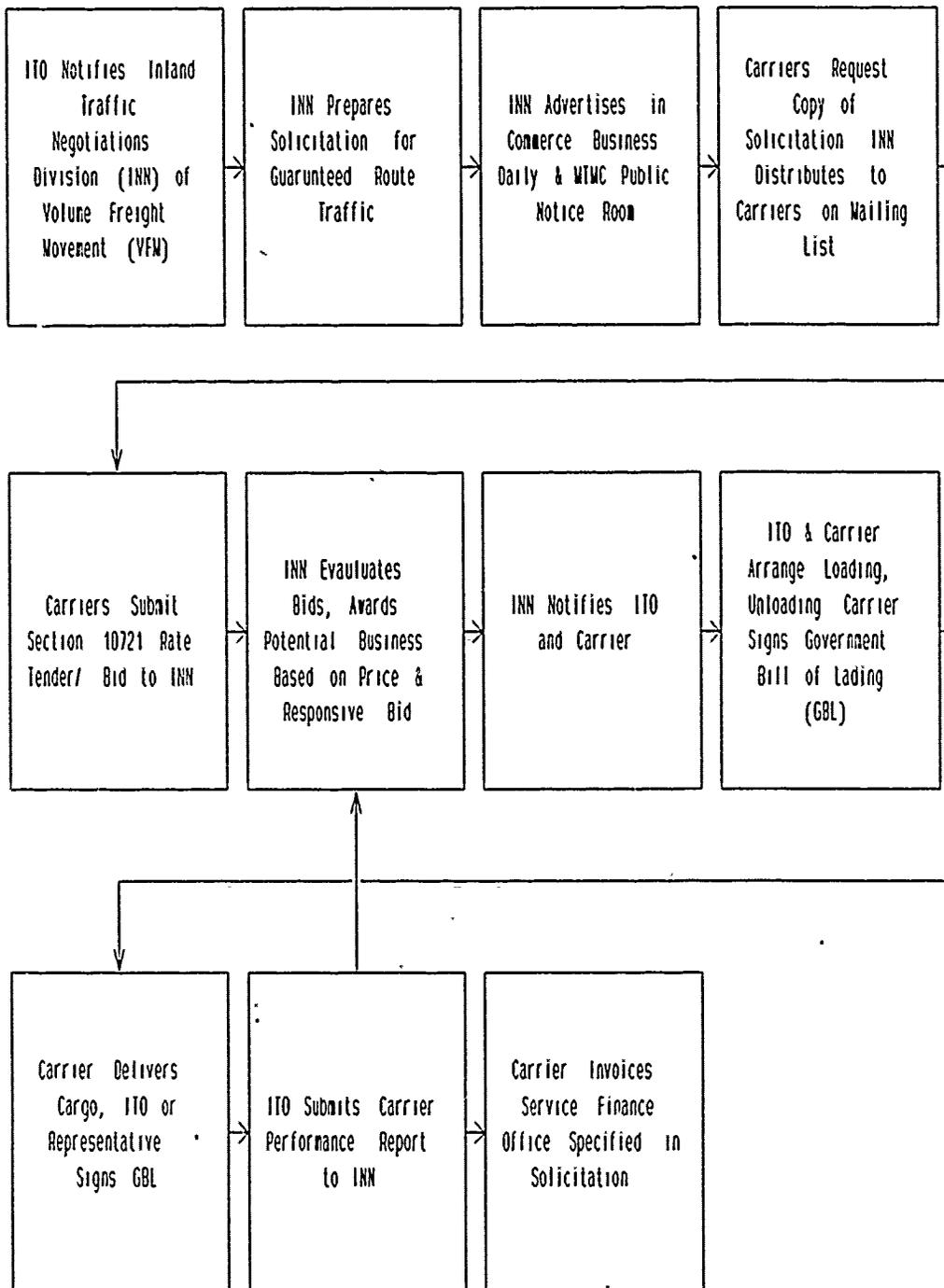


Figure 11. Volume Freight Movement Procurement Process

in a lower rate under 49 U.S.C., Section 10721 and a lower total cost to the government (69). The requirements for notifying INN are:

- (1) A planned volume movement is scheduled to move from origin point to one or more destinations, for which the transportation charges are to be paid by the Government. Regardless of the amount of time between first and last consignments in the volume movement.
  - (2) It is estimated that shipments from one origin to a single destination will total 500,000 pounds or more within one year.
  - (3) Repetitive shipments will originate at or are destined to a point with rail disability or inadequate motor service. Repetitive movements involving the same commodity and identical origin and destination points which have been previously reported, need not be again reported during the same calendar year, or until at least six months have elapsed from the time of the initial report, whichever is latter.
  - (4) The transportation needs of the activity would be better met with trailer-on-flatcar service, or container-on-flatcar service or container service.
  - (5) A movement is not reportable under (1), (2), (3), or (4) above involves carrier serviced or unusual characteristics or circumstances which indicate a need for or possibility of freight rate negotiations.
- (18:126)

A volume movement is defined as:

the aggregate of freight shipments amounting to or exceeding 25 carloads, 25 truckloads, 500,000 pounds, to move during the contract period from one origin point for delivery to one destination point or area.  
(25:42.1402(a))

Within INN, the requirement is processed by one of three divisions based on the services required. The three branches are (1) the General Commodity Negotiations Branch (INN-R), (2) the Special Services Negotiations Branch (INN-S), and (3) the Special Commodity Negotiations Branch (INN-C) (70). While the process within each branch is essentially the same, separating the requirements by

commodity allows MTMC to develop and apply expertise in negotiating for a type of service (70). The basic process is as follows.

INN is notified of a VFM requirement. A branch within INN (here after referred to as INN) reviews the requirement to ensure the government only buys the minimum needed to accomplish the mission in a timely manner (70). INN notifies the carriers on the mailing list of the requirement by a solicitation. The carrier is placed on the mailing list by notifying INN of their willingness to do government business. The solicitation specifies the type and the performance level of services required, and invites carriers to bid by submitting rate tenders (70). Carriers have approximately thirty days in which to submit a bid.

After the bid closing date, INN evaluates the offers based on lowest overall cost, i.e., price, departure time, arrival time, point of departure/delivery, and past performance of the carriers (70). Based on this evaluation INN awards the requirement to a carrier. INN then notifies the carrier and the user of the award. The user is notified by a Directed Route Order (DRO) (18:26-32).

The DRO contains information of the rate, the carrier and how to contact the carrier. The user and the carrier coordinate the actual performance of the services. An actual contract or legally binding agreement is not formed until the carrier accepts the cargo and signs the Government

Bill of Lading (70). However, failure to accept an awarded mission may result in the carrier being prevented from receiving future business (70).

Upon completion of the movement, the carrier then invoices the services accounting and finance center for remuneration. If the service is performed for the Army, Air Force, or a DOD agency, then the carriers submit the invoice to the Army's accounting center. If the service is performed for the Navy or Marine Corps, then the carrier invoices the respective accounting center.

The user notifies INN of the carriers performance so that MTMC may include that information during the evaluation phase of the next requirement (70). Tender files are maintained on each commodity to allow INN to evaluate the reasonableness of offered rates (70). INN also has developed disqualification procedures where a carrier may lose the privilege of bidding and receiving government business based on poor performance (70).

### Summary

There are a wide variety of contracting processes used to obtain transportation services. This chapter examined the procedures used by the transportation component command and provided a description and flow chart for the following types of transportation service: international air for passenger and cargo, domestic air for passenger and cargo, operating contracts, chartering contracts, liner agreements,

group passenger moves, and volume freight movements. Using these descriptions and flow charts, Chapter 5 presents an analysis of the similarities and differences in the processes. Also included in Chapter 5 are the possible benefits and problems of consolidating, the tasks involved in consolidating, and conclusions regarding the feasibility of consolidating contracting functions for transportation service into a single office.

## V. Analysis and Conclusions

### Introduction

As stated in Chapter 1, the purpose of this study was to determine the feasibility of consolidating the contracting of transportation services into a single transportation contracting office. To make this determination, this study examined the similarities and differences of the current procurement processes used by each component command; identified the potential impacts of consolidating the contracting of transportation services; and enumerated the essential elements of a consolidation plan.

This chapter uses the descriptions and flow charts of transportation contracting processes presented in the previous chapter to perform a comparative analysis of different phases of the procurement processes for transportation services. Then the literature review is analyzed to respond to the research questions on the potential impact of consolidating contracting offices, and to identify the essential elements of a consolidation plan.

This study focused on the pre-award contracting activities, i.e., the tasks the contracting office accomplishes to obtain transportation services once a requirement for service has been identified, or in some cases, the tasks accomplished in anticipation of a requirement for service. This study did not focus on

defining or forecasting requirements except to identify the possible offices that submit requirements to the contracting office. Also, this study only identified who is responsible for contract administration, not the procedures and systems used to perform contract administration.

#### Similarities and Differences of the Contracting Processes

Seven different categories of transportation service were examined in chapter four. They were international airlift, domestic airlift, operating contracts for government vessels, charter agreements for commercial vessels, liner agreements, group passenger movements, and volume freight movements. The similarities and differences for obtaining these types of services was determined by examining each procurement process as it goes through six readily identifiable phases of the process. As this study examines the feasibility of consolidating contracting offices, each phase of the procurement process will be examined in terms of how it affects the different contracting offices. These phases are: 1) requirement notification, 2) solicitation preparation, 3) advertising and notification procedures, 4) evaluation and award criteria, and 5) contract administration and payment offices.

In the requirement notification phase, the relationship between the requesting activity and the contracting office will be examined in terms of the number of agencies

submitting requirements and location. Solicitation preparation will compare the procedures the contracting offices follow (FAR or non-FAR), and the type of contractual commitment made upon signing the contract or agreement.

Advertising procedures examine how new suppliers are sought; and notification examines how current suppliers are informed of new requirements under the existing contracts or agreements. The comparison of award evaluation criteria notes the similarities and differences on how offeror proposals are evaluated. The contract administration and payment office comparison examines the relationship between the procuring contracting office and the administrative contracting office, and between the procuring contracting office and the accounting and finance office responsible for reimbursing the contractors for services performed.

For ease of reading office symbols will be used in the discussion. To review, a list of the contracting offices and the services they purchase are provided below:

MAC/TRCAI	International Air for Passenger and Cargo
MAC/TRCAS	Domestic Air for Passenger and Cargo
MSC/N104	Operating Contracts
MSC/N101	Chartering Contracts
MSC/N102	Liner Agreements
MTMC-PTO	CONUS Group Passenger Moves
MTMC-INN	Volume Freight Movements

Requirements Identification. The contracting offices may be distinguished by the number of different offices that submit requirements. In some instances the contracting office is contacted directly by the requiring agency, as in

the case of MAC/TRCAS, MTMC-PTO, and MTMC-INN. In the other cases, requirements for transportation services flow through a single point of contact to the contracting office. This single office is collocated within the current operations directorate for MAC/TRCAI, MSC/N104, MSC/N101. For MSC/N102 the requirements office is MTMC-IT, the Directorate of International Traffic.

Solicitation Preparation Procedures. With the exception of group passenger moves and volume freight movements purchased by MTMC-PTO and MTMC-INN respectively, the Federal Acquisition Regulation (FAR) governs the procurement of transportation services. The two exceptions operate under the rules of the Interstate Commerce Commission.

There are two types of contractual commitments entered into between the government and the contractors upon signing the contract or agreement. One type is where a legally binding agreement to perform or pay for service for a specific period of time is entered into by the parties. MAC/TRCAI, MAC/TRCAS, MSC/N104, and MSC/N101 enter into this type of agreement. The second type is a pre-qualification agreement which specifies the terms and conditions to be followed in the event business is tendered and accepted. Upon acceptance of passengers or cargo a legally binding agreement is formed. MSC/N102, MTMC-PTO, and MTMC-INN use this type of agreement.

Advertising/Notification Procedures. The Commerce Business Daily (CBD) was used to advertise potential contractual actions for all types of service except group passenger moves purchased by MTMC-PTO. Because of the qualification procedures required of air and bus carriers, the carriers are sent a transportation agreement only at the request of the Installation Traffic Officer (ITO). It should be noted here that MTMC-PTS, the Passenger Service Division, is responsible for preparing the transportation agreements. However, MTMC-PTO notifies all carriers with an agreement on file of a new requirement for service.

MAC/TRCAB notifies the carriers with CRAF contracts of a new requirement for service during the contract period. MTMC-INN notifies all carriers with an tender of service on file on new requirements. MTMC-IT notifies all liner operators with an agreement of new requirements. MAC/TRCAS, MSC/N104, and MSC/N102, handle new requirements for service as a new contractual action.

Award Evaluation Criteria. All transportation services are purchased with the intent to obtain the best value for the government. To reach this objective, price and other factors are considered, and in some instances a technical analysis of the offerors capability to perform is conducted. A task force conducts a technical analysis during the evaluation of operating contracts and some charter agreements awarded by MSC/N104 and MSC/N102. All air

carriers must be analyzed and approved by the DOD Air Carrier Survey and Analysis Office prior to moving DOD passengers and cargo. Bus carriers are approved by the Quality Assurance Branch (MTMC-PTS-P) of the Passenger Service Division. The international airlift contracts are awarded under the Civil Reserve Air Fleet (CRAF) program and the air carriers are awarded business based upon their commitment to the CRAF.

Administration and Payment Offices. Contract administration responsibilities may be retained by the procuring office, fully or partially delegated within or outside of the organization. Unless otherwise noted, the full delegation of contract administration duties is implied.

Contract administration of the international airlift contracts are delegated within the organization to the Contract Airlift Management Division (TRCM). Domestic airlift contracts are partially delegated to the requiring or using agency. The Passenger Traffic Division, MTMC-PTO, retains administration responsibilities for passenger missions awarded under a military transport agreement. MTMC-INN, MSC/N104, and MSC/N102 retain contract administration responsibilities for volume freight moves, operating contracts and charter agreements respectively. MSC/N101 delegates contract administration to the International Traffic Directorate of MTMC (MTMC-IT).

The relationship between the procuring contracting office and the accounting and finance office also varies based upon the type of service purchased. Payment for the services purchased by MAC/TRCAI, MSC/N104, MSC/N102, and MSC/N101 is made from the Airlift Service and Navy Industrial Funds respectively. These industrial funds are centrally managed within each of the respective headquarters. The disbursement office for services purchased by MAC/TRCAS, MTMC-PTO, and MTMC-INN is cited in the contract, on the Government Transportation Request, or on the Government Bill of Lading.

Table 5 is a matrix representation of the attributes of procurement process attributes for each of the services purchased. The next section of this chapter identifies possible benefits and problems that may be encountered during a consolidation effort. This section builds on the similarities and differences noted above and in Table 5, and on the literature review on mergers and acquisitions.

#### Potential Impacts of Consolidating Contracting Offices

HQ MAC suggested the following benefits may result from consolidating contracting for transportation services: economies of scale, merging expertise, capitalizes on the strengths of each command, reduced manpower in contract review, policy, and administration (50:1, 2). Other potential benefits proposed by consolidating all airlift purchasing were a single point of contact for DOD, stronger

Table 5.

Similarities and Differences of the Procurement Processes

	MAC		MTMC	
	Intl Airlift TRCAI	Domestic Airlift TRCAS	Group Passenger PTO	Volume Freight INN
Identify Requirements	Single Office  Collocated	Various Offices  Various Locations	Various Offices  Various Locations	Various Offices  Various Locations
Solicitation Preparation Procedures	FAR  Legally Binding Agreement	FAR  Legally Binding Agreement	NON-FAR (MTMC-PTS)  Not Legally Binding Until Acceptance of an Actual Requirement	NON-FAR
Advertising/ Notification Procedures	CBD  Message Telephone	CBD  N/A	Not Formally Advertised  Telephone Fax, Mail	CBD  Mailing List, CBD
Evaluation Award Criteria	Technical Analysis CRAF Commit- ment	Technical Analysis Price Analysis	Technical Analysis Pre-Sign Agreement Price Analysis	Pre-Sign Agreement  Price Analysis
Administra- tion/ Payment Office(s)	Partially Delegated Collocated  Collocated	Partially Delegated to User User's Finance Office	Retained  Listed on GTR	Retained  Listed on GBL

Table 5 (cont).

Similarities and Differences of the Procurement Processes

	MSC		
	Operating Contracts N104	Charter Agreements N101	Liner Agreements N102
Identify Requirements	Single Requirement Agency  Collocated	Single Requirement Agency  Collocated	Single Requirement Agency  Separate Location
Solicitation Preparation Procedures	FAR  Legally Binding Agreement	FPR  Legally Binding Agreement	FAR  No Commitment Until Acceptance
Advertising/Notification Procedures	CBD  N/A	CBD, Fax, Telephone  N/A	CBD  N/A
Evaluation Award Procedures	Technical & Price Analysis	Price & Other Factors Sometimes Technical Analysis	Pre-Signed Agreement  Price Analysis
Administration /Payment Offices	Admin Retained  Collocated	Admin Retained  Collocated	Partially Delegated to MTMC-IT  Collocated

negotiation position, and increased effectiveness when coordinating the transfer of passenger or cargo between domestic and international missions (24:1, 2).

As noted by Porter, economies of scale include tangible and intangible potential benefits (57:323). Tangible benefits result from sharing the cost of value adding activities (57:323). Tangible benefits might include increased effectiveness, reduced manpower requirements, and stronger negotiation position resulting from consolidating all airlift functions together.

Intangible benefits are those that result from the transfer of knowledge or skills between similar value activities (57:350). Because of the variety that exists between the processes and the types of agreements, the potential for intangible benefits may be hard to achieve and should be carefully assessed. Porter posed three questions to accomplish this:

- How similar are the value activities in the business units?
- How important are the value activities involved to competition?
- How significant is the know-how that would be transferred to competitive advantage in the relevant activities? (57:352)

As shown in Table 5, there are two phases of the procurement process where similar activities occur: advertising for new suppliers, and following the procedures of the FAR. Advertising in the CBD is common to all offices except for MTMC-PTO. However, since MTMC-INN operates under

the procedures of the Interstate Commerce Commission, advertising in the CBD is not required. MSC/N101 has a waiver to FAR required advertising in certain instances. While advertising is a necessary phase of the procurement process, the know-how involved is not of significant relevance to purchasing transportation service.

Obtaining service in accordance with the FAR is common to MAC and MSC; however the FAR is supplemented in both cases by service regulations. The fact that the procedures are prescribed by regulation indicate their importance; however, the regulations also provide the same information to both agencies, so the significance of the transfer of knowledge is probably slight.

Consolidating contracting offices would result in a change in departmentation, or work group organization. Based upon this change in organizational groupings, the procedures required to facilitate the flow of information would have to be changed. The amount of change required would vary by office, depending on the degree of interaction between contracting offices and collocated or other offices, and whether or not contract administration is retained or delegated. Contracting offices collocated with requirements offices and that retain part or all of the contract administration responsibilities, MAC/TRCAI, MSC/N104, and MSC/N101, would require the greatest changes in procedures.

Personnel issues are typically a major problem in the consolidation of offices. Concern over job security, loss of status, and possible relocation causes stress and reduces productivity. To counteract rumors, frequent and honest communication from senior leadership is required, with frequency as important as honesty. Methods of communication include town hall meetings, company newsletters, and letters and memorandums. In addition to communication, senior leadership actions establish the environment in which the consolidation occurs. The use of teams with members from each of the affected offices to plan and implement the consolidation will facilitate commitment from the employees involved, and will insure all affected areas are adequately considered. The establishment of a formal mentor program also helps to facilitate communication, enhance innovation, and convey the corporate culture to new employees.

The handling of personnel whose jobs have become eliminated or moved is also a potential problem. If these employees are treated callously, the remaining employees will expect the same commitment from the organization and question if the organization deserves their loyalty. Providing advance notification, early retirements, and career counseling are some ways to minimize the impact of job loss. Relocation expenses and sponsor programs help minimize the impact of relocating.

### Tasks Involved in Consolidation of Offices

There is no single best plan for consolidating activities because of the wide variety of combinations that can occur. Differences in policies, procedures, computer systems, and interaction with other activities all effect the steps necessary for a successful consolidation. However, there are common areas to consider in every consolidation.

Important to undertaking any project is the clarity of the objective. When consolidating offices, an assessment of the current structure and reporting relationships is required to determine the difference between the current system and the objective. Each component of the current structure must be analyzed as to its purpose and how it interacts with other components.

An assessment of the possibility of achieving the objective within the current budget, manpower, and political environment is required. Plans must be made to bridge the gap between the current system and the new system. As with implementing a new information system, the plans must address all areas impacted by the consolidation. These areas include the personnel, the procedures they use and the systems which support the personnel. Also, facility and equipment requirements must be addressed. Plans should address the problems noted above with regard to employee stress and the handling of displaced personnel.

## Conclusions

The purpose of this study was to determine the feasibility of consolidating the contracting offices that procure common-user transportation. Based upon the data presented, total consolidation does not appear feasible.

When the contracting office is viewed in terms of interaction with the rest of the organization, MAC/TRCAI, MSC/N104, and MSC/N102 appear as part of a self-contained organization that obtains and manages the services purchased, i.e., the organization has developed to manage critical interdependencies between the users/requirements offices and the contracting offices.

MAC/TRCAS is a functional unit collocated with MAC/TRCAI which facilitates the transfer of contracting skills as it pertains to buying airlift. Tangible benefits achieved by collocating these offices are the sharing of services of the office that calculates the rates. Intangible benefits achieved are sharing of knowledge of performance specifications, and performance evaluation.

MSC/N102 is part of a self-contained structure that is separated from the requirements office, MTMC-IT, and collocated with MSC/N104, and MSC/N101 which again facilitates the transfer of contracting knowledge and skills. MTMC-PTO, and MTMC-INN are functionally aligned offices based upon the type of service purchased, i.e. group

passenger and volume freight, and both operate in accordance with the Defense Traffic Management Regulation.

Consolidating the contracting offices would not significantly enhance the transfer of skills since the offices buying similar services and using similar procedures are already combined. Consolidating the contracting offices of MAC/TRCAI, MSC/N104, and MSC/N101 would separate the contracting and requirements/operations activities and thereby require new integration mechanisms to replace the interaction that now occurs. The impact on the requirements offices and the paying offices would have to be assessed to determine what integration mechanisms would be required. Integration mechanisms would include as a minimum additional reports and reporting procedures, may require the formation of a contract administration office within MSC, and transferring the airlift expansion branch, TRCAB, from the airlift buying division TRCA to TRCM, the contract airlift management division. If TRCAB was transferred to TRCM there would still be procurement actions taking place outside of the consolidated single office. The formation of the additional contract administration office may offset any manpower reductions gained by the increased efficiency of the contract review and policy staffs. The pricing support provided by MAC/LGCOA to TRCA would require modification of existing procedures or relocation of LGCOA to the consolidated office location.

A consolidation would cause the least disruption to MAC/TRCAS, MTMC-PTO, and MTMC-INN because of the variety of requirements, contract administration and the paying offices. MTMC-PTO and MTMC-PTS need to remain collocated because MTMC-PTS prepares the transportation agreements and approves bus carriers. Changing facilities, rerouting requests for service, and the revising of procedures would be the major areas affected in terms of how these offices interact with the users. Relocating personnel and other personnel issues would be the major areas affected internally.

MSC/N101 could be consolidated into a single office, remain with the other sealift contracting functions, or be relocated with the requirement agency, MTMC-INN.

Table 6.

Recommendations on Consolidating Contracting Offices

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Do Not Consolidate Due to Interdependency with Operations Directorate.

MAC/TRCAI International Airlift for Passenger and Cargo  
MAC/TRCAB Expansion Business for International Airlift  
MSC/N104 Operating Contracts  
MSC/N101 Chartering Agreements

Potential to Consolidate Due to Lack of Interdependency with Operations Directorate.

MAC/TRCAS Long Term Domestic Airlift  
MTMC-PTO CONUS Group Passenger Moves  
MTMC-INN Volume Freight Movements  
MSC/N102 Liner Agreements

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A merging of the airlift procurement performed by MTMC-PTO into MAC/TRCA would break up the procurement of group passenger transportation between the two agencies. Perhaps the primary consideration should be merging the procurement of all group passenger travel into MAC, instead of breaking up the procurement of group travel. An assessment of the impact on the Installation Traffic Offices (ITOs) would have to be made if group passenger moves were purchased by MAC/TRCA in accordance with the FAR. MTMC-PTO and the ITOs both use the procedures prescribed by the Defense Traffic Management Regulation to secure passenger movement.

Based on the recommendation to change only one aspect of a system at a time, if the decision was made to totally consolidate, transferring the contract airlift purchasing function from MAC to USTRANSCOM is one way to start. MAC and USTRANSCOM are collocated so problems encountered in separating the requirements office and the buying office could be worked out with minimum disruption, and the transition could serve as a learning experience for the eventual consolidation of MSC and MTMC transportation contracting.

#### Further Research

Further research is required on the interactions between the operations directorates and the contract administration functions to determine what responsibilities should be collocated in the event of a consolidation. A

comparison between the performance work statements for each transportation service purchased may reveal insights into the various areas of contract administration must address.

A costs-benefits analysis of the possible consolidation combinations should be included in evaluating consolidating operations. The analysis should address such factors as job design and manpower requirements, relocation expenses, facility requirements, and computer support systems. In addition, life cycle costs of the different alternatives need to be evaluated.

The objectives of each of the contracting offices is to obtain transportation services that provides the best value to the government. Measurements of how well these objectives are met could provide additional insights into the procurement process and the availability of commercial transportation resources to support national defense.

Case studies of other government consolidation efforts could provide additional information on the benefits and problems that result from combining activities. Also, case studies on commercial carriers that operate different modes of transportation may provide information on the feasibility of economies of scale and other tangible and intangible benefits; and on the problems of managing multiple modes. The formation of the Defense Logistics Agency (DLA) in the early 1960's is similar to the formation of USTRANSCOM. DLA was formed to take command of already existing single

managers for supplies such as medicines and clothing. Soon after DLA's formation, the quality assurance and contract administration occurring within some contractors production facilities were consolidated into DLA.

One final area for research are political constraints to consolidating the contracting offices. As noted in the literature review, the services each have their own corporate culture and each has their own agenda. Also, a consolidation would have varying impact on different Congressional districts, which is another aspect of political feasibility. Significant outside pressures such as the managerial shortfalls noted by the Packard Commission, and/or budgetary constraints may be needed to precipitate the consolidation of the contracting for common-user transportation services. Truly momentous outside pressures to achieve economies of scale and significant requirements to process large volumes of information could cause the consideration of a total consolidation, which would require research into the benefits and problems of a matrix organizational structure.

### Summary

This chapter provided a restatement of the problem statement and the research objectives. What followed was a discussion of the similarities and differences of the procurement processes of the transportation services examined: international airlift, domestic airlift, group

passenger movements, volume freight movements, operating contracts for government vessels, charter agreements, and liner agreements. Then the potential benefits and problems, as identified in the literature review, from consolidating offices were discussed in terms of how they might apply to consolidating the contracting for transportation services. Finally, conclusions and recommendations for further research were explained.

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