

PANALPINA EVALUATION

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by

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ABBREVIATIONS

AIDS	acquired immune deficiency syndrome
CA	Cooperating Agency
CIF	cost, insurance, and freight
EAN	European Numbering Association
EDI	Electronic data interchange
ESFR	early suppression, fast response
FAR	Federal Acquisition Regulations
FAX	facsimile
FCL	full container load
FPLM	Family Planning Logistics Management
FTL	full trailer load
G/PHN/POP	Global Bureau, Office of Population
IS	information system
JSI	John Snow, Inc.
LCL	less than container load
LDC	less developed country
LTL	less than trailer load
MIS	management information system
MOH	Ministry of Health
OP/TRANS	The Office of Procurement, Transportation Division
OS&D	over, short, and damaged
RF	radio frequency
RFP	Request for Proposals
SQ. FT.	square feet
TL	trailer load
UCC	Uniform Code Council
USAID	United States Agency for International Development
VA	Virginia
WMS	Warehouse Management System

CONTRACTING IDENTIFICATION DATA

1. Project Title:	Central Contraceptives Procurement Project (936-3057)
2. Country:	Worldwide
3. Contract:	CAP-3057-C-00-2019-00
4. Contract Dates:	
Award Date:	July 1, 1992
Start Date:	January 11, 1993
End Date:	January 10, 1998
5. Contract Funding:	Funds Provided by USAID Missions and USAID/W
Funding to Date:	US\$24,055,860.00 ¹
6. Mode of Implementation:	Contract between USAID and Panalpina
7. Contractor:	Panalpina, Inc. 22750 Glenn Drive Sterling, VA 20164
8. Responsible USAID Officials:	
Contracting Officer:	Thomas S. Bordone, Office of Procurement
Cognizant Technical Officer:	Carl Hawkins, Global Bureau, PHN/CLM
9. Previous Evaluation:	None

EXECUTIVE SUMMARY

1. Background

The focus of this evaluation is to assess the performance of the contractor under the Central Contraceptive Procurement Project (936-3057), a contract with the U.S. Agency for International Development's (USAID) Office of Population (G/PHN/POP). The purpose of the contract is to provide storage and/or transportation of contraceptive commodities to family planning programs in developing countries in support of G/PHN/POP's family planning and AIDS prevention programs. The contractor, Panalpina, Inc., was evaluated on the quality and cost-effectiveness of services provided and customer satisfaction with these services. The evaluation team also reviewed the requirements of the current contract and provided suggestions for future project design.

The evaluation was conducted by a three-person evaluation team that reviewed project documents and observed the operations at Panalpina's local storage facility. Where possible, the team evaluated Panalpina's performance with regard not only to the contractual requirements but also to storage and shipping industry price and service standards.

The team's overall assessment is that Panalpina has performed very well and that any follow-on contract should maintain a similar structure, with consideration given to the recommendations in section 5 of this report. The following aspects of Panalpina's performance were considered:

2. Issues Analyzed

- ? Warehousing
- ? Freight forwarding - via truck from manufacturing plants to the U.S. and European warehouses, via air and ocean to consignees, and via truck to Mexico.
- ? Communications and reporting
- ? Compliance with Federal Acquisition Regulations (FAR) and USAID regulations.

Warehousing. The evaluation team found that Panalpina is doing an excellent job vis-a-vis the contract. Compared with industry standards, Panalpina is accomplishing the usual warehousing functions in a timely and accurate way. The outstanding feature of Panalpina's warehousing service is the Warehouse Management System (WMS). Although required under the contract, it is not a common commercial practice for a freight forwarder to invest in a custom data processing program for one customer. Furthermore, Panalpina's performance of several tasks is well beyond the strict contractual requirements. Most notable is the level of effort expended to achieve a relatively seamless electronic interface to the John Snow, Inc. (JSI) NEWVERN data system. Also, the establishment of the European warehouse so close to the sole

European supplier is a benefit.

Transportation. The European plant to warehouse trucking moves are accomplished promptly with a high level of coordination and at no cost to USAID. The U.S. plant to warehouse trucking moves are also accomplished in an organized and effective fashion. These moves are over 90 percent trailer load (TL) and are therefore, relatively easy to handle. However, the cost for this service is relatively high compared to industry standards.

Ocean shipments require a much higher degree of collaboration between Panalpina, USAID, JSI, and in some cases the consignee. This degree of collaboration is greater than what would be considered normal in the freight forwarding industry primarily because of the shipping instructions issued to Panalpina by JSI. Nevertheless, Panalpina is doing a commendable job and the cost for the ocean freight service is an exceptional bargain for USAID. We found Panalpina's fully-burdened rates to be, on average, only about 5 percent above the unburdened commercial rates.

Compared to the ocean transport services, air shipments require the same or a greater level of coordination between the various parties due to the shorter time frames, again to a degree unusual in the industry. Panalpina has performed effectively. The fully-burdened contractual rates for the air freight service were compared with solicited, unburdened commercial rates. Overall, the Panalpina rates were found to be about 13 percent higher.

Communications and Reporting. Panalpina's performance in the area of communication and reporting has been satisfactory with regard to contractual requirements, but has been exceptional in terms of industry standards. The customized WMS, the satellite phone network, and the efforts of the dedicated staff allow for a significantly higher--and probably vital--level of collaboration with the other parties involved in the worldwide contraceptive effort.

Compliance with FAR and USAID Regulations. The evaluation team found that Panalpina followed all contractual and USG regulations that were examined. Non-U.S. carrier waivers were obtained, vouchers were prepared in the correct format, and when necessary, commodities were disposed of in conformance with environmental and other regulatory stipulations. Competition, when appropriate, was carried out by Panalpina.

3. Summary of Recommendations

Following is a summary of the evaluation team's recommendations. The background for these recommendations is discussed in the body of the report and the recommendations are discussed in detail in section 5.

Burdened Rates. The contract refers to the rates offered by the contractor as fully-burdened,

when in reality, the rates are only partially-burdened. A system that is more consistent and easy to monitor is needed. Therefore, the next contract should call for a system with more fully-burdened rates and items considered part of the burden should be made explicit. (See section 5.2.7.)

Multiple Contractors. The evaluation team considered the feasibility of contracting freight forwarding services separately for each part of the world. This approach would probably require the use of multiple contractors which would in turn, necessitate the use of a third party warehouse from which all forwarders would arrange shipments. It is the opinion of the evaluation team that this approach would create more logistical difficulties than benefits. The team recommends that the contract be bid globally. (See section 5.2.1.)

Fire Protection. The contract should require contractors' warehouses to be in compliance with Factory Mutual standards as regards fire protection. (See section 5.2.8.)

Labeling. The contract should require that the freight forwarder label the cartons and pallets with Uniform Code Council/European Numbering Association (UCC/EAN) labels, to comply with world standards. (See section 5.2.9.)

Existing World-wide Network. Panalpina has an existing worldwide network comprised of its own offices or affiliated agents in approximately 40 percent of the destinations being served by USAID. Although any contract stipulation specifying such on-site capability will limit the number of bidders, re-configuring the current arrangements would be disruptive to the contraceptive distribution system. (See sections 4.1 and 5.2.1.)

Incentives. The incentive program included in the contract awards a potential amount of US\$237,500.00 over the life of a five-year contract for 100 percent on-time or better delivery. This incentive program should not be included in the next contract. (See section 5.2.2.)

Inventory Adjustments. A considerable amount of discussion was generated at both Panalpina and JSI about the current procedure for adjusting inventory discrepancies discovered prior to or at the time of shipment. As configured, shortages discovered at the time of scheduling require Panalpina to adjust its receiving report, created possibly months before when the shipment was received. In order to adjust this receiving report, Panalpina must reconstruct from paper records to computer, the original receiving information. The revised receiving report is then used to adjust the inventory. The evaluation team finds the adjustment procedure cumbersome. (See section 3.3.5.)

Door-to-door versus Door-to-port. Both door-to-door and door-to-port rates should be solicited in the next contract for all destination points where door-to-door shipments are allowed. USAID can subsequently choose which routing to use based on mission preference, cost comparison, and risk of loss, damage, or delay of goods. (See sections 5.1.2 and 5.2.6.)

U.S. Trucking. Domestic trucking costs could be substantially reduced by contracting this service separately with one of the many U.S. contract carriers. For the follow-on contract, a separate bid should be solicited for this service, which requires little in the way of administration. (See sections 5.1.2 and 5.2.10.)

Trouble Shooting. In future contracts, the contractor should be required to address any significant shipping/delivery problems early to avoid delays in USAID's pipeline. (See sections 4.4 and 4.4.1.)

1. INTRODUCTION

1.1 Background

G/PHN/POP has provided contraceptive commodities to family planning and AIDS prevention programs for over two decades. Contraceptives are the core commodities in USAID's strategic family planning and AIDS prevention projects/programs. These contraceptive commodities are produced at eight manufacturing plants located in the U.S., Puerto Rico, and Finland. The contraceptives provided include: oral contraceptive pills, intrauterine devices, NORPLANT, condoms, injectables, and vaginal foaming tablets. Condoms constitute 38 percent by volume of all contraceptives shipped.

Before consolidating the necessary shipping and warehousing services into a single contract in 1989, USAID utilized three separate agreements to obtain these services. In 1989, USAID consolidated shipping and warehousing operations into a single contract which was awarded to Matrix, Inc. The contract was then competitively awarded to Panalpina on July 1, 1992, with an effective date of January 11, 1993. Panalpina was awarded the contract for an initial period of two years with the option of three one-year extensions. As of this writing, the final one-year extension is being considered by USAID's Office of Procurement (OP).

The current contract provides warehousing, freight forwarding, customs clearance, and delivery services of contraceptives to recipients in approximately 80 countries. The contract also requires that 1) Panalpina provide a warehouse, centrally located to the supply points; and 2) establish a compatible information system (IS) to mirror USAID's NEWVERN data system, a system that maintains stock control, shipping, and cost data and other information for tracking commodities en route, and to destination points.

As with every such contract when a new contractor is selected in a very specialized and difficult-to-execute endeavor, Panalpina had the usual start-up problems. Panalpina was not prepared to run a distribution warehouse nor did they have a system in place that was capable of keeping significant amounts of contraceptive commodities ready to be shipped at a moments notice to the numerous recipients. To further compound the start-up, Panalpina received from the previous contractor twice the expected number of trucks loaded with commodities (104 received versus 53 anticipated).

Panalpina's start-up problems were resolved over time. The evaluation team found that the current overall operation is running smoothly and efficiently.

1.2 Contractual Requirements

The contract, No. CAP-3057-C-00-2019-00, effective January 11, 1993, requires that the contractor provide land, air, and ocean freight forwarding and warehousing services related to the shipment of USAID contraceptives. Contract requirements are summarized as follows:

- ? Contractor is to provide packing, labor, drayage, materials, shipping documentation, port fees, and charges for shipping services for air and land services in accordance with industry practices and as approved by USAID.
- ? Contractor shall seek to obtain the lowest cost for reliable shipping services, consistent with USAID-designated arrival times for shipments. Contractor shall utilize a U.S. flag carriers when available. If a U.S. flag or air carrier is not available, contractor shall obtain a waiver, approved by USAID, for use of a non-U.S. vessel or self-certify the carrier.
- ? Contractor is to provide warehousing of a large portion of USAID's contraceptives in a domestic warehouse, and provide warehousing for a smaller portion of the commodities in a warehouse in Finland. Contractor must consolidate shipment whenever so instructed by USAID, conduct troubleshooting when necessary, and undertake disposal of commodities in accordance with acceptable standards.
- ? Contractor must establish a data base in total conformance with USAID's NEWVERN data base and transmit via modem all required information to the NEWVERN system not less than twice per week, but preferably each business day.
- ? Contractor must provide to USAID monthly, quarterly, and annual reports. Trip reports must also be provided for any contract-funded travel.
- ? Contractor must assign at least three full-time staff to the implementation of this contract: a project manager, a traffic manager, and a warehouse manager.
- ? Contractor has a three-month phase-in period from award date to implement the contracted tasks.

For detailed statements of work requirements, see pages 18-24 of Contract No. CAP-3057-C-00-2019-00, Appendix C.

1.1 Methodology Used for Contract Evaluation

The major focus of the evaluation is to assess Panalpina's performance under the contract: the appropriateness, quality, timeliness, and cost-effectiveness of required services, and overall satisfaction of the customers, USAID/W and the field Missions. The evaluation includes the following major areas: a) an assessment of the overall performance of Panalpina in areas of freight forwarding; b) an assessment of how the organization and management of Panalpina are

influencing the above performance; and, c) an assessment of how the next contract should be structured and managed to ensure that it serves the interests of USAID's programs economically.

The evaluation team did not consider itself an audit team and only attempted to cover and analyze the points listed in the Scope of Work (SOW) that addressed Panalpina's performance under the contract. (See Appendix A.)

The evaluation team conducted interviews, collected data, and reviewed documents during the first two weeks of the evaluation. During week three, the team prepared the first draft of the report and debriefed the staff of USAID and Panalpina.

Interviews. The team interviewed staff in USAID, Panalpina, JSI, and other organizations. (See Appendix B, List of Persons Contacted.)

Surveys. Because time for the evaluation was limited, USAID sent out questionnaires to all its posts receiving contraceptives, and solicited responses on Panalpina's performance. The evaluation team also sent inquiries to several other entities in the field. Responses from recipients of contraceptive commodities are summarized in Table 1, Appendix J, the individual responses are contained in Appendix D.

Data Collection. The team used data provided by USAID, the NEWVERN information system operated by JSI, and data submitted by Panalpina. The team reviewed individual shipping files for completeness and to determine the if data entered in NEWVERN was correct.

Observations. On at least two occasions, the evaluation team observed the overall daily operation of the Panalpina warehouse and the methods used to track each carton of contraceptives by lot numbers. Based on the foregoing, the team believes that sufficient data and information were collected for this evaluation.



3. PANALPINA ORGANIZATION AND MANAGEMENT

3.1 JSI Management and Interaction with Panalpina

Although Panalpina does the actual warehousing, shipments, and delivery services, instructions for initiating shipments are issued by JSI.

3.1.1 Review of the Management Process with JSI

JSI interacts quite closely with Panalpina in several ways. Initially, Panalpina uploads the receiving information to the NEWVERN information system. JSI then updates the system 1) from the time the product leaves the manufacturer until it is received and stored in the warehouse; and 2) at each subsequent stage of transit. These transit stages can include stops at Panalpina's warehouse, the port of embarkation, the foreign point of interline, the port of arrival, and the point of delivery to the ultimate consignee. There does not appear to be any problem with Panalpina's performance in keeping NEWVERN updated.

Additionally, Panalpina has its own worldwide communication system, PANMAIL, that provides a link between Panalpina's domestic staff and its in-country personnel. Panalpina uses this system to obtain required information which can then be used to update NEWVERN.

JSI has the means to verify the contract charges being passed to them from USAID but has no information as to the accuracy or the propriety of the exceptional charges. After administrative approval and payment of the invoice, USAID forwards the invoice to JSI for entry into the NEWVERN system. (See section 5.2.4.) This system allows any exceptional charge, such as destination charges, to go through the whole system unchallenged. Program changes should be added to NEWVERN to provide an edit check on any charge over and above those mentioned in the contract. This would give even a less-experienced individual the ability to monitor these exceptional charges. For example, if a shipment has destination charges for wharfage, documents, or agency costs, Panalpina should be required to identify these potential additions and describe how they can be calculated for future reference.

3.1.2 Panalpina Management

The initial interview with the Panalpina staff who are primarily responsible for the supervision and implementation of the USAID contract was candid, informative, and wide-ranging. The Panalpina staff explained their relationship with USAID and JSI and the way that the staff members interface with the two organizations on a daily basis, by means of telephone, fax, and a computer link.

The personnel at Panalpina, i.e., the project manager, the traffic supervisor, and the traffic clerks, appear to be well-informed and experienced freight forwarders by any commercial standards. After almost four years of serving USAID's shipping needs they are accustomed to working within the requirements of the SOW.

Panalpina explained some of the difficulties encountered during the start-up and the occasional problems with manufacturers' delivery times and outer packing labels, specifically the bar code labels. When the product is not available from the manufacturer until the end of the allotted delivery time, the balance of the consolidation, loading, and shipping cycle is delayed.

Panalpina contacts the Missions and Cooperating Agencies (CAs) to resolve problems such as insufficient documentation or delays in clearing the cargo through the port of arrival or the local customs authorities. The presence of Panalpina staff or their affiliated agents in-country facilitates the resolution of these routine problems. Although Panalpina has an extensive worldwide network it should be noted that it is only directly represented by Panalpina personnel or agents in approximately 40 percent of USAID's delivery destinations.

On several occasions, the Panalpina project manager traveled to foreign locations to resolve difficulties with deliveries of contraceptives. These occasions are infrequent and as the transportation process becomes routine--as it largely has--there should be less need for such extraordinary troubleshooting.

Panalpina has developed computer programs, including a bar code system, to facilitate the handling and recording of the material in and out of the warehouse. Panalpina has also developed a program to prepare the receiving information prior to transmission to the NEWVERN system at JSI. This particular program appears to be in need of review to improve not only its in-house efficiency but also its interface with JSI's NEWVERN System. The JSI staff could help in improving this aspect of information interchange.

3.2 Overall Performance

The evaluation team believes, based on our analysis and the data examined, that Panalpina has performed all of the contractual requirements in a timely and efficient manner. The team noted the start-up problems which were resolved. The occasional problems with deliveries are noted elsewhere in this report. The following paragraphs describe the team's findings and analysis:

3.2.1 *Logistics Network Structure*

Panalpina participates as a member of a coordinated group of organizations providing services to USAID to further its contraception and disease control mission. This network includes:

- ? Suppliers, manufacturing goods at their plants;
- ? Panalpina, forwarding freight from the plants to recipient countries or consignees through various intermediaries;
- ? JSI, creating shipping instructions and providing inventory control service for the entire network; and,
- ? USAID, contracting the services of Panalpina and JSI, and acting as the conduit for requests for contraceptives from governmental and non-governmental organizations in host countries where contraceptives are provided at the consumer level.

3.3 **Warehousing, Consolidation, Documentation, and Freight Forwarding**

3.3.1 *Foreign Warehousing*

The evaluation team did not visit the European warehouse located near the Turku, Finland, manufacturing plant for NORPLANT. The movement of NORPLANT product from the manufacturing plant to the recipient countries is illustrated in Figure 3-1.

No negative comments were received regarding the operation of this warehouse. Therefore, the remainder of the comments regarding warehousing apply only to the U.S. warehouse.

3.3.2 *Domestic Warehousing*

The contract requires that Panalpina operate a warehouse close to the District of Columbia. Panalpina has chosen to establish their warehouse in Sterling, VA. This location is adjacent to Dulles airport and is somewhat central to the supply points in Alabama, New Jersey, New York, Puerto Rico, Illinois, and Pennsylvania.

Typically, materials are transported by truck from the factories to the Sterling, VA warehouse where they are stored prior to consolidation of types of materials (not consignees) into shipments to be transported by air or sea. Materials from Puerto Rico are shipped by ocean vessel to the warehouse in Sterling, VA as illustrated in the flow chart shown in Figure 3-2. Shipments to Mexico are an exception in that they move by truck from the Virginia warehouse to the Mexican border. The material flow for shipments to Mexico is illustrated in Figure 3-3.

Panalpina's Virginia warehouse has approximately 30,000 sq. ft. of area devoted to this USAID contract. An additional 10,000 sq. ft. is available within the warehouse if the storage requirement should increase. The warehouse conforms to the standard configuration of ?spec? buildings. The lighting is conventional fluorescent and the floor is sealed and relatively clean. There are multiple dock-high doors along one side of the building for shipping and receiving freight from tractor trailers. The pallet rack rows run perpendicular to the dock. The pallet rack is not lagged to the floor and seismic foot plates are not used. The evaluation team did not check the thickness or strength of the floor slab, but one can presume this is adequate after being in use for four years with no discernible degradation. Although no bollards or column protectors are installed, the evaluation team saw no evidence that their absence has resulted in damage to the materials, nor was in-warehouse damage to materials reported as a problem by any group or individual interviewed.

In terms of cost for service provided, the team believes that similar services--excluding the WMS--could be provided by a third-party public warehouse for substantially less cost. This is not to disparage the quality of the work done by Panalpina, but only to recognize that the warehousing services provided are generally routine. It should be noted that this comparison to a public warehouse does not necessarily indicate a preference, only a recognition of reality.

The above section is provided as guidance in what would be desirable in a future warehouse requirement.

3.3.3 Pallets and Storage

The majority of the warehouse area is racked with a single deep pallet rack for storage of pallets three high. The racking provides about 800 ground pallet positions and 1,700 above ground pallet positions. Each full pallet load contains approximately 65 cubic feet of goods. The contractual requirement is for Panalpina to provide storage for 65,000 cubic feet of goods which is the equivalent of 1,000 full Panalpina pallet loads. In order to avoid mixing lot numbers on a pallet, not all pallets are fully loaded. However, the 2,500 available pallet positions are more than adequate for the storage of 65,000 cubic feet of goods.

3.3.4 Security

The evaluation team is concerned about the absence of sprinklers and flue spaces within the pallet racks at Panalpina. The warehouse does have overhead sprinklers but the pallet rack does not contain in-rack sprinklers. These in-rack sprinklers are a normal feature for this class of materials when the materials are loaded to the full height of the building, approximately 24 feet. In addition, the rows of racks are installed back to back, with no flue spaces to enable heat

to rise and water to fall, thereby inhibiting the spread of a fire from one rack row to another. These factors increase the risk of a substantial loss by fire and recommendations to ameliorate the situation are presented in section 5. The loss of materials stored at the Panalpina warehouse would cause a major disruption in the flow of supplies to USAID's program. This disruption would have severe repercussions on USAID's worldwide contraception and health effort which could not be compensated by fire insurance.

The warehouse is normally staffed from 8 a.m. until 5 p.m. After this there are no staff or security personnel on site. The security arrangement consists of an alarm system with sound and motion detection linked to a security service and police and fire agencies. There is no perimeter fencing. The warehouse is in an industrial district in which trucks and tractor trailers are present at most hours. Overall, security appears to be adequate for goods which cannot be readily re-sold in the U.S.

3.3.5 Receiving and Putaway

The evaluation team observed the portion of the receiving operation in which the materials are scanned and the results transmitted via radio frequency (RF) to the host computer system. The receiving operation consists of unloading floor-stacked material from a trailer or container onto the receiving dock. Subsequently, the materials are sorted and palletized by manufacturer's lot number. Normally, the cases have bar code labels and other markings that indicate the manufacturer, product number, and lot number, on one end or side of the case. The bar code labels provide an additional level of detail since each case is given its own unique serial or "license plate" number.

In order to create a record of receipt, Panalpina warehouse personnel scan the three bar codes printed on the case labels of the goods received. The bar code label on the pallet rack is also scanned to indicate where the goods are stored. The scanned information is then transmitted via RF to Panalpina's WMS, developed by Panalpina for this contract. After this information is verified, it is uploaded into the NEWVERN Management Information System (MIS) operated by JSI. Panalpina reports all over, short, and damaged (OS&D) stock information to JSI and USAID. Problem or missing bar code labels are reported to JSI and USAID and new labels are created and applied on site.

This operating system is adequate for the required levels of quality, accuracy, and timeliness for the receiving function. However, the correction process for the adjustment of shortages is a more cumbersome procedure than it needs to be and is based on the erroneous assumption that an inventory error can occur only at the time of receipt. However, these discrepancies can also occur at the warehouse through placement error or theft, or at the time of order selection or shipping.

A shortage discovered at the time of shipment does not delay dispatch of the cargo because Panalpina uses product from a different lot and notifies JSI of the change. The above procedure is then initiated to adjust for the shortage.

When discovered, inventory adjustments could be more readily and efficiently executed through a prescribed format, signed by an upper management person. The team recommends that Panalpina, in consultations with JSI, institute such simplified procedures.

3.3.6 Storage

Goods are stored on pallets in racks with one item number and, generally, one lot number per pallet. Panalpina is instructed by the NEWVERN IS as to which lots of which items to consolidate to make up a shipment. As the goods are selected from the pallet racks, the warehouse personnel scan the bar code label on each case to ensure 100 percent accuracy of shipments.

This operating system for storage is adequate to meet the requirements for quality, accuracy, and timeliness.

3.3.7 Order Selection and Shipping

Goods for air freight shipments are selected by item number, warehouse location number, and lot number. The selection is directed by the WMS with instructions transmitted from the WMS via RF to the order selectors. After the goods are selected, they are palletized and stretch wrapped with opaque wrap to obscure the carton markings. The system for selection of ocean freight shipments is similar except that the goods are normally not palletized or stretch wrapped.

The operating system for order selection is adequate to meet the requirements for quality, accuracy, and timeliness.

3.3.8 Consolidation

JSI, through the NEWVERN, directs the selection of goods for shipment. Staff at the Sterling, VA warehouse match the goods for shipment with item numbers, lot numbers, and quantities indicated by the NEWVERN. This system relieves the Panalpina warehouse staff of the burden of planning consolidations since the planning is done by NEWVERN and presented to Panalpina as a warehouse memo to direct shipping.

Panalpina collaborates with USAID and JSI to improved on proposed consolidations by advising

on alternatives, including cost differentials and transit times. An example of this is the consolidation of multiple orders with separate schedules into one 40-foot container instead of two 20-foot containers.

From a strategic standpoint, the existence of a central distribution center such as Panalpina's Sterling, VA warehouse makes successful consolidation possible. If the inventory or the responsibility for freight forwarding were divided, the consolidations would become difficult, if not impossible.

Based upon the team's observations, consolidation should be used whenever possible to reduce the cost to USAID.

3.3.9 Documentation

Panalpina is responsible for preparing and moving the following documents and providing them to appropriate authorities:

- ? Duty exemption certificates
- ? Ministry of Health (MOH) certificates
- ? Commercial invoices
- ? Packing lists
- ? Bills of Lading
- ? Donation certificates
- ? Consular documents
- ? Quality control certificates
- ? Inspection reports
- ? Receiving reports, as appropriate.

These documents are used to facilitate the transport of goods as per the flow charts shown in Figures 3-1 and 3-2. It is critical that these documents are received promptly by the appropriate authorities in order to facilitate customs clearance and avoid service failures. These service failures can cause significant delays and increase the risk of damage and/or loss of goods. The evaluation team solicited comments from a variety of sources on Panalpina's performance in providing documents. These comments have been summarized and are shown in Table 1, Appendix J, under column heading TIMELINESS/DOCUMENTS. The overall grade was 2.8 on a 4.0 scale. This grade indicates that Panalpina's performance in this area could and should have been better, although to the credit of Panalpina management, many respondents indicated that some previous problems have been eliminated.

3.3.10 Freight Forwarding

Panalpina has put in place a management team to manage their contracted responsibilities. A description of responsibilities and analysis of Panalpina's performance in this area follows.

Communication. The parties involved in the shipping process communicate at each step of the process using a variety of modes including: telephone, facsimile (FAX), telex, electronic data interchange (EDI), electronic e-mail, documents via courier, and in-person meetings. The Panalpina management team uses all of the appropriate methods to communicate effectively with the necessary parties. However, some of the in-country, freight-forwarding responsibilities are handled by the Panalpina branch office employees and agents (non-employees) working for third parties abroad. The feedback from missions and/or consignees (Table 1, Appendix J) indicates some failure in communication by these agents. The Panalpina project team seems to be improving the situation in countries where problems have occurred. To some extent, the Missions' negative impressions may have been misperceptions. The evaluation team actively investigated some alleged incidents, but results drawn from such a long distance may not be conclusive. An example is cited in section 4.4.1 followed by a recommendation in section 5.2.5.

Reporting. Panalpina reports on information regarding the shipment characteristics, status, cost, value, schedule, and transport mode to the JSI NEWVERN. Panalpina has established a proprietary satellite phone communications network (SAT phone) that is used to constantly monitor and update the status of shipments. After entry into the Panalpina IS, this data is uploaded to JSI's NEWVERN. The status records appear to be of good quality, although there is some question regarding the accuracy of reported arrival and departure times.

Troubleshooting. In view of the nature of the goods being transported, the sensitivities of the programs being supported, and the undeveloped transport and commercial systems in some of the destination countries, it is inevitable that there will be frequent disruptions to the planned movement of goods. Dealing with these unavoidable disruptions is an inherent part of the service provided by Panalpina as the freight forwarder, and dealing with them in a way that lessens the likelihood of repetition is highly desirable. Some of the missions/consignees commended Panalpina for their prompt and reliable service. USAID's project manager for Panalpina is assigned to the Sterling, VA warehouse location and has made several domestic and international trips, at Panalpina's expense, to deal with some particularly difficult circumstances and to facilitate the movement of USAID's goods. These include trips to all the U.S. suppliers, and to Mexico, Kenya (twice), Zambia, Uganda (twice), Nigeria, Ghana, Belgium (regarding Nigeria), Ecuador (twice), Bolivia, Russia, Tanzania, South Africa (regarding Malawi), Cameroon, and the Central African Republic. Panalpina's willingness to accept responsibility and be personally involved on the ground is especially welcome and commendable and has resulted in better and more efficient service to consignees.

Special Services. Special services include the return of goods to origin or the re-routing of

goods to a different consignee or another country. USAID personnel also expressed appreciation for the efforts of the local Panalpina project team employees and foreign branch offices or agents in moving goods even after Panalpina's forwarding responsibilities had been completed.

3.3.11 Delivery Times

There are two periods of time that are pertinent to the shipping schedule. The first time period to be considered is when Panalpina is informed by USAID through JSI to send a shipment forward. A review of the records indicates that Panalpina dispatches the cargo promptly unless the product is not available from the manufacturer or Panalpina is told by JSI to wait for pre-clearance from the host country. This does not occur very often.

The second time period to be considered is the transit time to the ultimate consignee under door-to-door or door-to-port specifications. The former is allotted 16 weeks and the latter 12 weeks when the cargo moves by ocean transport. Air transport is allotted 7 weeks for door-to-door delivery and 3 weeks for door-to-port. Delivery to Mexico is allowed 6 weeks door-to-door and 2 weeks door-to-port. (See Table 2, Appendix J.)

Although Panalpina can be complimented on an overall on-time performance, the allotted transit times are in excess of acceptable commercial expectations and scheduling. (See Appendix H - Panalpina's Incentive Fee Request.) Therefore, the evaluation team would recommend a general reduction in transit time requirements. The domestic surface transit time of two weeks could easily be reduced to one week considering the fact that this is full truck load service and the farthest shipping point from the Sterling, VA warehouse is no more than 800 miles.

The ocean and air transit times should be reduced also. Rather than assigning arbitrary times across the board such as in the current system, which mixes the easy with the more difficult, it might be more reasonable for the contractor to specify the transit times and then abide by them. The NEWVERN system could easily monitor this performance.

3.4 Compliance with FAR and USAID Regulations

Based on a review of the available documentation and data, the evaluation team concluded that Panalpina followed all requirements in accordance with the contract.

3.4.1 Transportation Waivers for Shipments

Transportation waivers for shipments on non-U.S. flag ocean carriers are on file. The Office of

Procurement, Transportation Division (OP/TRANS) was consulted in each instance a U.S. flag carrier was not available. Each case is documented and an approved waiver is on file in Panalpina's office. (See Appendix E.)

For air shipment when U.S. flag carriers are not available, a self certification by Panalpina is all that is necessary. This certification must be in accordance with U.S. flag requirements for air shipments. Such certifications are on file in Panalpina's office.

3.4.2 Competition

Competition was sought where such competition for vessels and inland transportation services was required. In the case of non-quoted destinations, the question of competition is moot whenever a U.S. flag is used. There is usually only one U.S. carrier that is serving a particular destination.

In the case of inland transportation and related services, where Panalpina has an office in-country, Panalpina uses its own facilities to move the cargo inland to the final destinations. If no Panalpina representation is on hand, competition is obtained from available local sources. In many less developed countries there is only one reliable freight forwarder available for the USAID shipments and pricing for such shipments is solicited whenever possible.

The evaluation team did not find any omissions by Panalpina in the documents examined or during any discussions of this subject with the project team members.

4. ORGANIZATION OF PANALPINA

4.1 Management Structure

4.1.1 *Panalpina Group*

The contractor, Panalpina Inc., is part of the Panalpina Group, a worldwide organization specializing in freight transportation and forwarding services, customs brokerage, and warehousing for consolidation and export. Panalpina maintains a team of logistics professionals in the Panalpina Project Division, based in Washington, D.C., who specialize in the implementation of assistance programs. One of these specialists is assigned to the USAID contraceptive program as a full-time project manager. The structure of the project team is illustrated in Figure 4-1. This project team can call on the resources of about 10,000 Panalpina employees working out of over 300 branch offices on six continents.

4.1.2 *Contract Implementation*

As required in the contract, Panalpina provides generic freight forwarding services to five of the continents where it operates. The generic services include the ? land, air and ocean freight forwarding and any warehousing services... These include but are not limited to packing, labor, drayage, materials, shipping documentation, port fees, and...shipping services...(and) air freight and land freight services.?

Panalpina is also required to provide some specialized services specific to the shipment of USAID contraceptives. In section 3.2., we saw that the implementation of the contraceptive logistics program depends on the successful collaboration of multiple parties:

- ? USAID missions in host countries
- ? Government organizations in host countries, such as MOHs
- ? Non-governmental organizations in host countries, such as social marketing programs
- ? USAID headquarters in Washington, D.C.
- ? JSI
- ? Panalpina.

This unique logistics structure requires specialized services. On the one hand, a Panalpina project team needs to collaborate in the planning and strategy work. Not the least part of this collaboration is establishing interconnectivity of computer-based data processing programs. On the other hand, the most changeable, risky, and uncertain part of the logistics network is in the host countries, requiring a team of service providers experienced in their locales and sensitive to the realities of the contraceptive program.

Panalpina's Washington, D.C. project team plans the freight forwarding from suppliers onwards, either through Panalpina's Sterling, VA warehouse or direct to air and sea ports, to a foreign port of arrival (door-to-port), or beyond the port of arrival to the consignee (door-to-door). The project team also does warehousing and inventory control, data entry and uploads, and contract documentation and reports.

Panalpina's logistics network in the host countries handles delivery and some documentation required to be accomplished in-country. The door-to-port moves do not normally require customs clearance by Panalpina, but the door-to-door moves often do.

4.2 Management Practices

4.2.1 Tasks Performed

The evaluation team has identified the tasks normally performed by the Panalpina project team and those typically performed by the branch offices:

Regular Services Provided by the Panalpina Team from U.S. Plants to Sterling, VA

- ? Expedite product availability with supplier and liaise with and report to JSI on potential changes made by USAID and delays in supplier delivery.
- ? Pick up cargo at plants upon request from supplier; use temperature controlled vehicles in winter for Depo-Provera to prevent freezing of product.
- ? Transport product to Sterling, VA warehouse and enter product into WMS inventory system.
- ? Upload to NEWVERN via EDI receipt information of scanned product within three working days.
- ? Sample weigh ten cartons from each receipt.
- ? Track shipment from plant of origin to warehouse.
- ? Report to USAID, JSI, and supplier any OS&D by shipment identification number. Liaise with JSI on disposition of OS&Ds.
- ? Report to USAID, JSI, and supplier any problems with bar code labels. Create and apply correct bar code labels as necessary.

- ? Manage warehouse inventory by location, product identification number, and lot number.

Services Provided by Project Team and Branch Offices from Sterling, VA Warehouse to Field

- ? Communicate with JSI to coordinate consolidation of shipments. Present alternate modes and routing options to minimize transportation cost or delivery time.
- ? Download warehouse memos for shipments.
- ? Prepare shipments for pick-up by stretch wrapping and palletizing for air freight, and by ensuring that the USAID emblem is on all cartons.
- ? Book and tender cargo with carriers.
- ? Arrange for spotting of empty containers at the warehouse, and load containers.
- ? Prepare and properly distribute shipping documentation: commercial invoices, packing lists, donation certificates, bills of lading, quality control certificates, consular documents, and pre-shipping advices.
- ? Track shipments from origin points to consignees.
- ? Update NEWVERN.
- ? Clear goods through customs.
- ? Deliver to consignee.

Regular Services Provided by Finland Branch Office From Finland Warehouse to Field

- ? Expedite shipments with supplier. Liaise with and report to JSI on potential changes made by USAID and delays in supplier delivery.
- ? Pick up goods at supplier's plant and receive into Finland warehouse.
- ? Over-pack inner boxes as necessary.
- ? Mark and label cartons.
- ? Prepare and properly distribute shipping documentation.

- ? Book and tender cargo to air carrier.
- ? Track shipments from origin point to consignee.
- ? Update NEWVERN.

Special and Extraordinary Services by Project Team and Branch Offices

- ? Scan carton labels for receipts and shipments to assure a high level of accuracy.
- ? Troubleshoot through in-person field trips to discuss problems with consignees, USAID Missions, and local Panalpina representatives.
- ? Re-route shipments; in case of difficulty encountered in one port, shipment is re-routed.
- ? Return shipments.
- ? Make third country shipments from the original consignee to a different recipient country.
- ? Alert USAID and JSI to unique or special circumstances in the field based on the knowledge of Panalpina's local representatives.
- ? Prepare quarterly reports for supplier's duty drawback program.
- ? Advance the payment of fees, fines, taxes, and ad valorem for shipments no longer under Panalpina's control or responsibility in order to expedite delivery.

The evaluation team reviewed the activities and documentation of the Panalpina project team. In general, we find that the project team is functioning effectively and that the activities and document are adequate to achieve the contract objectives of quality, accuracy, and timeliness. Requests from other Cooperating Agencies involved in the contraceptives program are being handled more expeditiously than in the past, according to a survey of associated Cooperating Agencies. This is probably due to improvements in Panalpina's communications and data processing technology. The evaluation team found some facets of Panalpina's forwarding service to be especially impressive:

- ? The exceptionally able and competent full-time project staff.
- ? The custom software system for warehousing and freight forwarding to work in harmony

with NEWVERN.

At the same time, the evaluation team has noted some areas for concern:

- ? The delays in updating the NEWVERN.
- ? The lack of detail for vouchers, particularly for additional services in-country. See section 5.2.4 for details.

4.3 Guidance and Follow-up Received by Panalpina

The evaluation team believes that USAID provided the necessary guidance to Panalpina, especially during the start-up phase of the contract. From the correspondence reviewed, Panalpina received correct instructions from the Office of Procurement and from G/PHN/POP through JSI. The team did not find any area that lacked attention by USAID under the contractual arrangement.

4.3.1 Receiving Reports

The Missions are asked to confirm to Panalpina the receipt of the commodities by submitting a receiving report. Panalpina maintains contact with each Mission until the receiving reports is sent; however, improvement is needed on the part of the Missions. Although the reports are sometimes late, the evaluation team did not find that this creates a problem as both Panalpina and JSI follow up on all receiving reports from the Missions and eventually include them in the files.

4.4 Panalpina's Proposed Improvements to USAID

We have not seen specific examples of Panalpina's suggestions for improvement to USAID or JSI. The Missions generally have reported their approval of Panalpina's performance which would indicate at least an implicit improvement in the method of moving the product from the port of arrival to the consignee. Panalpina personnel are frequently in direct contact with the Missions. This one-on-one relationship improves communications and fosters changes in procedures, as suggested by the Mission.

Panalpina does provide input to Missions and to USAID on business-related issues. Panalpina also provides more direct input by making numerous trips to the field to troubleshoot shipping and delivery problems. Since Panalpina considers these trips to be a normal business expense, they absorb the cost and do not charge for the troubleshooting. These various trips have lead to

better relationships with the various Missions. The feedback shown in Table 1, Appendix J, indicates that Panalpina's efforts to improve delivery performance has been noted by the Missions and that wherever necessary, services have improved. (Samples of logistics improvement and troubleshooting, provided by Panalpina, are found in Appendix F.)

4.4.1 Malawi Mission's Discontent

The evaluation team found one particular case where the consignee was not satisfied with the services provided by Panalpina. In February of 1995 the Malawi Mission decided to change the shipping mode from air to surface shipment since air shipment costs were 75 percent of the commodity cost. Rather than have Panalpina route the shipment, it appears that the Mission issued instructions for Panalpina to ship through ports in Mozambique, then overland to Malawi. This routing caused delivery delays of three to four months and the delivery process caused additional distribution delays. Panalpina stated that its normal way of shipping to Malawi was through Durban, South Africa, and then overland from Durban to Lilongwe, an established process that is still used. However, since the instructions issued to Panalpina were to ship through ports in Mozambique, Panalpina obliged.

JSI issued a memo dated June 6, 1996, supporting Panalpina's position that they followed instructions issued to them on the route for shipment. (See Appendix G.) The evaluation team is of the opinion that in order to have resolved the matter in a more timely fashion, Panalpina should have acted earlier in the process, before the problems occurred. Section 5.2.5 contains the team's recommendation on how for preventing these types of problems in the future.

5. CONTRACT

5.1 Panalpina Contract Performance

The evaluation team is of the opinion that the current contractual arrangements with Panalpina are adequate to accomplish the tasks stipulated in the contract. However, some improvements should be considered for a follow-on contract. Following is a discussion of the team's concerns with the current contract, with the team's specific recommendations for improvement in section 5.2 - Contractual Revisions.

5.1.1 Warehousing

The contract requires that Panalpina operate a warehouse within 150 miles of the District of Columbia. Panalpina has chosen to establish their warehouse in Sterling, VA. In favor of this location is its centrality to the supply points in Alabama, New Jersey, New York, Puerto Rico, Illinois, and Pennsylvania. This centrality is an advantage because it tends to decrease the cost of inland freight to the warehouse. A second advantage of the Sterling, VA location is that it is within easy trucking distance of most of the major seaports served by U.S. flag shipping lines: New York, New Jersey, Baltimore, Norfolk, and North Carolina.

On the negative side, when comparing the quantity of condoms coming from each supply point, most of the condoms--approximately 38 percent of the total inbound volume to the warehouse--come from Alabama. Therefore, a location closer to Alabama might reduce inbound costs. A second disadvantage of the Sterling, VA location is the relatively high cost of leased warehouse space in the area. Naturally, this is passed along to USAID as part of the bid price.

With regard to the European site, the contract requires that Panalpina operate a European warehouse solely to handle shipments of NORPLANT from the Turku, Finland manufacturing site. Panalpina has established its warehouse in Turku close enough to the plant to offer the transport from the plant to the warehouse at no charge. This is a definite advantage.

The contract provides for reimbursement to Panalpina for storage only. There are no in-and-out charges. Such charges typically run about US\$5 per pallet in and \$US5 per pallet out. The avoidance of in-and-out charges saves USAID approximately US\$63,500 annually. However, these charges are built into the monthly storage rate of US\$0.30 per cubic foot, equivalent to about US\$15 per pallet per month. This is quite high. A typical public warehouse cost-per-pallet might be US\$5 handling in, US\$5 per month storage, and US\$5 handling out.

A comparison of this typical fee structure versus the Panalpina fee structure is shown below for various pallet ?lifetimes? in the warehouse. Lifetime is the number of months that the pallet spends in the warehouse.

Lifetime Cost per Pallet (50 cubic feet)

<u>Lifetime in months</u>	<u>Panalpina</u>	<u>Public Warehouse</u>			
		<u>In</u>	<u>Storage</u>	<u>Out</u>	<u>Total</u>
1	\$15	\$5	\$5	\$5	\$15
2	\$30	\$5	\$10	\$5	\$20
3	\$45	\$5	\$15	\$5	\$25
4	\$60	\$5	\$20	\$5	\$30
5	\$75	\$5	\$25	\$5	\$35
6	\$90	\$5	\$30	\$5	\$40

The chart above indicates that if the pallet stays in the warehouse for over one month, USAID would be better off with the conventional public warehouse pricing arrangement. Even at US\$10 per month storage in a public warehouse, the comparison would be:

<u>Lifetime</u>	<u>Panalpina</u>	<u>Public Warehouse</u>
1 month	\$15	\$20
2 months	\$30	\$30
3 months	\$45	\$40
4 months	\$60	\$50
5 months	\$75	\$60
6 months	\$90	\$70

From Tables 3, 4, and 5, Appendix J, we can see that in the first nine months of 1996, approximately 238,000 cubic feet of goods were shipped from the Sterling, VA warehouse. At fifty cubic feet per pallet, this is the equivalent of 4,760 pallets. The annualized shipping based on the nine month sample would be 317,000 cubic feet and 6,350 pallets. The typical storage levels at the Virginia warehouse are approximately 95,500 cubic feet. These averages indicate that the goods turn over 3.3 times annually, so the average lifetime is about 3.6 months. Again, this indicates that USAID would be better off with conventional warehouse pricing rather than the cost structure provided by Panalpina.

In section 4, the evaluation team noted the services that Panalpina provides. In terms of warehousing, the services provided are mostly routine with the exception of the custom-designed WMS that tracks inventory and uploads data to the NEWVERN system. On the other hand, the actual quality of the warehousing service appears above average in terms of inventory control and accuracy, avoidance of damage and loss, and shipment accuracy. The timeliness of shipments has been fair to good and is improving. This is reflected in Appendix H, the latest report provided by Panalpina for the program incentive. (See section 5.2.2.)

5.1.2 *Freight Forwarding*

1. Truck shipments from Plants to Panalpina Warehouse. Table 3, Appendix J, shows the U.S. truck shipments made to the Sterling, VA warehouse from manufacturing plants in 1996. The evaluation team primarily compared less than trailer load (LTL) common carrier (Roadway) rates from the following points to Sterling, VA:

- ? North Tonawanda, NY - US\$1,350 for 360 miles (Panalpina rate = US\$1,648)
- ? Dothan, AL - US\$2,083 for 775 miles (Panalpina rate = US\$2,060)
- ? Lionville, PA - US\$1,017 for 167 miles (Panalpina rate = US\$1,339)
- ? Kalamazoo, MI - US\$1,559 for 591 miles (Panalpina rate = US\$2,034)

The rates from a primarily LTL carrier are significantly higher than those provided by trailer load (TL) carriers such as J.B. Hunt. Normally, rates from these TL carriers are a per mile rate of between US\$1.75 and US\$2.00. This contrasts with the effective per mile rate from Panalpina shown below:

- ? North Tonawanda, N.Y. - US\$4.57
- ? Dothan, AL - US\$2.65
- ? Lionville, PA - US\$8.01
- ? Kalamazoo, MI - US\$3.44

The level of service from the TL carriers is not strictly comparable since LTL carriers are virtually certain to have equipment available at any time to make a pickup at the plant. This certainty does not exist with the TL carriers. However, equipment is usually available, particularly in metropolitan areas. Consequently, Panalpina can reap a substantial profit by simply making a few phone calls to check availability of equipment.

Ocean shipments from the Panalpina Warehouse to Recipient Country Seaports. Table 4, Appendix J, shows that in the first nine months of 1996 ocean freight shipments made from Panalpina amounted to approximately 197,000 cubic feet. The evaluation team reviewed a sample from the Ocean Freight Shipments data base. This sample of ocean freight rates is shown in Table 6, Appendix J. The evaluation team obtained unburdened rates from U.S. flag ocean carriers for the sample moves.

Table 6, Appendix J, indicates that on some moves the Panalpina rate is above the rate obtained for transport only. This is to be expected since the Panalpina rate is fully-burdened. On other moves the Panalpina rate is actually below the carrier rate. This indicates that Panalpina is providing an exceptional value to USAID on these particular moves. In the sample that was studied, the Panalpina margin--or difference between their rate and the carrier rate--was US\$21,087. This amounts to 4 percent of the US\$533,227 that Panalpina charged to USAID. In order to sustain themselves, Panalpina must accomplish the burden at less than the margin.

Air Shipments from the Sterling, VA Warehouse to Recipient Country Airports. A review of air shipments from the Virginia warehouse to recipient country airports (see Table 5, Appendix J) shows that in the first nine months of 1996, air freight shipments made from Panalpina amounted to approximately 38,605 cubic feet. The evaluation team reviewed a sample of rates charged from the 1996 air shipment data base. (See Table 7, Appendix J.) The evaluation team obtained unburdened rates from U.S. flag air (American Airlines) carriers for the sample moves.

Table 7, Appendix J, indicates that on some moves the Panalpina rate is above the rate obtained for transport only. This is to be expected, since the Panalpina rate is fully-burdened. On other moves, the Panalpina rate is actually below the carrier rate. This indicates that Panalpina is providing an exceptional value to USAID on these particular moves. Overall, the Panalpina margin--or difference between their rate and the carrier rate--was US\$25,730. This amounts to 13 percent of the US\$191,464 that Panalpina charged to USAID in the sample air freight shipments. Again, in order to sustain themselves, Panalpina must accomplish the burden at less than the margin.

Inland Freight from Destination Airport to Consignee. The evaluation team has concluded that the information required to evaluate the inland portions of the freight rates is not readily available. For this reason, the team feels that it cannot do justice to this issue in the time available. A proper analysis, even on a sample basis, would probably require some time in countries where the service is being provided. Therefore, this issue should be left for further study. To the extent that USAID is favoring the idea of encouraging contractors to bid to provide door-to-door service in the next contract, this study should be done at the earliest opportunity.

Transit times. USAID has posed the question of how Panalpina's transit times for moving shipments to and from various points by various modes compare with industry standards. In general, the transit times are somewhat longer than the industry standards. However, Panalpina cannot be faulted for this. On the one hand, the transit times allowed under the contract, shown in Table 2, Appendix J, are much longer than industry standards. Panalpina is meeting the contractual standards, as shown in Appendix H - Incentives, and it would be unrealistic to expect Panalpina to meet industry standards when it is only required to meet contractual standards. It appears from our interviews that, when asked to make a special delivery, Panalpina has been up to the task and arranged timely deliveries.

However, it is important to take into account that air freight rates are much more fluid than ocean and truck freight rates. Depending on the amount of capacity available, freight forwarders may be able to negotiate better rates, or conversely, be forced to pay a premium in order to move the freight immediately.

5.2 Contract Revisions - Recommendations

Based on the evaluation team's analysis and findings, the following recommendations should be considered in any future contracts for delivery services for contraceptive commodities.

5.2.1 Worldwide Network

The next RFP should stipulate that the contractor have either company offices or affiliated agents in as many destinations as possible. Bidders with limited networks would not be able to solve in-country problems as well as those with on-site assistance. It is unlikely that any international freight forwarder would be in every location, but the more locations that a contractor is able to cover with in-country staff, the more area is covered, and the quicker in-country problems are resolved.

It would be possible for a consortium of forwarders to provide worldwide service but the task of monitoring and coordinating such a group would be formidable.

5.2.2 Incentives

Based on the comments in "Inventory Adjustments" in the Executive Summary, it is recommended that incentive programs be eliminated from the contract. The fundamental reason being that there is no evidence that the use of these programs has improved the distribution service to USAID.

- (1) A contract worth potentially US\$24 million should not provide incentives for on-time performance.
- (2) The present delivery times are excessive relative to commercial standards of international transportation.
- (3) Domestic surface movements are also included in the incentive program. However, these contractual deliver times are also longer than industry standards.

(4) Surface transportation to Mexico can be disrupted and delayed at the border by Mexican Customs practices which include stripping the trailer, inspecting the goods, and then reloading the good onto other delivery equipment. This situation is continually under criticism by U.S. shippers and eventually may be modified.

5.2.3 *Delivery Times*

As stated in section 3.3.11, the overall conclusion is that the times specified in the contract should be reduced in all areas--domestic surface, ocean, and air--for both door-to-port and door-to-door service.

5.2.4 *Exceptional Charges*

The burdened rates do not necessarily include routine destination charges on door-to-door movements. They are, therefore, generally accepted without much discussion. An example of such a routine destination charge would be the charges levied by the Tanzania Harbor Authorities. This standard charge is 1.5 percent of the cost, insurance, and freight (CIF) value for port wharfage and 1.25 percent of CIF for the clearance agency. The evaluation team believes that these routine destination charges should be identified by the contractor by destination, with the understanding that the charges would need to be adjusted if local conditions change.

5.2.5 *Troubleshooting*

Although the present contract contains a troubleshooting clause, the contractor appears to have missed a good opportunity to examine the requirements of at least one USAID Mission--the Malawi Mission. Our team discussed this matter with Panalpina and with personnel from the Mission.

As previously mentioned, Panalpina does not charge any trouble shooting fees to USAID but covers these costs internally. It is our recommendation that when shipping/delivery problems arise, the USAID cognizant technical representative should instruct the contractor to take appropriate measures to solve the problem and charge USAID as appropriate. This process would eliminate or at least minimize the question of who is at fault and resolve issues in a timely fashion.

5.2.6 *Door-to-door versus Door-to-port*

Panalpina has provided door-to-port rates for some of the recipient countries. The door-to-port rate covers the movement of goods from the door of the shipper to the port of embarkation, through the port of destination, to the unloading point. Door-to-door covers the above movement and also includes transit through customs clearance to the door of the consignee. Panalpina also provides door-to-door rates to some destinations.

The door-to-door rates involve more risk for the contractor since the contractor is committed to perform at a quoted rate regardless of the infrastructure and conditions in-country. In unstable countries, this risk is significant. There has been a tendency during recent years to change the service to some areas from door-to-port to door-to-door but as noted above, the evaluation team did not attempt to determine whether these changes reduced the final delivery cost. The reported motivation for the change is not monetary but rather is based upon the belief--mainly on the part of consignees and USAID--that Panalpina could perform the delivery from destination port to consignee more effectively than the available alternatives. The evaluation team, in a separate recommendation, has proposed that bidders should be able to provide this sort of destination service. In order to evaluate both bids and bidders, we recommend that bidders be invited, but not required, to provide both a door-to-port and a door-to-door bid for the points USAID expects to service.

Additionally, the contract should allow the contractor to adjust quoted rates if the contracting period is more than two years. Otherwise the contractors will be forced to bid a much higher initial cost on a five-year contract to cover their risk in future years.

5.2.7 *Burdened Rates*

As noted earlier, the Panalpina bid rates include some of the burden of costs incurred by the contractor, but not all. This subject should be discussed in the contract and items not included in the burden should be made explicit. In general, it is in USAID's interest to include more, rather than less, of the cost items in the burden.

The background rationale for having burdened rates at all, as opposed to separate rates by shipment, is that it provides:

- ? Consistency, so that USAID and the contractor can develop routines to facilitate delivery;
- ? Reliability, so that neither party has unpleasant surprises, and can plan and budget with confidence; and,
- ? Ease of monitoring, in a situation in which staff are not always available for lengthy cost analyses.

For these reasons, the evaluation team recommends that the next contract require that burdened rates be bid.

5.2.8 *Fire Protection*

As discussed in section 3.3.4, in the case of Panalpina's Sterling, VA warehouse, in-rack or early suppression, first response (ESFR) sprinklers would be required as well as flue spaces between the rack. The danger from fire extends beyond simply the loss of goods-- which are covered by insurance--to damage that could be done to USAID's contraceptive distribution program if a three-month supply of contraceptives (the typical amount in the U.S. warehouse) was destroyed and therefore, removed from the pipeline.

In order to make clear to the contractor its responsibilities for the goods in the warehouse, the contract should mention the measures that should be undertaken to protect against fire. These measures do not have to be separately described in detail in the contract since they are provided by the Factory Mutual Insurance Company and are generally accepted as standard in the U.S.

5.2.9 *Labeling*

The various suppliers do, for the most part, label the cases with bar coded labels prior to their shipment to the Sterling, VA warehouse. These labels are scanned only at the warehouse to confirm receipt, putaway into storage, and shipment. The labels are non-standard and designed by Panalpina.

The evaluation team recommends that the contract call for the contractor to provide a data capture system that will scan UCC/EAN type bar code labels. These are international standards and will allow for: scanning by subsequent contractors, should there be a change of contractors; scanning by the carriers which is becoming more prevalent; and, scanning by consignees which could become a way of upgrading inventory accuracy. A data processing system able to work with standard labels is readily available commercially and does not need any custom programming.

5.2.10 *Domestic Inland Trucking*

The movement of product from the manufacturer to the contractor's warehouse for storage and/or immediate order selection is not necessarily an international freight forwarding function. This activity, although presently carrying a portion of the total burden, could be bid separately since it is basically trucking, requiring little effort or supervision.

Breaking this activity out separately would force the bidder to ?burden? the ocean and air rates more realistically rather than using domestic surface rates to support the overall burden.

6.0 CONCLUSION

Based on review and analysis of available data and discussions with the responsible parties, the evaluation team is of the opinion that Panalpina is performing very well under the USAID contract and that the importation by consignees of contraceptive commodities has been largely trouble free since Panalpina began shipping these commodities. The exceptions are noted in the text of the report. Furthermore, it is the team's opinion that because of the limitations in the field, in USAID and in the CAs, a follow-on contract should be similar to the current contract but with consideration given to the recommendations in section 5 of this report.

The contract has been modified six times. Modification No. 6, dated September 25, 1995, increases the contracting dollar amount and exercises option 2 of the contract, extending the contract period to January 10, 1997. A request to extend the contract through January 3, 1997 is pending in the Office of Procurement.