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# Relocation company moving up as military families move out

The Business Journal of Jacksonville - June 30, 2006 by [Tony Quesada](#) Staff Writer

JACKSONVILLE -- The **Department of Defense** will spend about \$1.7 billion this year moving more than 500,000 personal property shipments when service members transfer to new duty stations.

**The Suddath Cos.**' government services division will handle much of that business, as it has for more than 50 years.

"The military has been a staple for Suddath," said Scott Kelly, president of domestic government services for the Jacksonville-based mover.

It's not only a big part of Suddath's financial performance, generating about \$90 million of its \$250 million to \$260 million in annual revenue, Kelly said. It's also a growing business, even as the military works to curtail relocations.

The company handles about 15,000 military moves a year, with 10,000 of those being within the U.S. That's up from about 5,000 domestic moves in 2000 and puts Suddath among the industry leaders. And though the military hasn't reported in a few years how many moves each company does each year, Kelly estimates Suddath has increased its domestic market share in five years from about 4 percent to nearly 7 percent.

Moving service members and their families has long presented a fertile ground for business. But it hasn't always been a lucrative business.

It wasn't long ago that the military paid below market rate for moving services. About seven or eight years ago, however, "market forces took over and the industry couldn't do it anymore for what the military was paying," Kelly said. "People had to raise their rates or get out of the business."

Today, the military is shifting its procurement criteria to emphasize performance over price, part of a program called Families First to overhaul how it moves household goods, and the military moving business has become as profitable as corporate accounts.

"Prior [Suddath] executives had the foresight to stay with the business," Kelly said. "They knew it would come around."

Suddath's growth in military business has come as the Defense Department has reduced the number of moves it makes. In 2002, the military had 612,600 personal property shipments with about 220,500 of those being domestic household moves, according to the Military Surface Deployment and Distribution Command (SDDC). Last year, total shipments dropped to about 500,000 with 175,000 or so domestic moves.

Factors in reducing the number of military moves include base closures and retention efforts that

enable service members to take consecutive assignments on the same base or at least in the same area, said Scott Michael, vice president for military affairs of the **American Moving and Storage Association**. The war in Iraq also affects the number of moves, as transfers are delayed and enlistments are extended while service members' units are deployed or preparing to deploy.

As for international moves, they're expected to decline in the future as the military withdraws many of its overseas-deployed units and bases them in the U.S.

While the number of military moves has gone down, so has the number of companies qualified to handle them. In the past three years, the government has tightened its program for qualifying carriers. Carriers must be in the moving business for three years and they must document that certain key personnel have been employed by them for a specified period as well. In addition, the standards for financial health are greater, and companies must submit financial statements each year.

In all, about 400 of the roughly 1,200 carriers in the program a few years ago have dropped out or been cut, while around 100 new companies have been added, Michael said.

For large companies like Suddath, with consistent profits and greater resources to implement systematic quality control measures, raising the barriers to entry is in their interests. Michael estimates fewer than one in seven moving companies in the U.S. does military business, but he said nearly all large companies do so.

Kelly said that while preparing the financial data the way the military wants it is "a major annual event for our accounting people," Suddath has no difficulty meeting the more stringent fiscal criteria.

At the same time, the military has increased the number of carrier reviews based on performance, which can result in companies being suspended or dropped. For example, the military a while ago cracked down on missing firearms, which is cause for an automatic carrier review board hearing.

"They've really tried to step up enforcement," Michael said.

The military also has stepped up security.

"It's gotten to be a bigger issue," Kelly said. "Just getting on and off base has gotten more difficult. It's slowed things down for the industry, but in the end, it's a good thing."

All of that contributes to why fewer small companies vie for military business.

"There is a cost to the bureaucracy," Michael said. "Companies need to ask themselves, 'Is there enough business to justify the cost of getting financial statements and surety bonds and enough return to justify the cost of doing business?'"

Suddath believes there is, although Kelly agreed the military has "a lot of red tape" to cut through in how it compensates movers. "There's pages and pages of special requirements just to get paid," he said, adding that the administrative costs associated with collecting payments have risen.

Much of that he attributes to problems with PowerTrack, the electronic system developed by **U.S. Bank** that is being used to pay movers.

Carriers submit bills to U.S. Bank through the system, and they're forwarded to the military, where transportation officers review each bill line item by line item and calculate what it says the price should be. Then they're sent back to the bank via PowerTrack, and if the totals match, they're paid within 72 hours.

"For the ones that match, they're getting paid fast and everything's great," Michael said. But when they don't, it can take weeks or months to resolve. "The problems outweigh the benefits."

PowerTrack was introduced in 1998 to handle freight invoices, commercial and government. And it's been very popular among cargo carriers.

Michael said the greater complexity of personal property moves compared with freight shipments is the main reason PowerTrack hasn't worked as well for moving companies.

"For household goods, you're going to have 30 to 40 line items to handle," he said. "More things can go wrong."

PowerTrack is one element in the first phase of Families First and it was intended to help transition to a Defense Personal Property System. But the second phase of Families First, which was supposed to be launched in February, has been put on hold by the SDDC, saying the system's development "represents a magnitude of complexity" the Defense Department has never encountered.

"This pause will allow time to create a more efficient program oversight process," the SDDC said in a November 2005 statement, adding that it would minimize impact on the peak moving season -- May through September -- in 2006.

The industry is hopeful that the military can work out the bugs.

"We agree with their goals," Michael said. "We just have some issues with some of the details."

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