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CONTRACT ADMINISTRATION, NAVY.

March 8, 1946.

GENERAL ARMSTRONG:

Gentlemen, we have with us this morning an Army Industrial College graduate. Admiral Ring graduated in the class of 1930. He was the first naval officer to be on the staff as an instructor in the Army Industrial College.

We had, as you can see, in those days only one Naval officer on the faculty, which is, as far as quantity goes, a rather inadequate representation. However, there were only five or six officers on the faculty from the Army at that time also. But whatever the Navy lacked in quantity it more than made up in quality. We are exceedingly glad to see one of our old graduates and faculty members reach the exalted rank of Admiral in the United States Navy.

Admiral Ring graduated from the Naval Academy in the class of 1915. After leaving the Industrial College in 1933, he was in charge of the Purchasing Division of the Bureau of Supplies and Accounts. Without going into all the details of his career, I will tell you he was on duty in the Supply Section of the Commander in Chief of the Pacific Ocean Area. He returned in January, 1946, just a few months ago, to the Secretary's Office, where he is the head of the Procurement Branch.

I think the Admiral is going to give us something that I have long wanted to hear, and that is the story of the control or the organizations and methods of control that the Assistant Secretary of the Navy will plan to put into practice for the administration of the industrial mobilization plan in the Navy.

Gentlemen, it is a privilege to present to you a graduate and former member of the faculty of the old days of the Army Industrial College, Admiral Ring.

ADMIRAL RING:

General Armstrong, you are very kind to introduce me in such glowing terms. The subject that I have been officially assigned is Contract Administration. You people have had at least two speakers on that subject. I know that my Deputy, Captain Andrews, has been over here twice. I think he has explained to you the general, broad policy and the organization of Navy procurement and something about the post-war procurement legislation that the Navy and the Army, Treasury Procurement, the Maritime Commission, and others are seeking to obtain. I shall try to avoid covering the same ground that Captain Andrews has covered and talk, rather, to the details of the operation under the broad framework which he laid down for you. I am going to handle this topically. It may be a loosely connected speech, but there are certain topics that I do want to cover.

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First, on the subject of legislation: You know that we are now operating under the First War Powers Act. Prior to the expiration of that Act we want to obtain permission to continue negotiation of contracts when necessary. Andrews and I had a meeting about a week ago with a committee appointed by the Secretary of the Navy, headed by Mr. John M. Hancock, and having as members Mr. Frank Folsom of R.C.A., Mr. Hauser of Sears Roebuck, and two college Deans. This committee has been appointed by the Secretary to consider and report on the Navy's plan for postwar supply, including procurement.

Mr. Hancock sounded a very interesting warning with regard to procurement legislation. He favored couching the bill in broad terms, so that we would not later find ourselves embarrassed by discovering that a case had arisen which spelled-out legislation did not cover.

His idea was that if we ask for legislation to cover specific situations, we may find that we have left out half a dozen cases and we will be blocking ourselves.

He raised another very interesting point. He said, "Why do you have to go to Congress and ask the continuation of authority to negotiate contracts? Haven't you always had that authority under your exceptions to Section 3709 of the Revised Statutes?" Under that statute there is spelled out authority for the avoidance of advertising and competitive bidding in certain instances.

We feel, however, that one of the strongest links in the chain of keeping ourselves ready for any eventuality is the maintenance of that system of buying where competent, well trained people keep in touch with business deals at every point, and where buying of technical items takes place close to the technical designers. Prior to December, 1942, the Bureau of Supplies and Accounts was the General Purchasing Agent for the Navy Department. With few exceptions all purchases were made by that Bureau. This concentration of purchasing, where formal advertisement and competitive bidding was the rule, worked well for standard stock items in time of peace. It could not work for the procurement of newly designed items, where wartime volume was so great and where time was of the essence. We could not have fought the War if we had continued our procurement concentration in any one agency. In December 1942, the Chief of each Technical Bureau was permitted to determine which of the items he was responsible for should be purchased in his own Bureau and which should go to Supplies and Accounts for purchase. In each Bureau we set up negotiating teams, with business knowledge, accounting knowledge, legal knowledge and technical design knowledge on the Navy's side meeting with similar talent on the sellers' side.

Therefore we hope by getting legislation from Congress which will grant us the right to negotiate contracts we will be able to continue, at least in miniature, the same buying techniques that were developed on the Navy's side during the war. I hope we can do so. Formal advertisement and competitive bidding will, of course, be continued, and standard items will be bought by our C.P.A.

So far as personnel is concerned, it is axiomatic, of course, that your buying job will depend upon the men doing the buying. Buying is not an automatic process. It is a process where, when the specifications have been standardized, when there are not going to be too many changes during the life of the contract, when there exist a number of potential suppliers, who must be eager for the business, formal advertisement and competitive bidding is the best way to buy that ever existed. You must use brains in that type of buying in distribution of your bid tenders.

When you have a mailing list for standard items it has to be fluid, not static. You must insure receipt of bids from concerns able and anxious to bid. Then you will not be in the unhappy circumstance of having the Navy pay a price higher than that paid by a good commercial buyer. Buying of standard, common-use items is not just an automatic process of receiving bids and determining which company has offered the low bid. The buyer must know that the price is right. He ought to know his market well enough to reject all bids and to negotiate, if that is necessary.

If we can retain our negotiation technique and technicians for our technical items under the cognizance of the technical bureaus, if we can maintain a staff of good commodity buyers for the standard items, I visualize a very happy future for Navy procurement. We will make the peacetime dollars go as far as possible and we will be ready with at least the skeleton of the organization needed for wartime procurement.

I would like to go back to the subject of decentralization of procurement within the Navy Department.

I have told you that we found our centralized procurement agent was unable to handle technical procurements fast enough. So we decentralized to the Chiefs of the Technical Bureaus the authority for procurement of those items which were non-standard and which, because they were new were constantly subject to specification change during the life of the contract. A classic example is the contract for electronics equipment where thirty-five hundred changes under the contract took place during the life of the contract. I think that is the record. Each one of those changes had to be engineered and priced.

It was necessary, however, in our decentralization to set up a form of control so that we would not have seven or eight little purchasing kingdoms each going off on its own tangent. We wanted to try to prevent contractors coming in to one Bureau and negotiating a contract whereby he got a larger fee or a higher overhead or any other benefit than appeared reasonable. Specifically, we wanted to prevent contractors from playing one Bureau against another.

So we set up in the Navy during the war and are still maintaining a clearing house of information. In its essence it is a policy-creation branch, which will establish policy for procurement as need develops, and which will serve as a meeting place for the contracting officers of the several bureaus. To illustrate, when a contracting officer told me

yesterday, "I am having trouble in the Bureau of Ordnance with Arma Corporation on the redetermination clause on a new development," I could help him because the day before I had a meeting with representatives from the Bureau of Ships and from the Arma Corporation and reached a satisfactory settlement. By keeping together in that way, the Navy will present a united front to contractors on matters of contract policy.

So far as the formulation of policy itself is concerned it is my hope that the Bureaus of the Navy Department will realize that they themselves are making the policy. Policy is created as a result of the needs of the contracting officers of the Navy Department. I am not going to buy anything. I will sign no contract. That authority is vested in the Bureaus of the Navy Department. But I surely am going to see that there is exercised a worthwhile coordination, and will be able to issue those orders which experience demonstrates are necessary.

There are two types of purchase teams. The first consists of a business man who is the negotiator, the technician, the lawyer, the accountant, who sit down opposite the members of the team from the contractor. Those are teams in the Bureaus themselves. Now I am talking about a second type of team -- the Navy purchase team -- the heads of the purchase groups in the Bureaus of the Navy Department, who I hope will always find my door open, who will meet with me regularly, and who will assist so greatly in generating Navy procurement policy.

I believe that in the creation of Navy Department policy it will seldom be necessary for me to "ram anything" down any Bureau's throat, because, if I have to do that, I question that the policy itself will be wholly sound. We can work out nearly everything together. Consider the function of allocating procurement responsibility between the Bureaus. The question has come up as to whether the Bureau of Ships or the Bureau of Aeronautics should have cognizance over the procurement of airborne electronic equipment. The Bureau of Ships holds that under peacetime procurement and limited appropriations we ought to retain within that Bureau all our cognizance of electronics, the design, technical knowledge, et cetera, to be aided by people from Ordnance and Aeronautics, who use the equipment. The Bureau of Aeronautics, on the other hand, says that the electronic material and everything else that goes into a plane is a part of the plane, and that it is essential to vest cognizance over all aeronautic equipment. I must recommend a decision in that case. I hope that by a frank discussion between the parties we will come to a solution that at least is reasonable.

In connection with policy creation I feel very strongly that the man who makes policy must not immediately thereafter build a Chinese wall around himself. The policy, when it is issued is quite a formal document; the interpretations and operations under the policy are very much alive. I hope that my office will be able to interpret policies to the end that the Bureaus may find the action helpful and not harmful.

The very important work of joint action between the Army and Navy that is being done by the Army and Navy Munitions Board must be extended and expanded as far as possible. I have no definite figures or even a

reasonable guess as to how far we can go in that regard. We have found, as you know, that it was possible to set up an actual joint activity in New York for the procurement of Army and Navy medical supplies. There the arrangement is that the Naval Admiral is sort of a general business manager and that the actual contracting is done by an Army officer. If contract clearance is required, clearance is obtained from Army sources. That is an office arrangement.

We have an arrangement in New York also where textiles are being bought; where the buyers of the two Services sit in the same room and keep each other intimately informed of what they are doing and thereby avoid competition.

We have had throughout the war procurement on the West Coast of soft woods by the C.P.A., operated by the Corps of Engineers of the Army, with personnel also assigned by the Navy. At the same time the Navy was buying southern hardwoods for the Army.

Subsistence items have been procured throughout the war, and a magnificent job was done, by the Army. It is one of those things that you like to think about, where the Army was not only doing a good job for itself, but every time the Navy came in with an emergency requirement, I found the people on the Army's side perfectly willing to cut down their own requirements in order to satisfy what the Navy claimed was an urgent requirement of its own. It was a splendid job that was done.

We have a lot of investigating to do. We have got to integrate and correlate the work of specifications with joint procurement. I think we ought to keep absolutely open and flexible minds as to the best way to set up our joint buying agencies. Some of my people have been urging me that we go into this joint procurement business always seeking to designate one service to do all the buying for the other. My answer was no, because I feel that we should select the method of purchasing best suited to the commodity to be procured. Cross procurement, joint procurement, collaboration of buyers -- each method has certain advantages.

I think we ought to use all the tools we have. To me it is far more important to investigate and make a thorough study of the class of items that you are considering and to find that way of avoiding competition between the two Services and to use all the ways that you can find of doing that, than trying to seek out a single method as the thing to be achieved.

If we can do a good job in avoidance of competition between the Army and Navy in procurement, I think we can do ourselves a lot of good. We will be smart, I think, when we start on this task ourselves rather than waiting to be told to start. I sincerely hope that the work that is being done by the Army and Navy Munitions Board on joint procurement study will continue.

I believe that I have given you, with the exception of five general conclusions that I jotted down, about everything I have in my mind. But there were five conclusions which might stick with you.

My first conclusion is: True economy in buying flows from using good buyers, where they obtain full information on what they are buying. Skillful, well-informed buyers are required at each point of contact with particular classes of suppliers. Buyers must be able to use the type of contract best suited for the deal. I would like to elaborate on that just a little bit. The smartest buyer in the world, if he has not got the tools to work with, will do a poor job for the Navy.

You all know about the cost-plus-a-percentage-of-cost contract, which was outlawed by the Congress. That gave us a lot of trouble in World War I. You all know about the formal advertisement or competitive bid contract. You have all heard about negotiated contracts. Under negotiation there are possible many alternative types of contracts, which were devised to suit the requirements of the job to be done.

In saying what I am about to say please do not classify me as an enemy of lawyers. I am not. I think they are wonderful. But I think you have got to use your legal talent, not to tell you the deal is not a good business deal, but who, in response to your statement, "I want to do this and this and this. Show me a form of legal document which will provide the incentive to the contractor and which will protect the Navy's interest and which will get us the material when we want it," will tell you what form of document you ought to use. I am happy to say that the Navy had lots of such lawyers during the war. They did a magnificent job of developing contract forms and clauses to do the job that had to be done.

That was my first conclusion.

Second, the procurement of technical items should be located as close as possible to the technical design men. Under research and development it is absolutely imperative that your contract and it changes be a live document and not a static one. Your general service purchasing organization contributes nothing but delay to the execution and carrying out of a contract for research and development items.

Parenthetically, let me say that there is danger if you let your technicians dictate sources of supply. Some technicians are basically lazy, because if they know one source of supply who can get something out for them they seldom have a desire to develop additional sources of supply. When the pressure for volume production is really on, you will not have enough manufacturing sources under that system.

So your purchasing team, then, of the negotiator; of your technician, who knows what is wanted; your accountant; and your lawyer, will give you the contracts that you want.

As my third conclusion let me repeat what I have already said before about competitive bidding -- that competitive buying after formal advertising is the best method of buying anything when you have definite specifications, which are not liable to too much change throughout the contract; when you have several alternative sources of supply; and where those sources are anxious to bid on your deal.

My fourth conclusion is that good buying requires the use of both the negotiation technique and the business of formal advertisement, using each at the proper time. If you have advertised for bids for welding rods and your prices do not look right, you don't get enough responses to your advertisement and from good sources, then I hope that we will have the right to send for suppliers of that product and try to negotiate them into a deal.

My fifth and last conclusion is that the coordination of Army and Navy procurement of identical and similar items can and should be further extended; and that we should proceed on that work without waiting for pressure from Congress.

I do not know whether you have any questions that have not been answered already.

A STUDENT:

You referred earlier in your address to Mr. Hancock's opinion on the proposed legislation. Was he referring to the "A" Bill that Captain Andrews discussed in his lecture?

ADMIRAL RING:

Yes, he was. Mr. Hancock was afraid we might not be able to foresee and spell out all of the exceptions in the "B" Bill that we might need and it was his thought that the "A" Bill was broad enough to meet any situation that might arise in the future years.

A STUDENT:

Is Bill "A" the one that Mr. Hensel favored?

ADMIRAL RING:

In talking to Mr. Hensel before he left town the other day he said he would be much happier if we went to Congress with a bill broader than the "B" Bill, but from a practical standpoint he thought the "B" Bill would meet all foreseeable needs.

GENERAL ARMSTRONG:

Your organization more or less parallels the old Planning Branch of the Assistant Secretary of War's Office, does it not?

ADMIRAL RING:

It will in many respects. The Material Division, of which my outfit is a Branch, is headed by Vice Admiral Moreell. It contains the Production Policy Branch, the Material Control Policy Branch, the Procurement Policy Branch, and the Naval Inspection Service. I think it will come pretty close to paralleling it.

We are trying to set up clear areas of operation where CNO will prescribe the "what," "when," and "where" and then turn the whole job over to the Material Division of the Assistant Secretary's Office for procurement.

What we tried to do, as I see the picture, was to have the Chief of Naval Operations set up as professional assistant to the Secretary of the Navy and the Assistant Secretary of the Navy set up as business administration assistant. Admiral Moreell is not responsible to the CNO but is responsible to the Secretary through the Assistant Secretary. Neither the Assistant Secretary nor Admiral Moreell, nor any of his assistants, can criticize the CNO for saying he wants to change the design of equipment or for wanting to buy ships with certain characteristics. That is the function of the professional naval assistant.

GENERAL ARMSTRONG:

How do you look on the question of allocation of facilities in the prewar planning, or, shall we say, the postwar planning?

ADMIRAL RING:

It all depends upon how far you want to go on allocation of facilities. Both as a student and later as a member of the faculty of this distinguished institution I think I subjected myself to criticism because I felt that we would tend to go a little bit too far, too fast.

I remember the famous example of the board of directors of Packard authorizing \$25,000 for a machine tool lay-out plan for the Packard plant, and then they did not quite get around to making the thing that the plant was laid out for when the war actually happened.

I think in the broader areas, yes. I would not go quite so far as getting people to spend money for actual factory lay-outs unless you feel pretty sure of them. In other words, whatever it was that Packard was supposed to make under that lay-out plan, it just was not assigned to Packard when the time came.

I think you have got to remember that the details of plans that you make are made with too many variables to permit the actual going ahead with your detailed lay-outs. I feel very sure that the conflicts between the needs of our allies and the needs of ourselves, the conflicts between the needs of Air, Ground, Surface, and Sub-surface services are basic, like the conflict between our agricultural interests and ourselves for certain basic commodities, and are so vast that allocation of facilities almost ought to come after you have had your broad studies of the over-all demand that can be placed upon your plants; and that, instead of going ahead too fast with the allocation of specific facilities, I would then favor finding out what the total demand will be in this particular field and asking, "Are we going to have the reserve for this?" In other words, set up priorities or guess at priorities before you start with the actual allocation of facilities. I think allocation itself serves a splendid purpose, but I do worry if it comes too late.

CAPTAIN WEBB:

Do you not think that as a result of our experience during this war we have, at least for a period of years, got a more or less automatic allocation of facilities, and in the case of another emergency would go back to the people that were our producers during this war? We know now what they can build and what they have had experience in building. It seems to me that just a listing of that experience would give us the guide for the future.

ADMIRAL RING:

The only trouble is that you can never guarantee that these people that you do business with now are going to be around in the next war.

CAPTAIN WEBB:

No. I meant, for a relatively short period.

One question I would like to put is this: At what stage will your Material Control Division or Branch get into CNO direction? Will CNO clear through your organization, or will you find that it is otherwise when you come to get contract clearance?

ADMIRAL RING:

I am unable to give you a definite answer on that. You are asking me a question which is outside my bailiwick, and I do not even know as much as I should know about what the job is. You have to ask that question of someone who heads up that particular division. I would rather not give you an answer. I really do not know.

There is a very important thing about your control of materials, something that everybody ought to bear in mind. The problem that we find ourselves confronted with now -- let us take the field of electronics, for instance, we will have an item which goes by twelve different aliases depending on who is handling it. One of the essential jobs now -- and I think we should push it harder than we are -- is proper card indexing and cataloging of materials; so that if a fellow has got, let us say, part 20 under a certain manufacturer's sales catalog, and if there is practically an interchangeability position between part 20 and part 265 of another manufacturer, somebody is not going to frantically go out to buy five hundred million more lots of them when you already have ten million cases of what is wanted. That is the kind of job that I think we can devote more time to, as much time as we can and get the money from Congress to devote to it.

So card indexing and cataloging and the proper description and orienting of part interchangeability and listing are one of the things that we should proceed with even in time of peace. It will permit us to do a better job. It will permit us to save the taxpayers some money. It will prevent the trouble that we are having now in the disposition of

