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INDUSTRIAL PROCUREMENT

16 January 1951

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Mr. Vincent deP. Goubeau, Vice-President, Director of Materials, RCA Victor Division, RCA, was born in New York City in 1898. He completed his schooling at De La Salle Institute, New York City. Prior to World War II, he was Purchasing Agent for the United Fruit Company at Boston, Massachusetts. Early in 1942 Mr. Goubeau joined the Office of Procurement and Material, Navy Department, Washington, D. C. He continued in various capacities at that office until mid-1944 when he became chief of procurement. He occupied that position until VJ-day. In the fall of 1945 he became associated with RCA Victor and is currently Vice-President, Director of Materials of that organization. He is active in the affairs of the National Association of Purchasing Agents and has contributed many articles to the magazine "Purchasing."

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CAPTAIN MILLER: The subject of our lecture today is "Industrial Procurement." To date we have been studying military procurement. It is therefore appropriate at this time that perhaps we should look into the manner in which industry does its purchasing and thereby we may find some techniques or methods that have application to military procurement.

Our speaker this morning has a wealth of experience in procurement, both with industry and with the military. During World War II he served with the Navy in the Office of Procurement and Material. This office is the present Office of Naval Material. He is currently Vice-President of Radio Corporation of America, Victor Division, and Director of Materials for that corporation.

It is a pleasure to welcome back to the college and to introduce to you, Mr. Vincent Goubeau.

Mr. Goubeau.

MR. GOUBEAU: Thank you, Captain. Good morning, gentlemen. It's nice to be back for a little discussion with the members of the Industrial College. I don't know that I should mention this, but I am going to, anyway. The last time I was here, I gave a talk and I believe you will find a copy of that talk in the library. If you have been reading it you might find something there that I am about to tell you again this morning. As a matter of fact, some of you might say, "Well, this is just a phonograph record." But, gentlemen, that really is not the case at all. The fundamental approach to procurement does not necessarily change; the plan remains fundamentally the same. However, I thought I might throw in a new thought here and there in the course of my remarks today.

The purchasing or procurement function in industry has come a long way in the last 10 or 20 years. The purchasing function was not always considered an important function in the industrial world. I think probably it was because there was not enough attention focused on the results of the purchasing operation.

It has been difficult to evaluate the effectiveness of the purchasing function in industry. I have an idea that was principally the reason for purchasing not being advanced to the position that it deserved in the earlier days. But during the last war the importance of purchasing certainly came to the fore. Many weak spots were found and industry went

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about improving them. After VJ-day, when we in business went back on our own, so to speak, with controls removed, I recall many people in the business world saying, "It's too bad we haven't got the controls back again."

Although it was temporary, we had a very tight supply situation following VJ-day and a lot of labor unrest made things still worse. During the reconversion period many high-powered executives of corporations were out pounding the pavements trying to get material. They thought the purchasing function had not done the job well enough. However, they soon found out they did not know so much about purchasing after all.

Now, I think that was instrumental in bringing about the realization that the purchasing function is an important one. I stress that because there has been a transition in industry. More attention has been focused on this activity. In order for a function to operate adequately, it is frequently necessary to give it management status; certainly, purchasing belongs there.

One of the points we might mention, in connection with the purchasing function, is the percentage of purchased materials against the total cost of the equipment being produced. In our industry it may run 40, 50, 60, or 70 percent of the total cost of the product. If a company had an over-all operation of 200, 300, 400, or 500 million dollars and the total cost of its procurement function might be 50 or 60 percent of that, why, you can see how important to the finished product, to the sales position, and to the profit picture of the company the procurement function is, not only as to buying at the right price but also supplying the necessary materials at the right time to meet production lines.

So the importance of purchasing, I think, is well illustrated through its relation to the manufacturing operation, through the profit picture, and so on. Consequently, the importance of the purchasing function should be and now is pretty much appreciated in industry from the point of view of management control. Usually, the top purchasing man reports to an executive, or else he is one himself. That purchasing man in turn may report, depending upon the size of the organization, to the president or to the treasurer, or very often in a large manufacturing operation to the vice-president in charge of production.

In the organization of a purchasing function, one of the first questions that usually presents itself is the matter of centralization or decentralization. I might just briefly touch on the types of purchasing organizations in industry.

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First, there is the completely centralized organization whereby all the purchasing is done at one spot. The company may have one plant, then all its functions are in one place. In that case there is no excuse for more than one purchasing operation.

In the case of multiple plants manufacturing the same product, there is a question as to whether it is desirable to have centralization or have the purchasing done at each plant level. If the procurement is for the same items, it is not logical to have purchasing done at the plant level.

We had that experience after the war when we reconverted to the consumer business in our Home Instrument Department. We had three plants manufacturing radios: one in Camden, one in Bloomington, and one in Indianapolis, Indiana, with purchasing functions at each plant. We found that all three of them were going to the same component manufacturer for capacitors or resistors.

Well, what happened? With a tight supply situation, it was perfectly natural that the buyer or expeditor from the Bloomington Plant would say to the supplier, "Never mind what Camden needs; I want mine for Bloomington." We had our suppliers holding their heads and saying, "Look, will somebody tell us who gets preference over which?" So, if the items are common--unless there are other conditions--it is more logical to buy them at one point, have shipment made to each individual plant and a running record kept of the deliveries. That is what we do in the Home Instrument Department, which is the department that manufactures radios and television sets.

In the case of multiple plants manufacturing different products, you have a little different situation. In that case you may have a combination of centralization and decentralization. You may have the common items purchased at central headquarters and the plants doing supplementary buying of items that are peculiar to them. I believe DuPont, U. S. Rubber and other companies of that nature do that.

Then you have the type of organization that is completely decentralized by product, such as General Motors. Each division has its own responsibility. It is responsible for its own profit and loss. Consequently, it has its own purchasing function. Oldsmobile is completely segregated from Pontiac, Buick, or what-have-you.

We have the same operation in our business. Our Home Instrument Department has its own purchasing function. Our Record Department, manufacturing phonograph records, has its own purchasing division. The Tube Department with its own purchasing division is located in Harrison, N. J. Our Engineering Products Department has its own purchasing function in Camden, N. J. That department manufactures various types of special electronic equipment including military equipment.

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So, we have in our organization four separate purchasing departments. They tie in with four separate businesses. The only purchasing that is done at plant level would be maintenance items for maintenance of the plants. That idea is followed pretty much throughout the automotive industry. I recall my first visit out to the Ford plant. At that time, its representatives told me, they had just changed from a requirement that nothing over \$50 would be purchased at any outlying assembly plant without first getting permission from Dearborn. They changed that to have all the maintenance buying done at plant level. We do the same thing. But there has to be a guide to it. I will touch on that in just a moment.

I think that gives you a pretty fair picture of centralization vs. decentralization. However, there is one point that I want to make in connection with it; that is, that the determination of centralization vs. decentralization should be made on the basis of the conditions of the individual company's operation; or, in your case, on the individual requirements of the services, including the type and variety of products manufactured, the importance of close alignment with other functions of the company, such as engineering, planning, sales, material control, and the volume of kindred items used in manufacture. These and other conditions should be thoroughly weighed.

It seems to me that if a sufficiently large volume of all important items is present in each division of a company, the advantages of decentralization far outweigh the disadvantages, with one exception, as I pointed out—as long as there is no rivalry between plants. That has to be overcome. Such matters as purchase policy, reciprocity, vendor relationships, and broad, general control of purchases can be handled at a policy level by a staff function, which is what we do.

The outstanding disadvantage of centralized buying, where there is more than one plant, is its lack of flexibility. There is more flexibility as decentralization takes place. Life is more complex these days than in the past, thus introducing the need for freedom of action and delegation of authority. Centralization also, if carried to the extreme, can limit the opportunity for acquiring knowledge of conditions in various locations and may restrict progress.

If you start off on the premise that you have a miscellaneous type of business and you will have a decentralized purchasing function, it is most important that you set up a strong central control for policy, guidance, and direction of the procurement function. Individual operations tend to go off in different directions unless there is enough guidance at a central point to see that there is consistency in policy as well as in operation.

In our company we accomplish that through our General Purchasing Division. The General Purchasing Division sets up policies and procedures for the product departments. It also places contracts for

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common items. If everybody uses the same thing throughout the company it is logical to place a contract for it because then we can control it from the point of view of seeing that we get the benefit of volume purchasing and also the benefit of satisfactory service to the fellow who uses a little as against the fellow who uses a lot. If the Engineering Products Department, for example, uses only a few capacitors and the Home Instrument Department, by virtue of its large volume of television production, uses a lot of capacitors, through the medium of buying we would be able to see that each is properly taken care of in that function.

There are cases where it is not logical to contract, and yet the general line of industry may be the same. In several of our businesses we may buy from the same people although different items are involved. In that case we try to set up a common approach to the selection of our sources of supply so that we will buy from a limited number of people who supply a certain product. They will, in effect, live with us. That is a very important point in connection with the procurement function.

In addition to that, the General Purchasing Division sees to it that maintenance items at the plant level—we call them MRO items (Maintenance, Repair, and Operating)—are purchased consistently as to price and specifications. Time was when each plant was on its own. One plant had no idea what another was buying. When we started to compare the purchases we found that just through lack of knowing about the other fellow they were going in different directions. The good that one fellow did was not passed on to the others.

Through the medium of our General Purchasing Division we set up price lists for all plants to follow—these are maintenance items I am speaking of—so that at Bloomington; Pulaski, Virginia; Indianapolis; and Harrison, N. J., if you are buying wrenches, screws, and so on, you know what the price list is in Camden. They should buy on approximately the same basis and on the same specifications, or else they should come to Camden to draw against the supply there. They also know that all the other plants are on the same basis. So they have a very good guide.

Now, you also have to take into consideration the problem of geographical location. Some maintenance items, where you do business primarily with jobbers and warehouse people, may vary with geographical location; the market is different. In that case, through this medium they have an opportunity to see what the price is in the West vs. the East. They get good guidance from the General Purchasing Division on that. The division advises them and helps them for all types of items, including coal and oil as well as the electrical, plumbing supplies, and hardware items.

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In addition to the division's other functions, I would like to tell you a word or two about its policies and procedures. I might mention at this point that our organization, in purchasing, is not too different from the Navy's procurement function, provided I am up to date. I have not been there since 1945, but I have managed to keep myself reasonably up to date on it. The Navy has the technical bureaus buying its peculiar items--Ordnance would be buying guns and ammunition; Ships would be buying ships; Aeronautics would be buying planes and accessories. Our product departments would be doing the same thing for items peculiar to their business.

Then, our General Purchasing Division combines the operations of the Materials Division in the Secretary's Office with the Bureau of Supplies and Accounts. The Bureau of Supplies and Accounts places contracts with certain suppliers; our General Purchasing Division does some of that too. The Materials Division of the Navy sets out policy and procedure under the Secretary; our General Purchasing Division does that also. So, we have somewhat of a combination of those two. Then we have the technical bureaus, so to speak--the Home Instrument, Engineering Products, Record and Tube Departments.

Now a word or two about policies. First of all, the policies set out by our General Purchasing Division have to be the company's over-all managerial policy. They have to tie in with the company's over-all approach to the procurement function, the over-all philosophy. Most good-sized purchasing functions have a purchasing manual. Those that haven't are getting on the band-wagon in a hurry to get one because it is important. It is of use not only to the purchasing function but it is very much of use to the other related functions of the company. Through it they will understand how the purchasing function operates, what their coordination with it is, and where the restrictions come in so far as the purchasing of company needs is concerned.

I would like to mention some of the policies we have in our manual. An outstanding one, with which I personally have a lot of concern, has to do with the market situation; advising and guiding the product departments with regard to extending or restricting their commitment position. If we have a free supply situation--and we certainly have had very little of that since VJ-day; but we have had a little of it--we would restrict our commitments to a short period. If we run into a situation such as we have now, our procurement position may be out from four to six months, depending upon the nature of the article. That is about where we are right now. We are out certainly about three months on our consumer products and about four to six months on some of the military work we are engaged in, by virtue of the tight supply situation. That would not be so much for raw material as for components.

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Now let us consider some of our other policies. First, purchasing by purchasing people.

"The purchasing functions shall initiate, conduct and conclude all negotiations for the purchase of materials, equipment and supplies necessary to the conduct of the company's business in compliance with RCA Victor Division policies and procedures as well as government laws and regulations."

In other words, the purchasing job shall be performed by qualified, specialized people designated for that purpose and not by technical, sales, financial, or other personnel engaged primarily in other activities.

The reason for that is we found by experience that by placing definite responsibility we can be assured of progress toward the ultimate objective of lowest costs, adequate service, and satisfactory relations with qualified suppliers. Confusion and entanglements often result from contacts with vendors by representatives of other departments. We therefore take a very definite position in this respect.

I found cases where, by virtue of our business having a technical aspect, our engineering people would be making commitments to our suppliers, our purchasing people would not know about it, and our suppliers would be between the devil and the deep blue sea as to how they should approach the situation. We had to remedy that situation. So, consequently, responsibility is placed where it belongs. The supplier knows with whom he has to do business. There never should be any confusion such as "the Engineering Department told me to do this," or "the Sales Department told me to do that." The Purchasing Department gives him his instructions. If he is going to manufacture a different product and it is going to involve a different price, he knows where he has to go to get it settled.

At the same time we impress upon our purchasing people not to become so fatheaded that they might feel they are running the entire company on their own because they do have this responsibility. We, therefore, require that the purchasing agent does not operate on his own without working closely with the other functions of the company, primarily Engineering.

We have safeguarded that to the point of requiring the Engineering Department's approval of a product. If it is a new product, the engineers have to approve it before we can buy it. If it is an existing product, the engineers have to approve the new supplier's product before we buy it. Through that medium there is a close coordination between the two.

We have to watch the problem of human relations in that direction. That is where the central coordinating unit plays a part. The first thing is to have the responsibility clearly outlined. The second thing is to see that the proper human relationships are developed so that there will be a team operation and not an individual ball-carrying relationship.

Another policy is the selecting of sources of supplies. One of our outstanding policies is to avoid wherever possible the use of a single source of supply. Certainly following VJ-day we found out that labor unrest and scarcity of raw materials brought home to industry the importance of following that sound principle.

By the same token it is also important not to have more than the necessary number of suppliers in order to insure a continuing supply and a competitive position. If you run your purchasing in such a fashion that whoever comes in with a lower price gets the order, you can spread yourself so thin that the sense of responsibility and loyalty to you evaporates. You are playing with fire to have that kind of purchasing policy.

So what we do is try to select the people with whom we will do business. By "selecting" them, I mean they have to be competitive; they have to be qualified; they have to make a good product, or otherwise they won't be put on our list. Then, when we hold to that list we have competition among them. They have to be consistent. To be sure, each one will not always have the lowest price on every item, but each one will be consistent with the others across the board.

The importance of living with suppliers has paid tremendous dividends in our company. For example, we are a growing industry. Since introducing television, our production has expanded enormously. We would not have been able to accomplish that kind of volume without having developed a close working relationship with our suppliers-- living with them and they with us. I think that is a very important purchasing policy for an industrial organization to follow.

One of the practices we try to avoid, and particularly with the inexperienced buyers, is the tendency toward overloading small producers, even though qualified. The electronics business is one industry that just lends itself to reliance on small business to support it. No matter how small or large you are, by virtue of so many parts and components being needed for the product that you assemble, it is impossible to manufacture everything that goes into it. So, it is natural to use the component fellows of all types-- foundries, metal-stamping people, screw-machine operators, woodworking facilities, plastic molders, and also electrical components.

When we find a good company and the fellow is doing a good job for us, very often our buyers become overenthusiastic. The first thing you know, the fellow has more business than is good for him. In that case he begins to fall down on the job. We do not get proper support from him. We have to watch that largely in our Engineering Products Department, which manufactures, as I mentioned previously, military equipment as well as transmitters, sound systems, and all the specialized apparatus of our business rather than the consumer products. There, you see, they buy many different things and when they find a fellow who is doing a pretty good job they like to keep coming back to him, which is all right so long as they keep within his size. A fellow will be very good to produce 1,000 transformers a month but he will fall flat on his face if you ask him to produce 100,000.

So, you see there is a place for the small producer and for the large one. When the little fellow becomes so ambitious he thinks he can build a battleship, he is over his head. The result is one shipyard goes into bankruptcy and the Navy is without one battleship.

We have many other policies, but I have touched on some of the highlights.

Incidentally, in connection with small business, we require our Credit Department to review a new supplier before we do business with him. They will assist the Purchasing Department in investigating his ability to perform, his financial status, and so on, so that we will not overload him.

We in industry have a great deal more flexibility than you have because you have to do business with the taxpayer. He has a right to be considered. Certainly there is a lot of stress being placed on small business. After all, small business is necessary to the welfare of our country. As I say, you do not have the flexibility that we have in industry. At least we can say, "That guy is no good for this type of work. I'm not going to do business with him." And no one forces us to do it, either. You do not always have that flexibility.

On the other hand, you do have a responsibility, if you are in procurement, to see that you get the ships, guns, or the equipment necessary to be prepared to fight your war or to meet your appropriation obligations. Consequently, you should take a very good look at the qualifications of the supplier.

I know your problem because I had three and a half years of it. We had the Industry Cooperation Division attached to the procurement branch of the Office of Procurement and Material during the war which had to do with seeing that small business throughout the country was taken care of; but at the same time they had to do a lot of investigating to see that they kept the right kind of balance.

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I would like to say a word or two about purchasing practices. One question that is very often asked of me whenever I talk to purchasing forums is: If you have only one source of supply for a unique item, how do you know whether you are getting it at the right price? You can't have competition; it is a proprietary item; he is the only fellow that makes it. Well, my answer to that one is some type of cost analysis.

Our civilian business is a highly competitive one and we do have to watch the cost of the product we sell as well as the quality to see that we keep our company competitive.

We have a cost-analysis group, which is incidentally not a part of the purchasing function but is attached to the Accounting Department--that, however, is unimportant--here we have a combination of engineering and accounting talent. They analyze parts. They might determine what type of machine will be necessary to fabricate the part. They will obtain from the Purchasing Department the cost of the raw material. They will estimate the labor, and come up with an average cost of the product. Then they will add about 20 percent as a profit item. That total figure then will be a guide to the buyer. If a price from the supplier is 50 cents apiece and our estimating people came up with say, 20 cents, there is definitely something wrong. We take the representative from the estimating group, bring him over, and he sits down with the supplier and the buyer and the three of them talk it out. The supplier may find out he is not making the part right; maybe we have given him a tip. We may find we have made a mistake; that you cannot do it this way. Somewhere between the two a negotiation takes place that is satisfactory to all concerned. Of course, you cannot do that with everything you buy because you have to have a steady run of business; you must have a large enough volume to be able to sit down with a man and go over that kind of an operation with him. But it is a terrific assistance to the buyer when you have a proprietary item of that nature.

You have tremendous advantage in the military because you can check his cost information. Industry cannot get that. "Macy doesn't tell Gimbel." If we are buying something from the GE people, they are certainly not going to give us a cost breakdown. After all, they are not going to give that type of information to a competitor. Consequently, very often a supplier in our Engineering Products Department, on a government contract, will say, "We won't give you a cost breakdown, but we'll give it to the Army if it wants it."

So you have an advantage in the use of cost analysis in military procurement, provided such use is a discriminate one and the private incentive system is maintained. After all, that is what our country has been built on and I hope it stays that way. Whether it be war or peace certainly the profit picture should remain. It should, however, be a reasonable and not an exorbitant one.

I think the ideal procurement team would include a negotiator, a price analyst—he might be an experienced financial man—and an estimating engineer. One cannot beat that type of team. We had the price analyst and the negotiator in the last war in our procurement function in the Navy, but we did not have so much of the estimating engineer, except for the technical sections in the bureau that drew up the specifications and did the preliminary work.

Limitation of buying authority is another practice I should mention. Buyers are allowed, in our own particular case, to place orders up to the extent of \$5,000. When they exceed that amount then the purchasing agent has to sign the order. If it exceeds \$10,000 the General Purchasing Division must approve it. That approval does not introduce the idea of taking over their buying; but it is a little review, which is a very good safeguard. Sometimes it is resented the same as the Contract Clearance Office of the Navy during the last war was resented. Incidentally, that is how I started in the Navy—reviewing contracts over \$200,000.

In addition to our vendor relations, it is very important to continue harmonious relations within our own organization. People have to get along with each other. The progress of an organization depends upon its teamwork. No one person ever has all the brains. Even the janitor may know how to sweep the floor a lot better than I; consequently, I ought to get advice from him if I am going to do it. Industry has come to recognize that one of the most important qualifications of an executive, whether he be junior or senior, is the ability to get along with people. Without that qualification, progress is impossible.

Thank you, gentlemen.

QUESTION: I imagine your Purchasing Division could be called "Purchasing and Contract Division," just by what you said. I would like to extend that a little bit further, if I may. How do you do construction work? Is that done by your property division? Is it done by your Purchasing Office? Or do you have a civil engineer outfit to handle that kind of work?

MR. GOUBEAU: We have a Plant Engineering Department with civil engineers. In connection with construction work, that is, new buildings, they coordinate with our General Purchasing Division. The product departments I spoke of do not get mixed up in new facilities of a construction nature. They do, though, on machinery but not on buildings.

Our Plant Engineering Department does the job for the company. That department coordinates with our General Purchasing Division. The manager of our General Purchasing Division is a civil engineer. We get

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the bids. We go over the bids together. We have a meeting of minds between General Purchasing and the director of our Plant Engineering Department as to who is going to construct the buildings.

That is one job that is very closely coordinated. I would say that a great deal of the responsibility is Plant Engineering's. The only responsibility of the General Purchasing Division would be in connection with prices and the agreement with Plant Engineering on the selection of the builder.

Now, we might have a bid from Turner Construction Company or George Fuller. We may also have a bid from a local fellow at the location where we are going to build, like in Marion, Indiana, where we expanded the plant we bought there. The manager of our General Purchasing Division is given an opportunity to decide whether the local fellows are sufficiently qualified to be considered to build that building.

QUESTION: In your organization do you have a person such as a contracting officer to sign the contracts?

MR. GOUBEAU: I do the signing of contracts. I would be the contracting officer so to speak for the RCA Victor Division. Buyers and purchasing agents are permitted to sign purchase orders but all contracts are signed by the vice-president in charge of materials.

QUESTION: You did not make any mention, sir, of the connection between your Traffic and Purchasing Departments. Would you mind commenting on that?

MR. GOUBEAU: I purposely left out the Traffic Department because I thought that what you were interested in this morning was purchasing as purchasing, exclusively.

My job includes three functions--purchasing, traffic, and material or inventory control.

We have a General Traffic Manager who reports to me. The Traffic Division has the responsibility for the transportation of purchased materials as well as finished products. It is their responsibility to determine that transportation costs are held to a minimum while at the same time retaining the service of having the materials at our plant or the finished products at our customer's warehouse at the time needed. Our traffic people are constantly investigating premium transportation to determine its need and to find ways of avoiding it.

The Traffic Division works closely with the Purchasing Division in connection with routings, freight rates, expediting, and other matters of common interest. The Traffic Division has prepared bulletins called "Traffic Guides" to be used by our purchasing personnel for their guidance in routing shipments.

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The Traffic Division constantly compares railroad transportation against truck transportation. We operate some of our own trucks and detailed costs are kept for comparative purposes with outside truck rates as well as railway rates.

QUESTION: Sir, if you were to have two or three suppliers who could furnish an item, wouldn't that department come into the picture in connection with the purchase of the item?

MR. GOUBEAU: Only in so far as it renders a service to the buyer. The buyer has the responsibility for placing his order.

Now, if we are buying exclusively for one plant, say Indianapolis, two things are taken into consideration: the price of the article to be bought as well as the advantages of geographical location. In other words, you take into consideration the question of whether the supplier will give you better support by being near you. And, as I say, the other thing to be considered is the price. Transportation is part of the price. If three suppliers all quote 50 cents a piece, one f.o.b. New Jersey, another one f.o.b. St. Louis, and another one f.o.b. Fort Wayne, Indiana, well the Fort Wayne one will have a lower freight rate. The Traffic Department will give the purchasing function that information or help to get it if purchasing doesn't have it. Then the buyer decides, all things considered, who gets the business. The Traffic Department does not tell the buyer with whom he is to place his business. But the Traffic Department tells the buyer what the freight rates are, what the service facilities are, and so on; in other words, it advises them.

QUESTION: The three services are always under pressure to establish single-service procurement, the thought being you save money by it. There are certain advantages in single-service procurement, but it is debatable whether you actually save money.

Would you care to comment on the possibility of saving money by having one service buy for all three services?

MR. GOUBEAU: I knew before I was much older I would be on the spot. I was mixed up with the joint procurement activities before I left the Navy Department, before VJ-day and, of course, before the new law was enacted.

There are times when single-service procurement, should I say, is given glamour. There are other times when it is a little bit unwise to have a situation which will lend itself to competing or confusing procurement. I say "confusing procurement"; I mean confusing to industry.

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I do think considerable progress has been made in directions other than the actual single purchase; for example, conditions of contracting. It does not make too much sense to me--it didn't then and it still doesn't now--to have conditions of purchase totally different in Colonel Fortune's Marine outfit, or the Signal Corps, and in one of the Navy bureaus, of a, should I say, boiler-plate type.

One of the problems that we faced when we set up textile buying in New York on Sixteenth Street was providing similar contracting forms. Suppliers had to have their lawyers go over a lot of boiler plate when it was a Quartermaster contract, and then go through it all over again when it was a Navy Supplies and Accounts contract. That certainly did not make sense. Developing similar boiler plate for both services simplified textile procurement considerably.

Now, in connection with single purchase, there are many places where it becomes unwise to go down to different areas when buying the same product. In the beginning we did have Lewis Strauss, who started this joint procurement for the Navy, and General Draper for the Army. Lewis Strauss used the expression one morning, "I'm finding out that an aspirin is different if a sailor uses it or if a soldier uses it. That is going to cost extra money."

You will note that I mentioned in the course of my discussion that if there is large enough volume in each case that it does not seem logical for one person to have to buy for all, so long as you do not have the competing situation that I mentioned--one plant fighting with another plant about getting the material out. But if you buy enough so that you get the lowest prices, there is no reason in the world why it has to be done in one place by one person so long as you have taken care of the other problems.

I cannot say I am completely in favor of one procurement service for everything. I do think your boiler-plate method of contracting and your specifications should have a good going over so that you can draw on industry to the degree possible to get the benefit of not disrupting industry and get full production when you need it and at the same time receive full value.

QUESTION: One of the big problems in procurement in the services is the balance between single-source suppliers and spreading our procurement over two or three suppliers in order to get protection against strikes, sabotage, or possible damage to a plant. Are there any problems in industry, or how would industry go about getting this balance between those? Are there some guiding lines that you could possibly give us?

MR. GOUBEAU: First of all, as I said, we set out a policy. It is not the policy of RCA to have a single source of supply. We review the operations in the product departments, and when we find a proprietary

item of any consequence, naturally we sit down to see why. If it is an item that is a raw material for which nobody has a similar product then, in that case, perhaps we cannot do anything about it because we are not big enough to develop a second source of some special type of thing. That is a far-fetched illustration, I know, but it is what I mean. Otherwise we insist that a second source of supply be developed.

If it is an item where a second source can be developed, then we put the onus on the purchasing agent. We give him a time limit and say, "As of such and such a date you're to have a second source."

We had one like that in our Tube Department. We happened to have a single source of supply for corrugated cartons in the Tube Department. It was all right. It covered a long history. I told the purchasing agent of the Tube Department that even though this supplier had a long history of satisfactory service, anything could happen. Even though they had multiple plants, a tight supply situation could develop whereby they would not be adequately supported with raw material.

I could not see any reason why they could not develop a second source of corrugated cartons. So, we went about developing one. About three months ago the regular source of supply got into some trouble; he was over his head. He had about a month or six weeks of trouble. The second source of supply saved the day. That illustrated the importance of the second source.

If it is a raw material that nobody else produces, I think in the services you get a look at the over-all facilities of the country to see whether you can develop another one. If it is something that can be developed, let us say electronic equipment, and you know you are going to have to have enough of it, then I think you should get a second one.

You establish a policy first, then you investigate the "why." Following that, you usually come up with a second source.

QUESTION: I would like to know, sir, how much industry subsidizes its suppliers. For instance, it is common practice for the Government to do that. I wonder if such a practice exists in industry and if so to what extent?

MR. GOUBEAU: To a very limited degree, I would say. It may vary with companies and with the size of their procurement of a type of material. Now we spent about 250 million dollars last year, but that was spread across the board into all types and kinds of things; whereas the GE people may have spent--I don't know--maybe 600 million, maybe 700 million, maybe even a billion dollars in 1950. They may have spent a lot of money in steel. They may have financed the opening up of a new blast furnace, if their uses are large enough. General Motors may have done the same thing. In our own particular case we have not found the need of anything as elaborate as that.

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When it comes to the smaller suppliers, we help them out on an individual basis at a time when they get tight, if they are doing an adequate job, or until they get "over the hill." If we face an expansion of a company, then we may sit down with its representatives with the idea of helping them finance an expansion, for our benefit. I would say we do a limited amount of it. I'll tell you one place where we do play a part. Instead of financing them, we will give them what you would call a "Letter of Intent." Or else we will give them an actual purchase order. We will, over the next 12 months, use so many metal cones for our television tubes, for example. They will take that order to the bank and say, "RCA has given us this business. Doesn't that make us a pretty good account? Will you lend us \$200,000?"

Now, we do not like to do that as a general thing because the supplier gets to the point of relying on us. The question then arises about how he should strive for his own self-sufficiency.

QUESTION: Once the Engineering Department has decided upon a product and has given that advice to the procuring function, where is your quality inspection done? Is it a part of procuring or a part of Engineering?

MR. GOUBEAU: Quality inspection comes under the Engineering Department. I mentioned that when we introduce a new product or a new supplier, the Engineering Department has to approve the specifications. If it is an electrical component, they have to approve the sample before the order is placed.

Now, if you mean the finished product, in our company that inspection comes under the Manufacturing Department. Incoming inspection of the purchased product is under the Manufacturing Department. But the first approval to do business with them, according to their sample or their specifications, is under the Engineering Department. The Purchasing Division people do not approve the quality of a product. They approve the quality of the producer in the way of his ability to produce.

COLONEL JOHNSON: On behalf of the Commandant, the faculty, and students of the Industrial College, I thank you, Mr. Goubeau, for a very interesting and informative period.

MR. GOUBEAU: Thank you.

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