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PROCUREMENTS IN INDUSTRY

General Robert E. Wood, USAF, USAF

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INDUSTRIAL COLLEGE OF THE ARMED FORCES
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31 January 1956

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GENERAL HOLLIS: This morning we have an exceptional privilege. You are to listen to a speaker who is a distinguished soldier, a distinguished administrator, and a highly successful businessman.

He had combat experience, as you know from his biography, in the early days of his career; and I was amazed to learn in reading it that he found himself in those days of slow promotion a first lieutenant in practically no time at all. But that was only the beginning of a vast list of achievements.

He was the Chief Quartermaster for the Panama Canal, under General Goethals; and, from what I am given to understand, it was something of an achievement to have held that billet for a long period at that time. He was the Director of Purchase, Storage and Traffic in World War I, a job roughly analogous to that held by General Semervell in World War II.

Finally, he has proven to be an eminently successful businessman and a pioneer there too. From what I have read in "Time," it took some persuasion to establish the principle that this large mail order house should go into the retail business. But he seems to have had the powers of persuasion requisite to that.

It is a great honor for me this morning to present to you General Robert E. Wood.

GENERAL WOOD: I feel very much honored by General Hollis' invitation to address you gentlemen. Though I have been in business life and out of the service for 36 years, except for the two years that I served in World War II under General Arnold, I value two things most greatly--first, that I am a graduate of the United States Military Academy; and, second, that I was an officer of the U. S. Army for 18 years. Most of the men of my time are dead or retired, but I still have a very strong attachment to the service.

I spent ten years of my Army service, 1905-1915, on the construction of the Panama Canal. For five years I had charge of the distribution of all material, local procurement, and the preparation of requisitions for the Washington buying office of the Isthmian Canal Commission. I was General Goethals' assistant for seven years; and, as General Hollis intimated, everything in my life has seemed easy since that time.

In March of 1918 I was brought back from France (where I had gone with the Rainbow Division) to become Acting Quartermaster General of the Army, and as such had the procurement and distribution of that department. Later I was appointed Director of Purchase, Storage and Traffic, the organization set up to consolidate the procurement of the entire Army. However, that was terminated in two months by the Armistice. There hadn't been time to properly work it out. The organization perished after the war.

In 1919 I retired from the Army and became vice president in charge of

merchandising at Montgomery Ward & Company, and as such headed their procurement or buying organization for five years. Then I shifted to Sears, Roebuck and Company in 1924, became vice president, then president, and then chairman of the board. For the eleven years that I served as president, I personally supervised, through my vice president in charge of merchandising, the operations of the buying force.

So I have had a pretty long experience in procurement. I ought to know my subject. At least I hope I do.

In World War II I served as consultant on supply to General H. H. Arnold of the Army Air Forces.

To any great distributor like Sears, the quality and the integrity of the buying force are the foundation of its business success. A store manager, a plant manager, or a factory manager can make mistakes, but their effect is purely local. But if the buyers make mistakes, the effect of such mistakes is felt throughout the whole organization. The best store manager in the world cannot maintain a successful store unless the buying force furnishes him with the values to present to the customers.

To handle the procurement of a business doing over three billion dollars a year necessitates a large and complicated buying organization. There are 46 buying departments in Sears, each headed by a supervisor who is a specialist in the particular department of which he is the head. Seven of these departments do from 100 million to 200 million dollars

worth of business a year. The supervisors are the highest-paid men in the business, with the exception of the officers of the company. Not only do they receive high salaries and high bonuses, but they are in the profit-sharing fund, receive stock options, and liberal pensions. On their judgment and ability depend the progress and profits of the company.

Sears has no franchise, no patents, and no concessions of any kind. It belongs to no cartels. It has to compete every day, in nearly every town or city of any size in the United States, in all the rural districts, with every known form of distribution--with the national chains of department stores, the independent retailers, the manufacturers' chains, with house-to-house selling. Its success is due to its efficiency and to its unswerving pursuit of its objective as originally set up--to give value to the American people; and to accomplish that, it is necessary to have a very superior corps of buyers.

The departments are divided into lines of merchandise, and each supervisor has a corps of buyers and assistant buyers who are specialists in their particular lines of merchandise. Altogether, the buying force numbers 620, and its annual expense is approximately \$25,000,000.

The buying or procurement function of the business is the only part that is centralized. All other functions--distribution, operating, retail advertising--are highly decentralized. There is a buying office in New York City for the women's wear department, a buying office

in Los Angeles for the Pacific Coast; there are foreign buying offices in Frankfurt, London, Paris, and Tokio; and buying representatives in Dallas and Atlanta. All are under the direction and control of the vice president in charge of merchandising in Chicago.

As a matter of fact, probably 80 percent of the total purchases of the company are made by the central buying office in Chicago. The 700 retail stores and 11 mail order plants draw on the contracts made by the Chicago buyers, some of the goods going direct from the sources to the stores, others being shipped from the mail order plants, which act as wholesalers or jobbers to the retail stores.

While the fundamental principles of procurement are basic, their application to the various departments varies widely. Mass buying on articles like tires, batteries, and washing machines differs entirely from the methods used in women's wear buying, where selection and style are the main factors, or a department filled with small items of small value, such as notions. Some examples follow.

Taking appliances as an example of mass buying, they are usually purchased from one source, which is sometimes partially or totally controlled by Sears. The parent buying department in making its plans or decisions will contract with the factory for a quarter ahead for the manufacture of a specified quantity of each model, to be available for shipment on an agreed-upon schedule, a production schedule, in other words. Reports of unit sales and inventory are received from the stores month by month, and the latest sales trends and stock condi-

tions are used in planning when the time comes to specify the production schedule of the subsequent quarter. Usual seasonal characteristics are taken into consideration; that is, the production for quarter two will not be scheduled at the same level as quarter one if experience indicates that there is usually a 25 percent falling off in demand between the two quarters.

In highly seasonable items another type of problem is represented by items with a limited selling season; for example, shotguns, where about 80 percent of the year's sales takes place in six weeks during the fall. In shells, for instance, more than in any other civil organization in the world, it is very important to us that all the hunters in the United States buy from us. To secure the most economical production cost, such items must be manufactured on a year-round basis, permitting even production month by month throughout the year.

The first step is to obtain the record of sales and ending inventory for each model for the season just closed. This information is secured either by reports from all stores; or, frequently, from the so-called 'merchandise survey stores,' a group chosen to be a good statistical cross section, from which all store estimates can be made with reasonable accuracy at considerable saving of time and cost.

From this information the buyer determines which items were the popular sellers, which the laggards. He takes into consideration any new models planned for the coming year, and the factory starts producing in the early months of the year for goods which will not be

shipped and sold until six to nine or more months later. Operating in this manner requires the factory to tie up considerable amounts of capital in finished goods inventory for many months. This is taken into consideration in the contractual arrangement between the factory and Sears.

Still another category is seasonal apparel lines, where the selling season is somewhat longer than in the instance just described, but where a multiplicity of stock numbers is involved because of size and color problems. Frequently as many as thirty to forty stock-keeping units may be required for one merchandise number in order to cover the range of customer demand. For merchandise of this type the buying departments must place contracts with manufacturers well in advance of the season.

Using normal size distribution scales, and colors and patterns in quantities determined by the Sears buyer, the factory commences production. Also well in advance of the season, the buyer will obtain commitments from the stores for a specified percentage of their forthcoming season's requirements. The stores take into consideration the previous year's sales of the line in making their estimates, allowing for good sellers, poor sellers, inventories carried over of items similar to those to be offered, and so forth.

This information is obtained for the buyer and screened against the contracts. Contracts then are adjusted so that production on items in heavy demand by the stores can be stepped up in time to take care

of re-orders from the stores, while items proving to be not popular can be curtailed early in the season, thus avoiding, insofar as is possible, the building of inventory for goods which will probably require mark-downs and depreciations before final disposal.

Many seasonal goods, both in apparel, as just described, and in small-ticket hard goods, require manufacturers to build and hold inventory for a longer time than their financial means will permit. In these cases, resort is frequently had to field warehousing. This is an arrangement which permits manufacturers to borrow on finished goods stocks which remain on their premises and to which they retain title until shipped to Sears. By virtue of the contract with Sears to purchase these goods by a specified date, banks will loan as high as 85 percent on such merchandise.

I might say that nothing has given me more trouble in my business career than this item of apparel. You know, a West Point education is not exactly conducive to picking styles, or to dealing with delays. In the twenty-five departments of Wards, I got all but one making profits, and apparel was that one. For years it was not too successful at Sears. I finally got it in the black.

Many staple lines, both in apparel and other categories, require the spacing of contracts. These goods, such as men's dress shirts, are sold on a year-round basis. The rate of sale, however, varies with the season of the year. With such merchandise it is a relatively simple matter to place contracts for subsequent quarters, taking into

consideration the good or poor demand for the various items in the preceding quarter. Production rates will be planned so as to build or reduce inventories in keeping with the seasonal rate of sale. We built up one factory in the little town of Andalusia, Alabama, to where it is now the largest shirt factory in the country. I think they sell about twelve million dress shirts a year. It may be bigger than that.

All of the foregoing has been in terms of the requirements of various classes of merchandise. There may be times, however, when overriding considerations, affecting all types of goods, will dictate modifications of buying policy. In periods when the economy of the country indicates sizeable inventory accumulation at various levels-- manufacturing, wholesaling, and retailing--with the usual accompanying phenomena of rising bank loans, rising prices, delayed deliveries, and other evidences of the development of an unbalanced situation, the General Merchandise Office will advise and instruct the buying departments to curtail purchases, so as to ride through the crest of the business cycle without accumulating excessive and generally *high-priced* inventories.

Such periods are extremely difficult, because a certain amount of goods must be contracted for well in advance, in order to have needed merchandise in the stores regardless of the state of the business cycle at the time the goods are delivered. Various information is used to evaluate business conditions, including data on production, sales, inventories, prices, etc., as released by the Federal Reserve Board,

the Department of Commerce, the Bureau of Labor, and various private agencies. Considerable reliance is placed upon the relationship of new production of finished goods to retail sales of such goods.

In other words, in times of declining sales we try to have just enough stock to carry us through, and to hold up our buying contracts until the market breaks. We are gambling in that respect, but we have been very successful gamblers for some thirty years.

Our General Merchandise Office has developed indexes of production and consumption of both durable goods (appliances, home furnishings, and other hard goods) and non-durable goods (wearing apparel, household textiles, shoes). These show clearly periods of development of excessive inventories, which indicate the need for caution in placing contracts, as well as periods of substantial inventory liquidation, when more liberal placing of contracts will be warranted. While these general data relating to two broad classes of goods are made available to all the buying departments, each buying department must evaluate the information obtained in terms of its detailed knowledge of the supply/demand conditions confronting its own lines of merchandise.

We give the widest possible latitude to our buyers. In fact, I think it is the only concern where the buyers can place contracts involving millions of dollars without getting the approval of the officers of the company.

Seasonal budgets of anticipated sales, inventories, and goods on order are prepared by the field organization, that is, the retail stores

and the mail order plants, as well as by the parent buying departments. A weekly report measures deviation from the budget and permits taking quick action should any sector indicate the need.

Proper control of procurement depends on three factors: amount on hand (inventory), sales or issues, and commitments. A consolidated report is made up weekly showing the position of the company. I have a few specimens here covering the week ended January 14, 1956, which I will be glad to turn over to General Hollis and the staff for their information.

The normal position of the company will average about a billion dollars, divided roughly 500 million in inventory and 500 million in commitments. It will vary up and down from that by 50 or 75 million dollars at different seasons of the year; but these reports, which are only estimates, have been very accurate. I would say that the ordinary margin of error is not over two percent.

That report was my Bible. Before I retired, I used to have that report follow me wherever I went in my very frequent absences from the office in Chicago. It was through that report that I regulated the commitments. If I saw sales falling off, possibly a decline in prices, I tightened up on the buying force. If, on the other hand, I saw sales going up, or commodity prices going up, I would turn them loose.

One of the greatest feats in my business career was in 1932. Some of you may remember that in March of 1932 banks were closing and businesses were failing. We were losing a hundred thousand

dollars a day. I made up my mind then that it couldn't keep on going down on a grand scale. So I ordered my buyers to buy everything in sight. They bought over a hundred million dollars worth of merchandise from bankrupt businesses, forced sales, and things like that. I knew that things couldn't go any further or everything would go busted. There was only one way that they could go, and that was up. They did go up. We made the largest profit in the fall of 1933 in percentage that we had ever made before and erased all of our losses. But you have to have a guide, so that you know where you stand all the time.

It is obvious that industrial procurement is vastly different from procurement in the services. In the one case the final objective is the purchase or distribution of goods for a profit; in the other case the objective is the security of the country.

However, the inventories of the services are excessive; and the main cause for the excess inventories is the system of requirements drawn up by the Joint Chiefs of Staff, on which purchase contracts are based, and on the system of reserve requirements by which excess stocks (stocks in excess of the normal stocks required by the posts and bases) are accumulated.

I believe the American people are practically unanimous in their desire for a strong defense. But they believe, and I think justly, that we can buy a strong defense for less money than we are spending at the present time.

I think it is very important that officers of the services study

the Hoover Report, that portion that relates to the Armed Services. While I do not agree a hundred percent with every recommendation of the task forces, it is my opinion that at least 80 to 85 percent of the recommendations are sound; and that, if the services cooperate in putting them into effect, it will mean savings of millions of dollars a year.

I worked on the task forces of both Hoover Commissions, and on the second commission was chairman of the committee covering the Armed Forces inventories and stocks. It was disappointing to find out in 1954, five years after Congress had passed a law requiring the Armed Forces to take inventories, that there were no complete inventories worthy of the name, nor any reliable or accurate figures on these materials, in any of the services.

The Army, Navy, and Air Force still have much to learn about stock control, proper keeping of stock records, and record of issues. ^{and} With no proper inventories/ no accurate record of issues, it is not surprising that the services have accumulated an inventory of approximately 60 billion dollars, half of which may be estimated as surplus or dead stock. And this does not include inventory of plant items, such as planes, ships, tanks, and real estate.

The first objective of every officer--Navy, Air, Army--is the security of the country. But all of you officers are also citizens of the United States; and it is your equal duty to try to avoid the waste achieved in past and present practices and thereby grant to your fellow

citizens some relief from the present tax load, retain the integrity of the American dollar, and gradually make some reduction in our debt.

Now, it is obvious that you can't cover such a subject as industrial procurement in one speech or talk by anybody, least of all myself. You can't cover the subject, and I prefer to just give you, as I have, a bare outline of some of the salient points, and then leave it to you to ask me questions, which I will try to answer as well as I can, for the purpose of answering what you are interested in. I would be glad to give you more information subsequently.

COLONEL SMITH: Gentlemen, General Wood is ready for your questions.

QUESTION: General, I may have missed this in your talk, but what is the position of Sears Roebuck on local procurement, that is, buying your merchandise where your stores are located as against procurement from the factory?

GENERAL WOOD: Verboten. Our stores are not allowed to buy anything, with the possible exception of what we call pick-ups, such as some common article that you might run out of and go to the next store and buy. But in general they are forbidden to do it, and the amount of local purchases is very small.

QUESTION: General, in connection with your operations in South America, which I understand are becoming more extensive, I am interested in how you handle your purchase and supply distribution

for the summer versus winter items in view of the fact that when it is summer here it is winter down there.

GENERAL WOOD: That is a very interesting question. It is, unfortunately, one that we haven't solved completely.

When we went into Latin America, we thought we could ship roughly 60 percent of our goods from the United States and buy 40 percent locally. But for two years we haven't been able to ship a dollar's worth of merchandise down to Brazil. It has been all locally bought.

In the textile end of the business it works out all right, because they have something that is practically just as good as ours. They have good textile manufacturing. But with metal goods they are awfully poor. I would be ashamed to offer what we offer in Brazil in our United States stores. The only thing we can say is that our prices are lower than the other fellow's. It is poor stuff.

When we first went down to Mexico, we were able to ship in a good many United States goods. Today they have tightened up on the tariff. Between the quality and the tariff, I don't think we ship in 10 percent now.

We have had to develop our own buying sources in Latin America. But buying down there is very different than it is in the United States. Our buyers there have only two million dollars of purchasing power, in Latin America, whereas they have a purchasing power of 15 to 20 million a year here. So they haven't the advantages down there that

So to avoid that, we have acquired an interest in all the manufacturing companies where we have tremendous volume. We have stock holdings in them. They can't leave us and we can't leave them. We have our own engineers and designers in those factories. We are with those models for keeps.

QUESTION: You stated that procurement was centralized in Sears, and yet at the same time you said the buyers had a wide latitude or wide discretion. I wonder how that is reconcilable with the situation in the Hoover Commission Report, where they recommend centralized procurement for a business that is ten to fifteen times as large as Sears'. Could you run a centralized procurement and tighten up on your buyers if you had to do the buying for diverse outlets such as we do?

GENERAL WOOD: Well, I don't remember the exact recommendations of the Hoover Commission. In World War I all the subsistence buying was decentralized to the Quartermaster Department in Chicago, under general officers who really worked independently of the Washington office. The centralization of purchasing is accomplished by reducing the amount of buying done in such decentralized offices once we have the authority to operate on a very large scale. But they are already doing that at Chicago.

QUESTION: As I understand the recommendation of the Hoover Commission, it is to centralize the final policy and operation in one Washington office. Doesn't that remove the central responsibility

from the procurer down to the ultimate consumer?

GENERAL WOOD: No; I don't think it does. I said that our procurement is highly centralized. It is, and it requires control. We have the Pacific Coast buying, which is separate; and the foreign buying, which is separate. We have gradually been building up our southern buying also. But it is all under one control and direction.

Now, as to the other part of your question, the operations of each mail order house and retail store are entirely in the hands of the local manager. He can hire and fire. The retail manager can make his store managers cut their own prices and do their own advertising. We just judge by the result on the bottom line at the end of the year. They can't get away from that bottom line.

QUESTION: General, one of the Army's problems is having a large part of their inventory tied up in the pipeline--in storage in warehouses and other places. Will you tell us a little more about the techniques you use in reducing this pipeline inventory?

GENERAL WOOD: I did make a very brief reference to that. The whole trouble, as I see it from my experience as Quartermaster General, and also from what I saw in the Air Corps, is that you start in the Armed Services from the top with your requirements. In commercial life you start at the bottom, with estimates from the men who issue the goods. It is on their estimates that our contracts are based.

It is a cardinal principle in our business that no merchandise or goods shall be shipped to a store without the store manager or the

mail order manager having requisitioned it. Nobody can ship in a dollar's worth of stuff that hasn't been ordered. But in the Armed Services--the Army, Navy, and Air Corps--you have hundreds of millions of dollars worth of merchandise coming in at the local station and depot level that the commander never ordered. It is done on a theoretical requirements basis.

I can remember a case--I have told this many times--that happened when I was Quartermaster General of the Army. I had just gotten in from France, and one of the first things I saw was a requisition on my desk for 400,000 horse coverings. I knew, of course, that the horse was not yet obsolete in World War I, but I didn't think we needed that many coverings. So I went to a good deal of effort and found out that they had a young first lieutenant in the Requirements Division who had figured out this requirement. I asked him for his reason. He said: "General, every division has 27,000 men and 18,000 horses. One horse covering for every horse." But we had only three thousand horses in the Army at that time, and two thirds of them were in southern climates, where they didn't need covers.

You have those fixed requirements, just as it says in the Hoover Report. When I was with the Hoover Commission, we were out at some field and they told us that in figuring their reserve requirements they never would put in stock to cover their normal requirements. They would have an eleven-year supply in excess of that. Now, that may be all right with highly technical stuff; but if you take eleven years'

supply of nuts, bolts, and hardware, which you can always get in time of peace, it would result in many cases in the equivalent of a hundred years' supply based on any normal issue. And then, of course, a large part of both the Army and Navy surplus materials and spare parts were claimed to have been obsolete and to have been superseded by later models.

That can't be avoided. One bad thing about it is that it takes up room. It takes up over a million square feet of warehouse space, costing an awful lot of money. The best thing to do with that stuff is to melt it up into scrap and get rid of it.

QUESTION: To what extent has the success of your company been due to your personnel policy, which I understand is considerably more enlightened than that of Montgomery Ward?

GENERAL WOOD: Well, we think it has a great deal to do with it. I was telling General Hollis that as a youngster at an old frontier post, Fort Assiniboine--this is now 40 years ago--I used to figure out my prospects. I figured that with good luck I might be a colonel at sixty-two. I didn't know when I would be a captain. I saw the slow rise of a young man in the Army at that time. So I made up my mind that if ever I got in a position of authority, I would give the young man a chance. I would do it, first, by getting in smart young men from the colleges and so forth; and, second, after they got in, I would see to it that they get a chance to get a promotion; and, third,

I would give them as rapid promotion as I could. So in Sears, thanks to our policy of expansion, we have been able to give our young men more rapid promotion than in many other corporations in the country.

The record on that in the country is pretty good. Since my retirement I have estimated that the investment in that amounts to \$50 million dollars a year. The result is that our men and women who have had 25 or 30 years service are all going out and finding other jobs. Our truck drivers are all retiring with ^{\$60,000 to} their \$70,000. We don't give them a pension. We give them a check.

I think our personnel policies have a great deal to do with our success. There is an enormous difference between people who are just working for a pay check and the men and women who give their best.

QUESTION: My question is along that same line. One of the problems in the procurement field, or in any other field of the military, is the fact that officers must rotate every three or four years. It seems to me that, especially in procurement, that is one of our big problems. Do you have any comment on how we might solve that one?

GENERAL WOOD: Well, I think that the Hoover Commission goes into that quite a good deal. One of the greatest weaknesses we saw was the fact that in many of the services you have natural talent in some line, someone who is interested in that line; but he is never allowed to stay with it, or very rarely. As soon as someone has just about gotten on to his job, he is rotated away. Now, it is for the services finally to solve that, not an outsider.

QUESTION: General, I believe that consciously or subconsciously the American people compare Sears Roebuck and Montgomery Ward as two companies that have expanded from originally mail order houses to the retail business. In Sears Roebuck I believe your volume has gone way ahead of Montgomery Ward's. On the other hand, they have built up a large cash reserve. I was wondering if you would please outline some of the policies that have allowed you to go forward with your tremendous volume in the procurement field primarily.

GENERAL WOOD: The answer is very simple. President Avery of Montgomery Ward is a personal friend of mine. We belong to the same clubs--the same boat club, the same fishing club--but our ideas about business are radically different. We remain good friends by never discussing business. But up to VJ-Day Mr. Avery--I asked him to be very frank with me and I was very frank with him--felt that there was a tremendous depression coming on, that it always came on after a war; and I felt just the opposite. I had been comparing supply and demand, and I felt that there was a huge unsatisfied demand. Well, I guessed right about it and he didn't guess right.

QUESTION: Would you care to comment as to what extent Sears uses advertised bids, if at all? The reason for my question is obvious. It is directed at the preferred method of procurement for the Armed Forces.

GENERAL WOOD: We don't use advertised bids much. In other words, our policy is that, if we use them at all, it is on things like men's clothing, where we buy the same things year after year. But I would say that for the services your advertised bid is your best bet. In other words, my policy as chairman of Sears and as chief quartermaster would be radically different.

QUESTION: You mentioned in your talk that the military has not learned yet the proper way of supplying and distributing their organization. I was wondering if by that you meant that the system that the military uses was not a good system, or whether it was the result of the personnel policies on rotation.

GENERAL WOOD: I think this: that quite a lot of people can be fitted in, but not all. I remember down in San Antonio that most of the record clerks were ex-cowboys. They didn't know office work. It was impossible for them to keep records properly. I found in these air depots in recent years that it is still a problem to train and educate your record clerks to keep proper records. In the old air depots I would say there weren't 40 percent of the stock cards that were accurate in any way. In a commercial organization they have to be accurate, because their life depends on it; the profits depend on it.

Then, too, it is on those records that you watch your dead or surplus stock. I used to have an analysis of the whole inventory every year. It is my thought that if the proportion of stock that is over one year old exceeds one percent of the inventory, you should sell it.

Somebody was always punished for it.

You in the services have 50 percent of your stock in dead stock. That isn't due entirely to the service. In other words, if you have a plane and then a better plane comes along, you have to manufacture that second plane and the spare parts for the first which is obsolete. That is just a development of the air industry. No one person can be held responsible for it. But at the time I was with General Arnold of the Air Force, the base commander had no knowledge of his stocks. I have no doubt the situation has been vastly improved since, but it wasn't then.

QUESTION: I would like to follow that up, if I may. How about the systems that the services have on the assumption that people know their system? Do you have any comments with regard to that?

GENERAL WOOD: On the system of distribution I can't tell you, because I haven't any recent knowledge of it. On your system of requirements for procurement, I think there are great holes in that, because they are not based on issue and sales records. They are based on theoretical requirements drawn up originally in the Joint Chiefs of Staff's office.

The main difference is that our estimates come from below, from the men who are actually issuing the goods. In the Army, Navy, and Air Corps they come from above. There ought to be some scheme in some way there of correcting these theoretical requirements.

QUESTION: I would like you to forget for the moment the

Hoover Commission recommendations and draw on your vast experience, plus your experience with the Hoover Commission. Do you personally feel that the Armed Forces can benefit by unified procurement in a general sense, recognizing that maybe certain specific items or classes might have to be, shall we say, service-procured? Generally can we benefit by a unified procurement system? If so, is the single manager concept, that we seem to be getting into now, an adequate solution to unified procurement?

GENERAL WOOD: Well, frankly, I don't believe it is. When they put in the unified purchase system toward the end of World War I, it had the objective of unifying procurement for the Army. I told General Goethals it wouldn't work, because the same fellow can't buy uniforms and medical supplies and engineering supplies. They are just so different that it doesn't work. Of course, he never had an opportunity to try it out in the Army, because the Armistice came within two months after he started this, and it just died out.

But I don't think you can have unified procurement for such and diverse lines as planes, ships, ship stores, /quartermaster supplies. In certain lines in the Navy, Army, and Air Force you can have unified procurement. But to lump their procurement all together, I don't believe it will work out.

QUESTION: I would like to get back again to this matter of determining requirements. I believe you stated that requirements

should be determined at the user level and not at the Joint Chiefs of Staff level, as we do it in the military. I am not sure I quarrel with that necessarily, but I think--and this is principally a comment and not a question--that the Joint Chiefs of Staff do not have control of all the factors that go into the determination of requirements. I would like to point this out: that they are governed somewhat by national policy, and that the national policy fluctuates, and to a certain extent is beyond the JCS's control. I think much can be done at that level in adjusting our requirements to our national policy, and that that is bound to flavor the reports that you get from the end users. I think that is one of our big problems.

GENERAL WOOD: That is true. We have to adjust to the national policy of the United States.

On the other hand, when you come down to practical questions, when you translate the policy into contracts and orders, you have to get the viewpoint of the fellow who is going to distribute these requirements, so that you don't do as was done in the case of the horse covers.

QUESTION: I would like to return to the local purchasing policy. In the Air Force we found out that it was a good thing to allow many more local purchases by the base commander. So we became good customers of Sears Roebuck. On cost comparisons, we found that we could get things like brooms, shovels, and nails for our depot at Los Angeles in California much cheaper locally; that by the time we get a keg of nails out there, we could buy it much cheaper locally.

So that became our policy preference.

We also found that local purchasing could save warehouse space. Besides, it built up a great deal of good will in the community, since we have become good customers, and if we paid our bills. It gave the station commander a great management tool that he could use to avoid some of these automatic weaknesses that you mentioned before.

Now, as opposed to your policy of no local purchases, suppose that nails can be bought so much cheaper locally that, if you got them from Chicago, you would have to sell them at more than the local price to make a profit. In such a case would you sell your nails at a loss in that area?

GENERAL WOOD: You have posed a very sensible question. When I say we don't allow the stores to buy anything locally, I should explain that we didn't put that policy into effect until we had covered the United States with our distribution system, so we wouldn't have to pay freight on long hauls. For instance, on the Pacific Coast, California is our biggest state. Out there 25 years ago, only 5 percent of the goods was bought from the Pacific Coast manufacturers and 95 percent was shipped in from the Middle West, the East, and the South. Today 50 percent of the goods sold on the Coast are bought from the Pacific Coast manufacturers.

Of course, it had to be that way, because the principal reason for local purchasing is the rise of over one hundred percent in freight rates. We can't afford to haul goods all over the country any more.

We have set up local sources in every part of this country, and we supervise them. Our contracting is more and more going to regional buying. Every section of the country--the South, the Pacific Coast, the Middle West, the East--are all manufacturers of the goods we require, whereas 50 years ago New England and the Middle Atlantic states were the chief source for them and were shipping goods all over the country. Today we buy our Pacific Coast goods on the Pacific Coast, and therefore there isn't the need to make local purchases like there used to be.

QUESTION: Several times you have referred to a kindly feeling for the store manager who shows a good black figure at the bottom of the page. One of the problems in the military is that we can't show a black figure at the bottom of the page. Would you discuss the relative importance of this as far as the military is concerned and what we might use as a substitute?

GENERAL WOOD: You have asked a very pertinent question. After all, the big difference between government operation and private operation is that in private operation you have a standard. In government operation you don't have a standard. In private operation you have the cruel standard of the balance sheet and the profit and loss sheet. They reveal the true situation. You can't get away from them.

In government operation a man can make a mistake that may cost the citizens of this country millions or even hundreds of millions of dollars, but there is nothing that shows it. Conversely, when he

does a good buying job, nothing shows that either.

Now, how to do that, I mean, how to set up some form of standard, not necessarily a profit and loss sheet or a balance sheet, how to set that up for the services, I say frankly, I don't know.

QUESTION: I am sure that Sears is just as much interested in quality control as the services are for the things they buy. I am a little appalled as to how to control quality with the type of procurement that you describe. I would assume that Sears probably buys on specifications somewhat the same way the services do. But how do you handle the inspection of all these varied sources to insure compliance with the specifications?

GENERAL WOOD: First, Sears was the first retailer to put in a testing laboratory. We spend about two and a half million dollars a year on that laboratory. We use it for the testing of new products.

On the other part of your question, after all, the manufacturers of the United States, the overwhelming majority of them, want to stand by their products. Over the years they are honest. They are watching their quality even more than you are.

Now, there are exceptions to that. The garment trade in New York City has no such idea. Their idea is to just get by. Therefore women's apparel is the only line of merchandise where we inspect one hundred percent.

We have developed now some sources of women's clothing outside of New York. We have a big factory in Little Rock, Arkansas, and

another in Tulsa. We don't have to inspect their products. They are honest. They stand behind their merchandise. For the New York manufacturers, you watch every item, but for the rest you can depend on the manufacturer. For instance, with General Electric, Westinghouse, and such manufacturers it is just a question of seeing that you get what you order, without worrying about whether it comes up to the specifications.

COLONEL SMITH: General Wood, this morning you have been giving us a very interesting talk, and have made a real contribution to the Procurement Unit, and, I suspect, the Requirements Unit as well. On behalf of the College, may I thank you for coming and being with us today.

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