

DEPARTMENT OF DEFENSE SUPPLY SYSTEM

Mr. Paul H. Riley

NOTICE

This lecture has not been edited by the speaker. It has been reproduced directly from the reporter's notes for the students and faculty for reference and study purposes.

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Reviewed by: Colonel Thomas C. Keach, USAF

Date: 8 February 1960

INDUSTRIAL COLLEGE OF THE ARMED FORCES
WASHINGTON, D. C.

1959-1960

DEPARTMENT OF DEFENSE SUPPLY SYSTEM

16 December 1959

CONTENTS

	<u>Page</u>
INTRODUCTION--Mr. L. L. Henkel, Member of the Staff, ICAF.....	1
SPEAKER-----Mr. Paul H. Riley, Director for Supply Management Policy, Office of the Assistant Secretary of Defense (Supply and Logistics)..	1
GENERAL DISCUSSION.....	21

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Reporter: Grace R. O'Toole

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

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16 December 1959

MR. HENKEL: General Mundy, Gentlemen: Today we will turn our attention to the problems of supply management. It will be the first of several lectures relating to this subject.

Specifically, we will consider the principal factors in the integration and improvement of supply systems in the Department of Defense.

For our speaker this morning we are very fortunate in obtaining a man who is eminently qualified to discuss this subject. During World War II he served as Supply Officer in the Army, after which he joined the Bureau of the Budget in the Military Division, where he studied and analyzed the various Department of Defense supply systems. At the present time our speaker is the Director for Supply Management, Policy, of Assistant Secretary/Defense, Supply and Logistics.

It gives me great pleasure to welcome him for the second time to this platform and to present him to this year's class. Mr. Paul Riley.

MR. RILEY: Thank you, Mr. Henkel. General Mundy, Members of the Faculty, Students: I thoroughly enjoyed being here last year and speaking to the group and attempting to answer the questions afterward. I am certain that I will derive the same kind of pleasure today.

I do not think that it is necessary, before a group such as this, to

tell you how important logistics is in both peace and war. Most of you know, I am sure, that wars will be decided by the amount of material that this Nation or any nation can produce and bring to bear on an enemy before and after the onset of hostilities.

My subject today is Supply Management. I think it would be desirable for us to take a brief look at just what the job of supply management is.

CHART #1

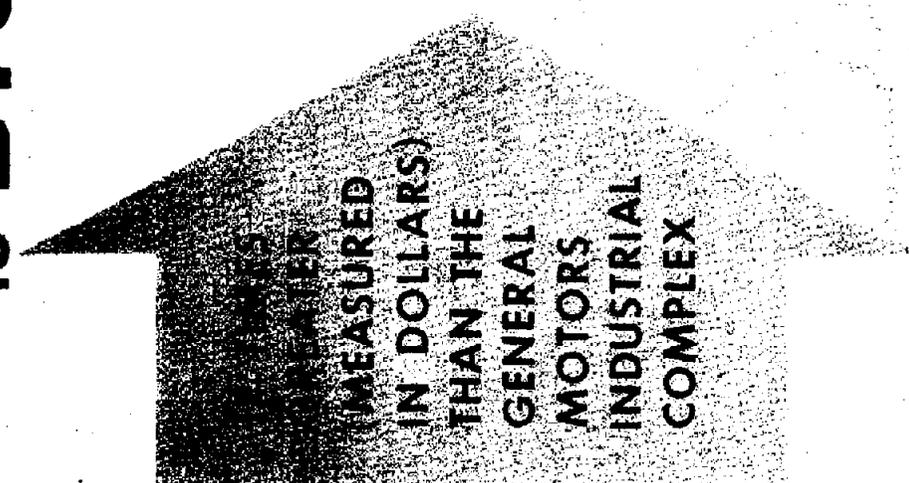
As you can see here, it is a big job. This big mass of material which you see consists of about 3-1/2 million items, and its dollar value is about 47 billion. This is just our central inventory. This doesn't count our in-use equipment. When you add that to the total it comes to about \$117 billion. So, no matter which way you look at it or cut it, it's a big job. It is 17 times greater than the entire industrial complex of the General Motors Corporation. I tried to find out before I left the office how much bigger it is than Proctor and Gamble, but I couldn't find out.

CHART #2

You will notice here that it takes 170 electronic computers to run our system, and I think it is safe to say that this is only the beginning. There will be many more of these mechanical monsters used to run our supply business. There are about 200,000 people engaged in supply operations, and it costs us about \$2.5 billion to run the system each year.

THE DEFENSE SUPPLY SYSTEM INVENTORY

is BIG



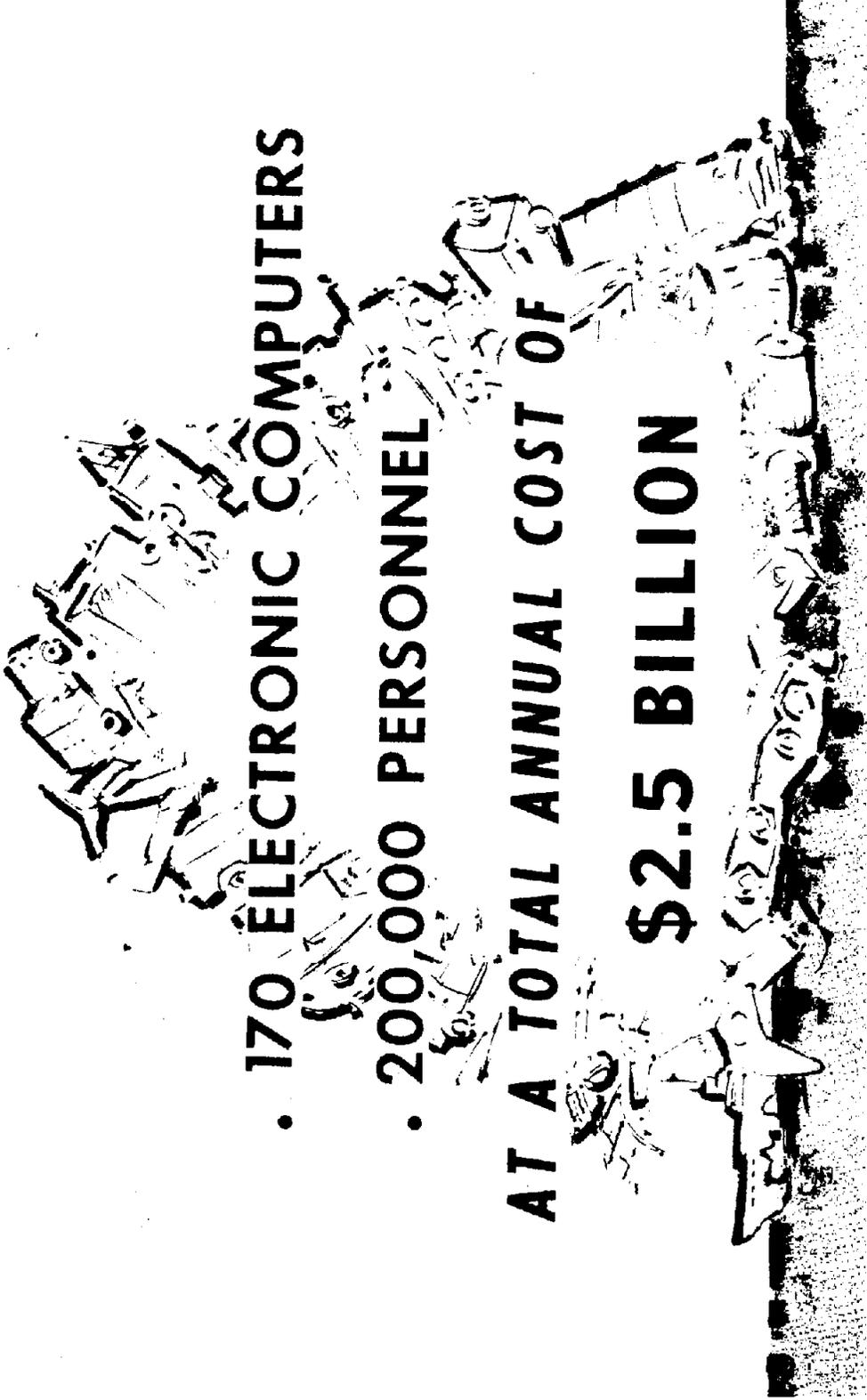
3 1/2

**MILLION
ITEMS**

WORTH

\$47 BILLION

TO MANAGE THIS COLOSSUS AND THE SUPPLY SYSTEMS



- 170 ELECTRONIC COMPUTERS
- 200,000 PERSONNEL

AT A TOTAL ANNUAL COST OF
\$2.5 BILLION

CHART #3

Again looking at the big pile here, you can see that it is under constant pressure from several sources. For the last several years we have been pumping into that pile about \$15 billion worth of material. We have been obsoleting and declaring surplus about \$5 billion. Last year this went up to a total of \$8 billion. We expect this year the trend to continue to rise. It may level off somewhere around \$10 billion for the next 3 or 4 years.

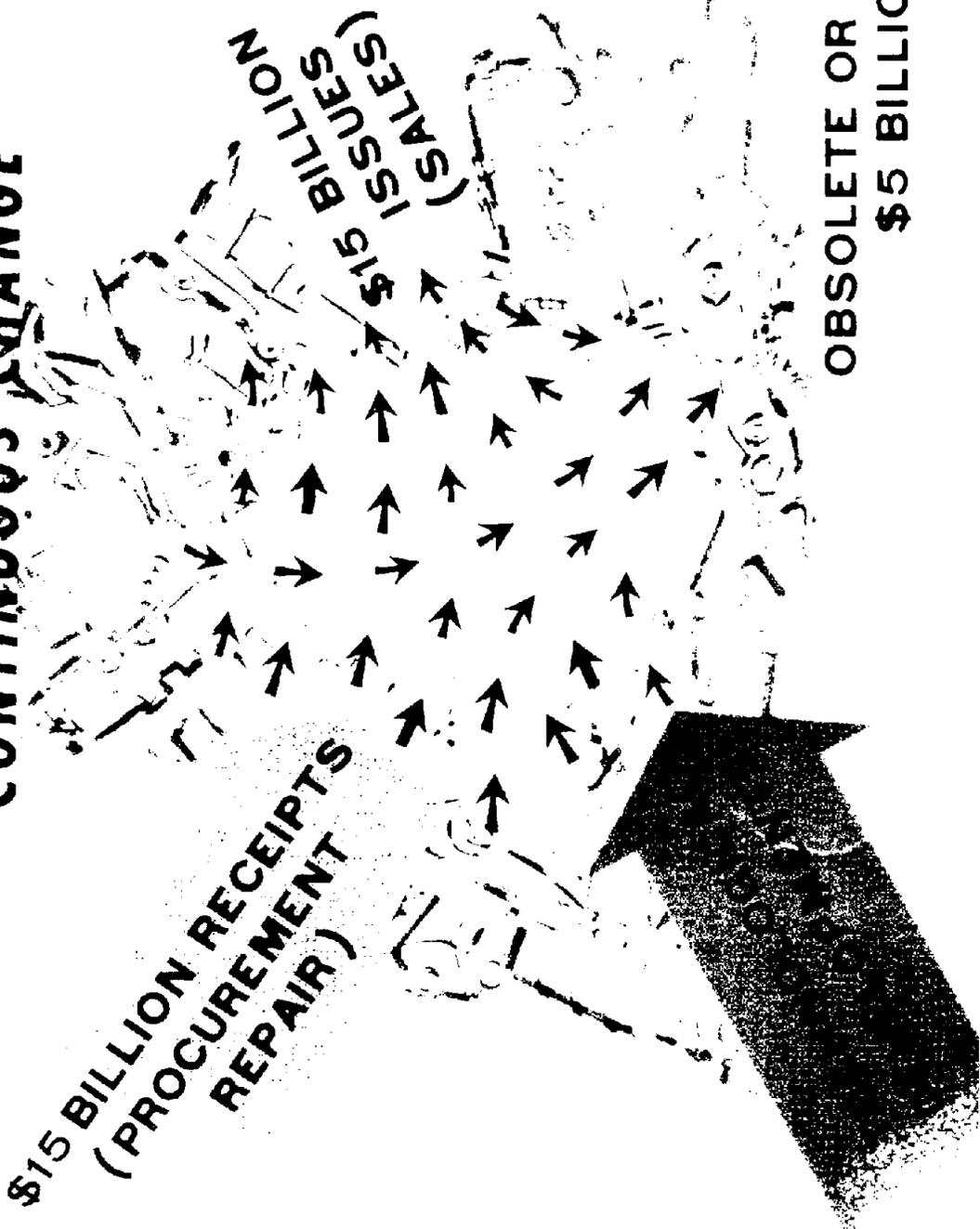
We sell or issue about \$15 billion each year. But this pile of material is always subject to technological developments which cause a number of problems. New items are obsoleting the old ones. New strategy, tactics, and requirements influence that pile of material. And new world-wide defense commitments also exert their force.

CHART #4

This is just a brief chart to show you the position of the Assistant Secretary of Defense for Supply and Logistics and the Office of Supply Management Policy.

We operate on the basis that it is our job to give the military services guidance on what they must do to insure overall efficiency, effectiveness, and economy. We do not feel that it is our job to tell the services how they will accomplish this except where we feel strongly that there is a compelling need for uniformity in implementing the

**IN ADDITION TO SIZE.....
THERE HAS BEEN THE PROBLEM OF
CONTINUOUS CHANGE**



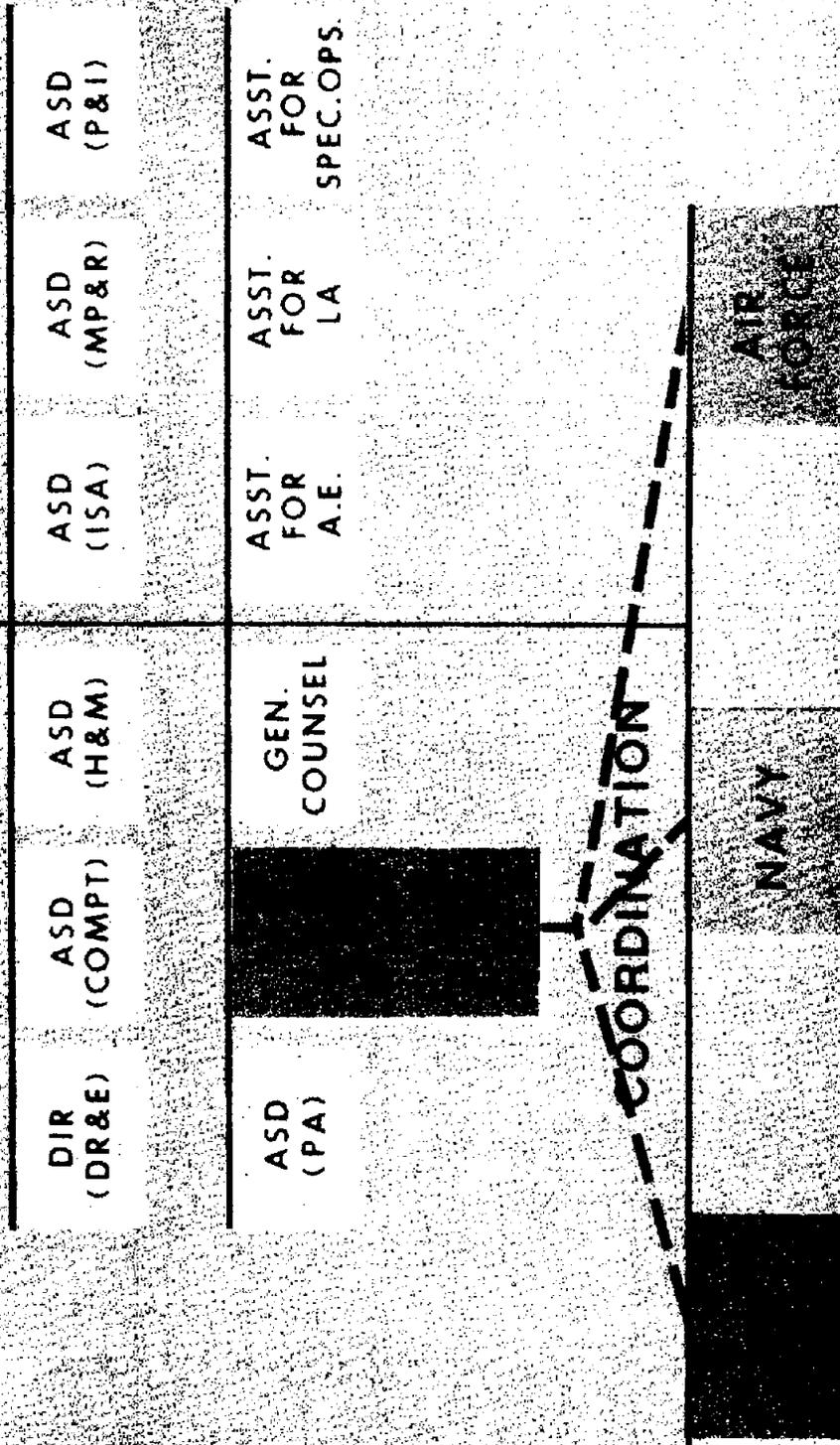
**\$15 BILLION RECEIPTS
(PROCUREMENT
REPAIR)**

**\$15 BILLION
SALES**

**OBSOLETE OR SURPLUS
\$5 BILLION**

ROLE OF THE ASD (S&L) AS COORDINATOR FOR SUPPLY & LOGISTICS IN DOD

SEC DEF



policies enunciated by the Secretary of Defense.

Basically, our job can be divided into three essential parts, as indicated on the next chart.

CHART #5

If there is any similarity to this circle in the five-sided carrousel across the river, it is not intended. Our job is to determine what the proper policy is; to enunciate that policy clearly; and subsequently to follow up on the policy to assure proper implementation.

One of the most important aspects of our operating philosophy is that we do everything possible to avoid the danger of making what we often refer to as ivory-tower decisions. Each and every policy decision we make is checked with the military services thoroughly. We do this in order to make sure that we have considered all of the possible implications, and we also do it because we want to avoid costly mistakes.

CHART #6

I am sure that all of you have seen this cartoon before. This is what we try to avoid.

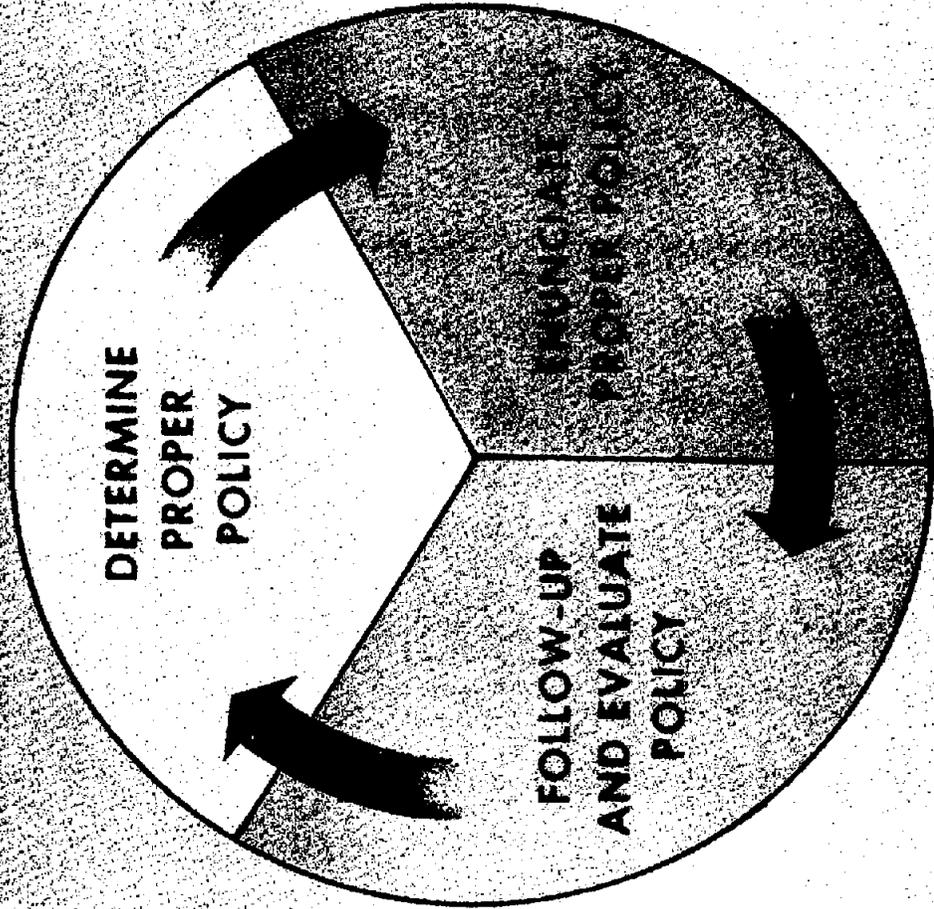
In inviting me here today, you requested that I cover briefly our basic DOD policies and objectives, and the principal factors which we consider in formulating logistics policy and establishing logistics systems. I can cover our general policies and objectives in three simple statements.

CHART #7

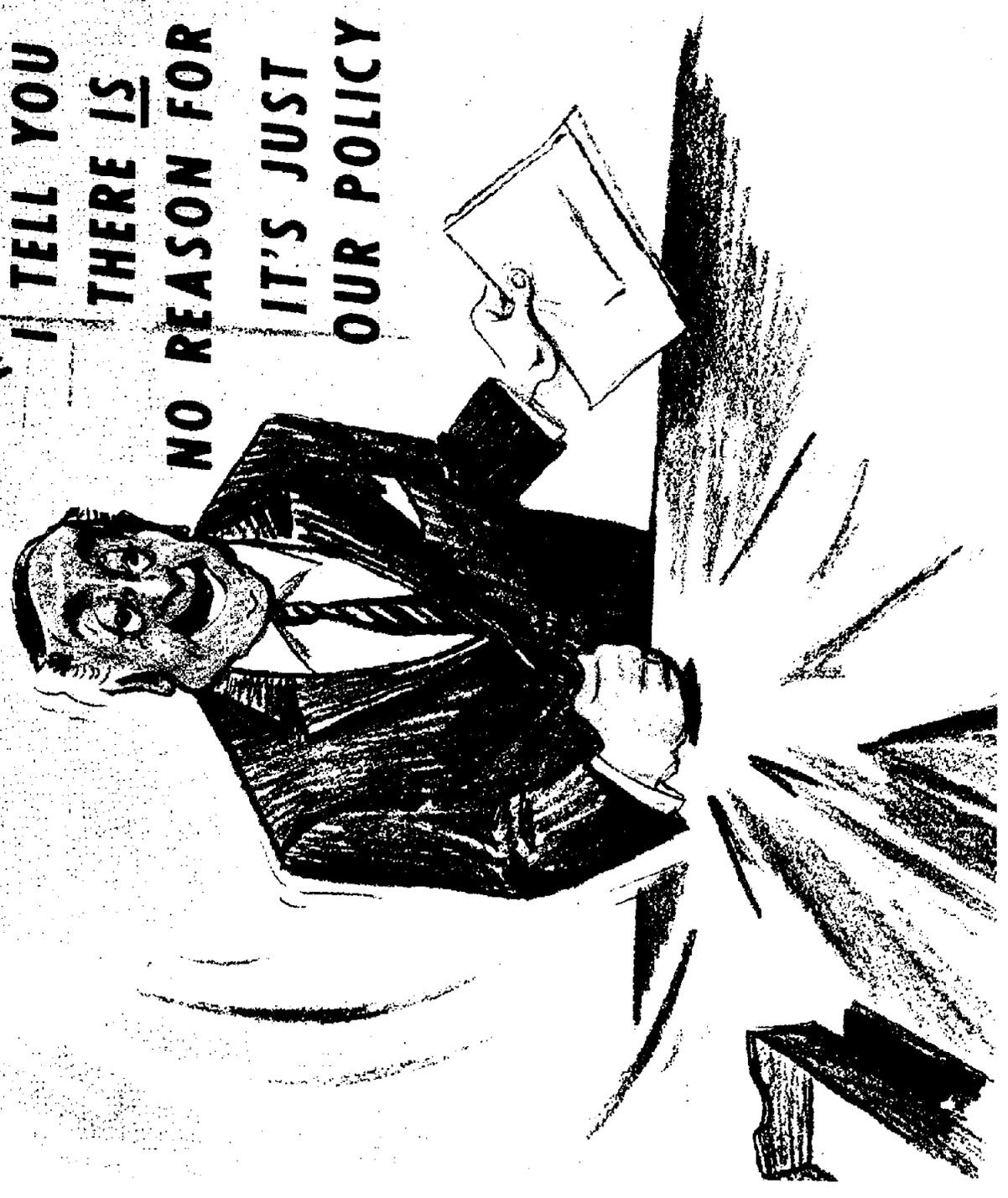
First, we must have a universal supply language. The dictionary

ESSENTIAL ELEMENTS OF A GOOD POLICY

DETERMINATION IN SUPPLY

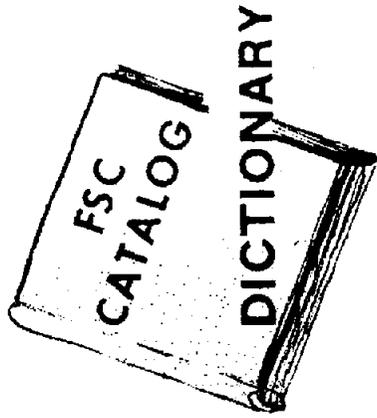


**" I TELL YOU
THERE IS
NO REASON FOR IT!
IT'S JUST
OUR POLICY "**



GENERAL OBJECTIVES . . .

1. UNIVERSAL SUPPLY LANGUAGE



2. INTEGRATED SUPPLY SYSTEM

SYSTEMS
SEPARATE

INTEGRATED



3. EFFICIENT & RESPONSIVE TO MILITARY & NATIONAL NEEDS

for that common language is the Federal Supply Catalog, which lists each and every item used by the military services (and other government agencies) and provides a common, identifying number and nomenclature, just like the Sears Roebuck catalog does for its buyers, its store managers, and its customers.

I would like to emphasize here for a moment the importance of having common numbers and nomenclature. Without our catalog we would not have been able to do the things that have been done since the passage of the Unification Act in the way of integrating our supply systems. We would have been, in my opinion, absolutely helpless. It took us a long time to get this job done. There were many forces that tried to defeat us. The job is essentially finished now and it has paid tremendous dividends and has been, in my book, our most valuable tool.

Second, we must have an integrated supply system with a minimum of duplication in items of supply handled, in our supply facilities, and in our staffing and transportation.

Third, we must have an efficient, effective, and economical supply system which will be responsive to the needs of the military forces of the United States and our allies.

To accomplish these objectives, we have developed and established certain basic policy directives.

Under the first objective, for example, (a common supply language), all military services are required to use the Federal Catalog System of

item identification. Conversion to Federal stock numbers through the wholesale levels of the military supply systems was completed on December 31, 1958. For all practical purposes, we now have a single name, a single classification, and a single number for every item in our supply system. We are also pleased that the NATO nations have selected our catalog system for their use. Thus, we are now able to exchange information on items which are in short supply, or in excess, or under procurement in the Army, Navy, Air Force, and Marine Corps. We are now endeavoring to extend this capability to include the logistics systems of our allies.

With regard to the second objective (an integrated supply system) you have asked that I cover in some detail our current policy and efforts toward further integration of military supply systems. This is one subject on which we have spent a great deal of time. And I might add, we have had a great deal of help from the outside. It seems that everyone is an "expert" when it comes to organization of a logistics system.

Consequently, we have had the benefit of a great many ideas on this subject, from/^{the}self-styled experts who write postcards to the Secretary of Defense to the real experts in Congress and in the Hoover Commission. Personally, I have shied away from the term "expert" ever since I heard the word dissected and defined: "Ex" meaning "has been" and "spurt" meaning "little drip."

In any event, we have given a great deal of thought to all of the

possible means of achieving further integration of our supply systems without losing our military effectiveness.

CHART #8

With respect to the Reorganization Act of 1958, it must be recognized that the primary purpose of that legislation was to establish command channels through the JCS and the Secretary of Defense for the unified commands. Therefore, this Act has not of itself had any substantial effect upon us in the logistics area. The most important effect of the Act lies in the so-called McCormack Amendment.

This amendment makes it abundantly clear that the Secretary of Defense has both the authority and a mandate from Congress to integrate the common logistics functions of the DOD wherever it will achieve efficiency and economy without loss of effectiveness.

CHART #9

The next chart indicates the most important building blocks in our plan for constructing an efficient, integrated supply system built on the framework of our present military organization.

Let us discuss each of these building blocks briefly.

The first block you see there represents the Armed Forces Supply Support Center. The Center was established by the Department of Defense as a joint supply support agency of the military services on 14 July 1958. The Center operates as a joint organization of the military departments under the policy direction and control of the Secretary of Defense. The Assistant Secretary of Defense for Supply and Logistics, however, has been delegated this authority by the Secretary of Defense.

McCORMACK AMENDMENT

WHENEVER THE SECRETARY OF DEFENSE DETERMINES IT WILL BE
ADVANTAGEOUS TO THE GOVERNMENT IN TERMS OF EFFECTIVENESS,
ECONOMY, OR EFFICIENCY, HE SHALL PROVIDE FOR THE CARRYING
OUT OF ANY SUPPLY OR SERVICE ACTIVITY COMMON TO MORE THAN
ONE MILITARY DEPARTMENT BY A SINGLE AGENCY OR SUCH OTHER
ORGANIZATIONAL ENTITIES AS HE DEEMS APPROPRIATE. FOR THE
PURPOSE OF THIS SUBSECTION ANY SUPPLY OR SERVICE ACTIVITY
COMMON TO MORE THAN ONE MILITARY DEPARTMENT SHALL NOT BE
CONSIDERED A "MAJOR COMBATANT FUNCTION" WITHIN THE MEANING
OF SUBSECTION (3) ABOVE.

**THE CONSTRUCTION MATERIALS FOR BUILDING
AN INTEGRATED SUPPLY MANAGEMENT SYSTEM
ARE AVAILABLE**

- * ARMED FORCES SUPPLY SUPPORT CENTER**
- * THE FEDERAL CATALOG SYSTEM**
- * THE DEFENSE STANDARDIZATION PROGRAM**
- * THE SINGLE MANAGER SYSTEM**
- * INTERSERVICING OF MATERIEL (IMPROVED TECHNIQUES
INSTALLED & OPERATING)**
- * HIGHLY REFINED SUPPLY MANAGEMENT TECHNIQUES**

The purpose of the Center is to bring into one organization all of the liaison and authority necessary to insure proper interservice coordination in supply matters. In this capacity it is responsible for monitoring the Federal Cataloging Program, the Defense Standardization Program, and the Defense Materiel Utilization Program.

In short, the Center was established to provide a clearing house for exchange of information and a vehicle for coordinating common supply actions. Properly operated, this organization should do much to eliminate many of the problems in the common supply areas which have received critical appraisal during the past ten years. It should do much to standardize common supply procedures and should provide the vehicle for extending the scope of integrated supply systems such as the Single Manager Program.

The Center has already proven its worth, not only in day-to-day operations but also through recently completed studies which will lead to the extension of the Commodity Single Manager Program in other commodity areas where it is considered feasible. Additional studies of this type are now under way, and eventually we hope that the entire DOD supply area will be covered to insure that integrated supply systems are established wherever they prove to be feasible.

General Allen, the Deputy Director of the Armed Forces Supply Support Center, is scheduled to talk to you tomorrow, I know. I am sure that he will give you much more of the detail about the operations of the

Center, its past, its present, and its future plans. So I won't go into it any further now.

We have already discussed the Federal Cataloging Program, which is the second item on this chart. As you know, it is under the monitorship of the Armed Forces Supply Support Center, and it has proven to be the answer to our need for a common supply language.

The Standardization Program has recently been split into two separate actions, one called the Accelerated Item Reduction Program, or the AIR Program, which, as the name implies, is a short-cut approach to expedite the elimination of unnecessary items which can be made through non-engineering supply-type decisions. The balance of the Standardization Program then becomes one of utilizing our scarce engineering talent to make further reductions based on design, performance, and maintenance needs.

The AIR Program is producing excellent results. To date, with two-thirds of the program completed, approximately 200,000 items have been eliminated either from the catalog system or from inventories. In some 24 federal supply classes of housekeeping items, such as office supplies, equipment, cleaning supplies, et cetera, approximately 9,000 items are being discontinued out of a total of 14,000, or approximately a 70-percent reduction. We expect to complete this short-cut Standardization Program by December 1961.

The next item on this chart, the Commodity Single Manager System,

addresses itself to the elimination of overlap and duplication in the supply of items commonly used by more than one military service. This is done by assigning commodities having a high proportion of such common items to the most qualified military department, which is then charged with supplying the wholesale needs of all of the military departments. Examples of such assignments are to be found in the food and clothing and medical commodities handled at present by single managers.

We have established four commodity single managers thus far. The Army has been assigned Single Manager responsibility for food, which covers about 1400 items, and for clothing, which covers about 34,000 items. The Navy is the Single Manager for petroleum--about 1200 items--and medical supplies--about 8500 items. The Navy's petroleum assignment differs from the others in that the Military Petroleum Supply Agency owns no inventory; it buys petroleum products and coordinates the distribution of these products. We are now in the process of determining which other commodities are amenable to this technique of management, based on studies by the Armed Forces Supply Support Center.

Recently we completed a thorough evaluation of commodity single manager operations after their first 18 months of operation. This was necessary in order to know where we were going and to determine whether the system was saving men, money, and other resources as it was intended

to do. As a result we found that: (1) The three fully implemented single managers are highly effective when compared with other supply systems; (2) customers are genuinely pleased with the supply support received; and (3) worth-while savings have been achieved through integrated operations and elimination of duplicative functions.

Colonel Case of my staff will cover this subject in complete detail during the course of his scheduled talk to you on commodity single manager operations. I simply want to point out at this time that we in OSD and many people in the military services are sold on the Single Manager Plan as an efficient and economical technique for integrating supply management when conditions and the nature of the material indicate that it is feasible to adopt this plan.

The next item on this chart, the Interservice Supply Support Program, is another program which is under the monitorship of the Armed Forces Supply Support Center. It is designed to provide for an exchange of asset information and inventories of those items which are commonly used by more than one military service and which are not assigned to a single manager. An example of such items might be airplane parts, automobile parts, and similar items. In short, interservice supply support is the method which we use to back-stop the gaps which might exist between common classes of material not under fully integrated supply systems. Although the Single Manager System is designed to cover commodity classes which embody a high proportion of common-use items, there

are obviously going to be some common-use items which, for one reason or another, are not under single manager control. The Interservice Supply Support System is designed to fill these gaps.

Under this system, each inventory control point of the Army, Navy, Air Force, and Marine Corps exchanges information with its counterparts to indicate whether there is another military service that uses the item. Where more than one user is indicated, the inventory control point must query all other users before purchasing or disposing of the item, to make certain that there is no excess available. The Armed Forces Supply Support Center monitors and records interservice supply progress and acts for OSD to insure compliance with interservice supply support policy.

The final item on this chart, Highly Refined Supply Management Techniques, is an intangible sort of thing which simply means that we are using every possible means, and borrowing from the techniques of science and industry, to improve our way of doing business so as to achieve maximum effectiveness at minimum cost.

In line with this objective, we have promulgated basic DOD policies which are designed to provide the framework for an efficient DOD supply system. To give you an idea of the scope and nature of some of the most important of these policies, let me cite these examples:

CHART #10

SOME OF THE IMPORTANT OSD SUPPLY POLICIES

- * **UNIFORM ACCOUNTING FOR WHOLESALE INVENTORIES**
- * **ANNUAL INVENTORY OF STOCK**
- * **ONLY ONE INVENTORY CONTROL POINT PER ITEM PER SERVICE**
- * **ELIMINATE UNNECESSARY CROSS-HAULING AND BACK-HAULING**
- * **SUPPLY LEVELS TO BE BASED UPON CURRENT REQUIREMENT STUDIES**
- * **POLICY FOR DETERMINATION AND DISPOSAL OF EXCESSES**
- * **POLICY FOR MANAGEMENT OF MATERIAL IN LONG SUPPLY**

We require uniform accounting for wholesale inventories, showing composition of inventory on a quantitative and monetary basis and showing the condition, whether the item is serviceable or unserviceable, and the purpose for which the stock is held, such as peacetime operating stock, mobilization reserve stocks, contingency retention stocks, etc.

We require physical inventories not less than once a year.

We require that each item of supply shall be under the cognizance of only one inventory control point within a military service.

We require maximum use of straight-line distribution systems between producers, depot, and customers, to eliminate unnecessary crosshauling and backhauling, and to minimize the amount of inventory we hold.

We require establishment of supply levels based upon current requirement studies.

We establish policy for determination and declaration of excesses for disposal action.

We establish policy for management of material in long supply, including procedures for interservice transfer of such material.

With regard to the third objective—having a supply system in being which will be responsive to the needs of the military forces in peace and war--we are constantly examining our system and our policy in the light of this objective. We have provided for mobilization reserve stocks to permit instant deployment of fully equipped forces and to allow for

replenishment of our military materiel from industry to meet all of our wartime requirements. We are constantly studying the range and scope of items which we have authorized to be held as mobilization reserve, and we are also endeavoring to reach decisions with the Joint Chiefs of Staff as to the relative priority to be assigned within our economic capabilities for procurement of such requirements.

Also, in the light of this third objective, our Storage and Warehousing Division has monitored the development of a Joint Storage and Materials Handling Manual which is now used by all services as a training medium and as a basic guide in proper warehousing techniques. Our Storage Division is now studying methods of reducing vulnerability of supplies in storage by use of such imaginative techniques as undersea storage facilities. In addition, we are striving to reduce depot storage requirements overseas and to improve service to the field by development of a unit-load system of prepacked replenishment supplies in balanced quantities.

Thus far we have talked about the past history and the present-day policies. Now let's take a look into the future. To do this, I propose to give you a brief picture of some of the most important projects in our Defense Material Management Program for fiscal year 1960. This program contains 26 specific projects which are designed to make significant improvements in the management of Department of Defense supply operations. I have selected nine of these projects to illustrate

the scope and intent of these far-reaching plans.

CHART #11

The first one you see here concerns the development of criteria to provide a proper basis for determining the method of supply management which is most efficient for each item of supply in the DOD.

Uniform criteria have now been developed by a joint group which will provide the basis for determining, for each item of supply, that supply management technique which is the most efficient in terms of military effectiveness and overall economy. The supply management techniques that are to be considered are as follows:

- Individual military service supply management control, including local commercial purchase as well as central control.
- Coordinated procurement program assignments.
- Single manager assignments.
- Interservice supply support agreements.
- Support by the General Services Administration.

CHART #12

The second project here is to classify all DOD items and assign management for each in accordance with the criteria I previously mentioned.

The criteria developed in the preceding project will be used by the military departments and the Armed Forces Supply Support Center to classify all DOD items into three basic management groups:

OBJECTIVE...

DEVELOPMENT OF:

**CRITERIA
FOR
SUPPLY
MANAGEMENT**

OBJECTIVE...

CRITERIA FOR SUPPLY MANAGEMENT

**INDIVIDUAL
SERVICE
MGMT.**

**INTEGRATED
MGMT.**

**LOCAL
PURCHASE
GSA**

First, those items which must remain under the management control of the requiring military department.

Second, those items which must remain under military management control but not necessarily under the control of the requiring service.

And, finally, those items for which management control can be determined primarily on the basis of economic considerations, and which need not be controlled by the military.

We fully realize the magnitude of this task which will involve over 3-1/2 million items. Therefore, in order to achieve results which will have some immediate effect, we have divided the job into phased increments. The highest priority will be given to those areas which are considered to be the most promising for quick results. Other priorities will be assigned in descending order until the task is eventually completed.

CHART #13

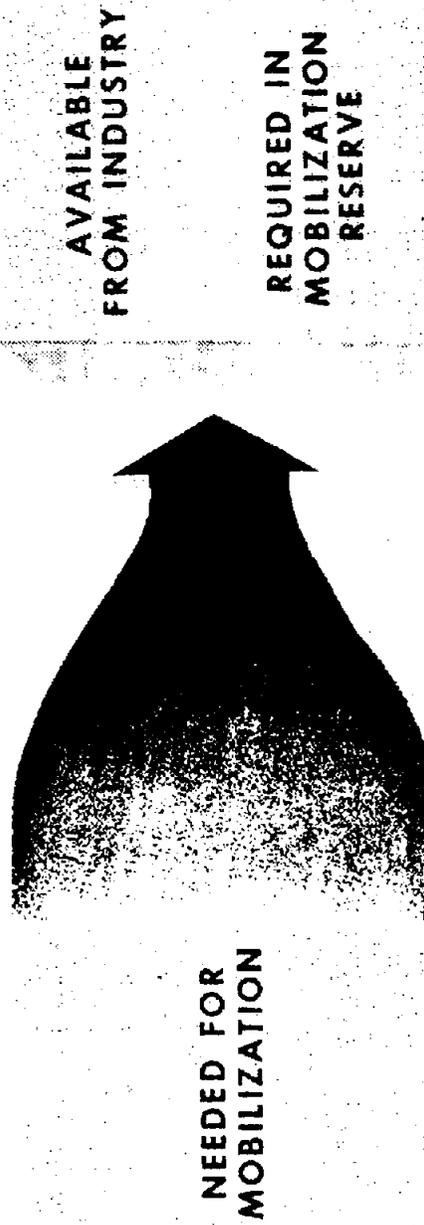
The third project here is to determine item range needed for support of mobilization or war readiness.

Under this project, current policies and practices of the military services for the acquisition and stockage of items to meet mobilization and war-readiness requirements will be reviewed by a joint working group, including representatives of the Joint Chiefs of Staff, the military departments, and OSD. Based on this review, uniform criteria will be

OBJECTIVE

ITEM RANGE FOR MOBILIZATION OR WAR READINESS

- ITEMS USED IN PEACETIME
 - TYPE OF ITEMS
 - AVAILABILITY
 - AMOUNT REQUIRED



developed to provide guidance to the military departments for the acquisition and retention of items of supply to meet mobilization or war-readiness requirements in support of U. S. forces. Through this project we would anticipate that we could reduce our inventory by eliminating a lot of items which we now compute wartime requirements for and hold in our inventory.

CHART #14

The fourth project here concerns the development of policies governing items procured locally.

Under this project, policies will be developed in coordination with the Armed Forces Supply Support Center and the military departments which will provide for uniform definitions and uniform guidance in local procurement policy, to include procurement from the following sources:

1. Regional excess screening lists.
2. Long supply listings from interservice sources.
3. Interservice supply support agreements.
4. GSA stores, depots, or their federal supply schedules.
5. Commercial sources.

CHART #15

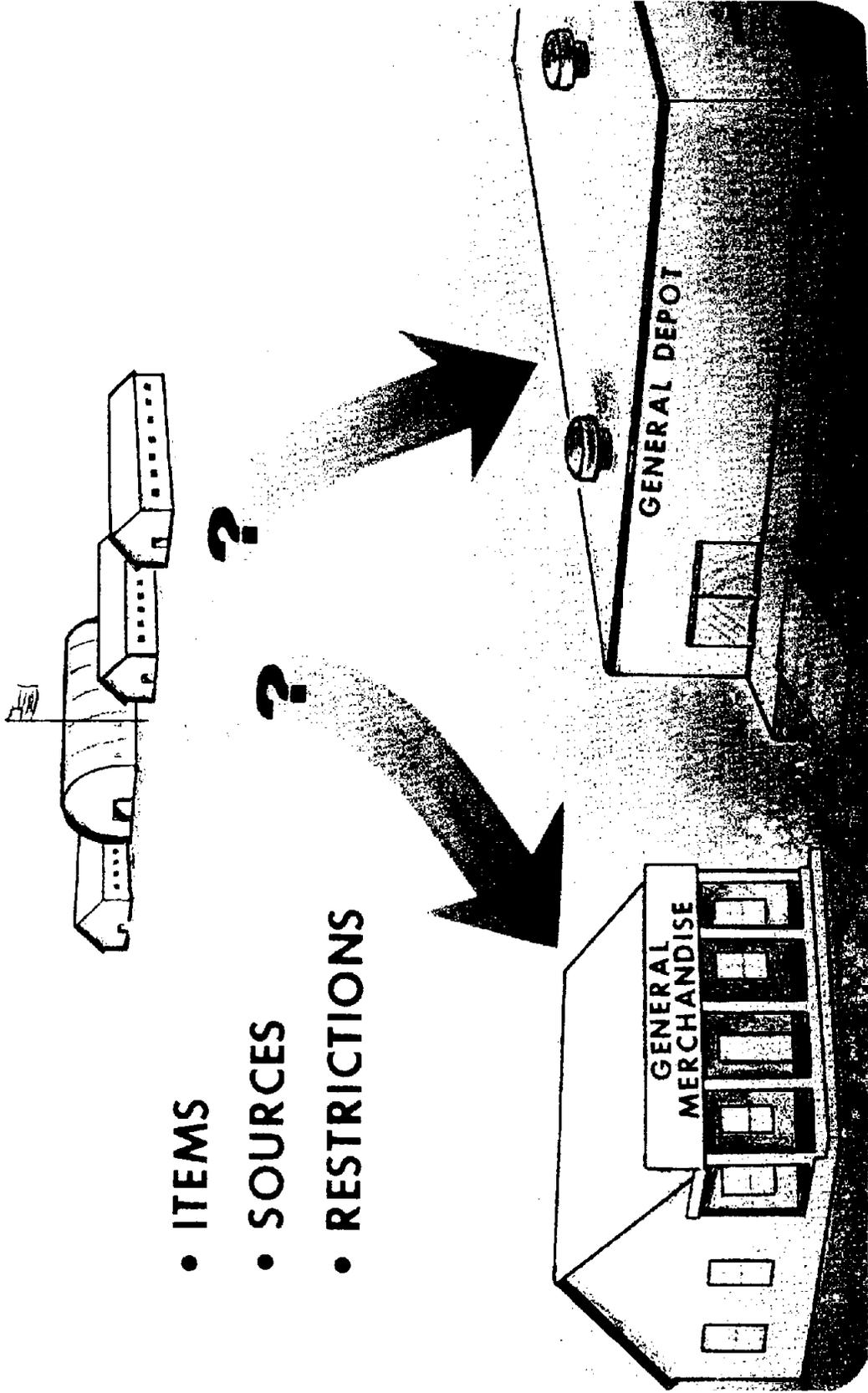
The next project here concerns the development of policies for supply of common items to unified commands overseas.

The object of this project is to determine the best method of supplying common items to overseas commands. All existing and alternate methods

OBJECTIVE

DEVELOP POLICIES CONCERNING LOCAL PROCUREMENT

- ITEMS
- SOURCES
- RESTRICTIONS



OBJECTIVE . . .



EXAMPLE:
HAWAII

- ALL EXISTING AND ALTERNATE METHODS WILL BE CONSIDERED

of supply will be considered. An initial study will be made, using Hawaii as a test operation.

CHART #16

The sixth project here concerns improving single manager efficiency and wartime readiness.

The objective of this project is to develop uniform and simplified procedures which will improve the efficiency and wartime readiness of single manager operating agencies. We have some problems today where our customers are dealing with several single managers, each of which runs a somewhat different system.

CHART #17

The seventh project here concerns improving the coordinated procurement program.

The objective of this project is to improve the program by revising and modernizing our regulations and by refining and extending program assignments. We recently found, in looking into this coordinated procurement program, that we had so many exclusions and exceptions that we had almost lost control of the entire program.

CHART #18

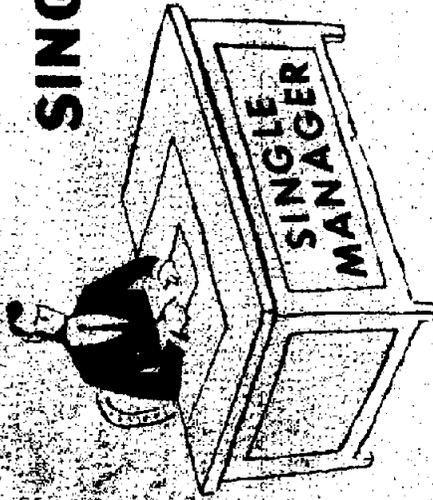
The eighth project here concerns the development of an optimum depot system within the military services.

The objective of this project is to eliminate unneeded duplication in depot organization, administration, and operations.

OBJECTIVE . . .

CORRECT

SINGLE MANAGER DEFICIENCIES



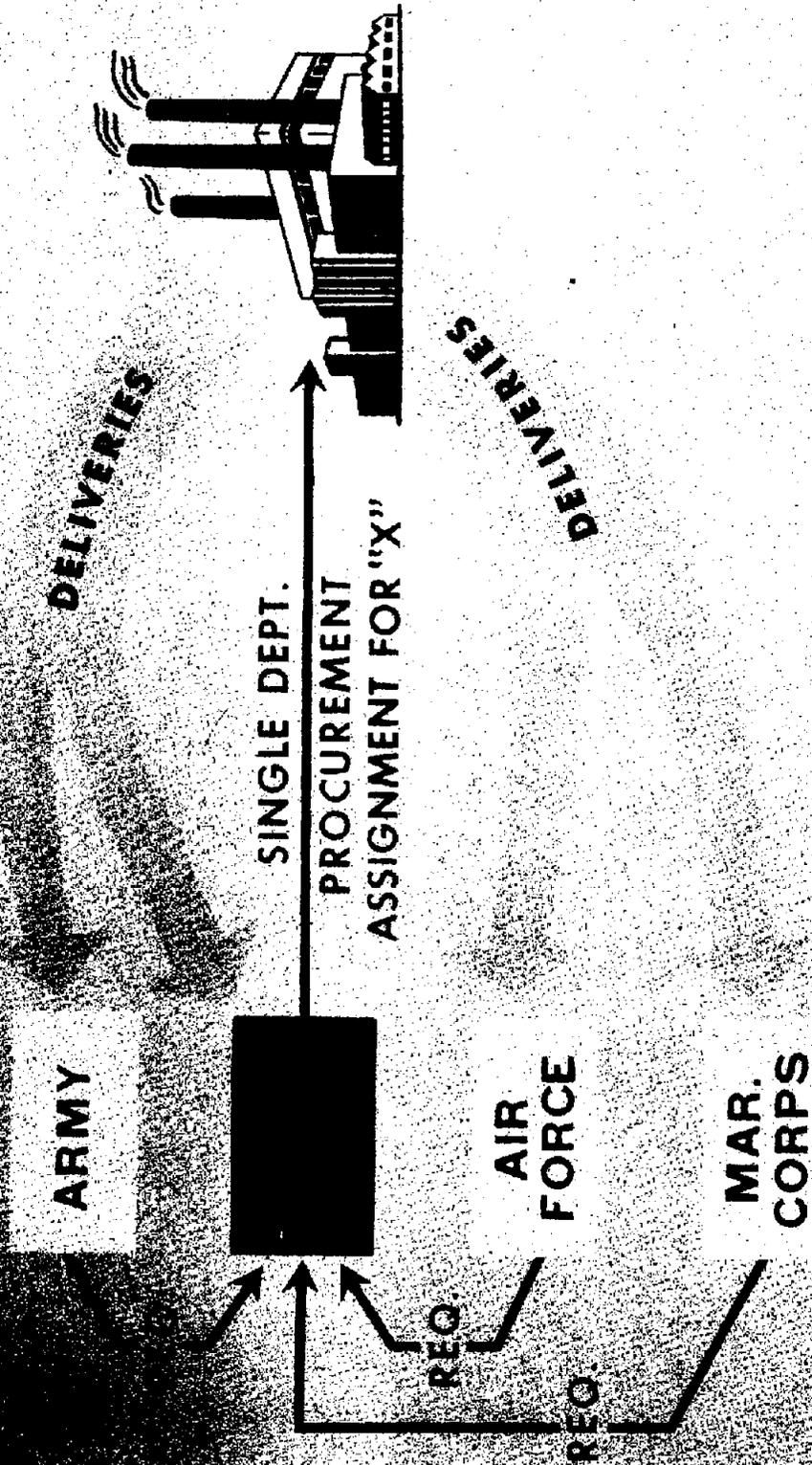
NEEDED:

- UNIFORM PROCEDURES WHERE PRACTICABLE
- UNIFORM PRIORITY SYSTEM FOR REQUISITION PROCESSING
- ELIMINATE DEFICIENCIES IN MOBILIZATION READINESS
- INTEGRATED DISTRIBUTION SYSTEMS

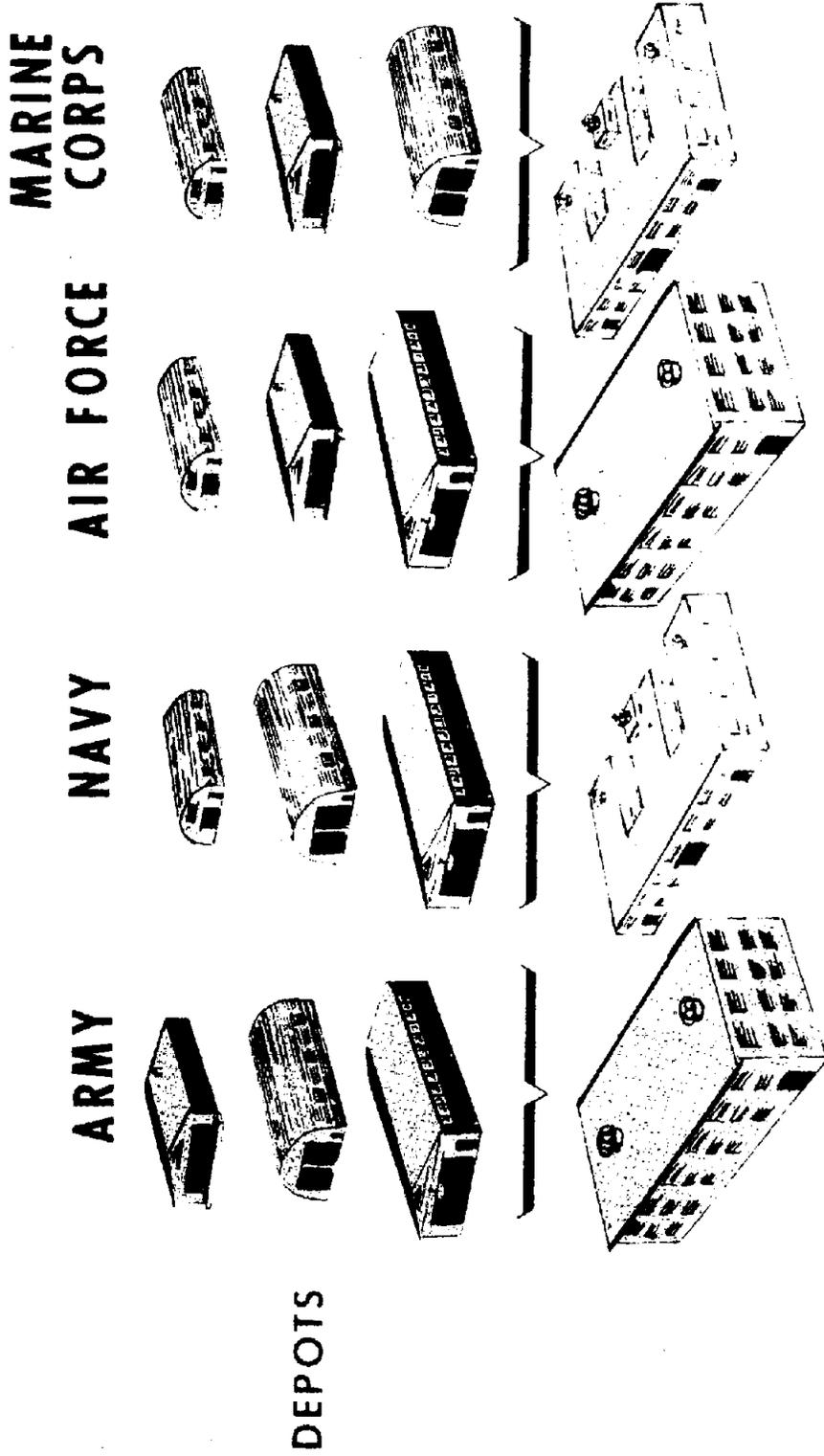
OBJECTIVE . . .

IMPROVE THE COORDINATED PROCUREMENT PROGRAM

EXAMPLE



**OBJECTIVE . . .
 DEVELOP AN OPTIMUM DEPOT SYSTEM
 FOR THE MILITARY SERVICES**



**• ELIMINATE OVERLAP & DUPLICATION
 THROUGH INTEGRATION WITHIN SERVICES**

An analysis will be made of existing depot supply organizationsl structures, supply distribution patterns, and facilities to determine overlapping and duplicating areas susceptible to greater intra-service integration. The military departments will make this analysis and determine where consolidations will be effected. The results will be monitored by OSD. The Department of the Army has already made a big step in this direction.

CHART #19

The next project here is to improve and integrate supply and fiscal policy.

Our purpose here is to determine whether we need retail stock funds, and, if so, to what extent we need them. Our objective is to simplify and streamline fiscal accounting procedures at the retail level and to eliminate any handicaps to effective supply operations.

We have now covered the past, present, and future programs in DOD supply management. I have endeavored to give you a brief picture of our basic philosophy of supply management, our objectives, and the reasoning which lies behind most of our important supply policies and programs.

In recent years, supply and logistics has come to be recognized as a science as well as an art. The science consists of designing, developing, refining, and polishing each of the bits and pieces of policy and procedure which must go into the creation of an efficient supply machine. The art consists of having sufficient knowledge of the capabilities and limitations

OBJECTIVE...

**SIMPLIFY FISCAL ACCOUNTING
IN SUPPLY...**



BEFORE

AFTER

of this supply machine to make it work properly and to derive the maximum performance from it in peace and war.

We have tried to use science in designing an efficient DOD supply machine. We are confident that you, with your knowledge and experience, broadened by the Industrial College, can and will make our DOD supply machine work as it was intended to work--with maximum effectiveness and with minimum cost.

If I can depart from this prepared text for a moment I will make a closing remark. Throughout this talk this morning I have used the words "maximum effectiveness" and "minimum cost," several times. This may seem to some of you to be a cliché like some of the others we frequently use around the Department of Defense, such as, "responsiveness to command" and the old question, Will it work in war? and "maximum economy and effectiveness." A lot of these terms unfortunately many times are clichés and are used as a reason for not doing something.

I believe the Constitution provides for a common defense. Some day we are going to have to have a common defense. Other people call it unification, integration, or whatever term they want to use. We need it to defend ourselves, and we need it because, in my opinion, our present system does not give us maximum effectiveness at minimum cost.

We are not pooling our assets; we are not pooling our dollars; but we ought to. A common defense can be, and ought to be, achieved in the Department of Defense. Many of the steps we have taken under the subject

of so-called integrated supply are small steps. We believe we are headed in the right direction; it will take some time to get there. Many of our critics on the outside are constantly complaining that we are not getting there fast enough. Maybe they are right.

But I think we have to all recognize, going back to the first part of my talk and the first charts that we saw, that this is a big business. We can't jam it together overnight. But, with the conscientious and objective efforts of our younger military officers, such as this group, keeping these things in mind and pushing continuously, one day we will have maximum effectiveness with minimum cost.

Thank you.

MR. HENKEL: Mr. Riley is ready for your questions.

QUESTION: The British had about 20 years' experience with the Ministry of Supply, which appears to be a single manager operation such as you are attending to. The day after the last election, a couple of months ago, they abolished it. Would you care to comment on that?

MR. RILEY: I am not responsible for what the British do. As a matter of fact, the British System is not like ours. As I understand the British system, it was a little bit the reverse of what we are trying to do. They had a Ministry of Supply which largely was a procurement organization, but it did handle some distribution of technical items. The things that we think of as commercial items or common, such as food and clothing items, are handled by the individual military forces.

I don't really know why the British gave up on that, but we are convinced, after very careful analysis, that our single manager system is a good one. It will provide effective supply support to the customers. It is economical; we can save people; we can save warehouse space; and we can definitely cut out the expense of crosshauling and backhauling supplies across the country. There is no doubt of this in my mind. I think that expansion of the Single Manager Program is the best approach now, under the present organization of the Department of Defense, with four separate military services.

QUESTION: One of your projects that you mentioned was simplifying the fiscal side of the supply business. From my experience, you've got a real bear by the tail if you get into that area. Could you comment on what progress you have made to date in this area?

MR. RILEY: Yes. Something I did neglect to mention I should mention to you. On 6 November the Secretary of Defense announced two new single managers, assigning one for general supplies to the Army. Colonel Case of my staff will tell you a lot more about this. That assignment covers administrative housekeeping supplies and hand tools. The Navy was given an assignment for industrial supplies, which, at the moment, covers hardware and abrasives, paints, and metals.

In getting that memorandum signed to make these assignments, we went down to the Comptroller, and, as the gentleman said, we grabbed the bear by the tail. But we were able to get the Comptroller to agree

that, for these two new assignments, a retail stock fund would not be mandatory, that it would be left to the prerogative of each service to determine how it wanted to fund and finance its retail stock.

This is the first step. We intend to question vigorously the need for the retail stock fund in all of our single manager areas. It has never made any sense to me for people to try to explain the advantages. I have yet to find anybody who could do it so I could understand it. I have never been able to see why we have to take an item--a medical item, a pair of trousers, or any other item--that we have under single management and buy it 2 or 3 times and sell it 2 or 3 times before we get it on demand. We are just overcomplicating things that way. It is not necessary. We can have a wholesale stock fund and we can have a consumer fund. That way we can make 2 buys and 2 sales instead of 3.

There is no argument in my mind that you can't control your retail stocks by funding them with consumer funds. I don't think the argument that you have to have a retail stock fund to really give you control will stand up.

QUESTION: In your closing remarks, Mr. Riley, you spoke of the need for ultimate consolidated defense. I wonder if you would care to be a little more specific as to where you think we are going in the supply area.

MR. RILEY: I think some day we are going to have a single service under a single boss. When we do that, it will force us to have a really

integrated logistics operation. The Reorganization Act of 1958, in my opinion, was a small step in that direction. It took the unified commands and dignified them. These are our fighting people. These are the people who fight. On the other side of the house we've got all the logistics set-ups. Under the present guidelines, each military service is still responsible for supplying its own forces in the unified commands.

I have been overseas lately to check some of these questions out in my own mind. I would imagine this has complicated things somewhat.

By this step that we have taken in the Reorganization Act of 1958, it seems to me we are going to throw a big spotlight on these tentacles that go down into the unified commands and force up the military services.

I think it will come. We'll have a really unified Department of Defense. I wouldn't care to guess how long it will take us to get there, but, the way I read the signs, the pressures for it are not lessening; they are getting stronger.

QUESTION: Sir, the \$2.5 billion that you quoted there for running the supply system seems like a rather large fund. Would you discuss that? Also, just what does this \$2.5 billion include--what segments of the supply system?

MR. RILEY: It includes every account we could pick up from the budget backup from all military services. It includes the cost of your people, your money, your warehouses, your inventory control points. Those are the essential items.

STUDENT: Does it include people in the service departments of the Pentagon, or is it strictly supply?

MR. RILEY: It's strictly supply. It's taken out of the O&M accounts of each of the services, to the extent that we can identify it. Our budget system is not so refined that we can say that this figure is correct right down to the last dollar. I know, for example, that expenditures against these same accounts that we added up here last year for fiscal 1959 came to \$2.1 billion. This 2.5 is an obligation figure for 1959. But it's close enough. I agree with you~~f~~ that it is big.

QUESTION: In your argument against the use of retail stock funds on these particular items that you are talking about, can't that be amplified and used as an argument against the use of consumer funding as such, and take the burden off the user completely, instead of just restricting it to just a rather small number of items?

MR. RILEY: There might be some people who would argue that way. I don't think they would get very far with it. Except under war-time conditions, I am pretty well convinced that the free-issue days are gone for every item in our supply system. From what I have seen in posts, camps, and stations throughout the United States, I think it is safe to say that the funding of retail stocks--putting a price tag on it, having financial inventory control reports coming up through channels, where commanders at all levels can take a look at them--has had a beneficial effect in reducing inventories at the retail level. I can cite

you many examples where commanders for the first time realize what they have in their warehouses in posts, camps, and stations, and put on some vigorous drives to get rid of the stuff. They have done a good job.

What has happened, I think, is that we started out with the amendment to the Unification Act of 1948 and we had practically no uniform type of accounting. Then, for the last 10 or 12 years, we have rushed madly through the accounting areas to set up all kinds of accounting controls. We are at a point today where we have to back off now and take a look at what we have, particularly as the accounting system relates to our supply controls, to determine whether or not we are going too far.

But I don't think that at any time in the near future we will get back to free issue to the extent that we will eliminate consumer funding for our stocks.

QUESTION: About two weeks ago I had the experience of going out to fly a Navy jet. I took my Air Force P-helmet along and found that, if I got in the back seat with one of the naval members of the class here, it wouldn't plug in. There is a sum total of difference in the parts, leaving out the aircraft circuit for the radio, itself. We use three parts and they use five. The Navy pilot couldn't ^{pl}ug into our radio, and we couldn't ^{pl}ug into his. This was a trainer, comparable to our T-33, only it's a little later type of aircraft. In this unified command operation, it

seems that, outside of the economics of supply, this is going to become an important thing, in being able to manage and supply in the field. Is your Standardization Program going to be effective? Will you comment on what you are doing in this line?

MR. RILEY: I certainly hope it will be effective. One of its primary purposes is to get at the very problem you are talking about; to standardize so that you can have one plug-in fixture that will fit several types of aircraft, or be useful in several types of helmets.

The Standardization Program has done a lot of good in a number of areas. We have standardized many items. We have gotten rid of differences between items that are really not necessary. But we still have a long way to go.

We think, for example, that having a single manager really emphasizes standardization, because here you have one inventory control point that can look at all of these items, can pick up and catalog the stock of several services, and can quickly identify the minor differences or unnecessary differences between items, spotlight them, raise questions, and get agreements to standardize on a single item.

QUESTION: In connection with your last comment, would you care to give us the status of the single manager assignment for electronic items?

MR. RILEY: The status of that is that the Armed Forces Supply Support Center has been directed to make a comprehensive study of this

whole electronics area to determine whether or not this commodity group is amenable to the single manager assignment. It will take them 8 or 9 months to do that job. This is going to be a really hairy area.

QUESTION: In your concept of single service supply support, how would you envision the handling of the supply support at the individual service installations, which have now become fairly large?

MR. RILEY: I am not sure I understood your question.

STUDENT: In other words, when you have one man in a certain uniform at an Army, Navy, or Air Force installation handling Army, Navy, or Air Force supply support business for that installation, it wouldn't make any difference to you whether he was Army, Navy, or Air Force. He would be a member of this fourth service handling the supply support at the installation level.

MR. RILEY: You are talking now about if we ever came to one service, with a really unified Department of Defense. I don't think it would make any difference what color suit the man wore. We would want a supply man down there who would receive material, store it, and supply it. He could wear any color suit he wanted. A lot of people feel that the differences in uniform are things that ought to stay. Personally, I don't. I think that the difference in uniforms and the differences in insignia, ribbons, and all these things, added up to contribute to our problem of getting integrated.

QUESTION: Would you have technical knowledge of the operational

requirements of the particular service at the installation level?

MR. RILEY: We have people today in the Department of Defense who specialize in handling, buying, and storing special kinds of material. When you put people together and put them under one boss, there is no change. You still utilize the same people. We wouldn't destroy anybody's supply capabilities.

QUESTION: Going back to your prognostication of the single service, this would sure spoil the formal affairs, where we would have only one formal uniform and would lose all the colorful display we now get. I wonder whether you will extend your prognostication to the Office of the Secretary of Defense (S&L) under this single service. You wouldn't have anybody to coordinate.

MR. RILEY: Well, under my prognosis of this whole thing, I would say that we would have a lot less people at the OSD level. I have been convinced that the reason we have so many people at OSD is because of the services and OSD pulling and hauling at each other all the time. It takes people to pull them apart. If we could knock all that off, we wouldn't then need all the people we have. You would still have a civilian control level at the top echelon of the Department of Defense.

STUDENT: That's what I was leading to. Would you continue to be a staff or do you visualize there being a line control then?

MR. RILEY: I would visualize the civilian control, the supreme authority, to rest as it does today, in the President and in the Secretary

of Defense. The Secretary of Defense would need some small staff with assistance capability, much as he has today, but on a smaller scale. We would have, I think, a real Joint Staff, a military staff, and from there operations to the staff.

QUESTION: Sir, I can appreciate some of the good things that your office has done, where you coordinate actions previously taken by the services individually, but from your speech I gather the impression that you are also going down into the individual services to check on what I might call their efficiency or their method of operation, which is purely internal and peculiar to the particular service. I am sure that you can find some things down there, if you do that, that you can improve. But we already have the Army Audit Agency for the Army, and we have the General Accounting Office doing that, and we have the Deputy Chief of Staff for Logistics in the Army, and a whole host of people who are doing that. It seems to me that we could get too many people doing it. Are you careful to stay out of the individual services' business, or do you get into it?

MR. RILEY: Well, as a matter of fact, we are not gumshoers. We don't go out purposely to conduct any policing type of operation. In the first place, we don't have the staff to do it in S&L. We get out as frequently as we can and look at some of these operations. We are primarily concerned about whether the policy that we have put out is good or bad. A part of it is, of course, seeing that the policy has been

adequately implemented. We are not looking for horrible examples. I don't think we come in the same category as the Army Audit Agency, the GAO, and the other types of agencies.

STUDENT: I was thinking of your remark that your office has developed a method of shipping one package overseas to satisfy requirements. It seems to me that, as long as we have three separate services, there should be an individual service to do the research and development and to determine whether that is advantageous or not. If you take it over, then we either have duplication or we will withdraw from that field.

MR. RILEY: If I gave you the impression that we were taking this over, that's wrong. That is not what I intended to say. The projects that we are working on, that one and the others that I discussed, are being conducted jointly with the military services. We may come up with an idea and go down to talk to somebody, say, for example, General Magruder in the Army, and say that we think this is a good idea. Then we get together and get some people qualified technically and start looking at this to see whether it can be done. We get a project set up, get a working group on it, and try to achieve and get implemented the idea that we started with.

In our office, to my knowledge, including the other directors of S&L, nobody attempts to sit back with his heels on the corner of the desk and ^{to} deam up things and then try to force them down into the services without first checking them out pretty thoroughly and getting the

services to work together with us.

In my own area I think we have been pretty successful in the last couple of years in getting service cooperation. We work very well together, and I think we have accomplished quite a bit.

QUESTION: In your second point of your objectives for this year you indicated that you are going to try to categorize your system as to local management and integrated manpower, or local purchase from GSA or GSA management. Can you tell us, in view of the fact that the Army has just gotten the assignment for common-supply items, what you visualize GSA is going to do now?

MR. RILEY: I was wondering when somebody would get to that. It is conceivable, in the Army's assignment for general supplies, that, under our criteria, if they are applied objectively—and we hope they will be—a lot of the items can fall to GSA. I personally believe that the Department of Defense should not put in its budget the dollars to support a supply system that somebody else can support. It is that simple. I think we make a mistake when we do that. A lot of this stuff about GSA being unable to furnish us with effective support I don't believe. This is one of the old clichés I mentioned. I think, given the job, the staff, and the facilities, GSA can support us on a lot of items, on a lot more items than we are getting from them today. I think the Air Force has pretty well proved that.

MR. HENKEL: Mr. Riley, you have given us an excellent presentation

and a lot of food for thought. On behalf of the Commandant, thank you very much.