man, that it would appear that the Congress is going to *have to force changes* in the procurement practices of the Federal departments and agencies by *law,* IF modern business inventory control and good common sense practices are to be undertaken in the procurement processes of the Government.

Government regulations often set forth laudable objectives, but day-to-day procurement practices continue to require construction of millions of cubic feet of warehouse space, all over the 50 states, for the needless, wasteful storing of hundreds of thousands of items that are *locally available at greatly reduced "net cost" to the Government.*

This is where the Government procurement system breaks down and the Comptroller General goes to great lengths to point this out in his report of November 29, 1963, and in many more of his reports to the Congress. *"Net cost" of an item, delivered to the point of use, should be the controlling factor in determining methods or channels or places of purchase of materials and supplies by the Government.* Delivered price to some Government receiving dock, often 300 to 3,000 miles or more from the point of eventual use and often, as we have seen, one or two or three years or more from the date of demand, is the controlling factor too often used by Government central procurement officers.

"Price" is only one element of cost and very often, as private industry purchasing agents will tell you, very often the least important element of "net cost."

We wholesale distributors know this well, for this is our business. By and large, we manufacture nothing; we buy, hold, sell and deliver the products that are made by others (the repair and replacement parts and equipment, materials and supplies needed by others—needed by the Government). No one knows better than we that there are tremendous costs connected with the performance of the distribution functions.

The reason the small businessman plays such a minor role in supplying the Government is because the entire system of procurement of materials and supplies, repair and replacement parts and equipment by the Government is based on price—one price to all Government departments and agencies is the dream of the Government procurement officer. His invitation to bid is based on the estimated needs of all departments and agencies of the Government for that product, supposedly six months to one year in advance.

To begin with, it is quite obviously impossible to predict what the needs of all departments and agencies of the Government will be for even one year in advance on any one item. This is why the Government has such a large surplus disposal problem. These surplus sales are the result of poor predictions by central procurement officer. The surplus sales are usually at "give-away prices," 10% to 20% of the original "price". The loss on these is not 80% or 90%, Mr. Chairman, but 80% or 90% *plus* the cost of receiving, handling, storing, interest on investment and dozens of other costs.

According to the Comptroller General's Report, as stated earlier, the central procurement price is, on the average, about 30% below the local purchase price, but what is the "cost" delivered to the point of need? Forgetting the cost of checking in and out of warehouses on movement from point to point in the Government central supply system, just remember that the Comptroller General found that the average cost of recording per year was *$114 per supply item.*

Again, I point out that centralized procurement means obtaining a large volume of goods at a central point, and then warehousing them, breaking bulk, repackaging them into smaller quantities, shipping them, at the time of need, to the point of need. The operation includes moving goods, maintaining inventories, filing requisitions, billing and many other operations. It is in many ways the same operation that goes on in my business and other wholesale businesses.

What does it cost to carry inventory? Before me is a small pamphlet prepared by Dr. Ronald Foster, assistant Professor at the Ohio State University, called "What Does It Cost To Carry Inventory?" Here are some of the factors he lists which comprise the cost of carrying inventory. They are: taxes on land and buildings, insurance, depreciation, maintenance and repair of buildings, utility costs, depreciation on equipment, maintenance and repair on equipment, obsolescence, pilferage, deterioration and other losses on inventory, labor costs on physical handling, labor costs on clerical operation and record keeping, and interest on money invested in buildings, equipment, land and inventory. For the average wholesaler, the cost of carrying inventory is in the neighborhood of 25% per year. Thus, an inventory of $100,000 costs $25,000 just to maintain.