

84 percent of their inventory of these 560,000 items that had moved half of them not at all, and a third maybe somewhere between \$10 and \$400.

They found out when they analyzed their cost of maintaining these warehouses that for every single one of those items, it costs them \$114, whether they sold one or 1,000,000, it cost them \$114 just in the paper work, in inventory, in putting them in stock, in shipping them. So here is \$114 for every single item, and they don't sell any. This is not from a commercial standpoint very sound. I would go broke very quickly doing this sort of thing.

The Comptroller General has urged the Department of Defense that they consider the possibility of buying locally the commercially available items which comprise the bulk of the inventories in wholesalers across the country. The report concludes, and I am now on page 8 of my testimony, the bottom of page 8, the report concludes that regulations contain criteria for utilization of commercial sources of supply which are more restrictive than necessary. It then states that from a geographical viewpoint, the disadvantages of supply from a manufacturer or distributor located outside the user's local trade area, compared with a military depot similarly located, are not apparent. We could not agree more, Mr. Chairman. We would hazard the guess, in fact, that such local procurements from local commercial sources would get there much faster from wholesaler-distributors and at less net cost.

The emphasis upon price and not upon delivery cost is where the Government breaks down, falls down in this procurement system.

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, 1 or 2 or 3 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." That is the price of the item.

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.

I will close this with this statement: The cost of carrying an inventory has been estimated at from 20 to 25 percent of the cost of the item, and this is something that the Government does not take into consideration when it thinks only of price. When the functions of a wholesaler are considered, and with these functions a Government material warehouse is going to have to assume should be considered in the cost, and it becomes apparent that for commercially available items it is in most