

10634 COMPETITIVE PROBLEMS IN THE DRUG INDUSTRY

APPENDIX VI

If, as the facts seem to indicate, the lower prices were due to other causes, then the act of consolidating procurement would be not only an inappropriate response to the problem but would also remove the advantage of the current practice which permits the measuring of relative cost effectiveness of the DOD and VA supply support operations through comparative examination of the competing systems. We do not question that some savings can normally be achieved by consolidating requirements, but we believe the procurement system or technique used in many instances can have even greater impact on the total economic cost of the procurement. It would seem preferable to seek the best from each of the procurement systems and only after these are identified for incorporation in a single system should we recommend consolidated procurement with reasonable assurance that it would be an appropriate and timely step.

In addition to the above, we would also suggest that further consideration be given to portions of the draft report which encourage central storage and issue as the means of providing supply support. By omitting any recognition of the expenses of the Government that should be weighed in comparing costs of local purchase versus central storage and issue the draft report would give undue emphasis to the latter method of support to the detriment of total cost effectiveness. The omission in the draft report is one that commonly occurs in Government according to the report of the Commission on Government Procurement. In Part D, Chapter 6 of the Commission's report which deals with total economic costs, the Commission states its finding that the practice throughout the Government in the procurement of commercial products was to focus on the price paid the supplier rather than on the total cost of satisfying a requirement. The result, according to the Commission, is that "the Government has failed to develop the data and techniques needed to measure the total economic cost of fulfilling a Government need." Generally, these costs should include the price of the product, procurement personnel costs, warehousing, distribution, obsolescence, taxes foregone, and costs arising through use or consumption.