

ample is aircraft engines, which have long been controlled on a serial number basis by Air Force and Navy, and are now being placed under such control by the Army.

The major problem of inventory management thus lies in the several million secondary items which have high usage rates—fluctuating with the tempo of activity—and on which a continuous evaluation of demand trends is required. It is also in this area that the highest volatility occurs—due to the continuous introduction of new items and the dropping of old items as weapons systems change. By far, the most difficult of these categories has been repair parts, many of which have erratic and unpredictable demand patterns.

During the past 10 years, the services have employed the technique of “stratifying” secondary items by value and varying the intensity of management in accordance with value of annual demand.

With this background, I would now like to comment on each of the issues mentioned above.

1. How deep in the supply chain should central control over inventories extend?

As noted, the services now maintain a substantial degree of worldwide visibility over principal items, and this issue primarily concerns secondary items. I am pleased to report that studies of the military departments and my office have recently resulted in the adoption of basic policies which respond to this question. On June 12, 1968, Department of Defense Instruction 4140.33 was issued, prescribing four standard degrees of management intensity, based upon the value of annual demand or planned issues, as follows:

<i>Management intensity grouping</i>	<i>Value, annual demand</i>
Very high-----	Over \$500,000.
High-----	Over \$50,000 to \$500,000.
Medium-----	Over \$5,000 to \$50,000.
Low-----	\$5,000 or less.

This new policy prescribes, for all groups, that maximum use of computers shall be made. For the top two groups, the most intensive management review and analysis is prescribed, including obtaining asset information on a worldwide basis, as fully as practicable, and the use of high-speed transportation whenever economically advantageous.

The most intensive management system today covers 77,000 recoverable Air Force items, primarily aircraft and missile parts and components. This system, installed last November, requires daily transaction reporting on a worldwide basis. The Navy has for some time maintained worldwide visibility over 6,000 items having an annual demand of \$50,000 or greater. The Army is currently developing such worldwide procedures, based upon a test of 1,780 high-value items.

In summary, it is our objective to build upon our experience with the above procedures, and to obtain a uniform degree of worldwide visibility for selected secondary items which meet the high-value criteria.

I would like to add that there is no obstacle today in our judgment to the development of such controls because of command prerogatives or lack of confidence in supply responsiveness. While this has been a problem in the past, our experience in Vietnam has, I be-