



THE DEFENSE SUPPLY AGENCY

Lt. Gen. Andrew T. McNamara, USA

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The Defense Supply Agency

5 December 1962

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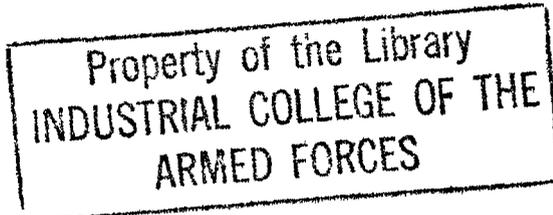
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INDUSTRIAL COLLEGE OF THE ARMED FORCES

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## THE DEFENSE SUPPLY AGENCY

5 December 1962

GENERAL STOUGHTON: We're privileged this morning to hear from one of the top-level managers in the Defense establishment. As you know, General McNamara heads the Defense Supply Agency, one of the largest businesses in the Department of Defense. He has just gone through his first year and I'm sure he'll admit he has added a lot even to his wealth of experience in the management field. General McNamara has had experience at the level of an infantry platoon commander, to a Deputy Army Commander, and not to mention his present job.

There is no doubt in my mind this morning that we're going to hear from a real voice of experience in the field of management. It's a pleasure to welcome back to the Industrial College, Lieutenant General Andrew T. McNamara.

GENERAL McNAMARA: Thank you very much, General Stoughton.

Driving over this morning to Fort McNair I heard a new description of the Pentagon and I thought perhaps you'd like to hear it. It said that it's like a log floating downstream with 25,000 ants, each of the ants trying to steer it. Now, that doesn't apply to the Defense Supply Agency, I might say, but for a different reason; we're sailing upstream.

I am really pleased to be asked back, and particularly to speak on what I consider a favorite subject. As you know, the competition was pretty stiff last year when I was here. I was then making my first appearance as the Director of DSA in February. And that was the day when there was a certain Marine Officer who used

to commute from Arlington decided to make it the hard way and he took off in a Mercury capsule. He had just attained orbit when Admiral Rose introduced me. And so, there was no doubt about how much of the class was with me during the next hour. But I understand that one of the students later commented that no interruption occurred during my count-down, the launch went off on time, and that when last heard from, I had vanished somewhere between the upper and the lower Van Allen Radiation Belt wearing a black buckle.

Now, today I'm going to try to keep both my feet on this platform and review in some detail the progress and the prospects, the problems and the opportunities visible to DSA as we approach the end of the first year of our operation. You may recall that the Secretary of Defense announced his decision to establish the DSA on August 31, 1961. Some days later, while seated behind a Korean rice paddy inhaling the delightful aroma so prevalent in that country, a message ordering me back to Washington was received. And Korea never looked better. And it never smelled sweeter than at that moment. But, an order is an order, and this one said, "You will return by the fastest transportation available with no delay enroute." Being myself, I wired back saying, "I can take a hint." So, my tour, I think, was something of a record - three months, less two days.

I assumed command on the 1st of October, the morning after I returned, and at that time the DSA consisted of a decision and a handful of people - good people - loaned to me by Secretary McNamara and the military department. Incidentally, the similarity in names has, of course, inspired some comments around. There was a lovely young thing that walked up to me at an Embassy recently and asked why

it was that the Secretary of Defense and the Director of DSA had the same names. I gave her what I thought was a pretty good answer. I said, "Because our fathers had the same name. It does make a difference, though, via the phone. Sometimes I answer my phone by just saying "McNamara," and believe you me, things really happen.

The DSA assumed control, as you know, of the assigned activities, on the 1st of January in 1962. So, in fact, in 90 days the planning staff had prepared the structure and totaled up the resources which would be transferred from the services to the DSA. And in the following 11 months the agency has become a major segment of the Defense Logistical establishment. If there were any doubts on that score, they were dissipated during the Cuban emergency about which I'll have more to say later.

A brief review of the prior development of integrated management within the Defense Department will show how the stage was set for the advent of DSA. But prior to the activation of this unique agency the Secretaries of the Military Departments had been designated single managers of certain supply and service activities for all components of the Department of Defense. And their responsibilities were carried out by separately-organized agencies, the first of which was set up in 1956. These agencies achieved an enviable record of effective support with significant reductions in operating costs and inventories. Their performance demonstrated the merit of a single agency furnishing common supplies and related services to the Military Departments.

Three commodity managers were assigned to the Secretary of the Navy. And at the time the DSA was organized, one of them - industrial - was in the process of

assuming management of assigned items. Five commodity managers and one service manager were assigned to the Army, and two of these - automotive and construction - were in early stages of activation. What is now the Electronics Center is shown for this purpose in the Air Force. And it was organized under DSA at an Air Force installation, and continued to perform procurement and distribution functions which had been carried on at the same site for the Air Force.

Now, the Defense-wide programs for which DSA was to become responsible, such as cataloging and standardization, and materiel utilization, were being administered by the Armed Forces Supply Support Center. This chart does not show the 34 surplus sales offices distributed among the services, which also would be transferred to DSA. Nor does the chart show the military air and sea transport services which remained in the Air Force and Navy Departments, although they are single manager agencies.

No major problem was encountered with the conversion of the departmental single manager to DSA field activities. They were taken over in place on the 1st of January with assigned personnel, funds, equipment and facilities. They continued operating under a much shorter chain of command. And this was true also of the operational elements of the Armed Forces Supply Support Center and the property disposal activities which were assigned to a new Defense Logistics Service Center. This made it possible to bring materiel utilization and surplus disposal under one command. And I expect to see lasting benefits from this close relationship.

Only in the case of headquarters was it necessary to create an entirely new organization. Selection and assembly of a permanent staff began after approval of the

organization and the staffing plan in December of '61. And trying to balance assets against unknowns is like picking a wife out of a phone book; you never know what will turn up. But at any rate, our headquarters now is organized and it exercises general supervision and control over assigned activities. Its key personnel exemplify the Joint staffing principle and illustrate the deep and the varied experience upon which we can draw. And each of the military services is represented at the Directorate or immediately subordinate level.

The Assistant Director plans programs and systems; exercises central supervision over assigned functions throughout the headquarters and staff field activities. Three Executive Directorates for procurement and production, supply operations and logistics services, supervise primary operational functions. The Offices of Comptroller, Personnel, Training, Administration, Counsel, and Inspector General perform normal staff functions of a major headquarters.

The field establishment is comprised of 11 principal commands, and these are identified in the tabulation by former departmental affiliations; with the exception of the Automotive and Logistics Service Center all are commanded by officers of the service from which the agencies were transferred. Service representation will change as current tours expire and billets are rotated. We have filed with the military departments our staffing requirements into Fiscal Year 1965.

DSA has made rapid progress in the assumption of assigned missions. It took over wholesale management of 87,000 items in January, with an inventory value of 1.5 billion dollars and an annual rate of procurement of 2.3 billion dollars. The number of items managed reached 300,000 at the end of October, and will exceed

one million by June of 1963. That is more than 1/4 of all centrally-managed items in the Defense supply system. Inventory value will increase to 2.2 billion dollars and annual procurement to 3 billion dollars.

The transfer of personnel from the services to DSA has proceeded in phase with the assumption of management tasks. By next June the transfers will exceed 23,500. Also by the end of Fiscal Year '63 the Defense Supply Agency will have taken over management of all assigned commodities and services except some increments of electronic materiel. The Electronics Supply Center is scheduled to become fully operational in Fiscal Year 1964.

If you were to believe one story making the rounds, the officers chosen to direct the Defense agencies put on purpose<sup>li</sup> uniforms. And Admiral Erlan, the former Director of the Defense Communications Agency, used to tell a little yarn on that point. He told about the two brothers who operated a clothing store. One was real conservative and the other was purely a plunger. The conservative fellow walking through the store one morning found a bright new purple suit on the rack. He argued with his brother about investing in this kind of merchandise, and he really became so angry that he lost control, stamped out, and said he wouldn't be back until the suit was sold. He had no sooner reached his apartment when his brother called him and said, "Come on back, the suit has been sold." Well, he returned and he found the suit had been sold, but he also found his brother battered, and torn, and bleeding; obviously the victim of a beating. He rushed to him and asked if the customer had done that to him.

He said no, it was his seeing-eye dog.

Now, we in the Defense Supply Agency are wary of all dogs, I might add. When Secretary McNamara appointed me Director of DSA he established two primary objectives for the agency. First, to insure effective and timely support of the operating forces in war and peace. And second, to furnish this support at the lowest practicable cost. Now, the order in which these objectives are stated, is not accidental. It reflects the priority which governs all the DSA programs. This priority and those objectives also govern the criteria against which our performance will be measured. And I'm perfectly willing to be held accountable on that basis.

The greatest single achievement of DSA to date is that it has continued support to the military services without interruption or impairment during a period of military emergency. This involved not only the extension of central control over a group of diverse activities and the development of uniform policy and standards and procedures, but also some major projects; such as the activation of the Electronics Supply Center encompassing the most technical commodity group, and certainly the largest yet brought under integrated management.

Planning and preparation for moving the world's largest cataloging agency from Washington D. C. to Battle Creek, Michigan. Negotiation of inter-service support agreements of all Defense supply and service centers co-located with military department activities. Completion of studies of a wholesale distribution system. The management of industrial production equipment and common chemical materials. And a pilot study of aeronautical materiel. Selection and preparation of the headquarters site at Cameron Station. Initial occupancy during October.

Bids have been awarded and the contractor is now converting a second warehouse

which will make it possible to group all of our headquarters element on site next May. I might add, someone wanted me to change the name of Building No. 3 to "Umpty-Ump Hall," and I said not so. "It's going to be either Warehouse No. 3 or Building No. 3. You get a name on it and somebody wants to move in." I'm not about to have that. It's really lovely, you know.

During this period the DSA field activities maintained the momentum that was established by the single manager agencies in improving operational effectiveness and reducing costs. Now, I might say a few words at this point about the possible full range study of aeronautical materiel which we have recommended. A study of the management of spare parts in this area is of tremendous importance to the entire defense posture. And it's truly staggering.

Some 750,000 items with an acquisition cost of about \$10 billion is one part of it. It is essential that such a study be made with utmost care by the most competent people, free of any influence that might shape their conclusion and recommendation. And I intend to see to it that the people who undertake this study are technically competent, thoroughly experienced, and possess extremely good judgment. My second task will be to insure that they are permitted to make an unbiased study and have such freedom as may be required. Although I would expect to be kept informed of their progress, I would not ask for preliminary conclusions or recommendations.

Now, there are risks involved in relation to weapons system support, and we most certainly will avoid any recommendation that could compromise that support. It will take approximately 15 months to complete the project.

Turning now to our primary concern which is improved support, the continued progress of DSA requires close and continuing association with the Joint Staff and the logistics elements of the services. This was fully demonstrated in Exercise Spade Fork, and our support of CINCOP Plan 316-62. We made faster progress in the development of working relationships with both the Joint Staff and the Logistic Service Staff than would have been possible in months of normal activity. The Cuban emergency clearly revealed the magnitude of DSA responsibilities in support of military operations. And also made apparent the critical nature of the type of supplies that we manage.

Close relationships with the Joint and Service Staffs were developed at AJCC during Spade Fork, and continued almost without interruption, into the emergency period which developed over the weekend of October 20th. We consider the current access to the staffs and the constant inter-change of information and planning data as an outstanding achievement. It's equally to the credit of those whom we support as to the credit of the DSA organization responsible for that support.

An emergency supply mechanism had been established when DSA became operational in January. These procedures were called upon several times thereafter. For example, medical supplies were shipped within 24 hours after receipt of instructions to combat disease in England and Honduras, and in East Pakistan. And some 10,000 tents were made available to Algerian refugees through the International Red Cross. But our acid test, if you will, came on the afternoon of October 20th.

The Emergency Supply Center was energized immediately, and the DSA field activity swung into 24-hour, 7-day a week, operation. By the time the President

exposed the threat to the nation, large shipments of men and materiel were on their way. And response to the demands of the military services was instantaneous and completely responsive. DSA rapidly absorbed the primary mission of expediting shipments of a vastly expanded volume of material and scheduling for the emergency relocation of forces in combat readiness. As I mentioned, these items are of special interest.

First, our centralization of inventory records permitted more rapid response and more complete utilization of available stocks than could have been accomplished under decentralized management. And second, in solving the problem of rail movement of materiel, the presidents of the major carriers were invited to participate in developing ways and means for supporting the military requirements. Over 50 railroads responded promptly. Rolling stock was made available, added services provided, and of lasting value a new single-rate structure was established to cover military unit impedimenta. Many of you will remember how long it took to load a combat team from a post, camp or station, not because of the time of loading the items on the cars, but because of the time that it took to make out the paperwork.

I have an example in mind. It took 132 railroad cars, I believe, to load a combat team. 26 hours were spent in loading the equipment; 46 hours were spent in making out the paperwork. Because, as you recall, we had to list all of the contents of the trucks and the various other things that were placed in packages there in order that the rate could be established. Now we have a single rate for post, camp and station, and organizational shipments called military impedimenta. And this, I believe, is going to be of great value to the troops.

And third, when a critical shortage appeared imminent in the available supply of aerial photographic film the services consolidated requirements established need data and DSA presented the total requirements to the producer. JCS allocation was obtained and a DSA representative was placed in the manufacturer's plant to coordinate production and delivery schedules. From October 21st to November 16th, DSA supplied 73,463 immediate priority requisitions with a record on-time fill 89% effective first-blush through the machine. The DSA system received and processed a total of over 40,000 requisitioned line items per day for all issue groups during the same period.

DSA Liaison Officers were also dispatched to CINCLANT, to Fort Bragg, Fort Campbell, and the Fifth Logistic Command, to keep me fully informed and to alert our organization to any problems involving our support. And I'm real proud of our support.

As to our second objective - reducing costs - some accomplishments have been anticipated in budget actions or approved staffing plans. And as this chart shows, the Fiscal 1963 budget is 27.7 million dollars less than the budgeted cost of these functions within the military departments. And also, the Congress assessed the reduction of 2.7 million dollars, making a total cut of 30.4 million dollars related principally to a reduction of 3,481 civilian personnel spaces. By consolidating the Army and the Marine Corps clothing factories in Philadelphia, 218 additional personnel spaces have been saved. The requirements for the final increment of headquarters staffing is being provided by a corresponding decrease in field spaces.

The DSA stock fund financial plan provides for a \$232 million draw-down in long

supply stocks during the current fiscal year. To put it another way, we expect to sell to the services that much more than we will buy in new procurement. Now, DSA must look to the future for its major accomplishments. What has been accomplished by way of improved logistics system, or in design of new systems, indicates the direction in which we are moving. And our charter clearly delineates DSA responsibilities for systems design and maintenance. The first assignment in this connection, by OSD, concerns surveillance and maintenance of Millstrip, the standard military issue and requisitioning procedure which was successfully implemented worldwide on July 1st. And the system withstood the test of the Cuban emergency and in point of fact expedited the entire supply system.

Now, on the basis of the Millstrip success it can be concluded that data systems can be effectively standardized, and thus a uniform requisitioning and issue procedure should be considered a forerunner to more standard defense systems. Accordingly, a second systems responsibility has been assigned to DSA. And this is to expand the principles and concepts of Millstrip into the entire area of inventory accounting and control procedures. Our staff has designed and is coordinating with the services, an expanded version of Millstrip known as "MILLSTRAP," or military standard requisitioning and accounting procedures. And this would fill the gap in the areas of documentation, of accounting, and of reporting receipts, of adjustments, of dues in, and back-orders, and catalog changes, to include the related financial accounting by-products. We have a target date of 1 July '63 to install the procedure.

Now, within DSA, systems design focuses on a single objective which is the

gradual attainment of a fully integrated materiel management system. This would assure complete coordination and compatibility of all commodities, supply and service functions for which the agency is now, or may become responsible. The chart implies that the DSA system will be composed of 18 sub-systems, but the number and the titles of those shown in brown are strictly hypothetical. Some of the spaces were left blank to suggest that there is flexibility in the structure and ample opportunity to exercise creative imagination and sound judgment of our best planners, incidentally, made available by the military services to improve our wholesale support. And five major segments of the system are in the study phase. They are shown in blue.

Development of a management information system is the mission of a headquarters task force. We want to put the principle of management by exception to work to define the information requirements of various echelons of management, to design a computerized information index that will screen information requirements and match them with available data, and to develop a high-speed system of retrieving and displaying information as it is required. We expect to implement some of the results of this study by December 31st.

The functional alignment between DSA and the services in the area of requirements is of considerable interest. And here we must distinguish between requirements determination which is solely the prerogative of the military departments, and requirements computation, which is a service that can be efficiently performed by a supplier. Now, the military services tell us what they need and where they need it and when. They also determine priorities. The input into the supply sys-

tem is the product of established military plans and associated tables of organization and equipment - tables of allowances; allowance lists, load lists and the like. And the actual quantity of material moving to using activities is in response to the requisitions that they initiate. It's interesting to note that there are 19,300 activities that requisition on Defense Supply Centers in CONUS and overseas; 6,105 in the Army 4,724 in the Air Force, 4,548 in the Navy, 2,590 in the Marine Corps, 1,474 in the Coast Guard; while others are in GSA and other defense agencies.

DSA's role is to procure materiel, place it in the wholesale distribution system, manage and control it as necessary, to assure continuous flow to the point of need. The computation of requirement to sustain this flow calls for knowledge of military programs and issue experience. DSA is responsible to compute replenishment requirements of the items that it manages. Further, DSA may assume the task of computing materiel requirements for special programs and mobilization reserves when authorized to do so by the Secretary of a military department.

So, we are exploring the requirements area to determine the best method of forecasting, measuring the validity of forecasts, and using them to control inventories. DSA inherited nine different ways of doing some things. We're searching for the best in each of these systems and will develop a system that will improve every commodity area while allowing for the differences between the commodities. A requirements study team will soon be contacting the services and that study will be completed in June of '63. We are also conducting a closely related study of provisioning. There is a need to spell out the responsibilities of DSA and the services in this area, and to design a system for the orderly exchange of information.

A new provisioning screening procedure has been devised to relate federal stock numbers to the new items under consideration for procurement. And most new items enter the system via provisioning. The procedure provides a rapid and a mechanized means of interrogating the DSA Master Catalog File for available stock numbers matching the manufacturer's parts numbers. And while the procedure is optional, it will be beneficial for all to use it as it is the only screening which offers access to the master file of more than eight million parts numbers. It will thus help identify duplicates and avoid unnecessary purchases.

The overall provisioning study will be completed in February of '63 and then we'll place the facts and the appropriate recommendations before the military departments and OSD. Provisioning decisions must be fully coordinated because they relate directly to qualitative requirements. Operational and combat considerations must determine which items should be retained under service control, and which should be allowed to enter the DSA supply system. And this requires close attention by all concerned.

The establishment of a technical data base is one of the most difficult problems confronting DSA. There is urgent need of a system to acquire, maintain and utilize technical data; to facilitate competitive procurement, and to provide essential data for standardization and provisioning, for cataloging and maintenance, and inter-service supply support.

And as a logical result of DSA responsibilities for the federal catalog, the defense standardization program, and the item simplification of assigned commodities, we are keenly interested in efforts to do something about the tremendous variety of

items in the catalog. There are some four million to date, and technology advances so rapidly that a net increase of about 16,000 items per month has occurred since December of '59. And this continues to happen in spite of the efforts of the military departments to eliminate the items which are duplicative, substitutable or obsolete. With their cooperation agreements have been reached to eliminate some 15,000 DSA-managed items.

The solution of the catalog growth will require positive cooperation of DSA, military services and industry. Means must be found to acquaint designers and engineers with the items in the catalog, and particularly their technical characteristics, so that they can use the standard parts wherever possible. And thus the introduction of unnecessary new items can be prevented. Procurement dollars are being used to re-invent the wheel because we haven't done a good job in standardization and because we lack a workable system for technical data collection, and recall for use of design.

DSA has made proposals intended to offset, partially, the need of substantial resources to support a broad standardization program. For items that have minimum operational significance, for instance, we have proposed that a technically qualified element of a military department be entrusted with the responsibilities and prerogatives of acting upon standardization matters for all of the departments. And this delegation would include selecting the best item to serve stated needs and the preparation of associated specifications and other technical criteria.

The second proposal calls for a technically qualified echelon of one military department to accept the responsibilities for providing to DSA technical engineering

support required for each DSA item or group of items. We don't intend to duplicate engineering resources. We support the position that the services should retain the responsibility for items characteristics, and it's particularly essential that the services be fully responsible for mission-related items. Now, emphasis has been placed on the design of effective front-screen, if you will, by which to control item entry. Some useful interim results are expected, although the project is not scheduled for completion until the end of 1963. As an example, the Defense Industrial Supply Center has satisfied 3,400 - 3,340 to be exact - requests for new bearings with items that are already in the system.

Now as to the magnitude of the item management problem. DSA will take over 90,000 hardware items this month from Army, Air Force and Marine Corps, at the Defense Industrial Supply Center. And in addition, at Dayton the Electronics Supply Center will pick up the management of 17,000 items of electronic tubes. This is the first and most important, if you will, electronic commodity under DSA management. It contains 3% of the items, 20% of the dollar inventory, 30% of the dollar sales, and 30% of procurement. And the items range in price from 25¢ tubes to \$20,000 for complex magnetrons and pristrans.

Now, the electronic equipment which these tubes service are intimately associated with mission capabilities of the services. Equipments involved are nerve centers through which weapons delivery systems become effective in applications such as communications, navigation, detection, guidance, control, computation of surface and sub-surface and air and space environment.

The fifth of the DSA studies, which relates to maintenance, is exploratory in

nature. The purpose is to determine the scope and the complexity of DSA involvement in the maintenance function. The study is practically complete and will identify problems requiring attention in preparing scheduling, parts lists, and technical manuals.

Now, the last of our logistic sub-systems shown in the chart is the DSA distribution system, because it is in the implementation stage now and therefore I can discuss it in more detail. A major research effort was required to design a streamlined system; the distribution of our assigned commodities located in 77 different storage locations; 10,000 traffic rates had to be developed and fed into a computer to determine where the stocks ought to be positioned to the best advantage for customer and producer. Our system is made up of three parts - a depot storage pattern based on the concept of positioning stocks close to the concentration of military activities in the Continental United States. A plan to centralize all requisitioning, processing and stock control functions in defense supply centers, and a network of DSA customer service centers linking customers and depots with the Defense Supply Centers.

This map shows the system as it was approved in blueprint form by the Secretary of Defense. And note that it is for OFFICIAL USE ONLY and will remain so until public announcement shortly. Seven customer areas will be supplied from 12 installations. Five depots will have specialized support missions either as to type of item stocked or type of customer supported. The other depots, one in each area, will be known as principal distribution depots. Three of them - Atlanta, Memphis and Utah - will be operated for DSA by Army Supply and Maintenance Command.

Principal depots will generally carry a wide range of fast-moving items. Loose issue operations will be concentrated on a smaller number of depots with active bin-rooms, and the slowest moving items will be keyed to even fewer depots. We expect that by consolidating stocks from 77 to 12 locations we can achieve maximum consolidation of shipment with virtually no back-hauling or cross-hauling of materiel.

As to centralizing inventory control, we expect to maintain highest effectiveness at lowest cost with minimum inventory investment by processing all requisitions against a system-wide set of accountable records. And at the same inventory control points all financial accounting, billing and collecting will be performed. These processes will be completely centralized and standardized in DSA by 1 July 1963. And as a parallel effort, the Army and other services will be asked to reconstitute a DOD working group to develop detailed card formats and codes for the standardization of inventory management data. All of the services commented favorably in this connection during "Dump Project 60-11." OSD is directing the completion of this task.

Now, the Routing Center Concept was devised to provide high-speed communication linking customers with appropriate Defense Supply Centers. This will also minimize the impact upon customers, of item migrations and communication failures. The military customer seeking DSA commodities will submit his requisition to one point in his geographic area. And here the required key-punching will be performed and the order will be transmitted directly into the computer of the inventory control point after errors have been detected and eliminated by the routing

center.

The user will look to this same contact point for status information. In emergencies the routing center will know how to keep supply moving when normal communications have been knocked out. And as a test of the routing center began at Utah Army Depot last month, if all goes well we can have such facilities installed at each of the major distribution points by 31 March, or well before we undertake the major relocation of requisition processing responsibility.

We believe that with careful planning and scheduling the routing center can avoid customer annoyance during the transition to the DSA distribution system or in any subsequent changes. The time-phased implementation plan for the distribution system looks something like this: No progress is shown during this fiscal year in the reduction of DSA stocks at 57 or more locations where they will be attrited, because new items will be capitalized for DSA management more rapidly than the attrition date, or rate. Total system tonnage will increase over this two-year period by 50%, but this will be caused by the program's six-fold increase in the number of DSA - managed items.

The requisition work-load is expected to increase to more than 2 1/2 times the Fiscal '62 level from a rate of about 7.5 million line items to almost 20 million lines per year. Stock records required to account for DSA inventories are conservatively estimated to increase by a factor of 4.

Note that the green portion of the chart begins to taper in Fiscal 1964 as attrition overtakes capitalization of new items at these locations. Bulk relocation of remaining assets at the attrition sites is planned for the fourth quarter of Fiscal '64 to

attain zero balances by 30 June. We will minimize relocations by diverting as much procurement as possible into the permanent storage site. Some diversions were initiated this fall as we bought the annual pack items.

The task of relocating warehouse facilities would be more difficult but for the fact that over 80% of DSA stocks - the brown areas on the chart - are already located at the installations selected for the permanent system. Almost 2/3 of additional stocks due for capitalization in Fiscal Years 1963 and '64 will be located within the permanent distribution pattern at the time they are taken over. And this is no accident. It results from the design of the system to include those installations best suited for storage of the vast bulk of our DSA materiel.

Turning to the problem of materiel utilization, I want to touch briefly on some projects that we have underway now to improve the sharing of our assets. Redistribution is not, of course, a simple matter. It is not always possible and it's rarely a simple task to identify all of the users of an item, and to match the overages with the requirement. There are many reasons for this, not the least of which is the difficulty of evaluating technical characteristics to determine where an item is interchangeable or can be substituted for another. Inadequate or incorrect identification information, failure to use prescribed procedures for screening assets prior to procurement, and the sheer size of the system, also contribute to the complexity of the problem.

But, on the other hand, anything that can be done to get more mileage out of the defense dollars pays double dividends. Inter-servicing of materiel satisfies current needs frequently at less cost and faster, and it releases scarce dollars for other

procurement. Redistribution of a long supply or excess materiel is a practical means of avoiding new procurement or satisfying military requirements which might not otherwise be satisfied. DSA has a dual interest as a commodity manager and administrator of the Defense inter-service supply support program. And all of the military services are participating.

The inter-servicing of materiel during Fiscal Year '62 abrogated almost \$600 million. In other words, that volume of requirements was satisfied by sharing rather than by new purchases. The phase-out of the Army NIKE-AJAX Air Defense Missile System provided an excellent opportunity to find new uses for materiel, principally electronics sub-systems that would otherwise have been disposed of as surplus. And as a result of positive efforts by the Army and DSA to make the material known to potential users, more than \$39 million worth has been transformed. Additional utilization is anticipated as more AJAX installations are phased out in the next several years.

And in some cases, particularly in research and development installations, the availability of the AJAX materiel saved valuable time as well as the procurement dollars because the sub-systems could be put to use immediately. We have a test going on known as Project Fuss, with selected inventory control points, to accomplish the mechanized screening of requirements against long supply. And we expect to demonstrate benefits that will warrant the extension of the procedure to other ICPs.

Mechanical screening of excess against requirements has also been introduced. Again, for the purpose of making the best use of assets and preventing concurrent buying and selling. In the procurement area major attention is focused upon increased

competition, value engineering, small business, and the application of automatic data processing to bid evaluation and date of flow. We want to reduce the procurement lead time. We want to obtain better prices and more reliable products, and to achieve more effective direction and control of the procurement mechanism. This ties in with the specific goals assigned to us by the Secretary of Defense in his cost reduction program.

So, to summarize. DSA has assumed the bulk of assigned activities and management functions, with no interruption or impairment of supply support. We have maintained the momentum achieved by the four single managers, during a period of major organizational change. We have developed excellent relationships with the Joint Staff and the service staffs, for the exchange of planning and operational data. The recent emergency made clearly visible to all the magnitude of our responsibilities in support of military operations and the criticality of the types of supplies that we do manage.

They are developing, or have already installed, new systems designed to improve the performance of the wholesale common supply system. We are seeking to define our role in provisioning and requirements computations, in maintenance and the control of the new item entry. We have designed an integrated distribution system which will simplify the support for the user. It will reduce the inventory and it will enhance responsiveness. And with the full participation of the military services we're seeking to insure maximum utilization of our defense assets.

So, you can judge, it has been a busy year. There have been some minor setbacks, but the agency has fulfilled its role as a vital member of the defense team. I'm just as confident as I can be, that we can continue to show progress while improv-

ing support of the operating forces at the lowest practical cost.

I'm seven minutes overtime, gentlemen. Thank you for your patience, and I'll look forward to our question period.

QUESTION: Sir, my question concerns price improvement. I'd like to set up a hypothetical example. Say an electronic gismo might develop a very high ceiling rate in one operating environment, say, an aircraft, and still function completely satisfactorily in another, say, a ship. Assume that if we buy a facility modification it will produce satisfactory operation in both environments. I have a series of questions.

Who would be responsible for discovering the deficiency exists? Who would be responsible for finding the cause?

GENERAL McNAMARA: The user for the first one. What's next?

QUESTION: Finding the cause - the main thing. Developing the modification.

GENERAL McNAMARA: Who is responsible for the specifications? That would be the user - his department.

QUESTION: And actually accomplishing the modification?

GENERAL McNAMARA: I have no research or development. That would be the fellow who was responsible for the entrance of this undesirable product into the system.

QUESTION: And one last part to this; who would make the decision and how would the decision be made whether to modify the total stock or just a part of the stock?

GENERAL McNAMARA: I probably would get into that feet first because of the number of requests that I would be getting that wouldn't need quite that top level that

you are talking about. And, I think in terms of the film that was used in the recent crisis here, two films met the spec. A user determined because of some processes known to them that they wanted only one firm. We obtained that for them, but the other film was perfectly good for many other types of use, you see. So, I would probably be in the latter part. I'd like, though, to face behind your question just a bit. It isn't anything except just we. I postulate this position of a team. This is what we fit in. Any design that we've got, any exhibit, if you come over to our auditorium and look at the exhibit there you'd see nothing but cogs working in an overall wheel. And that's the picture that I have of the part that the Defense Supply Agency plays in this business - not a separate entity; not at all.

Now, there are so many things that must be a team action all the way. You could hang me on a hook on many isolated questions, but I could throw you to the winds if you took me out of this DSA, out of the overall. You've got to consider in there we're part of you, and without that, you wouldn't be anyplace and neither would we. Really, we are contributing to your supply support and only you field commanders will understand this as well as the statistician. You have been getting more responsive support to your needs and of the type things that you ask.

Now, we're going to fall down badly for an overall period, but part of it is your fault. You've been giving me zero balances and zero dough on items that you didn't want to stock because you wanted to pay for other things. So, you gave it to me just before the Cuban crisis, and you gave me 26,000 line items with nothing. And what do you do; you come running in and say, "These are newly-desired items." Well, that's another heading for "you didn't plan for them." But we never did anything

except supply them. We went out and made, just what you would have done yourself, special efforts to get it in and it will be a stocked item from now on.

We're part of you and just don't forget it. This is one team, and we're going to be a real good team, we really are.

QUESTION: One of your earlier charts, General, indicate that you have a growth in the number of items, a growth in knowledge and a growth in personnel. The growth in personnel is a much larger percentage than the growth in numbers and the growth in dollars. I'd like you to emphasize what new techniques you have developed to assure that your organization does not become a bureaucratic overhead bent on building a new empire?

GENERAL McNAMARA: Well, I can give you one answer; his name is McNamara; not my name. He told me I'd be running a lean and hungry organization. And for your information it is just that. The second point is that you simply can't deny the fact that there are 3,481 fewer bodies in my organization than formerly were in yours. And if that's building an empire, then charge me with it. But really, you're missing the boat on this thing. There are so many obvious things we can do; to you as an individual where you had we'll say four reports, each service submitted four reports, I can eliminate three of them by getting only one in. So, I'm going to show progress where you're not because you've still got to fill out the one. Well, you've always filled one out, you see, so there's no net gain to you, but to me there is.

So, from an overall answer, my performance is going to be better than yours because I've eliminated all that stuff. And we can give more responsive support because of the type operation we've got. I've been in this business 34 years now. I

may not know much, but I know this; I'm giving you a better supply now than at any time in 34 years - really. You caught me just pulling my shorts on; just getting organized - bang, you threw the job at me, as the Cuban crisis did. We reacted on the one foot, if you will. When we get really started and firmly established you can count on something happening. We are not an empire builder. We're a good, substantial, progressive unit. The records will show that.

QUESTION: Sir, in your talk you indicated an amazing amount of progress and success in the past year, but in an operation such as yours there must be some problems. Would you give us some of the big problems that you have today and in the future?

GENERAL McNAMARA: That's very easy. Army, Navy, Air Force and Marines. Yes, we've had them, but look at it this way. They're really management problems, just a new outfit getting started, if you will. I don't think there has been anything but a consuming interest on the part of the services to, first of all, find out what hit them, and then secondly to see where it fits and how they are going to be used. And it wasn't truly anything except adjustments of managerial things. We haven't had too much. At least I don't consider them real problems.

Everything dropped into our laps nicely. I was able to schedule the going concerns in first, you see, and then add those in the next step for landing, gradually bringing those in. And then there are the ones that are just forming now; they're moving up into this area of going concern. I thought it was going to be tougher than it is. I think the services are responsible for this. They gave us only top-flight personnel. There isn't a slug in the outfit. Everybody wants to work and it's really

a tribute to their own system. You'll be real proud of the type of people there.

But I don't consider that we've got many problems. Hell, I've had more worse than this years ago.

QUESTION: General, not that I think you need any new problems, but I understand that because of our gold-flow problem we are soliciting customers for your activity or several activities in the way of foreign governments being able to requisition things from our stocks, and, of course, pay for them. Have you had this problem? Or, what is your outlook in this area if you haven't?

GENERAL McNAMARA: I don't have the filter or the services on these problems there, so that, they can regulate priority on whatever is long in this. I don't think I should be the one to just open up the door and say, "Here." If I understand you correctly there, I would want the Army, Navy, Air Force and Marines to state that which is needed for the foreign governments and the types of equipment, and let them decided on the priority of an issue.

QUESTION: I wasn't thinking of it from that level. It seemed to me that it was more or less DOD policy that was pushing us in this area of more cooperative logistics to solve the gold-flow problem. And I wondered if you could - - -

GENERAL McNAMARA: Oh, excuse me; gold-flow. I missed you on that. The gold-flow hasn't been a particular problem to us. There are, first of all, orders out. Well, that made us staunch believers in getting this thing going. We have no real problems. Bob, did we have any dollar sign that made anything? No, that's what I thought. This hasn't been a problem to us. That would involve the Comptroller. But I don't think we've had any real problem on the gold-flow. We have to

adjust on some things.

I know one screwball thing I thought was advocated; they wanted me to ship bulk milk over there by Air Force tanker or some other thing. I properly denied that. But I don't admit any problem in this field that has been made visible to me.

QUESTION: Each service now is faced with the problem of establishing accurate and effective allowance lists in the demand for new weapons systems for the coming year and anticipating what our problems in maintenance and repair are going to be. Now, you mentioned in your discussion that you're making studies along these lines. Would you care to expand upon this in your assistance to the services or how it will work out?

GENERAL McNAMARA: To determine our position in the maintenance field, which is minimal, you see. But we've got to clear up the air as to where we sit. There's a big conference going on at Williamsburg today on this very subject of maintenance. Our study was merely to clear the air on what part we would fit in. Obviously, the maintenance of clothing is something you don't mind.

Equally true, the maintenance of missiles is something that is way out of the competency of our organization. We're just not in this hardware business of that sort. So, we're trying to get a clearer picture of where they expect us to do what and on what types of items. It's just seeking to clear up the atmosphere a little more.

QUESTION: Sir, what happened to the \$232 million in cash that you generated when you dumped your stock? Were you authorized to invest any of it in gold reserves, and what is the status?

GENERAL McNAMARA: No, no. Nobody gave me any extra cash on this deal. I get mine from the services, as you know, generally, in the form of a budget. So, I didn't get the cash. All that happened to me was a draw-down. We had the stocks and we just merely sold those. The influx of that money would, of course, come back into the stock fund. And we just have it as a balance there.

QUESTION: The next part of my question sir, was, what is the status of your mobile <sup>pile</sup> reserve program? Are you pursuing that, or is that under the services?

GENERAL McNAMARA: That's under the services. Now, really, if you want to face the immediate problem, it isn't the mobile reserve; I think I know what you are driving at. But there is the problem of peacetime call-ups that will face all of us one of these days - real serious - when they suddenly pull in divisions in peacetime. How do we equip them? Out of mobile reserves? Out of peacetime operating stock? There's a problem. And somebody better read into this one from the service end pretty soon, it seems to me. There are things - like the Marines are the only ones that put their uniforms in their bag, if you will. Not so the Army. Our reserves would come to us and we've got to find the dough to get them in green because why? It's peacetime. And shoes; we've got to find the dough to get them too.

So, there are problems of adjustment in there dollar-wise, that will be leveled shortly, I'm sure, because of the visibility of the problem in the immediate future here. But mobile reserves - we don't get into that; that's you.

QUESTION: General, would you comment on the pros and cons of assigning DSA under the JCS rather than under DOD?

GENERAL McNAMARA: Yes. I would want no part of it. I used to be in the

policy end in my G-3 days. You remember how you used to have to decide whether A, And or The, was the word to get it in? I don't have that restriction now. I get a demand. I'm under a strict charter. I've got four people watching me - the Army, Navy, Air Force and Marines - and I just react. I love it as it is now. I would think that it would be wrong for me to have to take up the time of the people who are charged with this amount of attention that they have to devote to combat and take it away and put it on stuff like that. What the hell do they care whether they've got number three thread in their shorts, or a number four? They don't really.

I wouldn't want them in that business. I think it's wrong. Now, on the other hand, the JCS, if they don't like what's being done, the Chairman of the JCS sits on the Defense Advisory Council to Mr. McNamara. And they pass on the actions to Mr. McNamara, not to me. I don't even report to them. They had a meeting yesterday. They look over the actions with some jaundiced eyes, and they're quite expressive, I might add. But there is a means by which they can control things if they so desire. Dan Callahan sits on it as an alternate to the Chairman. And there are the Secretaries of the Army, Navy and Air Force.

I've got what I want. And I'm just going to show you enough service so you'll want me to stay in the posture I'm in right now.

QUESTION: General, in your testimony to the Vining Committee last summer you indicated that your current ground rules restricted you from going into weapons systems procurement and you said that this was a sound base. However, when you passed your opinion on statutory restrictions to this effect you deferred answers pending discussions with Mr. McNamara.

My question is, do you foresee your plan going into weapons systems procurement for the services?

GENERAL McNAMARA: No. I was just simply saying it's none of my business. Let someone else answer those questions. I have a charter so headed; it says "Department of Defense." It's signed by the Secretary of Defense and his name is there. I admit the Secretary of Defense can issue me orders. That's all I need. Now, anything else can be developed by others. I wasn't about to answer any questions on that at all; it's none of my business. That is why I answered that way. And I would answer again tomorrow the same damn way.

QUESTION: General, do you now have, or do you plan to establish a materiel management school of any kind under DSA?

GENERAL McNAMARA: No. I might be teaching them some shortcuts that they would have to change when they go back to the services. We've got a system now, and the system itself gives me an opportunity to act a little faster than others. We've eliminated 43% of our reports, for a total of over 100,000 man-hours saving, because we don't need the reports. The elimination of the reports forces on us the realization that the maturity that was formerly expressed on the administrative levels must now be expressed in our letter. So that, the judgment factors that are going to be exercised by my staff have to be done in dead seriousness knowing that they won't have the filters that formerly existed. But our saving is sufficient to give better service.

Actually, the schooling is something that, as an ex-Commandant of a school, I'd like, but I don't think it's my business right at present. And I don't see it in

the immediate future. So, I do not have any plans to establish a school. Basically, the programs that come out of all of these various schools are wonderfully sound because they're dealing with your problems. And while we may want to sharpen up certain areas periodically, we would suggest the course rather than try and run a school.

QUESTION: General, I noticed in your top level staff that you have an officer for training of personnel. I was wondering as to what type of training is done.

GENERAL McNAMARA: Well, we have job training within all of our 11 commodity centers and things that have to be controlled; just like we've had labor problems all through them too. Remember, we've got 23,000-some-odd people out in these respective plants. Now, we have to have arranged training programs for them so they may grow - the people in the plants; not necessarily military people, you see. Although, there are some things in the military too that we're charging ourselves with, because I realize that we're running an organization that has to operate in war and in peace, and I would want the military that are assigned to us to be growing as they had positions in this establishment of ours. And I would strive to have a rotation of officers on the things that would tend to increase their proficiency in it.

So, we have just what you see in our chart. And, in addition to that, that type of an officer insures us competency of input of people. He knows what's good and what's bad, who has been trained, etc., through his contact with the services. So, overall, then, we would want to continue to have training. Some day we may even have the problem of mobilization designees where we would have to watch their training too. For instance, I have one reserve General who reports in to me now

and I would want to shape his training if that's possible. I would say that there should be a man in charge of training in our setup. It's a pretty big job through the system, each one of which is a national thing, like food. That's a national thing. So, we have to have pretty good competency out there.

From my own end I think you startled me a little because it looked like a natural to me when I was going through my office staff.

QUESTION: General, you say that DSA plans to decentralize record keeping and accounting which are now built in at the base and depot, and which would knock out stock records. What happens if DSA center is knocked out by bombs?

GENERAL McNAMARA: That's the old plight; there's nothing new about that one. We are hooked up all the way, as you know, criss-crossing our ICP. It's just as you are in your establishment. It wouldn't affect us any more than anybody else would be affected. I've got a means of controlling from Battle Creek. We've got a means of controlling from the AGCC, if your in existence there. The fact that the fellow at the plant doesn't know what his inventory is as he would have if he were the supply manager, isn't to me a serious problem. I can keep him posted on any kind of element I want by sending him up-dated copies weekly, monthly, or something or other there, and keep him fairly well posted.

I don't see any problem in that one. That has been a horse that has been galloping ever since I was a student here too. I don't think it will ever be satisfactorily answered as long as we have two schools of thought; one that wants to be completely decentralized and the other that wants to be completely centralized. But I don't read in too many problems. If Norfolk went out we could take a quick buzz at Oak-

land and see what they've got, and guess or fill in. I just don't read it as a deep one. We've got more problems than that right now. Although, it is a going question and I'm sure that after you and I are dead they'll still be asking that.

QUESTION: General, you spoke about savings in your talk. My question pertains to Mr. McNamara's letter to the President last summer in which he stated that he hoped to save \$3 billion in logistics support for the services. I would like to know what is your share and how much you're expected to save, of this \$3 billion?

GENERAL McNAMARA: No. I read the letter and so did others. In a job like mine there are two things that are going to give you savings. One is inventory draw-down, and by that I don't mean touching all of your inventory; I'm just talking about the amount of stuff that you buy in one year and the amount that you sell in one year, and keeping it down so that you've got a good active location of that type of material. That's a saving because it would have been sitting in storage, you'd have to handle it twice, and you'd have to do a lot of other things.

The other is the elimination of people. Now, there is a line which states we're going to have annual savings per year, but it hasn't been apportioned. Somebody made an estimate and I suppose for good and sufficient reasons said that it was a possibility. He gets more money than I do. I didn't say it, so I'm going to let him wrestle with it.

QUESTION: General, is there competition in the market place with DSA in the acquisition of commonly-used items such as automobiles? Also, is there cooperation with DSA in cataloging and other like activities?

GENERAL McNAMARA: Yes, to all of them. There is competition, but mini-

mized. With Joe Bean there there has been, I suppose, a liaison that has been developing over the 14 years that I've been in Washington, minus a couple of long tours like that three-month one I had in Korea. We have been able to proffer him business. The choice is his, as you know, based on the regulation or the law, I guess. And he has been able to accept a certain portion of the business he'll get, based on his capability. It might be well for people who want to weigh or question whether DSA or GSA can supply, is to look at the percentage of the business done by each.

GSA is a fine supplier and they do a damn good job in the field that they're handling. And my hat is off to the performance. They gave the same percentage of supply during the Cuban crisis that we did, the military leaders and our own gang. And they did a fine job. But, the number of items that they handled is small, if you will, in comparison. And they are not competent, therefore, to take over the full list of automotive or all the rest of them, as they presently stand. So, it isn't really competition, if you will. We might compete for parts for commercial automotive things, initially, but not too long.

For instance, they've got a fine plant out on the West Coast that supplies the Air Force for their commercial vehicles. The last time I heard, they had a zero one but just growing on the New York side. So, they're beginning to be substantial individuals. They're not there yet as competition. But don't ever sell them short as a supplier; they're darn good as a supply outfit and I told Joe Bean, "You supply it better than I can do it and you've got the business." And so far he hasn't been able to do it. But in some places he has done very well.

And we have a record of the profits; a record of the acceptance, and the record

of that which is the normal local procurement, so there is a clear picture. Joe is a fine fellow and he has a good outfit.

QUESTION: Can you tell us, sir, why not take over the management business?

GENERAL McNAMARA: It's not in my charter.

QUESTION: Beyond that.

GENERAL McNAMARA: Well, it's a moot question. The question is, "Do you want us in that type of service?" And the answer to date has been no. And it very clearly was set aside. It would be just another service; it wouldn't bother me. But I think with some justification it has been pushed aside. If it's big enough, as it is now, to do certain things, I don't know what you'd gain by putting it all together. One would have to reason pretty closely. I suppose the question would be, should you take traffic management out and put it with those two to determine if you wanted to have management of things such as those three represent. But I don't see it. I am not a grasping individual. And I find no reason to challenge the thinking in the charter. Whoever worked up this charter I'm sure did it with a great deal of attention.

But this, clearly, was not their intent. They so specified, you see, so they must have reasoned on it. And I've really been so busy that I haven't had time to go back and find out what the hell they do give me. They gave me enough.

LT COLONEL DAVIS: General McNamara, speaking for General Stoughton and the student body I thank you for a very interesting and enlightening presentation. We were particularly impressed with your frankness and your ~~method~~ <sup>levity</sup>.