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RELEASED



Dear Mrs. Heckler:

Pursuant to your request of June 4, 1971, we have reviewed the Army and Air Force Exchange Service criteria for buying luggage and the methods it employs relating to competitive public bidding. You have indicated that the buying practices of the exchange service tend to foster a preferential brand approval for Samsonite and American Tourister luggage without regard for other highly qualified and financially responsible firms, including the United States Luggage Corporation, Fall River, Massachusetts.

The exchange service obtains resale merchandise by negotiation, for the most part, on a limited-source basis and, for the remainder, on a competitive basis. Although the exchange service is an instrumentality of the Government, it operates with nonappropriated funds and is therefore not required to use formal advertising as prescribed by law. However, even the law applicable to appropriated funds (10 U.S.C. 2303(a) and 2304(a)) permits negotiation where supplies are purchased for resale.

To obtain luggage for stock, the exchange service headquarters negotiates consolidated procurement contracts for its regions, or the regions separately negotiate contracts with vendors not under consolidated procurement contracts but approved by exchange service headquarters. During 1970 consolidated procurement contracts for luggage accounted for \$19.9 million of total procurement of \$24.7 million.

Manufacturers of Samsonite and American Tourister brands alone have been given an opportunity to negotiate consolidated procurement contracts for "hardside" and certain "softside" luggage. These luggage items account for the largest purchase volume.

The purpose of the consolidated procurement program is to reduce procurement costs by consolidating worldwide requirements. Selection of items for the consolidated procurement program is currently based on the following policy.

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"Headquarters AAFES [Army and Air Force Exchange Service], when identifying items to be included in the program, will give full consideration to brand when brand is a factor in customer preference, and where such preference is established, the request for procurement will specify brand name procurement."

The criteria applied for selecting items for the consolidated program require that they

- be common to most exchanges,
- be sold or consumed in quantities large enough to reasonably expect cost reduction if purchased on a fixed-quantity basis,
- have reasonably predictable requirements, and
- be reasonably stable in design or model.

The exchange regions relied primarily on their past sales data in responding to a headquarters request for a survey of hardside luggage requirements by brand. The data were used as a basis for consolidated procurement. Customers were not directly asked for their brand preferences. This procedure placed two manufacturers at an advantage over United States Luggage and other firms that had relatively few prior sales to the exchange service. Similarly, with respect to the award of consolidated procurement contracts for softside luggage, brand preference was not established by a survey of customers' desires.

Details by type of luggage follow.

HARDSIDE LUGGAGE

Although hardside luggage accounts for the greatest purchase volume, suppliers of only two brands have been given an opportunity to negotiate consolidated procurement contracts.

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United States Luggage and 13 others, however, are approved sources for local exchange region purchases. United States Luggage was added to the approved list on July 9, 1971.

In 1968 the exchange service considered use of consolidated procurement contracts for hardside luggage to reduce costs and selling prices. To obtain requirements data as a basis for decision, the headquarters in August 1968 requested its regions to provide data on the quantities, by brand, of hardside luggage they expected to sell in the ensuing year. Although we were informed that exchange service headquarters requested region officials to provide brand preferences and requirements based on customer acceptance and sales history, we found that the regions based their responses essentially on past sales of luggage stocked and customers were not directly asked about their preferences.

We were told that, in reply to the inquiry, requirements for nearly 653,000 pieces of luggage were established: 516,000, Samsonite; 96,000, American Tourister; and 41,000, other specific brands. These data prompted the exchange service to negotiate consolidated procurement contracts with the manufacturers of Samsonite and American Tourister brands. For the 1969-70 contract year, the Samsonite contract amounted to about \$15 million, including both hardside and softside luggage. The American Tourister contract amounted to about \$2.1 million, for hardside luggage only.

Exchange service officials stated that their decision to purchase only Samsonite and American Tourister luggage through consolidated procurement contracts was sound because (1) space limitations in the exchanges prohibited stocking numerous brands, (2) Samsonite and American Tourister brands were more popular than other brands, and (3) negotiating the consolidated purchases resulted in cost reductions estimated to be over \$800,000 the first contract year.

The contracts with Samsonite and American Tourister were extended, with minor modifications, for a year beginning April 1970. At that time the exchange service headquarters did not make a customer preference or any other type of survey. In

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November 1970, however, before award of contracts to begin in April 1971, the exchange service conducted another survey by contacting its exchange regions, but customers were not directly asked for their brand preferences.

TONGUE-AND-GROOVE SOFTSIDE LUGGAGE

The exchange service purchased only one brand of tongue-and-groove softside luggage under consolidated procurement contracts and performed no customer preference survey as a basis for awarding the contracts. The Samsonite Fashionaire tongue-and-groove line was added to the Samsonite consolidated procurement contract during the 1969-70 contract year on the basis of price savings, according to exchange service officials. United States Luggage and 17 other firms are approved sources for exchange region purchases.

ATTACHE CASES

Attache cases first came under consolidated procurement contracts in July 1968. Exchange service officials stated that vendors for these contracts were selected from samples and prices obtained by solicitations.

We examined an August 1969 memorandum on the selection of hardside cases from Samsonite and leather cases from another manufacturer for contracts effective in April 1970. The memorandum did not state reasons why these two products were selected or why 13 other vendors' cases were not. According to exchange service officials, the records supporting this memorandum were not retained.

Follow-on consolidated procurement contracts for the year beginning in April 1971 were negotiated with the same companies. In addition, the exchange regions may stock two brands from 17 other approved sources, including the United States Luggage Corporation.

OTHER LUGGAGE ITEMS

The exchange service did not use consolidated procurement contracts for zipper-type softside luggage, leather toilet

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kits, garment bags, wig and fall cases, footlockers, and packing trunks; the regions can purchase these items from approved sources. Furlough, club, and flight bags and nylon and vinyl toilet kits currently are under consolidated procurement contracts which were awarded on the basis of lowest proposals.

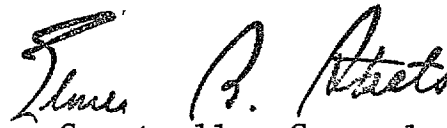
CONCLUSIONS

We recognize that the exchange service cannot carry all acceptable brands of luggage due to space limitations. It seems reasonable, however, that customer preferences should be given consideration in selecting the brands to be stocked, and we believe that the exchange service should ask customers their preferences.

An objective survey of customers might reveal that many prefer low-cost, good-quality luggage rather than any particular brand. In which case, it would seem that all qualified luggage manufacturers should be given an opportunity to compete for future consolidated procurement contracts to satisfy this demand.

Please advise us if we can assist you further on this matter.

Sincerely yours,


Comptroller General
of the United States

The Honorable Margaret M. Heckler
House of Representatives