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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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The Honorable Charles H. Percy  
United States Senate



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Dear Senator Percy:

Your letter of May 17, 1973, requested our views about a claim by your constituent that the Federal Government is paying excessive prices for coffee and is restricting competition because its specifications are too stringent. In discussions with your office we agreed to inquire into (1) the feasibility of developing less restrictive blend requirements for coffee used by the military services, (2) the possible savings to the Government by using alternative blends, (3) the ability of businesses to compete under present specifications, and (4) the types of volume discounts currently available on Brazilian and Colombian coffee beans and their probable effect on smaller coffee roasting companies.

We reviewed pertinent procurement records and had discussions with officials of various organizations, including the Defense Supply Agency and several coffee roasting companies. We believe that the Department of Defense should consider relaxing its coffee blend requirements by developing acceptable alternatives to the present blend of 70 percent Brazilian coffee--30 percent Colombian coffee.

The results of our review, including an estimate of possible savings by using alternative blends and a conclusion that the acceptance of alternative blends may strengthen competition, were brought to the attention of the Deputy Assistant Secretary of Defense for Supply, Maintenance and Services, by our letter of August 28, 1973. (See enc. I.) The Department advised us in an interim reply dated October 1, 1973, that it is considering changing its blend requirements. (See enc. II.)

Although roasters were reluctant to reveal the specific terms of discounts available to them and apparently the extent of such discounts varies from time to time, our inquiries indicate that at present discounts generally are available

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only to those roasters who buy substantial quantities of Brazilian and Colombian coffee. One small business told us, however, that membership in a large association enabled it to obtain volume discounts. Obtaining such discounts improves a company's ability to compete on Government contracts, which apparently have a relatively narrow profit margin. We talked to six small businesses--two participating and four not participating in these contracts. One of the participants was not receiving volume discounts. The four nonparticipants mentioned other conditions which influenced their decisions not to participate in the procurements, for example, (1) their reluctance to contend with the large volume of paperwork required, (2) the need to meet special packaging specifications which are contrary to their normal packaging methods, and (3) Government inspection requirements.

In view of our letter to the Department of Defense and as agreed with your office, we plan no further work in direct response to your inquiry. However, in connection with our ongoing work involving Department of Defense food service operations, we plan to consider the adequacy of actions taken by the Department in response to our letter of August 28, 1973. We will send you a copy of the Department's final response when we receive it.

Sincerely yours,



Deputy | Comptroller General  
of the United States

Enclosures - 2



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS  
DIVISION

AUG 28 1973

The Honorable Paul H. Riley  
Deputy Assistant Secretary (Supply  
Maintenance, and Services)

Dear Mr. Riley:

In response to a congressional inquiry concerning the procurement of ground roasted coffee for the military services by the Defense Personnel Support Center (DPSC), we have reviewed DPSC procurement records and have had discussions with officials of various organizations, including DPSC, the Army's Natick Laboratory, the National Coffee Association, and a number of coffee roasters. The inquiry concerned the feasibility of developing one or more acceptable alternatives to the blend of coffee currently purchased for the services.

Our inquiry indicates that it would be feasible to develop one or more acceptable blends in addition to the present blend that tend to balance quality and cost considerations. If such alternative blends were developed, future contracts could be awarded without regard to whether the contractor would furnish the blend presently used or one of the acceptable alternatives.

We have discussed the results of our review with your Director for Subsistence Management Policy and have been advised that, before any change can be made, it must be discussed with the various service representatives on the Armed Forces Product Evaluation Committee of the Department of Defense Food Planning Board. The purpose of this letter is to present our findings to the evaluation committee for its consideration.

FEASIBILITY OF ALTERNATIVE BLENDS

The price difference between different types of coffee beans varies as a result of market fluctuations. Usually the Colombian coffees are the most costly, followed by "other milds" from Central

and South America, the Brazilian coffees, and the robustas (primarily from Africa). In developing a product for sale to the general public, roasters blend different types of green coffee beans to achieve a balance among aroma, taste, and cost considerations, and they may vary their blends from time to time due to market factors.

Since 1950 the military services have purchased a blend of 70 percent Brazilian and 30 percent Colombian coffee. Requirements were relaxed around 1964 to permit alternative types of Brazilian coffee beans to be used; however, various officials have stated that the present 70-30 blend provides a better quality of coffee than that purchased by the average U.S. citizen.

The blends of brand name coffees are considered confidential; however, industry officials have told us that robustas are being substituted to some extent for the western hemisphere coffees and that these and other substitutions are made for cost considerations. One coffee roaster, who does not sell to the Federal Government, believed that the blends purchased by the average consumer in groceries and restaurants include up to 20 or 25 percent robustas and no Colombian coffees. He suggested, for example, that the Government could obtain a better coffee than what the average consumer is drinking by substituting in the 70-30 blend up to 10 percent robusta for the Brazilian coffee and one of the other milds for the Colombian coffee.

We are aware that several past proposals to modify the 70-30 blend have not been adopted because of concern that a change would result in a decline or variation in the quality of a cup of coffee. However, in developing alternatives to the present blend, appropriate consideration could be given to minimizing discernable differences in aroma and taste. One reference source states that the average coffee consumer cannot detect gross blend changes of less than 25 percent on the major fraction of a coffee blend and that, when substituting one mild coffee for another, nearly 100 percent can be substituted without a detectable taste change in a cup of brewed coffee.<sup>1</sup>

#### POTENTIAL FOR SAVINGS

The potential for procurement savings by using one or more alternative blends can be illustrated by comparing green bean prices for the 70-30

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<sup>1</sup>Michael Sivetz, M.S., "Coffee Processing Technology," vol. II, p. 89.

blend and alternative blends. Average market indicator prices per pound for green beans during July 1973 were:

Colombian Mams	\$0.7553
Brazilian Santos 4	.7204
Other milds	.6154
Robustas	.4799

At these prices, use of the blend mentioned above--60 percent Brazilian, 30 percent other milds, and 10 percent robustas--would save \$0.066 per pound for green beans. Allowing for a 15-percent weight loss during roasting, this cost difference would total about \$1.7 million for the quantities DPSC purchased annually in calendar years 1970-72. The amount of actual savings would be affected by the blends determined to be acceptable and the coffee bean prices available to individual contractors at the time they submit their bids.

#### POTENTIAL FOR BROADENING COMPETITIVE BASE

Permitting suppliers to offer an alternative blend on which they can offer the most favorable price may also strengthen the competitive base. Our analysis of DPSC coffee purchases shows that, in calendar year 1970, 85 percent of the dollar volume of the purchases were from small businesses. This percentage declined to 67 percent in 1971, 54 percent in 1972, and 42 percent in the first quarter of 1973. An official of one small company, whose sales to DPSC have declined sharply since calendar year 1972, told us that his company can no longer compete with the larger companies for these contracts because it is unable to obtain the volume discounts on green coffee that Brazil and Colombia make available to the larger companies.

#### CONCLUSION

There is considerable potential for procuring quality coffee at more favorable prices by developing one or more alternatives to the 70-30 blend. In contrast to the services' consistent use of the 70-30 blend for more than 20 years, the private sector has used a substitution technique to balance cost and quality considerations.

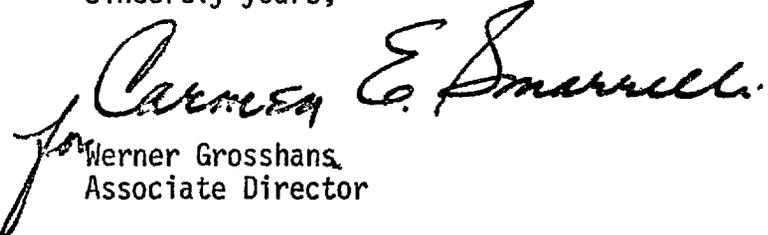
Developing acceptable alternative blends may strengthen the competitive base by better enabling small businesses to compete for the Government's contracts.

When reporting to the Congress on this assignment, we tentatively plan to recommend that the Department of Defense further explore the feasibility of developing other acceptable blends of coffee in addition to the 70-30 blend for the military services. We understand that the technical facilities of the Army's Natick Laboratory could be helpful in developing and evaluating the acceptability of other blends.

We would appreciate being advised of any action taken by the Department in response to the matters discussed in this letter.

A copy of this letter is being sent to Colonel Gorman S. Oswell, Chairman of the Armed Forces Product Evaluation Committee.

Sincerely yours,

  
for Werner Grosshans  
Associate Director



ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301

INSTALLATIONS AND LOGISTICS

1 OCT 1973

Mr. Werner Grosshans  
Associate Director  
Logistics & Communications Division  
General Accounting Office  
Washington, D. C. 20548

Dear Mr. Grosshans:

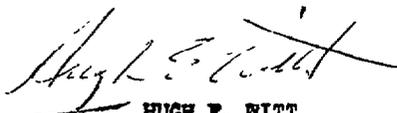
This is an interim reply to your letter of 28 August 1973 concerning the procurement of ground roasted coffee for the Department of Defense (DoD).

The Armed Forces Product Evaluation Committee at its meeting on 12 September 1973 discussed the possibility of adding to the standard 70/30 blend of Brazilian and Colombian coffees, respectively, other alternate blends, or of changing to some other more flexible procurement method. The Committee agreed that a change in the blend of coffees DoD procures appears to be possible without significantly affecting the acceptability of the coffee consumed and that this would be investigated further. One proposal receiving favorable consideration was to allow up to 70% milds (Colombian and Central American coffees), one-half of which would have to be Colombian coffees and up to 70% Brazilian coffees of the types now accepted. A concern was indicated at the meeting that DoD needed a coffee that not only tasted good initially but also would hold up well on standing for an hour or more in the large coffee urns used in the dining facilities.

The Committee decided to ask the National Coffee Association for its opinion on the proposed and other blends as to their quality, availability of the green coffee beans, and cost. Once a blend(s) has been approved, the coffee tasters of the Defense Personnel Support Center would be asked to make cup analyses to determine acceptability. Final approval of a change to the method of procuring coffee for DoD will be made after the results of these requests are received by the Committee.

I will advise you of the final action taken by DoD on this matter.

Sincerely,

  
HUGH E. WITT  
Acting Assistant Secretary of Defense  
(Installations & Logistics)