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FREQUENTLY ASKED QUESTION:

**WHAT IS THE DIFFERENCE BETWEEN
WHOLESALE AND RETAIL SUPPLY?**



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Wholesale Supply and Retail Supply are government terms that used primarily in the U.S. Department of Defense within the context of management through transfer pricing. The terms refer to the financial ownership of materials and the business processes which act on those materials. The meaning in terms of ownership is fairly precise. When the terms are applied to processes, the meanings get fuzzier, especially in the context of Retail Supply.

The financial definitions are more straightforward. Wholesale Supply refers to materials owned by a Working Capital Fund (WCF) regardless of where the materials are physically located. Wholesale material may be stored in warehouses managed by Service supply system field activities such as, in the case of the Navy, the Fleet Industrial Supply Centers (FISCs), Naval Aviation Repair Depots (NADEPs), Shore Intermediate Maintenance Activities (SIMAs), or aircraft carriers. Wholesale materials may also be stored in facilities managed by third parties such as Defense Logistics Agency (DLA) managed warehouses and contractor owned facilities such as commercial repair depots. The Working Capital Fund balances can show considerable inventory valuation, and the valuation of wholesale materials is a matter of on-going discussion within the Department of Defense.

Retail materials are owned by End-Use activities outside of the Working Capital Fund. Local supply departments shop stores in repair depots and “gold piles” owned by type commands are all examples of materials owned by end use activities outside of a WCF. The value of such materials can run into billions dollars. As with wholesale materials, retail material valuation is a topic of active debate.

WHAT ARE THE DIFFERENCES BETWEEN WHOLESALE PROCESSES AND RETAIL PROCESSES?

Wholesale and Retail are also commonly used to refer to supply related business processes. This works fairly well for wholesale materials since these materials are usually controlled by a single organization, such as the Naval Supply System (NAVSUP), the Naval Inventory Control Point (NAVICP), or the Defense Logistics Agency (DLA.). These organizations are responsible for overall material planning processes such as provisioning, allowancing, requirements determination, forecasting and blanket procurements. These processes fall outside of the scope of End Use activities, and they can usually be related to purchasing organizations in much the same what that the private sector applies Business-to-Business (B2B) e-Commerce methods.

The term Retail refers to processes such as requisitioning, material requirements planning and local inventory management. This can get somewhat fuzzy because other than the accounting treatment of transactions, material processes at a specific location are identical for both wholesale and retail materials. Retail processes also tend to be very similar whether they are performed by a working capital fund activity such as a Navy FISC or by an End-Use activity such as an Aviation Supply Department (ASD.)

WHAT ARE WORKING CAPITAL FUNDS AND WHY DO THEY EXIST?

Working capital funds are accounting entities which are funded through the sale of goods and/or services to government organizations which receive money directly from Congress through Congressional appropriations. Working capital funds were created to improve the accountability of



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government support activities responsible for tasks such as supply, maintenance and software development. For example, the Naval Supply System Command (NAVSUP) manages the NWCF and is responsible for providing much, but not all, of the material used by US Fleet, and the Army Materiel Command manages the Army Single Stock Fund.

Here is how it works for the Navy. Congress appropriates money for the Fleet to accomplish its mission. Portions of the appropriation are designated to pay for materials managed by the Naval Supply System. When a material is procured from the Supply System, the price paid by the Fleet consists of the cost for the Supply System to purchase the material plus a surcharge that pays for the operation of the Supply System. The surcharge is called the Cost Recovery Rate.

Along with identifying the cost of operating the Naval Supply System, the NWCF is intended to make it easier to calculate the total cost of certain materials used to operate the Fleet, although the determination of 'loaded' transfer prices is always an issue for discussion. In order to remain competitive, the theory is that the WCFs should adopt prices that are "competitive," which is somewhat of a misnomer for many of the items that DoD supply agencies are required to source and stock.

The DoD and the military services employ many working capital funds. Working capital funds are used to operate activities such as Naval Aviation Depots (NADEPs), Naval Air Warfare Centers (NAWCs) and shipyards. The DoD Supply System is managed by the Defense Logistics Agency using a working capital fund.