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MILITARY RESALE PROGRAMS OVERVIEW

HEARING

BEFORE THE

SUBCOMMITTEE ON MILITARY PERSONNEL

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

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MILITARY RESALE PROGRAMS OVERVIEW

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON MILITARY PERSONNEL,
Washington, DC, Thursday, June 7, 2012.

The subcommittee met, pursuant to call, at 2:37 p.m., in room 2212, Rayburn House Office Building, Hon. Joe Wilson (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. JOE WILSON, A REPRESENTATIVE FROM SOUTH CAROLINA, CHAIRMAN, SUBCOMMITTEE ON MILITARY PERSONNEL

Mr. WILSON. Ladies and gentleman, the hearing will come to order.

Today, the subcommittee will examine the military resale programs within the Department of Defense [DOD], specifically the commissaries and exchanges operated by the Department. These programs are widely acknowledged as highly valuable and appreciated benefits that support Active Duty retention, the well-being of the military community, and the combat readiness of the force.

These services are vital for our service members, military families, and veterans worldwide. In the current economy, commissaries and exchanges provide extraordinary job opportunities for military spouses and families.

However, the recent pressures on the defense budget have yielded a number of initiatives to reduce funding for these programs and decrease their value to service members and their families. Although the threats to these programs were significant in 2011, the coordinated efforts of all of the members of the subcommittee, and in particular the ranking member, Mrs. Susan Davis, we were successful in fending off significant budget reductions.

Unfortunately, we cannot declare a victory in this battle as the continuing pressure to shift budgets within the Department of Defense will energize the people who do not fully appreciate the value of these programs. This pressure can only be expected to increase in the coming months as the Congress debates the devastating reductions to defense accounts that are associated with the sequestration process scheduled to begin next year, which destroys jobs.

Let me be clear. I remain a strong supporter of military commissaries and exchanges, and will continue to work in a bipartisan manner to ensure these programs endure through this era of budget challenges and remain the effective benefits that have long served our men and women in uniform and the Nation for so long.

I would like to introduce our witnesses. Mr. Robert L. Gordon. He is the Deputy Assistant Secretary of Defense, Military Commu-

nity and Family Policy, Office of the Under Secretary of Defense for Personnel and Readiness. Thank you for joining us again.

Brigadier General Frances L. Hendricks, Commander of the Army and Air Force Exchange Service [AAFES].

Rear Admiral Robert J. Bianchi, Retired, Chief Executive Officer [CEO] of the Navy Exchange Service Command [NEXCOM]. Mr. Joseph Jeu, Director and Chief Executive Officer of the Defense Commissary Agency [DeCA]. Mr. William C. Dillon, Director, Semper—

Fit. Pardon me. It is Semper Fit. Okay, good. Semper Fit and Exchange Services, Manpower and Reserve Affairs Department, Headquarters of the U.S. Marine Corps. Mr. Patrick B. Nixon, President of the American Logistics Association [ALA]. And Mr. Thomas T. Gordy, President of the Armed Forces Marketing Council.

There are a number of familiar faces among the witnesses. Mr. Gordon, Mr. Jeu, and Admiral Bianchi, welcome back to all of you. Especially you, Admiral Bianchi, as you begin your new life out of uniform, as a civilian.

And welcome back to our witnesses that bring us important perspective of the private sector—Pat Nixon and Tom Gordy. It is good to see all of you here today.

General Hendricks, I understand you will soon be retiring from the Air Force after 32-years-plus of service. Please accept our gratitude for your service to our Nation and our best wishes for your future.

Mr. Dillon, not wanting to leave you out, welcome for the first time.

[Laughter.]

Mr. WILSON. I would also like to make note of the retirement last week of Ms. Janis White, the Director, Resale Activities and Non-appropriated Fund [NAF] Policy, after 34 years of service. Janis' expertise and wise counsel were highly appreciated by this subcommittee, and we wish her well in her future endeavors, which I understand will include considerable time on the golf course. And we do have one or two at Hilton Head that are available.

[Laughter.]

Mr. WILSON. Now I would like to recognize the ranking member, Mrs. Susan Davis, for her opening remarks.

[The prepared statement of Mr. Wilson can be found in the Appendix on page 25.]

STATEMENT OF HON. SUSAN A. DAVIS, A REPRESENTATIVE FROM CALIFORNIA, RANKING MEMBER, SUBCOMMITTEE ON MILITARY PERSONNEL

Mrs. DAVIS. Thank you. Thank you, Mr. Chairman. And I want to join you in welcoming all of our witnesses. And you have certainly welcomed everybody. And welcome, those of you who are here wearing a different hat, or no hat.

And I also certainly want to say that for General Hendricks we wish you the best in your retirement, after 30 years of tremendous service to our country. Thank you. Thank you very much.

And, Mr. Dillon, of course welcome to the subcommittee. We are very happy to have you here as well. Thank you all for your service to our Nation and many thanks to your family as well.

This is our annual meeting, as you know, on morale, welfare and recreation [MWR] programs. And we consider that these hearings are very important, and we know how critical the programs are to our families and the value that they hold for our military community.

Over 10 years of conflict has placed a tremendous burden on those in uniform and also on their families, and especially on their children. I always want to remember the impact that our conflicts and the wars that we have engaged in have been on the children of those serving in uniform.

It is important in today's All-Volunteer Force that we ensure that the quality of life support that our families need, that they know where that support is, and that they know that it comes through many, many of these programs.

As the budget climate begins to change, MWR programs will still be needed. And we are going to have to provide a wholesome quality of life for our Armed Forces personnel and their loved ones.

These programs will need to ensure that they are spending limited resources efficiently. That is a requirement that we ask of them; that they are using those resources efficiently and effectively to ensure that both taxpayer and service member funds are being spent wisely.

So during this hearing, we hope that the witnesses will share with us what efforts they are undertaking to ensure that these programs are effective at maximizing resources in support of military personnel and their families.

I certainly look forward to that, to an open and frank discussion on these issues. The dedication and the commitment MWR employees have displayed to our military families under very challenging conditions, that we are really thankful for their contributions. You play a very important role in doing that.

Thank you, Mr. Chairman. I look forward to hearing from witnesses.

[The prepared statement of Mrs. Davis can be found in the Appendix on page 26.]

Mr. WILSON. Thank you very much, Mrs. Davis.

And we will now proceed to the witnesses in the order as I indicated. Mr. Robert L. Gordon.

STATEMENT OF ROBERT L. GORDON, DEPUTY ASSISTANT SECRETARY OF DEFENSE, MILITARY COMMUNITY AND FAMILY POLICY, OFFICE OF UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS

Mr. GORDON. Thank you, Mr. Chairman and members of the subcommittee. I am delighted to appear before you today, and I appreciate this subcommittee's tradition of strong support for important benefits derived from our resale programs.

Commissaries and exchanges are a highly valued, non-pay compensation benefit for our service members and their families, and we appreciate that you also recognize their value. The Department's leadership remains committed to these important programs.

Secretary Panetta has been clear that we want to maintain the quality of benefits that flow to our troops and their families.

Also, our industry partners here today share our keen interest in preserving the valuable commissary and exchange benefit. Everywhere I go on my visits to military communities I hear of the tremendous appreciation for, and in some cases the need for, commissaries and exchanges.

Often they are only the source of high-quality American-made products. But equally important, they are the lifeblood to many of our installation support programs.

I also see how important it is to have these programs that are the number one employer of our military family members. In fact, DeCA and the military exchanges are partners in the Military Spouse Employment Partnership, and each has committed to recruiting, hiring, and retaining military spouses as employees.

Their jobs are listed on our newly redesigned Web portal, where military spouses can easily apply for positions around the world as a relocating military spouse.

My written testimony outlines our ongoing work in greater detail. Please be assured that as we continue to institute necessary changes we will always consider these services as one of the most valuable non-pay benefits. We will do our very best to take care of our most valuable assets—our service members and their families.

Thank you again for your support.

[The prepared statement of Mr. Gordon can be found in the Appendix on page 27.]

Mr. WILSON. Thank you very much.

And we now proceed to Brigadier General Francis L. Hendricks.

**STATEMENT OF BRIG GEN FRANCIS L. HENDRICKS, USAF,
COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE**

General HENDRICKS. Mr. Chairman and members of the subcommittee, thank you for the opportunity to address you today. AAFES has proudly served America's Armed Forces for 117 years and remains focused on our longstanding mission, to make the lives of soldiers and airmen better.

Strong exchange benefit is one of the cornerstones of the military way of life. It enhances recruitment and retention, thereby aiding in the readiness of the Armed Forces.

I want to thank the committee, and specifically Congressman Jones, for the language you included in last year's National Defense Authorization Act [NDAA] that authorized the exchanges to use the Federal Finance Bank. Your effort will result in an annual savings of \$25 million.

AAFES is a committed partner and teammate of the military resale community. Together with our sister exchanges and DeCA, we are fully engaged in pursuing new opportunities for collaboration and efficiency for 2012 and beyond.

Of course, we don't do this mission alone. I want to thank our vendor partners and military support organizations, especially the American Logistics Association and the Armed Forces Marketing Council.

Our commitment to the military community extends beyond just the goods and services we provide. We have made a significant commitment to hiring members of the military community.

Thirty-one percent of our 43,000 associates are military spouses and family members. Veterans make up 13 percent of our workforce. We have partnered with the Wounded Warrior Project to recruit and train valuable associates.

Finally, with the recent end of U.S. military operations in Iraq, it is worthwhile to reflect upon our efforts to serve those serving there. In the early spring of 2003, as U.S. ground forces fought their way up the Euphrates and Tigris Rivers, AAFES was with them. Our first store in Iraq operated out of the back of a Toyota Land Cruiser. As troops advanced northward, so did our store.

From those humble beginnings, AAFES support continued to grow. And at the height of the efforts in Southwest Asia we operated 95 sites throughout the theater. During the next 8 years more than 4,000 AAFES associates volunteered and deployed to operate retail stores and food activities in support of the troops. We brought them familiar products and services, and the food they craved.

In that moment, at that place, we brought a little piece of home to them. We did that mission for 8 years in Iraq, and we continue to do it in Afghanistan today.

Mr. Chairman and members of the subcommittee, thank you again for your support. We are here to serve [H2S]. I look forward to your questions.

[The prepared statement of General Hendricks can be found in the Appendix on page 35.]

Mr. WILSON. Thank you very much. And I saw firsthand your service overseas and in-theater, and I know how much the troops truly appreciated this service.

Rear Admiral Robert J. Bianchi.

STATEMENT OF RADM ROBERT J. BIANCHI, USN (RET.), CHIEF EXECUTIVE OFFICER, NAVY EXCHANGE SERVICE COMMAND

Admiral BIANCHI. Chairman Wilson, Ranking Member Davis, and distinguished members of the subcommittee, I am pleased to appear before you today, and privileged to be back at NEXCOM as the first civilian CEO; proud to once again lead this tremendous group of 14,000 dedicated professionals around the globe.

Today, much is asked of our men and women in uniform. And in an environment of smaller budgets and fewer forces, more will be asked of them. Nonappropriated fund programs are an important factor in increasing retention, improving readiness, and sustaining the quality of life of our Active Duty military, Reservists, Guard, retirees and their families.

Navy exchanges, through savings at the cash register and funding for MWR programs, deliver more than a six-to-one payback of appropriated fund support, providing an effective and efficient mechanism to deliver the benefit our military families want and value.

Support to our military families is vital, and in these tough economic times they expect more and rely on us more. Our 2011 annual market basket survey results show that customers save an av-

erage of 23 percent below commercial retail prices, not including sales tax, generating over \$500 million in non-pay compensation.

And for the second year in a row, our annual customer satisfaction index survey remained at an all-time high of 83, placing us in the top tier of industry retailers.

New to the survey this year were questions to help us better understand how we connect with our military families. Customers responded very favorably that Navy exchanges make them feel connected to the Navy and demonstrate the Navy's commitment to their family needs.

But NEXCOM delivers much more than savings. No commercial retailers have the depth and breadth of services that NEXCOM provides, nor do they go where we go; places like Djibouti, Africa, and Diego Garcia. We provide career opportunities for our military families and veterans. In fact, over 26 percent of our workforce are military family members.

We bring a touch of America to sailors and their families around the world. With the support of our industry partners, we offer programs focused on military families, including customer appreciation events and joint events with the commissary and MWR. As a department of our base commands, we are also there during crises, as evidenced by our support to families during the earthquake and tsunami in Japan last year.

We are focused on supporting the Secretary of the Navy's 21st Century Sailor and Marine initiative. Together with the other Navy departments, we will help sailors make good choices. We are, and always will be, a military organization that contributes to personal and family readiness.

Because our sailors depend on us, we are working to deliver the benefits in the most efficient manner, while remaining relevant for the future. Aligned with our industry partners and our sister resale agencies, we continue to work on taking costs out of the system, ensuring these valued non-pay benefits remain viable and strong for generations to come.

What we accomplish cannot be done without the strong and unwavering support of this subcommittee. You have sent a clear message that these programs which support military families are critically important. We thank you, and are grateful for your support.

I look forward to your questions.

[The prepared statement of Admiral Bianchi can be found in the Appendix on page 49.]

Mr. WILSON. Thank you very much. And it is particularly important you indicated that 26 percent of your personnel are persons of military families. Thank you for bringing that point up.

Admiral BIANCHI. Sure.

Mr. WILSON. And we proceed now to Mr. Joseph Jeu.

**STATEMENT OF JOSEPH H. JEU, DIRECTOR AND CHIEF
EXECUTIVE OFFICER, DEFENSE COMMISSARY AGENCY**

Mr. JEU. Chairman Wilson, Ranking Member Davis, members of subcommittee, it is my pleasure to provide the annual report on the state of the commissary benefit. As I visited many commissaries and conversed with our customers, I can assure you the commissary continues to be one of their most valued non-pay com-

pensation benefits, at the same time providing taxpayers an excellent return on investment.

Few, if any other, benefit systems can boast a two-for-one investment return. Last fiscal year, the commissary provided direct savings to commissary customers of \$2.8 billion, for a taxpayer cost of \$1.34 billion. The indirect support benefit, as outlined in my statement for the record, adds hundreds of millions of dollars more.

Yet, some question whether today's commissary is antiquated. With 260,000 patrons visiting a commissary every day, buying \$16 million in goods, there is no doubt the commissary remains relevant and an invaluable element of the non-pay compensation package. We have much to be proud of this year.

In particular, they include achieving an unqualified audit opinion of our financial statement for the 10th consecutive year; being recognized with the Secretary of Defense's best mid-size component award for employing individuals with targeted disabilities; and the Paralyzed Veterans of America employable award for expanding employment opportunities for veterans; and supporting socioeconomic programs including \$571 million in contracts with small and disadvantaged businesses, and contracting for another \$133 million going to AbilityOne program.

In closing, I would like to thank the members of this subcommittee for their continued support of the commissary benefit, and I look forward to your questions.

Thank you.

[The prepared statement of Mr. Jeu can be found in the Appendix on page 62.]

Mr. WILSON. Thank you, Mr. Jeu.

And we now proceed to Mr. William Dillon.

STATEMENT OF WILLIAM C. DILLON, DIRECTOR, SEMPER FIT AND EXCHANGE SERVICES DIVISION, MANPOWER AND RESERVE AFFAIRS, U.S. MARINE CORPS

Mr. DILLON. Thank you.

Chairman Wilson, Ranking Member Davis, distinguished members of the subcommittee, thank you for inviting me here today to discuss our Marine Corps exchange and retail programs. The Marine Corps Exchange is directly linked to our mission of taking care of our marines, sailors, and their families, and it is an important part of the overall non-pay compensation package.

Our operational success is measured on our ability to provide unparalleled customer service, premier facilities, and valued goods and services at a savings. We believe that keeping faith means ensuring that the exchange benefit on which families depend remains high in quality, relevant, and accessible.

We are executing branding strategies, and our aggressive reinvestment into main stores has been greatly appreciated by our patrons. Over the past 8 months, I have attended grand openings at Twenty-Nine Palms, Henderson Hall, Camp Lejeune, and Camp Pendleton. The new and refurbished main exchanges look great and offer a wide selection of right-priced, relevant merchandise in a shopper-friendly atmosphere.

Our marines' gratitude for being provided these premier facilities is evidenced by their positive comments and by the strong sales re-

sults since opening. I would also like to point out, in support of hiring vets, spouses, and family members, that about 29 percent of our retail employees are family members. And many others are veterans.

With our Marine Corps Exchange, marines, sailors, and families can rely upon a high-quality product at a fair, competitive price and know that the proceeds are reinvested in their community, their exchange, and their MWR programs, creating a stronger Marine Corps.

On behalf of marines, sailors, families, and Marine Corps Exchange employees, I would like to thank you for your recent letter commemorating the Marine Corps Exchange's 115th anniversary, coming up on September 17th of this year.

I appreciate the subcommittee's oversight and continued strong support of retail activities, and I look forward to your questions.

[The prepared statement of Mr. Dillon can be found in the Appendix on page 75.]

Mr. WILSON. Thank you very much, Mr. Dillon.

And we now proceed to Mr. Patrick Nixon.

STATEMENT OF PATRICK B. NIXON, PRESIDENT, AMERICAN LOGISTICS ASSOCIATION

Mr. NIXON. Thank you, Mr. Chairman. It is once again an honor to appear before this subcommittee representing the membership and board of directors of the American Logistics Association.

The ALA is over 90 years old, and its members consist of some of the largest consumer packaged goods companies, service providers, retail brokers, and distributors in the world.

In addition, this year I am honored to represent the members and valued associates of the Coalition to Save Our Military Shopping Benefits. The members of the coalition consist of many military patrons, resale employees, and thousands of Americans that care about how we take care of our military families.

The valued associates of the coalition include the National Military Family Association, the Fleet Reserve Association, the National Industries for the Blind, and our colleagues here today, the Armed Forces Marketing Council. They understand the importance of these benefits to the military, and have stepped forward to add their voice to the discussion.

I also want to take this opportunity to recognize the leadership of the chairman and the distinguished ranking member over the course of the last several years, in particular your support of these vital benefits we will discuss today.

I want to specifically recognize the subcommittee for the construct and conduct of these hearings over the last several years. The transparency of strategy, discussions, and collaboration are a clear testament to the value of this unique public-private partnership that supports and delivers these key benefits for our military and their families.

The ALA has undertaken an additional initiative this year by working with Secretary Gordon and the White House to harness the employment engine of the ALA member companies to support the initiative of hiring veterans and military family members out-

lined by the Joining Forces initiative, under the leadership of the first lady.

The ALA member companies committed to hiring of 25,000 veterans and military family members, which is 25 percent of the program goals. A point that also deserves recognition is the fact that the military resale system is the largest employer of military family members and veterans in America.

Mr. Chairman, we have provided, in our testimony for the record, an outline of thoughts, concerns, and recommendations. During the past year, the Congressional Budget Office [CBO] deficit reduction recommendation has served as the basis for several attacks on the resale system. We take great exception to their assumptions and findings, and have included specific concerns about the CBO report in our prepared remarks.

We are clearly approaching the perfect storm of budget impacts, with extreme implications for every American. In any meaningful evaluation of the way ahead, there needs to be a review of all programs. But that review must take into account those programs that can serve as a benchmark for efficiency, effectiveness, and return on investment to the American taxpayer. The military resale system is just such a program.

The savings delivered by the systems provide a two-to-one return to the taxpayer, and the benefits continually rank near the top of the valued benefits to the military. When you take into account the equity derived from the patrons' investment in infrastructure, the offsets to cost-of-living adjustments [COLAs], the offsets to military transportation costs, the employment opportunities provided military family members, and the support provided to morale, welfare and recreation programs, the economics are clear. These elements are captured in our formal testimony and I am sure will surface in our discussions today.

Thank you, and I am prepared to answer your questions as we proceed.

[The prepared statement of Mr. Nixon can be found in the Appendix on page 81.]

Mr. WILSON. Thank you very much, Mr. Nixon.
And we now proceed to Mr. Thomas Gordy.

**STATEMENT OF THOMAS T. GORDY, PRESIDENT, ARMED
FORCES MARKETING COUNCIL**

Mr. GORDY. Chairman Wilson, Ranking Member Davis, and members of the Personnel Subcommittee, thank you so much for allowing the Armed Forces Marketing Council to participate in today's hearing.

I wanted to begin first by offering our most sincere appreciation to you, Mr. Chairman and Mrs. Davis, for your leadership last year in getting 67 other Members of Congress as well as most of the members of this subcommittee to sign the letter to the Secretary of Defense sharing this Congress' support for this very valuable benefit.

We also were very grateful to Congress for passing the repeal of the 3 percent withholding requirement on government contracts last year. This subcommittee was instrumental in highlighting the

adverse impact that the impending enactment of the withholding requirement would have on the commissaries in the exchanges.

Passage of the repeal has saved hundreds of thousands to millions of dollars from being unnecessarily spent by the resale systems, protected MWR dividends, and insured the prices at the shelf remain low for the patron.

The council would also like to go on record and thank the member associations of The Military Coalition and the National Military and Veterans Alliance for their efforts last year in opposing S. 277 and the Coburn amendment to the 2012 National Defense Authorization Act, both of which called for consolidation of military resale as promoted and proposed by the Congressional Budget Office that Mr. Nixon spoke of earlier.

Because of the combined efforts of so many individuals and organizations, we are happy to state that both pieces of legislation were not passed by the Senate. We also want to recognize the success of the Department of Defense and the military resale systems to continue to deliver a world-class benefit for military families.

In my mind, one event occurred last year that completely demonstrates the importance of the benefit and the valuable partnership that makes it all work. When the earthquake and tsunami struck Japan in April of last year, military resale systems, working with industry partners and the services, ramped up efforts to ensure that military families stationed in Japan had access to food, water, milk, and other essential items like diapers and baby formula. And as the father of a 16-month-old, I couldn't imagine life without diapers, let me tell you.

[Laughter.]

Mr. GORDY. The resale stores in Japan remained stocked, while the stores outside the gate were empty. Not only did the system support our military families, but also was able to support the recovery effort with essential supplies, providing the United States with another element of humanitarian support to our friends in Japan. And it should also be noted there were no price increases on the products at the shelf.

There is a strong partnership between the Congress, the Department of Defense, and the services and the resale industry to insure the effective, efficient, and continuous delivery of this very important quality of life benefit for our military families.

There are, however, issues of concern to the council that we have highlighted in our written testimony, and look forward to addressing those and other concerns in today's hearing.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Gordy can be found in the Appendix on page 108.]

Mr. WILSON. Thank you very much, Mr. Gordy.

We will now proceed into a round of members of the subcommittee asking questions. We are under a strict 5-minute guideline, and we have a person above reproach who will be maintaining that time. Of course that is Mike Higgins.

And so as you see him grimace, that means the 5 minutes is up. But we will begin with myself. And then we will proceed with our other subcommittee members.

As I indicated in my opening statement, I am very, very concerned about the effect of sequestration, the defense cuts, as to the impact on our service members, military families, veterans. The defense budget has been cut \$100 billion. It has been cut further by \$487 billion. And now we are facing, January 1, an across-the-board cut of nearly \$600 billion. It has been interpreted it could be between 8 percent to 12 percent of the defense spending.

And, Mr. Jeu, what would be the affect of such a cut on the defense commissary agency of sequestration?

Mr. JEU. Sir, first let me talk a little bit about the—I think DeCA has been a model agency for efficiency. Since DeCA was created in 1991, we have achieved over \$900 million in savings, and reduced our full-time [FT] employees by 6,600 people.

And so, consequently, there is not very much left in terms of significant savings. So should there be any cuts with the sequestration or in other means, it would have direct impact on our service and benefit to our customers.

Mr. WILSON. And I appreciate you raising this for the American people to know. And I am just so hopeful that there can be bipartisan addressing of this issue.

General Hendricks, Admiral Bianchi, and Mr. Dillon, another issue would be appropriated funding. If that were eliminated, what would be the impact on your ability to provide services?

General HENDRICKS. Sir, the limit of appropriated funding would hinder some of the ability of us to do that. Our main concern right now would be overseas utilities, which are now paid for through appropriated funding.

We would either have to account for those on the business line, or they would come out of the MWR piece. Either way, it is going to end up hurting the family members and the soldier, airman, sailor, and marine. So it would have a direct impact.

Admiral BIANCHI. Sir, I would offer that, from the appropriated funds [APF] side, one of the primary activities that are funded is second-destination transportation. So if there were any reductions there, those funds are certainly critical to us providing quality goods and services to our forward-deployed service members to make sure they have access to comparable levels of service as their counterparts here in the U.S.

So if there were any reduction, that would potentially limit our ability to provide those services. And I guess I am mostly concerned about places where there are limited options outside the gate, like Gitmo or in Djibouti. So, you know, there are certain locations in particular where no one has an opportunity for an alternative source of supply.

So yes, sir, there could clearly be an impact there.

Mr. DILLON. Chairman Wilson, I would echo what the Admiral had to say in terms of the concern that I would have with second-destination transportation not being supported.

In addition to that, as you probably know our facilities, our exchange facilities are supported. The maintenance on those facilities is covered by appropriated funds today on our installations. If those funds were to be depleted in any way, then over time our facilities would begin to deteriorate. We may not be able to maintain them for future marines coming through the gate.

Mr. WILSON. And thank you each, because you have really brought a real-world circumstance of utilities, of transportation, of maintenance. And again, thank you.

Mr. Nixon and Mr. Gordy, what would you believe is the private sector reaction to the sequestration cuts?

Mr. NIXON. Mr. Chairman, the impacts would be devastating, clearly. We know that. And I commend your leadership recently in bringing the issue of sequestration to the forefront. It is an item we must discuss, we can no longer avoid. Because action soon needs to be taken to address what is going to happen.

The principal use of appropriated funds for the Defense Commissary Agency is employees, around 70 percent. The impact on the exchanges for the elimination of appropriations would just devastate their ability to provide any support for MWR.

From our Save Our Benefit Web site, I have a quote. We ask for testimonials. And here is a quote I want to read; Kathleen in Ohio. "Our family is a proud military unit. We didn't enlist our family in the military to get rich. However, at times it seems to be a bit of a struggle to make ends meet. If Congress decides to eliminate our commissaries and exchange benefit, it will make it impossible to raise a healthy family, much less survive. Please do not end these benefits. We are a strong military family. But if faced with this, re-enlistment is no longer an option."

That is the impact on the military.

Mr. WILSON. That is gruesome.

And Mr. Gordy, very briefly.

Mr. GORDY. Well, just to echo what has already been said, you know, the impact would be devastating. At the end of the day what it means is that military families would not only have to earn this benefit, but then they would also have to pay for it.

So therefore, there is no longer any benefit, and it would be hard to call it that going forward. As Mr. Jeu pointed out, you know, there is not a lot of fat to cut in their budget. And so the only way, if it comes down to a salami-slicing of 8 to 12 percent, it is the military family who is going to end up feeling the pain once again.

Mr. WILSON. And again, thank you very much.

And we now proceed to Mrs. Susan Davis.

Mrs. DAVIS. Thank you, Mr. Chairman.

And I think you have all really made the economic argument, and certainly the support for our troops and for our families. I wonder, though. And I can assure you that we support you in that and certainly advocate in that way.

Having said that, though, you have dealt with consolidation before, particularly General Hendricks and Mr. Bianchi, Mr. Dillon in the exchange systems. And I am wondering what kinds of preparation you have been under. You know, option 6 I think you looked at, and 11.

What is it that you are doing to sort of help, I guess, to outline that preparation? And part of that, I think, is some of the advocacy that we can use to really paint a very clear picture for people of what this means.

You have already stated that. I don't want to ask you to have to do that again. But can you let us in on some of the specific plans

that really help to address some of these issues if, in fact, some of the concerns around consolidation were to move forward?

Mr. GORDON. Well, let me start off very quickly. But the Department has no plans at this point to examine exchange consolidation. In the past, there have been seven studies. Those studies have basically shown that consolidation of our exchanges actually can do more harm than good in terms of cost savings and innovation.

And I am happy to say, and I will let the commanders speak for themselves, that through partnership and through cooperative efforts—and we have many examples of those—that our three exchange systems are robust and vital as they currently stand.

Admiral BIANCHI. I guess I would just offer a couple of specific examples where the exchange commanders are working together as was kind of the outcome of the last study which was the Unified Exchange Task Force [UETF]. That consolidation † really is the more efficient and effective means.

At NEXCOM, we share facilities with AAFES for van stuffing to send products to Japan and Guam. The Marine Corps Exchange uses our distribution center. We support 120 Marine Corps locations through our distribution center.

We just negotiated a contract for motor fuel in Hawaii between the exchange and NEX and AAFES. We are saving \$3.7 million. We share a contract for inventory-taking equipment that saved over \$200,000.

So there are opportunities out there. We have a very strong cooperative efforts board [CEB]. We formally added Joe Jeu of DeCA to the organization this year. We also added the Coast Guard Exchange as an ad hoc member. We meet on a regular basis. And we have subgroups that are constantly looking for ways to save, to consolidate † and become more efficient.

And those are just a few. I mean, we publish a report every year, submit it to the Department, of our efforts. And I think we have demonstrated over the years that we turn every rock over and look for opportunities to consolidate † and save.

Mrs. DAVIS. Are there any areas that you have followed in the past that for whatever reason have just been very difficult to do? I mean, what are the obstacles as you try and look at some of those areas where you can be more effective?

And obviously you have been successful in doing that. I am wondering, are there some areas, though, that are just really difficult? And is there any way in which we could be helpful in that way?

Mr. DILLON. I would like to address that to some extent, Congresswoman Davis. The services have cooperated on a number of areas. One of them that has been very successful in certain ways has been in private label sourcing of merchandise.

The exchange select program in consumables has been extremely helpful for all of the exchanges; a wonderful product, as good as you can find. I know we have a Proctor & Gamble representative here but, hey, our stuff is really good.

[Laughter.]

† Subsequent to the hearing, the witness informed the committee that he intended to use the terms “cooperation” and “cooperate” rather than “consolidation” and “consolidate” in the three instances indicated.

Mr. DILLON. But there are probably other areas, I think, that we could explore in this, in private label, that would generate some savings to a great extent that we need to pursue as an organization with the cooperative efforts board that we probably haven't gone after as much as we should have.

Mrs. DAVIS. Thank you.

Did you want to—

General HENDRICKS. Yes, ma'am. I was just going to say that, you know, since that last study we have really, really embraced collaborative efforts in regards to communicating better with one another.

Just the other day I did an announcement that goes into all the commissaries and the exchanges over our radio system on the upcoming Army's birthday. I called my good friend Joe Jeu and said, "Hey, here is what I just said. You just take my name out, put yours in, because our radio plays in the commissary and our stores." We are going to record him tomorrow, too.

It is very important that the military community hears all of us and sees us all working together. So I am very excited about where we are headed in our efforts, the new CEB, adding Joe and the others to the team this year. Communication is key as we move forward with the deficit reductions that are coming that we are looking every way we can to assist the community.

Mrs. DAVIS. Thank you.

Thank you, Mr. Chairman.

Mr. WILSON. Thank you, Mrs. Davis.

We now proceed to Congressman Alan West of Florida.

Mr. WEST. Thank you, Mr. Chairman and ranking member. And thanks for the panel for being here and, sir, "Rangers lead the way."

As we just finished voting on the fiscal year 2013 military construction [MILCON] appropriations last week, my first question is, are we meeting your requirements, or what percentage are we meeting the requirements, of the services you provide as far as military construction? I know we just talked about a new facility there, but are we keeping up with the demands that you all are placing?

Admiral BIANCHI. Sir, I would say we have a very robust recapitalization plan. The Navy's formula is 70-30, so all the profits that I make, 70 percent go to MWR, 30 percent are retained for recapitalization. And our recapitalization budget averages between \$30 million to \$50 million each year. In fact, we are just getting ready to cut the ribbon in the fall in Bethesda at the new 150,000-square-foot store.

So we all realize, I think, that if we don't have fresh facilities, modern facilities, our patrons will vote with their feet. They deserve a recapitalized infrastructure and we are committed to doing that.

And with the Navy, at least, we have a strong board oversight, an MWR exchange board run by three-stars across the Department. And part of their job is to ensure that this recapitalization plan continues.

So I believe we are meeting that need. And we do not have a backlog. We have a very structured approach to that, sir.

Mr. DILLON. I would also like to add to what the admiral had to say. Our program, too, is very structured. We are doing very well. I addressed some of the most recent main exchanges that we have opened. We have a number of Marine Marts that we will be touching over the next few years.

But I think to get to your point, sir, in terms of where MILCON can help out, with most of these exchange programs that we have and construction programs there is a companion MILCON project. And it is very important that that military construction funding be available.

So when we start to talk about reductions in appropriated funds on the MILCON side, it can hurt our recapitalization of our NAF facilities if those companion projects that are required—putting in roads, putting in utilities, those kind of things—if the funding for those are not available.

So in terms of being able to help us out, making sure that funding for MILCON is there, we can get those companion projects finished and be sure that we can complete our NAF, our non-appropriated fund projects, on time.

Mr. WEST. Okay. General.

General HENDRICKS. I echo those comments exactly, as Mr. Dillon said. That is going to be the short pole in the tent coming forward. Over the last 5 years in AAFES, we have done \$1.5 billion in MILCON for the places we serve and whatnot.

I would like to thank the committee for the assistance on lifestyle centers. Fort Bliss is just a win-win-win; win for the soldiers and their families, win for the city of El Paso, the jobs. We collect appropriate taxes there from the concessionaires, and it is a win for the third-party tenants. Many are leading their particular industries locally, regionally, or nationally.

Now, we have two more pilots coming up, one at Lewis-McChord, which is presently 95 percent designed. We look for a fall-winter beginning construction there of 2012, completed in the fall-winter timeframe of 2014. Very key for that big community up there.

And the third pilot we have is the Joint Base San Antonio, which is presently 65 percent in design, with a planned opening date of 2016. We appreciate again the committee's support there as we look at these types of things.

And from those pilots we will take things from there and spread them across the other installations. But this has been a great program in partnership with the public and the private venture.

Mr. WEST. Thank you.

As we move, I want to talk about operations in combat theaters. And I will tell you that there was no greater day than when that first 5-ton truck rolled into Taji Air Base and it had Pringles potato chips and cookies on it.

[Laughter.]

Mr. WEST. And the battalion commander was the first one to get onto that truck.

[Laughter.]

Mr. WEST. But the thing that I want to ask you is, now that we have ended those combat operations in Iraq, did we go back and do an after-action review to look at the things that we learned as far as, you know, that type of support of exchange and services?

And what type of constraints did you see overall for your system operating in two combat theaters of operation in Iraq and Afghanistan? Any points on that?

General HENDRICKS. Sir, yes, sir. We have done an extensive hot wash coming out of Iraq as we have swung from there into Afghanistan. A lot of lessons learned that we have taken back and we will formalize for when we go forward. The biggest concern is, when we started down this thing folks in the building were looking around at each other. It has been a while since we had done one of these, and so we had to learn on the fly.

So we are capturing all those. We are using the lessons learned there. And again, we are already starting. As we look at Afghanistan, our exit strategies, we have learned how to get things in there where they need to be there very quickly; various routes of entry through the logistics operations centers [LOCs], depending on what is available and what is not. And how do we take care of our soldiers there.

We had a site last week that had a direct hit. We were able to get a TFE back in site, a tactical field exchange, within a day. It is very important to us and those soldiers that they know that what they need we can get there in short order.

And so yes, sir, to answer your question, we have learned a lot. We are capturing that so that someday in the future when we need that again we will be able to pull it off the shelf and be able to review it.

Mr. WEST. Thank you, Mr. Chairman. I yield back.

Mr. WILSON. Thank you very much, Mr. West.

We now proceed to Congresswoman Madeleine Bordallo of Guam.

Ms. BORDALLO. Thank you, Mr. Chairman. And to all our witnesses, thank you for your testimonies this afternoon.

My first question is for Mr. Gordon. As you are aware, I sponsored section 644 of the House-passed fiscal year 2013 NDAA. It requires the commissary and exchange oversight boards to establish guidelines for identifying certain sustainable products. It also requires the Department to develop a plan on how it would implement greater procurement of sustainable products.

I am very adamant that we can do much more to make the commissary and exchange system more sustainable. Private industries have taken the lead on these initiatives, but I fear the exchange and the commissary system is falling behind.

So I would like to understand the Department's position on this provision. What efforts, if any, are ongoing to procure these products?

Mr. Nixon and also Mr. Gordy, I am also interested in learning how the private sector can help to achieve whatever goals DOD may set if my provision is included in the final bill.

Mr. GORDON. Thanks very much for that, Congresswoman. Sustainability is very important. I will let some of the exchanges speak for themselves in terms of what they are doing. But the Defense Department strives to be a very good steward of our environment, first of all.

And in terms of the products that we sell and the goods and services that we provide our military community members, we believe that we were very thoughtful, first of all, in considering the sus-

tainability efforts, from the construction of our plant and equipment to our operations and maintenance, to the types of foodstuffs and services that we provide in our commissaries and exchanges.

And I would like to defer to our commanders to talk about some of that sustainability.

Mr. JEU.

Mr. JEU. Obviously, we support sustainability. I am going to focus a little bit on some of the sustainability that is going on within the commissary system because we are the heavy user of energy. And, in fact, our refrigeration system consumes so much energy it is quite important for us to be energy efficient.

And so over the last 10 years, 20 years, we have made concerted effort to reduce our energy consumption. In fact, results show that our energy consumption is about 30 percent less than commercial private sector.

So we are very proud of the achievement we have made. We have a great recycling program within our commissaries. We recycle over 53,000 tons of cardboard boxes. So those are some of the things we do.

And as far as product that we sell, there is no industry standard yet because in the grocery industry that is still in development. But as soon as we have a more formed plan then, obviously, we will add more and more sustainable environment and friendly type of products.

Ms. BORDALLO. Thank you.

Anybody else want to comment?

Mr. NIXON. Yes, ma'am. In reviewing the proposal that you have submitted, one of the things we did was reach out to our member companies. As a trade association, we have a lot of member companies that have some really leading-edge technology in this area.

And one of the things we thought is to put together an industry forum that focused specifically on this issue. Some of our member companies, like WESCO, deal in the construction and supply industry. The other consumer packaged goods companies have leading-edge technologies on what is the art of the possible in sustainability and developing sustainable products.

So industry can play a very important role in working in the partnership with the resale commands to put together a solid program, ma'am.

Ms. BORDALLO. Good. Thank you very much. I have a final question here for Mr. Gordon regarding container deposit programs.

I want to understand how the exchanges and the commissaries in states or localities that have container deposit programs comply with these laws, or those laws. Or if they don't comply, what is the issue that hinders compliance?

For example, I believe that military installations in the State of California and the State of Hawaii comply with the container deposit programs. So how is this achieved, and how can we ensure that we get compliance on Guam as well?

Mr. GORDON. Well, we can. We have to understand, especially in places like Guam, what some of the issues are with respect to container deposit programs. I will tell you that we are working hard.

I know that you want us to submit a report on that. We look forward to submitting that report. But I just want to let you know that the Department is committed.

Ms. BORDALLO. Very good.

And I yield back, Mr. Chairman.

Mr. WILSON. Thank you, Ms. Bordallo.

And we now will proceed to Congressman Austin Scott of Georgia.

Mr. SCOTT. Thank you, Mr. Chairman. I will try to be brief.

But, Mr. Gordon, are you operating under the assumption that sequestration happens?

Mr. GORDON. We are not. We are not planning for sequestration at this time, Congressman.

Mr. SCOTT. With all due respect, and I didn't vote for it, but if you are not planning for it at this time and the President hasn't said he is not going to undo it, when do you intend to start planning for it?

Mr. GORDON. Well, at this point in time, as Chairman Wilson said, this Department is looking at a \$487 billion cut over the next 10 years. And with sequestration, with an additional \$500 billion, that would be nearly \$1 trillion and would be devastating for the Department.

We are moving forward with our current plans in terms of that \$487 billion over 10 years.

Mr. SCOTT. Mr. Gordon, I agree with you on the devastating cuts. But the fact of the matter is, sequestration is the law of the land. And it concerns me when members of the Department in leadership positions come before us and say that they are operating under the assumption that it is not going to happen.

And I would just tell you that I think, with due respect, that as long as it is the law of the land—and as long as there are no plans from the executive branch, the President and, it seems, from Secretary Panetta that he expects sequestration, or certainly some form of it, to happen—how could the Department possibly carry out sequestration without having a devastating impact—especially to those men and women who are in the war zones—if, here in mid-June, you are not even—and I am not talking about you in particular, but the leadership of the Department—is not even making plans to deal with what the current law of the country is?

And I think the impact on our soldiers from not having a plan is going to be devastating. And I think if you had a plan, and showed America the end result of the plan, then we, those of us who want to undo it, would get a lot further with getting it undone. And so I would just encourage you to put together the plan, all of you.

I mean, General, you didn't get to be a general without following a plan. And I mean that very respectfully. You can't, we can't, assume that this is not going to happen. We cannot make the assumption that sequestration is not going to happen.

And I encourage you to put together a plan so that the American public can see what the impact to its soldiers will be. And then I think that we will have the help we need, those of us who want to undo sequestration.

Thank you, and I yield the remainder of my time.

Mr. WILSON. Thank you very much, Mr. Scott. And I appreciate in particular Congressman Scott being here. He is undergoing a high element of flu, but that doesn't stop him from getting around.

[Laughter.]

Mr. WILSON. And he has assured me that it is not contagious to Congressman West, okay?

[Laughter.]

Mr. WILSON. And but, hey, he is immune. But we just appreciate your dedication.

And I, on behalf of the subcommittee, would like to thank all of you for being here today. Your commitment to our service members—and it is so exciting for me to hear what Pat mentioned about military families and employment opportunities—this is just extraordinary. And for our veterans, too.

And so if there is no further business, we shall be adjourned.

[Whereupon, at 3:31 p.m., the subcommittee was adjourned.]

A P P E N D I X

JUNE 7, 2012

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

JUNE 7, 2012

Chairman Wilson Opening Statement
Subcommittee on Military Personnel
Hearing: Military Resale Program Overview
June 7, 2012

The hearing will come to order. Today, the Subcommittee will examine the military resale programs within the Department of Defense, specifically the commissaries and exchanges operated by the Department.

These programs are widely acknowledged as highly valuable and appreciated benefits that support active duty retention, the wellbeing of the military community, and the combat readiness of the force. These services are vital for service members, military families, and veterans worldwide. In the current economy, commissaries and exchanges provide extraordinary job opportunities for military spouses and families. However, the recent pressures on the Defense budget have yielded a number of initiatives to reduce funding for these programs and decrease their value to service members and their families.

Although the threats to these programs were significant in 2011, the coordinated efforts of all the Members of this Subcommittee, and in particular the Ranking Member, Mrs. Davis, we were successful in fending off significant budget reductions.

Unfortunately, we cannot declare victory in this battle as the continuing pressure to shift budgets within the Department of Defense will energize the people that do not appreciate the value of these programs. This pressure can only be expected to increase in the coming months as the Congress debates the devastating reductions to Defense accounts that are associated with the sequestration process scheduled to begin early next year.

Let me be clear, I remain a strong supporter of military commissaries and exchanges and will continue to work to ensure that these programs endure through this era of budget challenges and remain the effective benefits that have served the our men and women in uniform and the Nation for so long.

**HONORABLE SUSAN DAVIS
HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON MILITARY PERSONNEL
MILITARY RESALE PROGRAM OVERVIEW**

June 7, 2012

Today's hearing is our annual hearing on morale, welfare, and recreation programs. We hold these hearings each year, because these programs are important and valuable to our military community. Over ten years of conflict has placed a tremendous burden on those in uniforms, but also on their families, and especially their children. It is important in today's all volunteer force that we ensure that the quality of life support they need is provided.

As the budget climate begins to change, MWR programs will still be needed to provide a wholesome quality of life for our Armed Forces personnel and their loved ones. And, these programs will need to ensure that they are spending limited resources efficiently and effectively, to ensure that both taxpayer and the service member funds are being spent wisely.

During this hearing, I hope that the witnesses will share with the committee what efforts they are undertaking to ensure that this programs are effective and maximizing resources in support of military personnel and their families.

As always, I look forward to an open and frank discussion on these issues. The dedication and commitment our MWR employees have displayed to our military families, under challenging conditions has truly been remarkable, and we are thankful for their contributions.

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Prepared Statement
Of
Mr. Robert L. Gordon III
Deputy Assistant Secretary of Defense
(Military Community and Family Policy)

Before the
House Armed Services Committee Subcommittee on Military
Personnel
“Military Resale Programs”

June 07, 2012

Chairman Wilson, Ranking Member Davis, and distinguished members of the subcommittee, it is a privilege to appear before you today, and I appreciate the opportunity to testify on our commissary and military exchange programs.

This subcommittee has a tradition of strong support for the important benefits our Service members derive from resale programs. Commissaries and exchanges are a highly-valued non-pay compensation benefit for our service members and their families, and we appreciate that you recognize their value. You rightly insist that these benefits be provided in an efficient manner that protects the trust of the taxpayers as well as the funds contributed by members of our military community who use and rely on these programs. You recognize, as do we, that these programs are crucial to the quality of life of military members and military families.

IMPORTANCE OF THE BENEFITS

The Department's leadership remains committed to these important programs. Secretary Panetta has been clear that we want to maintain the quality of benefits that flow to our troops and to their families. At the same time, we have a responsibility to control costs in those areas as well. In contemplating changes to the benefits, we will ensure any proposed changes do not break faith with current members. We must also understand, to the fullest extent possible, the impact of any changes on the future of our all volunteer force.

We have and will continue to spend considerable time and effort validating the importance our Service members place on resale activities. The Defense Manpower Data Center periodically surveys our customers to understand how they value commissary and exchange benefits. These surveys repeatedly record high marks for service, quality, value and overall satisfaction. In addition, the Department uses the American Customer Satisfaction Index

(ACSI), a nationally recognized measure of customer satisfaction that includes the largest U.S. retailers as a general measure of satisfaction with the commissary and exchange benefits. We are proud to share that in 2011 the Defense Commissary Agency and all three exchanges met or exceeded the ACSI industry average for customer satisfaction. These tools, along with the internal commissary and exchange customer satisfaction assessments, help us identify improvement opportunities that reach across all retail activities. One such opportunity is to address evolving customers' expectations about their commissary and exchange. For example, in 2011, through the ACSI, we identified that the military resale activity websites rated significantly below the industry average. The Department is encouraged by the Resale systems' initiatives to address this issue and other evolving requirements by investing in technologies and expanding communication channels that will give customers more information about best value and access to their resale benefits.

However, we must be cautious as we consider well-intended recommendations to expand eligibility for these benefits, so as not to jeopardize their continued viability or dilute their value to those who have earned these important benefits through their service. The commissary and exchange benefits are an integral part of the military compensation and benefits package that is designed to recruit and retain professional, ready Armed Forces. The Department and Congress have exercised close scrutiny over patronage of the commissaries and exchanges to ensure their continued effectiveness.

Everywhere I go on my visits to military communities, I hear of the tremendous appreciation for, and in some cases, the need for commissaries and exchanges. Often, they are the only source of high quality, American-made products. But equally important, they are the lifeblood to many of our installation support programs. I see how important it is to have these

programs that are the number one employer of our family members. Our military spouses, in particular, represent a significant percentage of all resale system employees. These programs, and their trading partners, contribute directly and indirectly to community events and special emphasis programs that support military personnel and their families. How the family is treated or served sends a message that contributes to the perception of military life. The Department must continue to address quality of life as a total benefits package that is fair to the Service members, effective for the Nation, and contributes to retention of the high quality men and women required to execute our Nation's defense. The commissary and exchange benefits are important components of the total benefits package and contribute to a robust community support program. I am sure their leaders will provide further detail in their testimony.

THE RESALE SYSTEM

The flagship of our resale system, the Defense Commissary Agency (DeCA) operates a worldwide enterprise of 248 commissary stores that sell brand name grocery and household necessities to active duty military personnel and their families. The commissary system is operated entirely with appropriations, and goods are sold at cost plus a 5 percent surcharge. This fiscal structure is designed to save military families an average of 30 percent below commercial grocery chains and generate over \$300 million annually from customer surcharges to support capital investment in store systems and shopping facilities.

The Military Services run three world-wide exchange systems that operate 279 main retail stores, catalogs, and web sites that sell a wide range of merchandise and services to the military community. The exchanges also provide resale activities to support military missions on board 158 ships and in 73 contingency operations, including deployed locations and disaster

relief areas. The Army and Air Force Exchange Service (AAFES), the Navy Exchange Service Command (NEXCOM), and the Marine Corps Exchange (MCX) are operated predominantly with self-generated nonappropriated fund resources; Military Service appropriations are only authorized for limited purposes. The exchanges this past year generated an average 24 percent savings to the customer, excluding tax, and produce earnings at a level set by their Military Service. These earnings sustain exchange capitalization requirements and last year also provided over \$300 million in dividends to help finance Service MWR programs. The triad of commissary, exchange and MWR programs provides an array of valuable benefits at a relatively low cost to both the user and the American taxpayer.

OVERSIGHT

The Secretary of Defense assigns responsibility to the Under Secretary of Defense for Personnel and Readiness, USD(P&R), for overall supervision and policy direction of the commissary and exchange operations. The Military Departments, through their representation on the DeCA Board of Directors, advise the USD(P&R) on the funding and operation of the commissary system, and assist in the overall supervision of the Defense Commissary Agency. The Military Departments have fiduciary responsibility for funding the three exchange systems and each Military Service supervises its exchange through a Board of Directors. Where the commissary and exchange interests intersect, the Congress showed great foresight by establishing the DoD Executive Resale Board. Through these multiple levels of oversight, both the Department and this subcommittee have an opportunity to scrutinize initiatives with an eye toward making sure we don't promote the interests of one organization over another. We appreciate the congressional oversight committees' close scrutiny of proposed legislation that

would use commissaries and exchanges as “bill payers” or create unfunded mandates such as supporting new customer populations that could dilute the benefit.

DeCA Board of Directors. The DeCA Board, chaired by Air Force Lt. General Darrell D. Jones, has proven effective in making recommendations that the Military Services will support financially and supervising DeCA’s performance. The Board provides critical advice on the commissary stores needed by the Military Services; management initiatives to improve DeCA’s performance; and priorities for investing in systems and construction. It also has an important role in continuously assessing and balancing the Services’ proposals regarding commissary operations and funding. Under the Board’s supervision, DeCA’s management has a proven track record of achieving performance goals. Over the past decade, DeCA increased sales, sustained capital investment, and reduced costs through business process improvements – all while improving customer savings and satisfaction ratings.

Executive Resale Board. The DoD Executive Resale Board advises the USD(P&R) on the complementary operation of commissary and exchange systems. Since its members may also serve on the DeCA Board of Directors and the exchange boards, the Executive Resale Board shows great potential to improve oversight where there are mutual or competing interests. As we enter a period of fiscal austerity, this Board will play an even more influential role.

APPROPRIATED FUNDING FOR MILITARY RESALE PROGRAMS

The President’s budget submission continues the Department’s strong support for Service members and their families. This budget honors commitments made to our military family. It does keep faith with them.

The Fiscal Year 2013 budget request fully funds the operation of the commissary system. The DeCA Board of Directors ensures that DeCA is funded commensurate with its mission and the support provided to each Armed Service.

The Fiscal Year 2013 budget request fully supports transportation requirements to ship U.S. procured goods to overseas locations as is required by the law. This budget request also includes funding for exchange programs that support security stabilization efforts in Afghanistan and the fight against terrorism in other locations. Similar to DeCA, the Exchanges are implementing several initiatives aimed at reducing transportation costs and improving the customer experience.

As for Fiscal Year 2014 and beyond, the Department is committed to our quality of life initiatives, and that means doing the best for our people using today's most innovative business practices. We must develop the benefits that appeal to future members and their families. We have to operate in the smartest, most efficient and economical way. Throughout the process, uppermost in our minds, is the role that quality of life plays in retaining high quality Service members while attracting the best of our young people into service.

CONCLUSION

Mr. Chairman, commissaries and exchanges are an essential component of our quality of life programs. With deployed forces returning from Afghanistan, and as our re-positioning continues, especially overseas, our military members and their families will be faced with a myriad of challenges and risks. We continue to institute necessary changes so our men and women in uniform today will always consider these services as one of their most valuable non-

pay benefits. The military resale system has the management, resources and drive necessary to see these important benefits through the challenges.

Our 138,000 military resale employees work very hard every day to accomplish this important mission. I believe the commissary and exchange employees, at ground zero, understand the fundamental change required to be in step with modern corporate America, reduce the taxpayer burden, and assure that our customers are receiving a meaningful benefit.

STATEMENT BY:
BRIGADIER GENERAL FRANCIS L. HENDRICKS, U.S. AIR FORCE
COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE
BEFORE THE
MILITARY PERSONNEL SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
112TH CONGRESS 2ND SESSION
HEARINGS ON
RESALE ACTIVITIES
7 JUNE 2012

NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to share the work the Army and Air Force Exchange Service (AAFES) is doing to enhance the quality of life for members of the Armed Services and their Families. Before I proceed with my remarks, I would like to thank you for your commitment and dedication to supporting and defending the exchange benefit for those who serve.

AAFES is a team of approximately 43,000 dedicated associates who share a commitment to making the lives of Soldiers and Airmen better. AAFES has proudly served America's armed forces for nearly 117 years, and we remain focused on our longstanding mission: delivering quality goods and services at competitively low prices and generating earnings which provide a dividend to support Morale, Welfare and Recreation (MWR) programs. The AAFES vision is to be the first choice of the men and women who wear the uniform. AAFES is also embedded within the military community as a key provider of value, service and support. In short, we serve three roles: provider of an important quality of life benefit for Military Service Members and their Families, relevant team player within the Army and the Air Force and committed partner to the larger defense community.

AAFES is a military organization with a retail mission; we are responsible for more than 2,970 facilities in 31 countries, 5 U.S. territories, and all 50 states. We operate 157 Main Stores and more than 2,000 fast food restaurants, including 45 brand names and 8 in-house brands. AAFES also provides military communities with Express convenience stores, movie theaters, car care centers and gas stations, personal services (Beauty and Barber shops), professional healthcare (optical and dental services), specialty stores and Military Clothing stores on installations worldwide. Remote corners of the installation are served by Troop Stores, which have a customized assortment tailored with unique products to support the local mission. For

patrons off the installation, AAFES partners with other popular retailers through online and local concession operations to provide many additional products and services above and beyond the traditional offerings. Online shopping makes it easy for patrons in any location, with over 18 million items available through the exchange website (shopmyexchange.com) and specialty stores in our exclusive online vendor mall which saves shoppers 5 to 20 percent.

With the recent end of U.S. military operations in Iraq, it is worthwhile to reflect upon the efforts of AAFES to serve those serving there. In the early spring of 2003, as U.S. ground forces fought their way up the Euphrates and Tigris rivers, AAFES was with them. Our first store in Iraq operated out of the back of a Toyota Land Cruiser. As troops advanced northward, so did our store. From those humble beginnings, AAFES support continued to grow and at the height of the efforts in Southwest Asia, AAFES operated 95 sites throughout the theater. During the next eight years, more than 4,000 AAFES associates volunteered to live alongside the military and to operate retail stores, food activities and movie theaters. The importance of those services to the morale of troops was immense. AAFES brought them the products they were accustomed to, the food they craved. And in that moment, at that place, we made them feel at home. In Iraq, we did that for eight years and continue to do so in Afghanistan today.

The current AAFES footprint in support of Operation ENDURING FREEDOM includes more than 70 exchange retail facilities along with hundreds of associated food, services and concession operations. Our experience over the past decade, and in previous military operations over the past 116 years, has taught us to remain nimble and flexible. AAFES is ready to shift our dynamic footprint, as necessary, to meet changing needs on the ground. These contingency operations are among the most important aspects of patron support we provide, and demonstrate AAFES is fulfilling our pledge to deployed military members – “We Go Where You Go.”

At home, AAFES is ready to deploy a mobile field exchange (MFE) and contingency-trained associates within 72 hours of notification to provide much needed comfort items for military personnel and authorized patrons. In 2011, 13 MFE units were deployed to support North American recovery efforts such as the Missouri flood disaster, the heartland tornadoes, and the East Coast flash flooding. Additionally, two MFE units deployed to Central America during humanitarian missions in Haiti and the Dominican Republic. No matter where contingency operations occur, we work with commanders on the ground to deliver the exchange benefit.

AAFES' number one priority is to meet the needs of military patrons and their families throughout the various stages of their career and into retirement. A strong exchange benefit is one of the cornerstones of the military way-of-life enhancing recruitment and retention and ensuring the readiness of the armed forces. Some retailers focus on entry price (low budget) products while other retailers maintain assortments geared toward the high end (high budget). Some retailers carry only private label house brands while others focus on high-end brand names. AAFES works with our vendor partners to ensure exchange patrons find goods across all price points; low, medium and high, as well as many value private label products and many national brand name goods. The AAFES retail product assortment is unique in that it is tailored to meet the lifelong needs of all military customers, from the new recruit to the General Officer, and everyone in between. Of course, we do not do this alone, but in collaboration with our vendor partners and military support organizations. I want to thank these organizations including the American Logistics Association and the Armed Forces Marketing Council who represent the business interests of companies in the military channel and advocate for Quality of Life benefits for Service Members.

AAFES endeavors to offer products to Soldiers and Airmen that meet their unique needs. One example is our in-house credit card. Designed for U.S. Service members and their families and operated on behalf of the sister exchanges, the exchange credit program's MILITARY STAR® credit card affords patrons a low-cost method to acquire household items and necessities while at duty stations far from home. Also, extended to Reserve and Retired Service Members, the exchange credit program offers a low interest rate, an unmatched deployment policy and no annual, late or over-limit fees. Popular among cardholders are special offers such as discount pricing on fuel purchases throughout the year at Express fuel stations and ten percent off food court purchases every day.

Telecommunications service is another business we have tailored to meet the unique needs of Soldiers and Airmen. This past year, AAFES fully introduced Exchange Mobile Centers throughout the continental U.S. (CONUS) as a one-stop shop for mobile communications. Service Members stay connected through the latest smart phones and service plans, at very competitive prices, with expert assistance from kiosk staff. Similar initiatives are underway in Europe and the Pacific. The AAFES telecommunications program brings convenience, selection and value to military members around the world, providing cell phone hardware and calling plans, telephone landlines and pay phones, internet, television services and calling cards at discounted prices. AAFES currently has 1 million customer accounts across more than 120 worldwide installations.

Communication with military leadership is a key component to providing a relevant and valued exchange benefit. Last year, AAFES continued to build its critical outreach program with base and post commanders to improve customer services. These installation commander forums create opportunities for education and information on vital topics, including the scope of

services, special retail programs and upcoming promotions. These meetings also provide opportunities to collect vital information from commanders on ways to improve patron satisfaction and enhance the benefit.

Keeping authorized patrons informed about their exchange benefit has been a top priority for AAFES over the past two years. In 2010, AAFES initiated an intensive and comprehensive effort to reach National Guard and Reserve members and families who may rarely find themselves on an installation. Regional and exchange managers made hundreds of personal and group contacts with Guard and Reserve leadership and members. To better communicate with retirees, AAFES has restructured and re-energized the Exchange Retiree Advisory Council. This council gives retirees a direct voice to AAFES leadership on issues of importance to this valued community.

In 2010, AAFES began a conversation with patrons that resulted in the launch of a new branding campaign which captures the essence of our mission: you save money, we give back. There are not many major retailers that can promise such an excellent value in merchandise, and continue to give back to patrons and family members, long after the sale is complete.

The conversation continues through emerging technology and various social media tools. AAFES participation on Twitter, a micro-blogging tool, has garnered over 1,600 followers; but more importantly, it is a real-time customer service tool in which patrons can give and get immediate feedback. AAFES also has an active official Facebook Fan Page. This online hub allows AAFES to promote local store events, host contests and provide a community for military members to connect with each other. The fan page currently has more than 110,000 fans and is steadily growing every day. Finally, AAFES touches patrons through the Exchange YouTube Channel. Content includes Celebrity Spotlight and other non-advertising video that customers

upload and loyally return to check for updates. The site now averages 1000-1500 views per week.

One of the most important contributors to a positive patron shopping experience is the physical complex. In the past decade, AAFES has managed more than \$340 million in new construction projects to support military transformation. As that effort nears completion, we are shifting our focus toward sustainment, or maintaining and improving our current facilities. With an average age of 23 years old, the overwhelming majority of AAFES shopping centers have useful lives left, provided we keep them up to industry retail standards. Since 2009, AAFES has undertaken 29 shopping center image updates and in the past two years, accelerated 12 image updates to take advantage of the economic bid climate, which saved more than 30 percent or approximately \$18 million on initial bids. Our efforts are consistent with decreasing military budgets and better prepare us for potential force structure changes. Now, more than ever, AAFES is focused on maintaining the facilities we have and investing wisely at enduring locations.

AAFES' first duty is to provide value, service and support to authorized patrons, but we must never forget our unique and important role within the military departments in which they serve. AAFES returns more than 60 percent of earnings to support Army and Air Force MWR programs and reinvests the remaining dollars to ensure shopping facilities are safe, eco-friendly and modernized. In the past ten years, AAFES has contributed more than \$2.4 billion to support Quality of Life programs such as youth services, arts and crafts, aquatic centers, golf courses, bowling centers and more.

The appropriated fund (APF) support AAFES receives is minimal compared to the value of services we provide. AAFES receives approximately two percent of retail sales in APF –

about \$294 million in 2011 – to fund military salaries, overseas shipping and utilities, and authorized expenses to support contingency operations. AAFES uses nonappropriated dollars to fund the remainder of business expenses, including civilian salaries, store inventories, capital investment and store improvements, operations costs and distribution support. This self-sustaining business model is effective. The return on investment of these APF dollars is returned exponentially to the Army and the Air Force, as well as Soldiers and Airmen, in the form of a robust and comprehensive exchange benefit.

The scope of AAFES operations makes it clear that we are not just the retailer on the installation. AAFES is embedded in the fabric of military life providing a host of unique programs and services that make Service Members' lives better. AAFES relevance to the Army and the Air Force is evidenced by the fact that these programs and services could not be easily replicated by another retailer; no commercial competitor comes close to matching AAFES' extensive and unique capabilities.

AAFES is the official one-stop source for military uniforms and accessories, for both the Army and Air Force, and is a proud partner to the Defense Logistics Agency – Troop Support. AAFES supports Service men and women with the highest quality U.S. made products available, operating 176 Military Clothing Stores worldwide. Exchange Military Clothing Stores carry issue merchandise, which is sold at cost, as well as non-issue merchandise which is designed by the Military services per spec and high quality. A vast assortment of additional merchandise is available for ordering online as well.

As the designated school feeding authority for both the Army and the Air Force, AAFES provides lunches to school children in overseas U.S. Military communities; 4.1 million lunches are served each year in 89 school cafeterias across nine countries. Parents put their children's

health at the top of their concerns, and AAFES is proud to provide these children with healthy and safe food overseas.

AAFES operates 124 movie theaters across the globe, showing popular first-run films and other theatrical events. Last year AAFES hosted 17 major theater events, which included free movie screenings most complete with celebrity appearances. These events draw huge crowds and provide lasting memories for military members and their families around the world.

AAFES patrons are not only the 12.4 million eligible active duty troops, retired military, National Guard members, Reservists and their families, but also valued customers to include those military and other federal government entities looking to stretch their budget dollars. They are our business-to-business (B2B) customers – military units, other federal departments, agencies or instrumentalities. AAFES has initiated a B2B program to inform these authorized organizations of the value of shopping at the exchange.

AAFES partnership efforts across the Department of Defense (DoD) begin at “home” within the defense resale community. As the chair of Cooperative Efforts Board (CEB) for 2012, AAFES is energizing cooperative efforts initiatives with military resale: the Navy Exchange Command (NEX), Marine Corps Exchange (MCX), Coast Guard exchange and the Defense Commissary Agency (DeCA).

The exchanges already share a rich history of joint ventures including the combined house brand MILITARY STAR® credit card, the all services Exchange Catalog and online shopping service, and a variety of logistics and merchandise support partnerships. Expansion of the board to include DeCA serves to formalize the discussions and projects already ongoing between exchanges and commissaries. Over the past several months, the CEB has renewed our

commitment to effective partnerships, focusing on mutually beneficial efficiencies in five areas: logistics, non-retail procurement, private label merchandise, policy and legislative initiatives and one time/seasonal buys.

The cooperation isn't limited to the other exchanges and the commissary. By utilizing the AAFES warehouse and distribution network, Army Installation Management Command (IMCOM) in Europe was able to streamline their logistics support to MWR programs. Collaboratively, we lowered the unit delivery costs, improved outbound utilization, eliminated IMCOM inventory carrying cost and reduced labor and maintenance expenses.

Overseas, AAFES is committed to supporting the military community health and food safety through the operation of seven manufacturing plants throughout the Pacific and Europe. These plants include four bakeries, three water plants and one ice plant, all servicing other federal organizations such as DeCA, NEX, MCX, U.S. Army Installation Management Command facilities, and the Department of Defense Education Activity (DODEA). AAFES bakeries are the only producer of Wonder Bread outside the U.S., producing 6.2 million fresh baked bread products (loaves, hamburger and hotdog buns) to military families. AAFES water plants provide 5.4 million gallons of Culligan-branded drinking water annually.

AAFES owns and operates a robust logistics organization to deliver Soldiers and Airmen the products they need and want, anywhere in the world, they live and work, at the same prices they pay in CONUS. Appropriations for Second Destination Transportation funds are the foundation of this support and I want to thank this committee for their steadfast commitment to funding this important exchange benefit. AAFES is a good steward of these appropriated dollars, taking care to optimize logistical efficiencies to keep prices down and reduce costs to the government. As the largest peacetime shipper in the Defense Transportation System, AAFES

moves approximately 50,000 shipping containers annually, while partnering with US Transportation Command and multiple commercial surface and air carriers. AAFES merchandise transits 10 worldwide distribution centers and 7 consolidation centers and we are constantly looking for ways to make improvements. In 2011, AAFES fleet installed global positioning system tracking devices on all trailers in CONUS reducing capital expenditures through better utilization of trailers and coordination of deliveries with customers

AAFES supports DoD-wide programs to “go green” by incorporating sustainability as one of our strategies for winning the future and reducing our carbon footprint. Reducing energy, water consumption and waste generation is a win-win situation for all, making partnerships between AAFES and installations crucial. One project of note is the partnership between AAFES and the Rocky Mountain Institute to pilot energy savings at the Fort Campbell, Kentucky food court. We will install an energy management control systems and energy efficient equipment upgrades and analyze results that could increase energy savings up to 30 percent. Using the pilot results, AAFES and Rocky Mountain Institute will develop a food court energy model to roll out the program across CONUS exchanges.

AAFES has been recognized by the Department of Energy with the 2010 Federal Energy Management Program Award; by the Department of the Army with the 2010 Secretary of the Army Environment Award; by the DoD with the 2011 Sustainability Team Award and by Convenience Store News with the 2011 Honorable Mention Best Green Design Award. AAFES is recognized as “Best in Class” by these agencies in sustainability compliance, and continues to obtain Silver Level certification in Leadership in Energy and Environmental Design (LEED) through the U.S. Green building Council. Currently, three major AAFES locations are LEED Silver Certified, with many more projects in the works to achieve this status.

During my assignment at AAFES, I've travelled to literally hundreds of our facilities and without exception, it is the people who make AAFES great. Almost half of the approximately 43,000 AAFES associates have a military connection; 31 percent are military spouses and family members, and veterans account for 13 percent of the total AAFES workforce. AAFES' employment preference and spouse continuity programs allow veterans, retirees and the families of active-duty and National Guard and Reserve families to build careers with the exchange. AAFES understands and values the unique perspectives these patrons bring to the "other side of the cash register." In the past two years, AAFES has hired more than 11,000 military spouses and promoted about 2,300 at exchanges around the world. Their values of loyalty, professionalism and commitment are exactly what we look for when hiring.

AAFES also offers employment opportunities for those who have served. The Operation War Fighter program provides internships designed for wounded, ill and injured Service Members to develop the skills needed for transition into the civilian workforce while undergoing treatment. In addition, the Wounded Warrior Hiring program includes partnerships with the Wounded Warrior Project as well as other military hiring agencies.

Our commitment to hiring current and former military personnel and their families have brought AAFES significant recognition: *Military Spouse Magazine's* "Top 10 Military Spouse Friendly Employers," *G.I. Jobs* magazine's "Top 100 Military Friendly Employers," and *CivilianJobs.com's* "Most Valuable Employers for the Military," to name a few.

AAFES' work in the area of diversity and inclusion is moving the organization toward model agency status. To provide a more comprehensive program, diversity and inclusion was merged with our Equal Employment Opportunity program in May 2011, and the results are paying off. In 2011, nearly 11 percent of the AAFES workforce had disabilities and I am proud

to say we received the distinction of being ranked #1 in the DoD in hiring individuals with targeted disabilities. Our excellence in this area has not gone unnoticed outside of the federal government as well. Cornell University in Ithaca, New York sought out AAFES to partner in the study of employment opportunities for people with disabilities. Funded by a grant from the U.S. Department of Education, the research will explore existing employment opportunities and identify barriers and possible solutions for individuals with disabilities.

AAFES associates are well-trained and prepared to serve; many are specialists in their fields. Thousands of AAFES associates hold one or more of 287 different professional certifications, including Certified Public Accountant, National Retail Certification, Project Management, and Food Services. AAFES operates its own in-house Corporate University and Executive Development Programs, as well as College Trainee and Management Trainee curricula.

My remarks about AAFES associates would not be complete without a salute to the more than 4,100 employees who to-date have volunteered to deploy in support of contingency operations. These brave men and women left the comfort of home and family to serve alongside the Service Members they support. They have earned the admiration of their colleagues and the respect of those they serve. To these and all AAFES associates, I offer my thanks and appreciation.

During my time as Deputy Commander and now Commander of this great organization, I have had the pleasure of working and interacting with authorized patrons and the tremendous people who support them and I have witnessed firsthand the value of benefit for Service Members and their Families. AAFES is entering a historic period of change as we transition from military command to civilian direction in the coming months. The organization is

embracing this change even as we renew our promise and pledge to Soldiers, Airmen and their Families to make their lives better. I often say that “service” is a part of the AAFES name, and that value will continue to define our course through the coming years.

Thank you again for this opportunity. I look forward to your questions.

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THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT OF
REAR ADMIRAL ROBERT BIANCHI, SC, USN (Ret)
CHIEF EXECUTIVE OFFICER, NAVY EXCHANGE SERVICE COMMAND
BEFORE THE MILITARY PERSONNEL SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
JUNE 7, 2012

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THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

Chairman Wilson, Ranking Member Davis, and distinguished members of the Subcommittee, I am pleased to appear before you today to provide an update on the Navy Exchange Service Command (NEXCOM). As part of efficiencies initiated by the Secretary of Defense, NEXCOM's flag billet was converted to a civilian Chief Executive Officer (CEO) position. I am privileged to be back as NEXCOM's first civilian CEO and proud to once again lead this tremendous group of dedicated professionals.

During 2011 we celebrated our 65th anniversary. NEXCOM was officially established in 1946 with an overriding objective to improve the quality of life of Navy personnel. CAPT Wheelock H. Bingham, SC, USNR stressed the crucial role of morale, noting that Navy had two courses of action – either realize morale and welfare are essential or not. The Secretary of the Navy agreed to the importance and approved the establishment of NEXCOM on April 1, 1946. Today, in this current fiscal environment, it is more important than ever that we remain committed to that basic principle; the benefits we provide are a key element of quality of life and essential to the morale of our Sailors and their families.

Today, after more than a decade of fighting, our nation remains at war. And, when duty calls, all our volunteer warriors, without hesitation, have answered the call to arms. Once again, they make selfless sacrifices, and in some cases, the ultimate sacrifice, to preserve the Republic and protect Americans and the American way of life. Much has been asked of these men and women who wear the cloth of our nation and, in an environment of smaller budgets and fewer forces, I expect even more will be asked of them. The military services must continue to offer a way of life that satisfies these individuals, looks after their families when they are off doing the nation's bidding, and more importantly, provides for a lifestyle which fosters an all volunteer

force. We must continue to enhance the quality of military life in order to attract and retain qualified volunteers. As the nation wrestles with its financial challenges, I expect that the quality of life benefits will become a more important, relevant and integral part of compensation. Studies have shown that non-pay benefits provided by our military resale organizations are important to the total compensation package and are part of the military experience, both of which are critically important factors in increasing retention and improving readiness.

Support to military families is vital. Relocations to other cities or countries, long separations when military members deploy are all challenges our military families face. Service members and their families have grown to appreciate that family and quality of life issues will be taken care of by military leaders who care. I can assure you that our military families are in good hands at the NEXCOM. Our more than 14,000 managers and associates worldwide have a strong connection to the Navy community and deliver these benefits with an unsurpassed level of dedication and a strong and proud history of service. A large portion of our workforce are themselves family members. We remain steadfast in our commitment to military families, assisting them in meeting the stresses and challenges of military life.

NEXCOM provides career opportunities for our military families and a supplemental source of income so critically important in these difficult times. Military family members comprise 26 percent of NEXCOM's U.S. workforce. NEXCOM's Continuity of Employment Program helps ease the stress of a military move by taking the worry out of finding a new job for family members transferring with an active duty member. Since the program's inception in 1998, over 1,300 family members have been placed in positions at the service members' new duty station. The Continuity of Employment program has allowed us to take care of our military family members by keeping them employed, while retaining good and dedicated people in our

NEXCOM family. As an example, one spouse who benefited from the program was hired by NEX Kings Bay, Georgia in 1994 as a clerk/cashier and remained employed through her military spouse's moves to Bangor, Washington and Virginia Beach, Virginia. With her husband's transfer back to Kings Bay she has returned to the NEX as a member of the management team. NEXCOM is also a partner in the Department of Defense's Military Spouse Employment Partnership, which pledges employment support to spouses, further solidifying NEXCOM's commitment to military spouses.

Our Sailors and their families expect us to deliver value and savings in the normal course of business, and in these tough economic times they expect more and rely on us even more. Surveys have shown that 75 percent of our customers cite savings as a major reason for shopping NEX. Each year we use an outside firm to conduct a market basket survey to determine how much money we are saving military families. The latest results show customers save an average of 23 percent below commercial retail prices, not including sales tax, generating over \$500 million in non-pay compensation to our authorized patrons. For the past 13 years we have been surveying customers on their shopping experience. Our annual internal Customer Satisfaction Index (CSI) survey provides an opportunity for our customers to rate their benefit, providing valuable feedback which allows NEX to better serve them - whether it is stocking different merchandise assortment, providing better customer service or updating the facilities. For the second year in a row, the CSI score remained at our all-time high of 83, and is considered to be in the top tier of industry retailers. This year, questions were added to help us better understand how well we are connecting with our customers, their families, and the Navy. Questions included, "This NEX makes me feel like the Navy is committed to my family's needs" and "This

NEX makes me feel connected to the Navy.” The results rated very high, showing customers view the NEX as a key element of Navy life.

The exchanges are often compared to commercial retailers. No commercial retailer has the depth and breadth of services that our exchanges provide to military families. Furthermore, no commercial retailer would operate at small, remote or overseas locations where the Navy operates. In many ways we bring America to the Sailors around the world. When a Sailor can walk in one of our stores and buy a soda, CD, jeans, or the toothpaste they like, there is an incredible connection to being back home. It reduces stress and creates loyalty to the Navy’s mission. In addition to our contribution to military readiness and retention, we are, and always will be, a military organization that also contributes to personal and family readiness through our six business lines – Navy Exchanges, Navy Lodges, Ships Stores, Unofficial Telecommunications, Navy Uniforms and the Navy Clothing and Textile Research Facility.

Navy Exchanges offer name brand products and quality merchandise at an average savings of 23 percent, not including sales tax. In addition, there are over 1,200 service operations such as gas stations, food outlets, laundry/dry cleaning, barber/beauty salons, flower shops, tailor shops, optical and optometry services and complete vending services. The Navy Exchange financial position remained strong in 2011. Total annual sales were \$2.8 billion with a net profit of \$61 million which generated \$43 million in dividends for Morale, Welfare and Recreation (MWR) programs and \$18 million for reinvestments in Navy Exchanges to improve the shopping experience and ensure Navy Exchanges remain an attractive option in a competitive retail market. Total sales increased 4.9 percent compared to the prior year. The core retail store business remains strong with sales exceeding last year by 3.3 percent. NEXCOM continues to provide a significant and important dividend to Navy’s MWR programs. Installations receive a

portion of the dividends for specific installation level MWR efforts and the remaining funds are used for MWR capital projects to improve facilities, enhancing local recreation opportunities for Sailors and their families.

To ensure all customers have access to the Navy Exchange benefit, NEXCOM has a web-based store, myNavyExchange.com. The web-based store carries over 7,500 products with new items added regularly, and provides product and food nutritional information. The web store is especially helpful for those customers who do not live near a Navy Exchange, which includes many reservists, retirees and deployed active duty. Web store sales for 2011 reached \$8 million with nearly 43,000 orders placed from around the world and ships at sea. We have not yet realized our full potential and are dedicating more resources in this area.

Navy Lodges are primarily for military families on permanent change of station (PCS) orders. Navy Lodges reduce the stress of a PCS move with family suites featuring a living room, fully equipped kitchen, and one and two bedrooms to accommodate families transitioning to a new duty station. The Navy Lodge program offers military families and other authorized patrons clean, comfortable, convenient, oversized rooms and provide very affordable accommodations worldwide. An added benefit to the military family is our pet friendly rooms. The program operates as a separate, distinct fund whose profits are reinvested in Navy Lodge facilities. Navy Lodges continue to save government travel dollars by pricing accommodations 40 percent below per diem. There are 40 Navy Lodges worldwide serving families who PCS with total annual sales of \$66 million and a net profit of \$11 million.

The 21st Century fleet Sailors and Marines depend on their afloat Ships Stores Program just as their predecessors did before them. At 158 locations, three ashore stores and 155 ships around the world, Sailors and Marines can find the same kind of popular consumer items that are

in NEXs, get a quality haircut, use vending machines and access laundry facilities. Just as Sailors and Marines are on duty 24/7/365, the Ships Stores Program is there with them to provide key quality of life services. As an added benefit, the program generates profits to provide enhanced morale and recreation programs to the crew and embarked forces. Profits are also provided to central Navy MWR to provide financial assistance to fleet units that do not have a ship's store, such as submarines, tugboats and ships in extended shipyard periods. 2011 total sales were \$73 million, which generated \$12 million for Navy afloat MWR.

Our Telecommunication Program is the overall manager for unofficial personal telecommunications for the Navy and provides easy and affordable communications to maintain contact back home, a major quality of life component for our Sailors. For the tenth year in a row, military members underway or forward deployed during the holiday season were given a free \$10 phone card to call loved ones back home. Free cards were also distributed to Sailors and their families after the earthquake and tsunami in Japan. Through these efforts, NEXCOM distributed nearly 69,000 free phone cards. At ashore locations, working with Commander, Navy Installations Command, we are providing new and improved performance Wireless Fidelity Internet (Wi-Fi) services to Bachelor Housing, Navy Gateway Inns and Suites, Navy Lodges and MWR facilities in CONUS as well as OCONUS including Djibouti and Bahrain.

NEXCOM's Uniform Program Management Office plays a vital role in the distribution, sale and tailoring of Navy uniforms. Additionally, NEXCOM provides uniform support to the Marine Corps, Coast Guard, Public Health Service, and the NJROTC and NROTC programs. This is accomplished through 103 globally positioned Uniform Shops and the Uniform Support Center. The Uniform Support Center provides uniform support for the Sailors and Marines

deployed worldwide and for those who have made the ultimate sacrifice in support of the nation through the Port Mortuary at Dover Air Force Base in Delaware.

The Navy Clothing and Textile Research Facility (NCTRF) develops uniform and personal protection ensembles for Sailors and other war fighters through research, development, test and evaluation. NCTRF manages nearly 340 uniform items and fabrics and over 2,600 insignia items through the Navy Uniform Certification Program ensuring that uniform items sold via NEX Uniform Shops meet or exceed Navy quality requirements.

As mainstream communication channels evolve so too has NEXCOM. Social media has been invaluable in communicating with our customers. The Navy Exchange Facebook page had 115,000 fans at the end of 2011. NEXCOM's response rate to fans requesting additional information averaged 90% within two hours. Navy Exchange customers are notified of upcoming sales, promotions and store events and are able to ask questions and participate in surveys. These social media forums help spread the word about the NEX benefit and keep our customers connected.

NEXCOM maintains a strong nonappropriated funded capitalization program, averaging \$58 million per year for major and minor projects. Last year construction was completed on a new Mini Mart at Naval Station San Diego, California; a new 205 room Navy Lodge at NAS North Island, California; an addition and renovation of the Naval Station Norfolk, Virginia main store; and an addition and renovation of NAS Whidbey Island, Washington main store. Our field teams also executed work on 100 minor projects providing renovations at many locations worldwide and incorporating new technology to reduce energy consumption. Through 2011, energy data for 32 facilities, representing 20% of NEXCOM's facility footprint, were compiled

to identify specific utility consumption trends within our buildings and to address opportunities to reduce consumption throughout the NEXCOM Enterprise.

Navy Exchanges and Navy Lodges deliver much more than savings. These are places where our families can go for that sense of community, particularly for the family whose Sailor is deployed and for those who live overseas. With the support of our industry partners, we offer many programs and activities focused on military families, including customer appreciation events, celebrity appearances, homecoming events, health and safety awareness programs, bridal fairs, back to school events, A-OK Student Reward program and joint events with MWR and the Defense Commissary Agency (DeCA) and many others. Our A-OK program, fully funded by our industry partners, completed its 14th successful year and has awarded \$589,000 in U.S. savings bonds to students of military families since its inception. Students who receive a B or better on their report cards are entered in quarterly drawings. In May, NEXCOM joined with DeCA and Navy MWR in providing Family Fun and Fitness Festivals at 12 locations, emphasizing customer involvement, fitness events and sale events at both the NEX and commissary. Last year, NEXCOM also joined a partnership with TRICARE, DeCA and the other exchanges to support public awareness for helping to combat childhood obesity. All these events support our military families and further show our commitment to their well being.

NEXCOM places great importance on staying connected with the Sailors we serve. The Navy's 21st Century Sailor and Marine Initiative has a number of objectives and policies to maximize each Sailor's and Marine's personal readiness. NEXCOM supports this initiative in a variety of ways. Through a partnership with the Navy Fitness Program, the Navy Exchange offers a workout kit designed to support Navy's fitness objectives. The Navy Exchange offers a convenient way for Sailors to obtain their workout equipment, nutritional products, motorcycle

safety products and other merchandise that supports the 21st Century Sailor and Marine initiative. In addition, the Navy Exchange often serves as Navy's distribution center for communicating the Navy's messages which support Navy Sailors and their families. The Navy Exchange is typically the location where education materials can be disseminated about fitness, nutrition, family support programs, as well as alcohol, tobacco and substance abuse education. NEXCOM is an extension of, and fully aligned with Navy as we work together to help Sailors make good choices.

One example of the NEXCOM Enterprise taking care of its military family was during Operation Tomodachi in the wake of the earthquake, tsunami and nuclear disaster in Japan. NEXs in Japan worked closely with the Commander, Navy Region Japan to ensure there were enough water, batteries, and fuel available to families in the weeks following the disaster. The NEXs also stayed open regular hours, despite having a decreased staff, to ensure customers had access to the products and services they needed. Our Navy Lodges were also involved, housing families who were evacuated to the United States from Japan. Finally, our vendor partners also helped out by donating goods including prepaid phone cards, toys, school supplies and food items to those displaced families. The NEXCOM Enterprise did what it does best – pull together to support its Navy family in both good times and during a crisis.

All military exchanges continue to have a robust partnership in identifying and executing cooperative efforts. We have teams with representatives from each exchange constantly looking for ways we can work together to find efficiencies and to lower our costs. In two key areas, joint contracting and logistics, we have been able to execute significant cost saving initiatives. This past year, we identified and combined our requirements in a number of contracting actions with estimated savings of \$35 million over the life of these contracts. These contracts range

from fuel for our gas stations, to inventory equipment, to credit card processing services. In logistics, we are sharing containers and truck transportation within CONUS between AAFES and NEXCOM. NEXCOM also provides merchandising and logistics support for the Marine Corps and Coast Guard Exchanges. We provide auditing and other support functions for Navy MWR. NEXCOM provides food contract support to Navy MWR, Air Force MWR, Marine Corps Community Services, as well as all the food operations in the Pentagon. In all areas, we are looking to our quality of life partners to ensure we have the most efficient and effective organizations.

This year, the exchanges expanded the Exchange Cooperative Efforts Board to include DeCA as a full member of the board, and have included the Coast Guard Exchange to participate where ever possible in an effort to pursue military resale cooperative efforts among all commands. The board is now known as the Cooperative Efforts Board (CEB).

We are fully embracing our Wounded Warriors. Our Navy Lodges provided over 13,000 room nights in 2011 to support wounded service members and their families. Our recently renovated Mini Mart at NAVHOSP San Diego features wider aisles and lower shelves allowing wheel chair restricted Wounded Warriors to move with ease in the store and to easily shop from a sitting position. Our industry partners continue to provide their support through donations such as video game systems.

NEXCOM is participating in job fairs focused on hiring Wounded Warriors, as well as all our veterans. We recently welcomed a Wounded Warrior and his service dog to the Loss Prevention/Safety Department at NEX Pensacola, Florida. This Master-at-Arms First Class was wounded in an IED attack in Iraq. He is a speaker for the Wounded Warrior program, promoting the use of service dogs to help with PTSD and their use in the workplace. We value all our

veterans for what they did for our country. If we are able to provide them with an opportunity to continue to serve, or serve again, it is a win-win for NEXCOM and the veterans.

The Navy Exchange and the Navy Lodge operate as nonappropriated fund instrumentalities, operating with minimal appropriated funds. Nonappropriated funds belong to the troops, not the taxpayer. We should not lose focus that commissaries are funded with appropriated funds and exchanges are funded with nonappropriated funds. Unlike the commissaries, Navy Exchanges generates profits that are an important financial contribution to MWR.

The minimal appropriated support provided to the Navy Exchange provides a tremendous benefit and has a high return on investment to our Sailors and their families. Congress understands the value, and has shown strong support for appropriated dollars to fund the transportation of merchandise to overseas locations. This allows Sailors and their families to purchase American products at stateside prices. Many of these overseas locations do not offer similar products near the installation, and in some cases such as Guantanamo Bay, Cuba or Djibouti, Africa, there is no alternative source of merchandise. Along with the multitude of services NEXCOM provides through its presence at installations... taking care of personal needs, improving quality of life, executing Navy's programs...NEXCOM provides a tangible return on Navy's investment. The savings at the cash register and funding for MWR programs deliver more than a six to one payback of appropriated funds used to support the Navy Exchange, providing an effective and efficient mechanism to support our Sailors and their families.

Our associates are the heart and soul of NEXCOM. I see their dedication and commitment to our military families everywhere I go. As we continue our focus on delivering

the benefit today, we are also working to sustain and improve our future viability. We will continue to be responsible stewards of our Sailors money, grow the benefit and build towards the future. Our vision is to become our customers' first choice, reflecting the spirit of our Navy, our Sailors and their families. Our 2015 Strategy embraces this vision with three major goals: strengthen Navy community readiness, deliver the benefit to Sailors and their families, and grow the benefit through sustainability and continuous improvement. With our priorities in place, dedicated associates working within the NEXCOM Enterprise, and customers who rely on us, we will make it happen.

What we accomplish cannot be done without the support of our industry partners and the strong support of this subcommittee, which has remained unwavering over the years. This subcommittee sends a clear message that these programs which support our military families are critically important. We are grateful for your support.

In summary, we have a strong program which continues to grow stronger. Our retail system is not like any other retailer; our customers are unlike any others. Our customers are the men and women who defend our nation, protect us and our way of life, and their families; they deserve the best we can give. We will continue to be vigilant in our commitment to them.

**STATEMENT OF
JOSEPH H. JEU
DIRECTOR, DEFENSE COMMISSARY AGENCY
BEFORE THE
MILITARY PERSONNEL SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

SECOND SESSION, 112th CONGRESS

June 7, 2012

Chairman Wilson, Ranking Member Davis, Members of the subcommittee, it is my pleasure to appear before you to provide the annual report on the state of the commissary benefit. As I traveled around the world this past year visiting many of our stores, opening new ones, and conversing with commanders and our customers, I can assure you the commissary continues to be strong and plays an important role in the economic well-being of the patrons it serves. On their behalf, I thank this subcommittee and the entire Congress for fully funding the President's Budget for commissary operations for fiscal year 2013.

The commissary continues to be one of the most valued non-pay compensation benefits our military members, be they active, Guard, or Reserve, retirees, and their families, enjoy. This integral element of the total compensation package not only does much to enhance the quality of life for military families, but also provides an excellent return on investment. Few, if any other, benefits can boast a two for one investment return. Last fiscal year, the commissary provided direct savings to commissary customers of \$2.8 billion dollars for a taxpayer cost of \$1.34 billion. With savings of 32 percent compared to civilian supermarkets, patrons who consistently use their commissary, can save nearly \$4,500 per year for an average family of four, over \$2,800 for a couple, and more than \$1,500 for a single Service member.

The indirect support adds millions more to DeCA's return on investment. For example —

- The tremendous ancillary support from the industry, which services the defense commissary system, in the form of store support, military only coupons, contributions to installations, promotions and giveaways, and scholarships provided

an additional \$244 million in value to our patrons last year, over and above the savings military families realized on their commissary purchases.

- Of DeCA's 15,000 U.S. civilian employees 62.4 percent are comprised of military spouses, family members, military retirees, Guardsmen, Reservists, or veterans.
- Industry partners employ many military family members, with one manufacturer's representative reporting up to 60 percent of their workforce being from military families. In addition, the American Logistics Association, on behalf of its member companies, pledged to employ an additional 25,000 spouses and veterans in support of the President's Joining Forces initiative.
- As the top two peacetime overseas shippers within the Department, the Army and Air Force Exchange System and DeCA help preserve the Defense Transportation System. This peacetime use helps the Department maintain access to commercial airlift and sealift capability during contingency operations.
- Commissaries support the nation's socio-economic programs. Small and disadvantaged businesses contracts amount to \$571.6 million, with another \$112 million contracts for AbilityOne programs. In addition, 2,000 disabled individuals are employed and working within our commissaries by virtue of these contracts. AbilityOne earns another \$21.6 million from products purchased for resale in our stores. The small business program enhances our ability to focus on purchasing local products, for example, produce and seafood, supporting the commissary's effort to aid in economic recovery of the country.

But perhaps most importantly, the commissary enables troops to focus on their mission when deployed, improving retention by providing a "sense of community" for military

personnel and their families, and providing access to American products around the world in a safe, secure shopping environment.

Efficiencies and Savings. As an organization, DeCA is a model of departmental efficiencies and with a proven history of taking cost out of the commissary system without decreasing the value of the benefit provided. Since its activation DeCA's operating costs have been reduced by over \$900 million and its workforce reduced by over 6,600 full time equivalent positions. When measured in constant dollars, DeCA's operating costs are only slightly more than one-half of what they were when the Agency activated on October 1, 1991. DeCA's efficiency track record continues with an FY 2013 budget submission of \$1,371.6 million, which is actually slightly lower, in real dollars, than last year.

We had another impressive year in fiscal year 2011 with all key metrics moving in the right direction—the cost of delivering the commissary benefit, once again, came in under budget; customer service scores and patron savings levels again increased.

The value provided by the commissary benefit continues to be confirmed by our patrons, who have expressed their satisfaction with an overall customer service rating of 4.72 on a scale of 5, the highest score ever achieved. Again this year our internal measures were validated externally by the American Customer Satisfaction Index (ACSI). DeCA's latest score increased to 81, significantly exceeding the ACSI commercial supermarket industry average of 76. DeCA's score of 81 is exceeded by only one commercial grocery chain. Customers reported to ACSI once again that DeCA's strengths are: "customer satisfaction" and "perceived overall quality", with "perceived value" scoring highest of all retail outlets measured.

Even though the country has witnessed increases in grocery prices across the board commissary savings on our patrons' overall purchases rose this year one-half of a percent to 32 percent, but the greatest savings, up to 45 percent, continue to be found in the perimeter departments, such as fresh meat and produce.

Yet, some question whether today's commissary is antiquated? A review of the following fiscal year 2011 facts reveal why the commissary remains an invaluable element of the non-pay compensation package—

- 260,000 patrons visit a commissary each day buying \$16 million in goods.
- 7.9 million shoppers visit each month purchasing \$487 million in goods.
- Over 96 million customer visits were made to the commissary last year.
- Those military families redeemed coupons worth \$112.7 million, presented food stamps totaling \$87.8 million, and another \$30 million in Women's, Infants and Children (WIC) Program coupons.

Guard and Reserve Support. Beyond providing access to American products around the world in a safe, secure shopping environment, we know that military personnel appreciate that the commissary looks out for their families as they look out for our country. However, one segment of our military personnel has been traditionally underserved by commissaries. Therefore, since 2007, our "Bringing the Benefit to You" program has allowed us to deliver more than \$10 million in savings through on-site sales to nearly a quarter million authorized customers – primarily guardsmen, reservists and their families – who don't have access to an installation commissary. Through this program, we've conducted more than 500 on-site sales over the last four years in various armories, tents in parking lots, warehouses and aircraft hangars from Georgia to Montana to American

Samoa. Why? Our support of the Guard and Reserve echoes the Department of Defense's increased use of these troops in deployments alongside their active-duty counterparts. Similar to our worldwide case lot sales, our on-site sales often save patrons up to 50 percent or more on products. During this challenging economy, savings like that represents a significant boost to the quality of life of service members who aren't able to use their benefit on a daily basis. In fiscal year 2011, we conducted 143 events, served 58,256 customers and provided savings of \$3.6 million. In fiscal year 2012, we are primed to continue supporting our remote customers with a goal of 150 on-site sales.

Financial Accountability. Fiscal year 2011 earned DeCA another milestone—a decade's worth of unqualified audit opinions, continuing an unblemished record of achieving unqualified opinions on our consolidated financial statements, which began in 2002—a feat matched only by three other defense activities. For the fourth time, DeCA finished in first place within the Department for implementing the requirements of the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, Appendix A. The effective linkage of accountability and audit readiness to internal controls over financial reporting has made DeCA a model of Government efficiency. DeCA tied for first place with U.S. Special Operations Command and the Defense Logistics Agency for the best FY 2010 Statement of Assurance. Both of these results – ten clean audit opinions and our fourth first-place finish in internal controls – demonstrate DeCA's commitment to financial accountability.

Sustainability. From the water we use, the energy that powers our stores, and the solid waste we generate, environmental responsiveness is basic to our continued success. Our environmental performance conserves natural resources, enhances quality of life, and

improves operating efficiencies. DeCA works to cut energy costs and protect the environment by building energy-efficient stores, monitoring and reducing energy consumption, and recycling plastic, wood and paper products. DeCA has historically been conservation-centric in its design approach, primarily due to high energy use refrigeration systems, so we continue to investigate life-cycle cost effective initiatives that not only comply with regulatory requirements, but also reduce operating costs. The sustainable and energy conservation features included in commissary design include such items as:

- Use of waste heat from refrigeration system compressors to heat water and provide heat to the sales area;
- The Refrigeration Monitoring and Control System manages the operation of the refrigeration systems to maximize efficiency and monitors product temperature to prevent loss;
- Glass doors on upright frozen food display cases keep cold air from spilling out when not being shopped and overnight;
- LED case lights that reduce the electrical lighting load by up to 70%; and
- Under case return air to capture cool, dry air helping air conditioning systems run more efficiently and eliminating cold aisles.

Following the success of the solar project installed at the Los Angeles Air Force Base, California store 5 years ago, solar panels are being provided by the Army at our Germersheim, Germany Central Distribution Center and Vicenza, Italy; and by the Navy at Pearl Harbor, Hawaii and Yokosuka, Japan. Our new store, currently under construction, at Ansbach, Germany will feature photovoltaic solar panels, producing about 10% of the total electrical requirement, and a vegetated “green” roof. The Lackland Air Force Base,

Texas store renovation, currently being designed, is planned to receive an ammonia and CO2-based refrigeration system, which will be one of, if not the first, supermarket refrigerant system using ammonia in the United States. Ammonia, a 100% natural refrigerant is not ozone depleting, has near-zero carbon emissions, and uses less energy than a comparable Hydro fluorocarbon (HFC) cooled system.

In 2011, DeCA personnel sorted through dumpsters at ten commissaries throughout the United States as part of a waste sort study. Waste sorts allow commissaries to focus on a targeted goal to increase recycling and compostable rates. Working under the Department of Defense's Strategic Sustainability Performance Plan, DeCA spent several days collecting, sorting and weighing its garbage to learn its contents and determine how to keep more of it from the nation's landfills. Results from the study concluded nearly 75 percent of the solid waste generated by commissaries could be diverted from landfills, and used in other processes such as, composting, gasification, or recycling.

In the same time, DeCA continued its active recycling program, generating over \$7 million in revenue by recycling 53,000 tons of cardboard and 513 tons of plastic. We have also identified the potential for over \$1 million in long term solid waste cost avoidance through a combination of efforts including removal of 30 plus compactors, reductions in dumpsters, and reduction in dumpster pickups. Changing the mindset of our employees to diversion of waste to other practices such as composting or recycling is not only cost effective, but also environmentally friendly. DeCA is also partnering with the Army, the Navy and the National Renewable Energy Lab (NREL) to test a High Energy Waste-to-Energy Convertor which produces utility grade electricity to the Hickam Air Force Base, Hawaii Commissary by burning garbage.

After a lapse of a few years, DeCA is once again donating edible but unsalable products to food banks. The Department has recently implemented procedures to designate food banks eligible to receive donations from commissaries. Thus far, two food banks—one in Fairbanks, Alaska and one in San Diego, California—have requested and received the required Secretarial designation. Different from retail grocery stores, most products in commissaries eligible for donation are the property of our vendors. DeCA recently at a trade association forum requested industry support and participation for donations. We are hoping to use the two currently approved locations to determine the volume of donations which may be expected and assess the effectiveness of the newly instituted program. Upon designation of an eligible food bank, vendors will no longer be allowed to dispose of product in government waste receptacles, which has the added benefit of reducing the commissaries waste stream.

These measures, combined with an increased inventory of environmentally friendly products, are all part of DeCA's sustainability initiative. We passed another landmark this year with patrons purchasing more than five million reusable bags since they were first offered in 2007. Other environmentally friendly products include the energy-saving compact fluorescent or CFL bulb and a number of green cleaning products, tissues and wipes.

Wounded Warrior/Disability Programs. We actively recruit qualified people with disabilities, not only because it's the right thing to do, but because we see their strength and contribution every day as we deliver the commissary benefit. DeCA's track record in hiring people with disabilities was recently recognized with the Secretary of Defense's 2011 Best Mid-Sized Component Award for our performance in employing

individuals with targeted disabilities. The commissary agency achieved Best Mid-Sized honors for increasing the number of employees with targeted disabilities on its rolls from 1.1 percent in fiscal 2010 to 1.51 percent in fiscal 2011. The DoD goal for hiring people with targeted disabilities is 2 percent – the DoD-wide average percentage is 0.77 and the federal-wide average is 0.88. DeCA was also recognized by the Paralyzed Veterans of America as the 2011 recipient of PVA's Employable Award for expanding employment opportunities to veterans. This prestigious award is given for leadership in providing employment opportunities to veterans with disabilities and is presented to a single organization annually. We continue to work with Veteran Program coordinators to bring more of these valuable resources on board. We are particularly pleased with our partnership with the Army as they launch Operation Warfighter—a program designed to give soldiers undergoing rehabilitation treatment meaningful work, within their physical capability, when not undergoing physical therapy or medical care. We are hopeful that once their rehabilitation is completed, that DeCA may become a viable post-military job opportunity for those who have given so much!

Collaboration. The military exchanges and DeCA have combined to form the Cooperative Efforts Board (CEB), a strategic planning and action committee that leads the Department of Defense Military Resale Agencies' efforts to develop proposals to improve the efficiency and effectiveness across resale organizations. We have been working together for the past several years on combined sales events, transportation initiatives and getting the word out concerning the value of the benefit. Through the CEB we are capitalizing on past successes in search of innovative ideas to further reduce costs and enhance the shopping experience of our patron base.

The Future. At all levels of government and throughout the military, conducting business as usual no longer makes the grade. Plans established in times of prosperity—or even in times of modest austerity—no longer have relevance. We are operating in an era of unprecedented change, with challenges to everything we do and every dollar we spend. The military has responded to these challenges by developing a lean, flexible and efficient All Volunteer Joint Force 2020; in turn, we recognize the need to take the benefit to the next level and have created the Commissary Benefit 2020. With this goal in mind, we crafted a new vision statement to serve as a beacon, illuminating the heart of our business—*Understand our customers and deliver a 21st century commissary benefit*. To achieve this vision, we will focus on three primary initiatives:

- Study and support shopping trends, leveraging social media to gain insight into our customers' changing needs.
- Explore concepts such as electronic and mobile commerce and other improvements to our business model.
- Employ new efficiencies in construction, technology and operations to continue as a best-in-class Defense Department agency.

We have formed a concept team to develop our goals. They are charged with getting our ideas on paper, establishing the possibilities and considering which objectives may be best for moving the Agency forward. Change in itself isn't enough; these aggressive initiatives must help ensure our relevance to the military and our success in delivering the benefit to our customers. All ideas need to be put on the table, with nothing held back and everyone open to change. We may need to take some calculated risks, but our initiatives will be based on solid research and a sense of not only what our customers

want today, but what they will want tomorrow. We'll be studying shopping trends, leveraging social media, exploring electronic and mobile commerce, and seeking out the "latest and greatest" efficiencies in construction, technology and operations.

Commissary Levels of Authorized Standard Services. We are in the midst of retooling our store operations so that our patrons can experience the same level of world-class service whenever they shop in our commissaries. This program, which will continue through the spring of 2013, is part of our transition to the Commissary Benefit 2020 that will help us keep pace with the needs of an ever-changing patron base. Our military is evolving into a leaner but meaner force, and CLASS will allow us to stay in sync with our patrons and deliver a 21st century benefit that's adaptable and efficient.

Why is CLASS so important? First, because wherever our service members and their families are stationed—overseas or stateside—the level of service should be the same. Second, because our store employees deserve to know that they won't miss career broadening opportunities because they're in a certain store. With CLASS, our employees will know the services they are expected to perform and will receive the training to perform those services - no matter where they're assigned. Third, funding levels will be linked to specific levels of commissary services, and management will know that funding is adequate to provide those services. Resources will be distributed equally for store support services tied to quality, consistency and predictability.

Although many of our commissaries are already shining examples of stellar customer service, through CLASS we will ensure these examples are the standard in all our stores. We've started meeting with employees to certify their knowledge and application using more than 500 commissary job aids. These job aids were created for all our store

tasks and processes that provide concise and basic guidance to help our employees acquire required skills efficiently, quickly and at a lower cost than formal training, while putting the DeCA stamp on our best practices so that our stores can deliver the most efficient, effective and consistent benefit possible.

It has been my pleasure to tell you about the great things DeCA has accomplished this past year and its contribution to the quality of life of our military families. In closing, I would like to thank the members of this Subcommittee as well as each Member of Congress for their continued support of the commissary benefit. With the drawdown of operations in Iraq and Afghanistan, our military families will hopefully receive a much overdue rest, and the 17,000 employees who operate the commissary system and to the hundreds of suppliers who provide exceptional support to each and every commissary will be there to assist their transition to normalcy.

I will be happy to answer any questions you may have.

**NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE**

**STATEMENT OF
WILLIAM C. DILLON
DIRECTOR, SEMPER FIT & EXCHANGE SERVICES DIVISION
MANPOWER & RESERVE AFFAIRS
UNITED STATES MARINE CORPS
BEFORE THE
SUBCOMMITTEE ON MILITARY PERSONNEL
OF THE
HOUSE ARMED SERVICES COMMITTEE
ON
MILITARY RESALE
7 June 2012**

**NOT FOR PUBLICATION
UNTIL RELEASED BY
THE HOUSE ARMED
SERVICES COMMITTEE**

1 Chairman Wilson, Ranking Member Davis, and distinguished Members of the
2 Subcommittee, it is my privilege to report on the status of Marine Corps resale activities. I want
3 to thank Congress, especially this Subcommittee, for your continued support.

4 **Introduction**

5 The Marine Corps Exchange (MCX) is inextricably linked to our mission of taking care
6 of Marines and their families and is an important part of the overall non-pay compensation
7 package. From a Marines' perspective, success is measured on the service or program's value
8 and contributions to critical mission outcomes of readiness and retention, as well as our ability to
9 provide unparalleled customer service, premier facilities, and valued goods and services at a
10 savings. We are proud to have the opportunity to highlight some of our substantial
11 accomplishments and new initiatives.

12 **Keeping Faith with Marines and Families**

13 The Commandant continues to stress that the Marine Corps will keep faith with our
14 Marines, Sailors, and their families. We repeat this theme in all that we do as we strive to deliver
15 an on-brand retail experience with high quality products at a significant value. In this time of
16 military family stress and focus, the Marine Corps Exchange is an important capability on which
17 Marines and families can depend. MCX not only delivers a great shopping experience, but 29
18 percent of MCX employees are military family members. MCX is committed to supporting
19 initiatives like Joining Forces to employ veterans and family members, along with our vendor
20 and industry partners. We were recently inducted as a member of the Military Spouse
21 Employment Partnership Program. We are excited to help provide jobs to military family
22 members who may be worried about finding a job at their next duty station.

23 “Healthy Living” and making the best choices is the title and theme of a recent positional
24 advertising piece that is in lock step with the 21st Century Sailor and Marine Initiative recently
25 announced by the Secretary of the Navy. In partnership with the Marine Corps Semper Fit team,
26 this informational and educational magazine highlights MCX offerings related to healthy eating,
27 hydration, and exercise. It also highlights healthy lifestyle products, like smoking cessation
28 items, which we sell at MCX cost as part of our value program, “Our Cost is Your Cost”. This
29 program targets young Marine families on a tight budget offering items such as diapers, formula,
30 baby food, bread, and milk for purchase at MCX cost. “Our Cost is Your Cost” also promotes
31 motorcycle safety by offering a 25 percent discount on motorcycle safety equipment when an
32 authorized patron completes a base motorcycle safety class. These programs demonstrate our
33 commitment to serving our Marines and families.

34 **Marine Corps Exchange and Marine Marts**

35 MCX has led the way within the Marine Corps Community Services (MCCS) facility
36 master planning efforts and is executing branding strategies; our aggressive re-investment into
37 main stores is nearing completion. We are also focusing on our Marine Marts. With the success
38 of the branding efforts in the Main Store, the Marine Mart Master Capitalization plan was
39 developed. It identified Marine Marts that were no longer relevant or beyond renovating, as well
40 as where we were missing Marine Marts in new housing and training areas. We became students
41 of the Marine Mart customer to ensure this branded offering had the products, services, and
42 conveniences important to our customers. There are over 70 Marine Marts that have been
43 identified and prioritized to build new, expand, or renovate. Marine Mart customers visit this
44 facility at least once a day, sometimes as many as three times a day, and on average consume one
45 meal a day from the food and product offering. MCX customers on average visit the Main Store

46 once per week, but visit Marine Marts almost daily. Marine Marts are truly a critical touch point
47 to the overall MCX brand. It is imperative that we get this model right with products and
48 assortments meaningful to the Marine on duty or in training, or the young Marine spouse visiting
49 their neighborhood Marine Mart for a quick grab and go.

50 MCX continues its focus on “Brilliance in Execution” in order to deliver meaningful
51 merchandise assortments and services. Staying current and connected with MCX customers is a
52 top priority. In a Marine Corps Exchange one will find a variety of brands and price points to
53 accommodate the budget of each customer. We’re especially proud of our high quality, low cost,
54 MCX private clothing brand, 1775. In addition to clothing, we serve as a “one stop shop” for
55 everything from the most popular electronics to home furnishings to fitness equipment. Marine
56 Corps Exchanges are conveniently located at the nucleus of the installation community but also
57 offer online shopping which allows for additional offerings. The Exchange Catalog and the
58 Exchange Catalog On-Line is a cooperative effort with our Sister Services which benefits MCX
59 shoppers in numerous ways: provides a wider variety of products; allows us to stay competitive
60 in the ever-growing virtual market place; and earns a dividend on Marine affiliated purchases.

61 In 2011 our annual Customer Satisfaction Index survey indicated MCX patrons’
62 satisfaction remained steady from 2010. Patrons awarded MCX a customer satisfaction score of
63 78, indicating a high level of satisfaction with our MCX. We saw slight increases in areas of
64 focus, like merchandise assortment and availability and other customer experience touch points.
65 The 2011 results of our market basket survey, which we conduct annually as a cooperative effort
66 with the Navy Exchange and Army and Air Force Exchange Service, showed an average savings
67 of 24 percent, all while maintaining a consistent gross margin.

68 In addition to being a great value, the MCX takes pride in our increasingly competitive
69 position within the marketplace. Over the past few years, MCX has consistently increased sales
70 figures over the previous year while many outside retailers have seen significant declines. We
71 attribute this growth to high quality products and excellent customer service. Success is
72 measured not just by revenue, but also by the value we provide to our Marine Corps community.
73 With MCX, unlike any other retail store, Marines and families know that dividends are returned
74 to their community, creating a stronger Marine Corps.

75 **Reducing Redundancies and Gaining Efficiencies**

76 In this budget constrained environment, we need to seize all opportunities to avoid costs
77 and find savings by executing programs developed on standards and best practices. We are now
78 focusing our efficiency efforts to include not just the new, branded look of the MCX, but also
79 back of house operations. The logistics function of the supply chain and information technology
80 enhancements will be our opportunity to reduce redundancies and become more efficient. Along
81 with our Sister Services, the MCX participates in the Cooperative Efforts Board (CEB). The
82 CEB focuses on indirect procurement and supply chain and proactively looks at all areas of the
83 business to find cooperative opportunities. We constantly seek efficiencies across all business
84 and support activities; it is a part of our daily operation.

85 **MCX Financial Results**

86 Total MCX sales in Fiscal Year 2011 were \$997.8 million. MCX profits were \$69.8
87 million and the dividend for MWR was \$47.5 million. By comparison, in Fiscal Year 2010, total
88 MCX sales were \$925.3 million, profits were \$73.6 million, and dividend for MWR was \$49.9
89 million.

90

91 **Deployed Support**

92 Deployed support is one of the most important services we provide. Within resale
93 activities, we have ongoing missions in Afghanistan, supported in large part by Army and Air
94 Force Exchange Service as they provide product and infrastructure. These operations include the
95 two Direct Operation Exchanges Tactical at Camps Leatherneck and Dwyer, one Tactical Field
96 Exchange at Camp Delaram II, one Imprest Fund Site at Forward Operating Base Edinburgh, and
97 numerous Warfighter Express Services Teams operating out of Camps Leatherneck, Dwyer, and
98 Forward Operating Base Edinburgh.

99 **Conclusion**

100 All that we do at MCX reassures our Marines and families that nobody can take better
101 care of our own than we can. There is a synergy between the holistic benefit that solidifies the
102 strength of the military community, the bedrock of readiness. We will continue our aggressive
103 pursuit of efficiency measures that ensure we remain responsible stewards of resources and keep
104 faith with our Marines and their families.

105 On behalf of Marines and families, we want to thank you for your oversight and
106 continuous support. Thank you for the opportunity to discuss this important issue.

107



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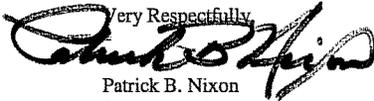
Honorable Joe Wilson
U. S. House of Representatives
Chairman, Subcommittee on Military Personnel
House Armed Services Committee
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Attention: Jim Weiss

5 June 2012

Dear Chairman Wilson and Distinguished Members of the Subcommittee,

Thank you for your invitation of 18 May to appear before the Military Personnel Subcommittee of the House Armed Services Committee. In accordance with your request, I am forwarding a copy of our written testimony which we request be submitted for the official record of the proceedings at the appropriate time. It is our desire to fully comply with the rules of the House of Representatives, in particular those that apply to all non-governmental witnesses. I have included a curriculum vitae and a copy of the Disclosure Form for Witnesses Concerning Federal Contract and Grant Information as required by Rule 11, clause 2(g)(5) of the Rules of the U.S. House of Representatives for the 112th Congress.

It is an honor for me to once again appear before your committee and I look forward to our discussions.

Very Respectfully,

Patrick B. Nixon
President, ALA

Attachments: As Stated

STATEMENT BY:

MR. PATRICK NIXON

PRESIDENT – AMERICAN LOGISTICS ASSOCIATION

BEFORE THE SUBCOMMITTEE ON PERSONNEL

COMMITTEE ON ARMED SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

2nd SESSION 112TH CONGRESS

June 7, 2012

**NOT FOR PUBLICATION
UNTIL RELEASED BY
HOUSE ARMED SERVICES COMMITTEE**

To the Honorable Chairman, Ranking Member and Distinguished Members of the Subcommittee:

The American Logistics Association (ALA) is pleased and honored to appear before you today. For over 90 years ALA has worked to promote, protect and enhance the military resale and quality of life benefits on behalf of our members and the military community.

The ALA is proud to represent 250 of America's leading manufacturers, numerous brokers and distributors, service companies, media outlets and more than 1400 individual members who are actively engaged in providing goods and services to our resale customers, MWR activities for our military, Coast Guard, and Veterans.

It may go without saying that we appreciate this Subcommittee's support for these vital benefits over the years. But, I'm going to say it again: Thank you Mr. Chairman and members of the Subcommittee for your steadfast efforts on behalf of our men and women in uniform and their families.

Just in the past year there have been several key issues addressed by this subcommittee that have had significant positive impacts on the military resale programs. You took action to eliminate the 1099 reporting requirement, the 3 percent withholding, reduced financing costs for the exchanges by allowing access to federal bank financing

and, most importantly, you have supported full funding for these programs along with consistently calling for protection of these benefits in Congress.

We especially appreciate the opportunity to appear before you along with distinguished DoD leaders like Secretary Gordon, our business partners—the leaders of the commissary, exchange, and morale, welfare and recreation programs of the Department of Defense and our colleagues from the Armed Forces Marketing Council. We commend DoD's commitment to reaching out to the private and non-profit sectors to create partnerships to improve the quality of life for our military people, especially with even darker budget clouds on the horizon.

The military resale partnership represents the best that America offers and is a shining example of what can be accomplished when Government and American business get together for a common purpose.

We are grateful to you Mr. Chairman, the Subcommittee and full Committee for your efforts to ensure that we have a measured reduction in Defense spending. Sequestration is looming and this Committee has been at the forefront of working to ensure that Defense is not gutted by this threat. We are educating our members and encouraging them to join the fight to keep this from happening.

Just the existing budget levels have resulted over the past year in repeated assaults on these vital benefits from suggestions by the Deficit Reduction Panel to individual and

Committee-passed measures taking place in the Congress to degrade and diminish the benefit.

In many cases, these assaults have at their core what we believe to be a dangerously flawed report by the Congressional Budget Office that is fraught with flawed assumptions that – on the surface – could lead some to believe that savings can occur without a cost.

We unequivocally challenge this report, its assumptions, and findings. There is a cost, **a major cost**, to their suggestions. And, not only are their assumptions flawed, they conveniently ignore a multitude of factors that clearly demonstrate that unraveling this system and upsetting the equilibrium will have a devastating reverberating effect on the very core of the military community.

In the aggregate and on the surface, the CBO report may have some appeal in some uninformed sectors. But carefully and methodically dissect its component parts and one can begin to see just how dangerous it is.

Item: The military resale benefit is the only benefit that increases its value to the Department of Defense the more it is used. The infrastructure exists. The taxpayers and patrons have sunk nearly \$40 billion into this existing infrastructure. Every family that uses these benefits saves \$7,000.00 a year by using the benefits. That's \$7,000.00 that goes directly to the bottom line of military households. It's real money in their pockets.

It's a new car. It's a college education. It's money for furniture or a house payment. Collectively, the savings by shopping at these stores throws nearly \$4 billion a year to the bottom line of military family households. For each 100,000 additional families that use the benefit, DoD gains in compensation value \$700 million.

Item: CBO says that you can convert the current commissary workforce to nonappropriated fund employees. The savings projected by the CBO are on a specific time line yet by the existing rules the initial conversion would be at the current levels of salary and benefits and the transition would be implemented by attrition. The report does not take into account the careers of these valued employees and nowhere do they quantify or substantiate how these savings would materialize.

Item: They say that consolidation would eliminate duplicative functions. Yet they ignore a wide body of evidence to the contrary that show that savings from consolidation are illusory. There have been numerous studies and evaluations discussing consolidation and in every case the finding was made that there would be a significant cost associated with such an event. There is no evaluation of this conclusion.

Item: CBO says that budget authority to operate the combined system would drop by \$2 billion. Hard to believe, especially when you consider that the entire appropriation is less that \$1.6 billion.

Item: The CBO formula calls for a third of the \$2 billion to be returned to active-duty service members in the form of a tax-free grocery allowance. Where would this grocery allowance be spent—at higher cost grocery outlets, thereby negating the benefit of doing it in the first place.

Item: CBO would have patrons paying 7 percent more for their groceries and other merchandise. This does not take into account the most basic rule of patron draw and the elasticity in impactful pricing models. With the majority of patrons living off base the support for the system would wane with a higher price formula and the impact on families would go far beyond any of the projections contained in the report. This would effectively decrease patronage and reduce the economies-of-scale of the entire enterprise with a residual additional cost increase.

Item: CBO says that active duty members and families would pay about \$400 more per year, offset by the grocery allowance. We believe the cost would be far higher and would not approach being offset by the allowance.

It gets worse:

Item: CBO says that families would benefit from longer store hours—difficult to understand when funding for store hours would be sharply curtailed.

Item: The grocery allowance would be provided only to active-duty enlisted personnel. This completely disenfranchises all officers, all retired personnel, all Medal-of-Honor Winners, all disable Veterans and a whole host of other deserving beneficiaries.

Item: They say that the system would be better able to compete with civilian alternatives. How is this possible? – when prices would be higher.

I have to say that there is one area where CBO was accurate: There would be “greater certainty inherent in a military shopping benefit that did not depend on the annual appropriation process.” This is true because without appropriations, the benefit would *certainly* cease to exist.

We understand CBO’s motivation. They are trying to save money. And, if they want to have a debate, it’s one we gladly take on. Because, on the economics, the value of this system stands tall. But, this Subcommittee - more than any other body-know that there is much more to it. Besides the economic case, there is a compassionate case. And, besides the economic and compassionate case, there is a National security mission case. And, there is a compelling issue of fairness.

Let’s look at the economic case:

- Military families shopping at exchanges and commissaries are exempt from state and local sales taxes. This alone is worth \$1.4 billion.

- Patrons realize savings of nearly \$4 billion at the cash register with the average family of four saving over \$7,000 a year by shopping at these stores.
- There is hundreds of millions of dollars in cost avoidance to the DoD in cost of living allowances in high cost and overseas areas.
- Nearly \$20 billion in infrastructure improvements added to the Government's inventory over the past twenty years.
- The system provides employment for 30,000 military family members adding \$900 million to their pocketbooks.
- Industry partners employ nearly 20,000 family members adding another \$600 million to military household incomes.
- \$500 million is contributed from earnings provided to community morale, welfare and recreation programs with further employment of family members in MWR programs that are paid by these dividends.
- The industry that serves these programs generates thousands of jobs and greatly contributes to the economy of our Nation and the balance of payments.

- The system builds nearly \$600 million in facilities each year generating thousands of construction jobs in the private sector
- Industry members provide manufacturing jobs and the system supports a large number of small businesses that are vital to the future growth of our economy.
- 100,000 jobs for military family members—billions in additional household income

Let's look at the compassionate case:

- Our military coming off fighting two wars and service men and women and their families are under great stress.
- In recent years, there has been over a 70 percent increase in food stamp redemption in these stores as military families struggle to make ends meet
- Military compensation is being squeezed in other areas including pay and health care.
- This system provides much needed care and peace of mind for those deployed and for those left at home.

- A multitude of benevolent causes are supported through this system including USO, Fisher House, military families, scholarships, Veterans jobs, and wounded warriors.
- The system fosters Veteran and wounded warrior hiring.

And, let's look at the National Security Case:

- The military resale system is ingrained in OSD fabric and is not inextricable without a major cost.
- It adapts to force structure and basing changes to the military at a cost to the capital investments that the patrons have made.
- It underpins transportation system, aiding in economies of scale for the shipment of all DoD products to overseas locations.
- The system helps military living off base to maintain ties with installations.
- The resale system support deployed forces, often in forward combat areas with over 95 sites in theater. Many workers in the resale system have deployed in

harms way. This includes tactical exchanges and ship stores ashore and afloat for our forward deployed Navy folks.

- The system has to be all things to all people world-wide 24-7. It is a key element of installation support and a focal point for community well-being.
- The resale benefit helps keep good people in the service aiding in retention—no small contribution considering that it costs \$150,000 to \$200,000 to train a troop and over \$1 million for pilots, doctors, specialists.

If CBO wants efficiencies—we’ve got them:

Item: DeCA already has greatly reduced its operating budget through many initiatives including nearly \$1 billion in annual cost reductions associated with:

- Consolidation of the commissaries from separate service systems.
- Reduced inventory and warehousing costs from supply chain improvements.
- Closing of nearly 100 stores associated with base closures and realignments stateside and abroad.

Through these major structural changes and myriad on-going efficiency initiatives, DeCA’s budget has been contained while costs of other DoD family support programs

have doubled or even tripled. In fact, DeCA has taken nearly \$1 billion in annual costs out of its system over the years in real dollars.

Exchanges have greatly reduced costs and overhead and have been able to greatly reduce costs and keep prices low and earnings high while maintaining a complex and difficult mission of meeting the needs of millions of patrons both at home and abroad—and in many dangerous combat areas. Exchange management is constantly slashing overhead to ensure value to their patrons

And, let's talk about fairness:

Resale patrons not only earned this benefit through their sacrifice in service to the Nation, they have contributed heavily to it. These contributions come in the shape of increased prices they pay at the cash register—five percent on each dollar spent at the commissary and through mark-ups on products sold at the exchanges.

They are – in effect – shareholders with equity in their own system. This equity builds at the annual rate of nearly \$1 billion each year and cumulatively over the past 20 years at nearly \$20 billion. That's \$20 billion that is donated to the Federal property inventory. Effectively, management runs the system but patrons own it and are represented by the respective agency's boards of directors. This is their equity and any suggestion to dismantle the system must take this into account.

They have already sacrificed much of their equity as they assume the capital loss as facilities close in connection with base closures and are asked again to contribute capital to build new stores or expand operations at expanding and realigned bases. This was recently manifested in the announced closure of more bases in Europe, realignment of forces from Okinawa to Guam and Hawaii and re-stationing for forces in Korea. As with the service to their Nation, they step forward, salute and make these contributions. These contributions simply must be factored into any effort to disrupt, dismantle or reshape this system.

ALA is active in support of the benefit

We value and appreciate your support. This Subcommittee, the Administration, the Department of Defense, and the branches of the Armed Services have traditionally been staunch advocates of this benefit. Over the past year and going forward, ALA is working hard to bolster this advocacy. Under the leadership of our past year's Chairman, Mr. Peter Murphy of S & K Marketing and the current Chairman, Mr. David Sisk of Procter and Gamble, ALA member companies have stepped forward with their time and resources to advance the resale mission. It is a remarkable effort.

We have established the Coalition to Save Our Military Shopping Benefits. This organization, under the auspices of the ALA is comprised of a group of volunteers who contribute funding and time toward ensuring that patrons and other advocacy groups are galvanized to ensure the expanded use and preservation of the benefit. Joe Olding,

President of Webco General Partnership has pulled together several organizations to ensure patrons are aware of the benefit and what it takes to ensure that it is protected. These organizations include the National Military Family Association, The Fleet Reserve Association, Armed Forces Marketing Council, The Coalition of Military Distributors, National Industries for the Blind, and others. The ALA Board is grateful for their support and advocacy. Every military family and veteran is our partner in this important undertaking. A website has been established – www.saveourbenefit.org -- that promotes the use of the benefit and provides information on any threats to the system.

A major initiative of the Association in the past year has been the commitment ALA and its member companies to hire 25,000 Veterans and family members. At a ceremony on October 21, 2011 at Langley Air Force Base, the President and First Lady praised the Association. President Obama cited ALA for helping the Administration get a full 25 percent to its goal of hiring 100,000 veterans and spouses by October 2013. And, Mrs. Obama said that the ALA commitment was “the largest coordinated effort by the private sector to hire Veterans and family members we’ve seen in years, maybe ever.” This week, we set up a website – www.alajoiningforces.org -- that will provide resources for hiring Veterans and family members including information on tax breaks and incentives passed by the Congress in the Three Percent Withholding Repeal and Job Creation Act of 2011. Here again, we are grateful for all of the companies and organizations that have stepped forward to make this happen. This includes the volunteer work of Ms. Robbie Rich, the Executive Director, ALA-Joining Forces who is working

with the ALA and member companies to help Veterans and family members get good paying jobs in this industry. This was a significant development for the ALA as it represented the first time that the Commander in Chief acknowledged the contributions to the Nation of the military resale agency and industry partnership.

In the coming months, the ALA and the Coalition will be undertaking an economic analysis of the system to document, model, and quantify the multitude of benefits that accrue to the Nation, to the Department of Defense, and to the men and women in uniform and their families. The analysis will be used to counter any economic and budgetary assessments that are put forward that would be used to diminish this benefit. We realize that in these tough budget times, Defense programs are going to be competing for resources. We realize that in addition to the qualitative and compassionate arguments that are made for these benefits, we must also document the contributions from a financial and economic point of view.

Legislative concerns

On the legislative front, we noted with interest the report on Military Resale Participation in Container Deposit Programs included in the Fiscal Year 2013 National Defense Authorization Act. We appreciate the Committees concerns about operational and financial impact on resale programs as a result of these programs. ALA hopes to have an opportunity to provide industry views to DoD on this report to ensure that any findings carefully assess the implications of imposing container restrictions on patrons

and suppliers. Since the report calls for a review and analysis of the impacts of local taxes and fees on the military resale system we think this analysis must be comprehensive.

We appreciate and support the extension of the authority to provide commissary and exchange benefits after separation from service. This authority will provide much needed economic assistance for military members and their families at a very vulnerable time.

We are concerned about the repeal of reporting requirements on restrictions on the sale of merchandise by commissaries and exchanges overseas. We recognize the efficiency in elimination unnecessary or redundant reporting but this report addressed specific impacts when it was introduced. Military people serving overseas must be provided with quality and recognizable name brand American products. These products provide a touch of home for personnel and families scattered around the globe. Any measure that would have the effect of introducing more foreign made products into these stores would diminish this aspect of the benefit. Further, it would affect jobs and American manufacturing at a critical time in our economy.

We also are concerned about a provision that would require the establishment of goals for sustainable products, local food products and recyclable materials in exchanges and commissaries. The military and their families should not be denied privileges and products that are made available to the citizens they are charged to defend. While the Association supports measures that further environmental responsibility, we are

concerned about any measure that would cause exchanges and commissaries to be a laboratory for advancement of policies that are out of the mainstream of American retail availability.

We urge you to:

- Continue your support for funding of commissaries, shipment of American products to our overseas bases, and full support for all authorized categories of morale, welfare and recreation programs.
- Support efforts for an affordable and expedient method for industry partners to have access to military bases. Our objective is one affordable card that is accepted at all bases. It is frustrating that 95 percent of the work needed to solve the base access issue is done. Billions of dollars have been spent issuing cards. All that needs to be done is for DoD to carry it over the finish line by establishing a uniform acceptance policy and making full use of the credentials by verifying identity with electronic readers. We urge you to pursue this program with the Department of Defense and gain from the DoD an understanding of why they have yet to promulgate a consistent and workable solution for allowing industry representatives with an expedited and secure access.
- Continue your support for authorization for appropriations for commissary, exchange and other nonappropriated fund construction at bases that are expanding as a result of global re-stationing and BRAC.

- Support efforts by the exchanges and commissaries to reach out to National Guard and reservists who live in communities where they cannot readily access on-base services.
- Urge the Department of Defense to ensure that military people deployed into war zones are provided as much as is practicable with familiar products and offerings.
- Support expanding the eligibility to use these stores to more Veterans. We need to capitalize on the billions of dollars in investment that taxpayers and military people have made over the years to provide a helping hand to those who now need it most. We urge you to move to provide benefits to a larger group of Veterans and military people returning from multiple overseas deployments and suggest that this benefit be provided to all former military and their families for at least three years. We urge you to give these benefits to 30 percent disabled veterans. The Congress has directed a study of expanding this population shopping privileges in exchanges and commissaries. ALA supports this expansion.
- Remove any restrictions on products and services that may be offered to authorized patrons.
- Ensure that any legislation that is passed to benefit military MWR and resale programs extend to the Coast Guard and the Department of Veterans Affairs where appropriate. Support supply chain initiatives that drive the lowest cost of goods for the military resale system while

recognizing the importance of the vendor/broker/distributor support network that is unique to the military resale system.

- Be vigilant to extend and positive policy enhancements to cover Veterans Canteens and Coast Guard facilities and not allow these programs to fall through the cracks. These programs are integral parts of the military resale benefit, offering vital programs to millions of veterans and Coastguard men and women and their families.

Jurisdictional boundaries need to be transcended to ensure that positive policy and legislative changes are extended to these programs.

The critical pillar for these programs is the support for funding stability.

ALA urges Congress to oppose any initiative that would reduce benefits or savings for members, and strongly supports full funding of the benefit in FY 2013 and beyond to sustain the current level of service for all beneficiaries. ALA requests this subcommittee's support in closely monitoring commissary funding and policies and scrutinizing store closures, privatization, staff reductions, or other initiatives that may diminish the scope and quality of the benefit for all beneficiaries.

Given the current fiscal environment and long-term financial challenges of war, ALA continues to express strong concerns about the importance of sustaining vital support services and quality of life programs. Mr. Chairman, no longer do we have to

anticipate that these programs may be at risk, we know from military officials and current news reports that cutbacks in base operation accounts and reduction in base services because of funding shortfalls are real and are expected to get worse.

We know that you share many of our concerns for these programs and we look forward to working with the Subcommittee toward ensuring that these benefits remain viable for our deserving beneficiaries.

**DISCLOSURE FORM FOR WITNESSES
CONCERNING FEDERAL CONTRACT AND GRANT INFORMATION**

INSTRUCTION TO WITNESSES: Rule 11, clause 2(g)(5), of the Rules of the U.S. House of Representatives for the 112th Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants) received during the current and two previous fiscal years either by the witness or by an entity represented by the witness. This form is intended to assist witnesses appearing before the House Armed Services Committee in complying with the House rule. Please note that a copy of these statements, with appropriate redactions to protect the witness's personal privacy (including home address and phone number) will be made publicly available in electronic form not later than one day after the witness's appearance before the committee.

Witness name: Patrick B. Nixon

Capacity in which appearing: (check one)

Individual

Representative

If appearing in a representative capacity, name of the company, association or other entity being represented: American Logistics Association, The Coalition to Save Our Military Shopping Benefits

FISCAL YEAR 2012

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

FISCAL YEAR 2011

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

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FISCAL YEAR 2010

Federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

Federal Contract Information: If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) with the federal government, please provide the following information:

Number of contracts (including subcontracts) with the federal government:

Current fiscal year (2012): _____ None _____;
 Fiscal year 2011: _____ None _____;
 Fiscal year 2010: _____ None _____.

Federal agencies with which federal contracts are held:

Current fiscal year (2012): _____ None _____;
 Fiscal year 2011: _____ None _____;
 Fiscal year 2010: _____ None _____.

List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.):

Current fiscal year (2012): _____ None _____;
 Fiscal year 2011: _____ None _____;
 Fiscal year 2010: _____ None _____.

Aggregate dollar value of federal contracts held:

Current fiscal year (2012): _____ 0 _____;
 Fiscal year 2011: _____ 0 _____;
 Fiscal year 2010: _____ 0 _____.

Federal Grant Information: If you or the entity you represent before the Committee on Armed Services has grants (including subgrants) with the federal government, please

provide the following information:

Number of grants (including subgrants) with the federal government:

Current fiscal year (2012): _____ None _____;
Fiscal year 2011: _____ None _____;
Fiscal year 2010: _____ None _____.

Federal agencies with which federal grants are held:

Current fiscal year (2012): _____ None _____;
Fiscal year 2011: _____ None _____;
Fiscal year 2010: _____ None _____.

List of subjects of federal grants(s) (for example, materials research, sociological study, software design, etc.):

Current fiscal year (2012): _____ None _____;
Fiscal year 2011: _____ None _____;
Fiscal year 2010: _____ None _____.

Aggregate dollar value of federal grants held:

Current fiscal year (2012): _____ 0 _____;
Fiscal year 2011: _____ 0 _____;
Fiscal year 2010: _____ 0 _____.



Patrick B. Nixon
President, American Logistics Association

Patrick B. Nixon is President of the **American Logistics Association (ALA)**, headquartered in Washington DC. The ALA is a voluntary, nonprofit organization of manufacturers, manufacturer's representatives, brokers, distributors, publishers, and other companies that sell or provide products and services to the military resale systems and MWR/Services. At ALA, we use the term "military resale systems" as a broad term that includes all military exchanges and commissaries, Department of State stores, Veterans Canteen Services, as well as all of the armed forces' Morale, Welfare, and Recreation (MWR) activities that involve a product or service. The ALA membership includes over 250 of America's leading manufacturers, nearly 60 brokers and distributors, service companies, media outlets and more than 1400 individual members. Mr. Nixon is responsible for articulating the association's positions on issues and programs to the membership, the Congress, DoD and military resale partners. He develops the legislative focus for the association and serves as the principal spokesperson for the ALA.



President, The Coalition to Save Our Military Shopping Benefit

Patrick B. Nixon is President of the The Coalition to Save Our Military Shopping Benefits, headquartered in Washington DC. The Coalition is a voluntary, nonprofit organization of patrons of the military resale system, employees, manufacturers, manufacturer's representatives and concerned Americans that want to know more about this important quality of life benefit and protect it from unnecessary reductions. At the Coalition, we use the term "military resale systems" as a broad term that includes all military exchanges and commissaries, Department of State stores, Veterans Canteen Services, as well as all of the armed forces' Morale, Welfare, and Recreation (MWR) activities that involve a product or service. The focus of the Coalition is to educate, engage and excite members and non-members alike with key information about these valued benefits and provide a forum to protect them should they come under attack .Mr. Nixon is a recognized expert in the fields of military resale, international business and association management. In addition to his duties at the Coalition, Mr. Nixon serves as the President of the American Logistics Association. . Mr. Nixon joined the American Logistics Association in 2007 and was one of the key architects in the establishment of the Coalition in 2011.



Member, Board of Directors, The Federation of Cross-Credentialing Systems

About FIXs

The Federation for Identity and Cross-Credentialing Systems (FIXs) is a coalition of commercial companies, government contractors, and not-for-profit organizations who have established and maintain a worldwide, interoperable identity and cross-credentialing network built on security, privacy, trust, standard operating rules, policies, and technical standards.

FIXs Strategic Partnership

For identity management to be effective, trusted partners must be able to rely on credentials issued by organizations other than their own. FIXs has invested more than five years developing credentials that are accepted by the most stringent criteria, operating rules, and C&A requirements of the U.S. Department of Defense (DoD). The Defense Manpower Data Center (DMDC) and the Federation for Identity and Cross Credentialing Systems (FIXs) have entered into an agreement and have established a secure and interoperable Network for authenticating trusted and certified identity credentials between the DoD and FIXs Industry partners. For more information, [click here](#).

Defense Commissary Agency

Director and CEO

Government Agency; 10,001+ employees; Supermarkets industry

April 2004 – November 2007 (3 years 8 months)

Provided leadership and direction to the military's supermarket chain consisting of over 270 stores located in 14 different countries around the world. Annual sales for the agency exceeded \$6 Billion and the workforce consisted of over 18,000 employees. Recognized by the Secretary of Defense and the President for exceptional leadership and dedication.

Defense Commissary Agency

CEO

Government Agency; 10,001+ employees; Supermarkets industry

June 2001 – April 2004 (2 years 11 months)

Directed daily operations of the military's supermarket chain consisting of 270 stores, 18,000 employees and annual sales exceeding \$6 Billion .

Defense Commissary Agency

Senior Management Positions

January 1983- November 2007

United States Marine Corps

Enlisted Marine

Government Agency; 10,001+ employees; Military industry

June 1966 – August 1969 (3 years 3 months)

Served as an Enlisted Marine assigned to the 27th Marine Regiment, 5th Marine Division. Transferred under the November 1967 rotation to the 1st Marine Division, Danang RVN

EDUCATION

1972, Bachelor of Arts degree in philosophy and political theory (cum laude), University of Maryland, College Park, Md.

1978, juris doctor degree, University of Baltimore School of Law, Md.

Graduate studies, European Institute of Public Administration, Brussels, Belgium, and Harvard's John F. Kennedy School of Government, Cambridge, Mass.

Advanced studies certificates in corporate governance, Tulane University School of Law and Freeman School of Business, New Orleans, La.

Executive study sessions, Brookings Institute, Washington, D.C.

AWARDS AND HONORS:

Presidential Rank Award for Meritorious Senior Executives and Professionals

Secretary of Defense Medal for Meritorious Civilian Service

Senior Executive Service Exceptional Performance Award

National Industries for the Blind "Visionary Award" 2006/2007

National Military Families Association's Anna Chenault Award for Exceptional Support to the Military Family

Defense Commissary Agency's Distinguished Civilian Service Award

DeCA Meritorious Civilian Service Award (4 Awards)

U.S. Navy Meritorious Civilian Service Award

U.S. Army Commanders Award for Civilian Service

Navy Achievement Medal with "V" device for valor

Vietnamese Cross of Gallantry

Statement of

Thomas T. Gordy

President

Armed Forces Marketing Council

before the

Subcommittee on Military Personnel

Committee on Armed Services

United States House of Representatives

June 7, 2012

Submitted for the record.

Not for publication until

released by the House

Armed Services Committee.

Good afternoon, Chairman Wilson, and distinguished members of the Subcommittee on Military Personnel.

My name is Tom Gordy and I am President of the Armed Forces Marketing Council (AFMC). Thank you for inviting me here today to offer comments regarding the military resale services and the vital role they serve in supporting the quality of life of our service members and their families. (A curriculum vitae and disclosure form are provided in Exhibit I, as well as information about the Armed Forces Marketing Council and the role its members play in supporting the military resale industry in Exhibit II.)

Chairman Wilson, as a representative of the Armed Forces Marketing Council and as a patron of military resale, I want to begin by offering our most sincere appreciation to you, Ms. Davis and the Members of the Personnel Subcommittee who last year joined in signing the letter to the Secretary of Defense to demonstrate strong support for the resale systems and the benefit they provide to military families.

The Council also would like to go on the record and thank the member associations of The Military Coalition and the National Military Veterans Alliance for their efforts last year in opposing S. 277 and the Coburn Amendment to the 2012 National Defense Authorization Act, both of which called for consolidation of military resale. Because of the combined efforts of so many individuals and organizations, we are happy to state that both pieces of legislation were not passed by the Senate.

However, the threat of consolidation remains and I will address consolidation in greater detail later.

We are also very grateful to Congress for passing the repeal of the 3% withholding requirement on government contracts. This subcommittee was instrumental

in highlighting the adverse impact that the impending enactment of the withholding requirement would have on the commissaries and exchanges, specifically that it would result in higher prices on the products sold, diminishing the value of the benefit provided to military families. Passage of the repeal has saved hundreds of thousands to millions of dollars from being unnecessarily spent by the resale systems, protected the Morale, Welfare and Recreation (MWR) dividend provided by the exchanges, and ensured that prices at the shelf remain low for the patron.

Much effort was put forth by numerous people last year to help protect this vital quality of life benefit for military families and we are pleased with the success of these efforts.

We also want to recognize the work put forth by the Department of Defense and the military resale systems to continue to deliver a world-class benefit for military families.

Once again, the Defense Commissary Agency was recognized for its efficiency and received a clean audit opinion. The commissaries continued to provide an average savings of 31% to the patron. In dollar terms, these estimated savings amounted to \$2.6 billion total, or an average of \$4,400 for a family of four.

The exchanges continued to take the benefit to the patrons where ever they were in the world, providing over 20% savings, which amounted to approximately \$3 billion.

Yet again a natural disaster highlighted the importance of military resale in supporting our military families. When the earthquake and tsunami struck Japan in April, 2011, military resale, working with industry partners, ramped up efforts to ensure that military families stationed in Japan had access to food, water and other essentials

like diapers and baby formula. Not only did they support our military families, but also were able to support the recovery effort, providing the United States with another element of humanitarian support to our friends in Japan.

Military resale is also helping to support the national initiative to hire veterans, and the systems as well as industry partners are pleased to count among their employees many veterans, retirees and dependents who make up nearly half of the workforce of some businesses and resale entities.

The resale systems, their employees and the resale industry partners also continue to give back to the military community. The exchanges generated nearly \$300 million in MWR dividends while the employees, manufacturers, brokers and distributors, through numerous fundraisers and promotions contributed millions of dollars to organizations like the Wounded Warrior Project, the National Military Family Association, and Fisher House to name a few, as well as providing numerous scholarships to our military children for college.

As you can see, the military resale benefit is not only about providing access to name brand products at a low price to the patron. The benefit goes beyond price and savings and what we've seen transpire over the past sixteen months since we last met is illustrative of the many facets of the benefit provided to military families through the commissaries and exchanges.

Mr. Chairman, in these challenging budgetary times, we are grateful that, to date, military resale continues to be viewed by leaders both in Congress and in the Department of Defense to be a vital quality of life benefit to our military families. The support to resale has been nothing short of remarkable, particularly in light of proposals

that would seek to significantly alter and/or reduce other benefits cherished by our military families.

Nonetheless, there are a few issues that we would like to highlight in today's hearing that we believe could help enhance the resale benefit or have significant adverse impacts on the benefit going forward.

Resale Consolidation

The Congressional Budget Office developed a proposal, known as Option 6, which was included in its 2011 Budget Options, that calls for defunding the Defense Commissary Agency (DeCA) and converting it into a Non-Appropriated Fund Activity (NAF). It further calls for consolidating the commissary agency with the exchange systems, resulting in one NAF military resale system. Additionally, to compensate for the loss of the appropriated subsidy for DeCA, the proposal recommends raising prices by 7% on food and other merchandise while providing a stipend of \$400 per year to each active-duty service member.

The proposal was included as an illustrative savings in the National Commission on Fiscal Responsibility and Reform's final report, as well as in the Sen. Tom Coburn's "Back in Black" deficit reduction plan. Sen. Coburn also submitted an amendment to the 2012 National Defense Authorization Act last year that would have imposed a variation of consolidation.

Currently, DeCA receives approximately \$1.3 billion of annual appropriation to fund its operations. Additionally, the exchanges receive approximately \$200 million to pay for shipping merchandise to overseas exchanges. These funds ensure that

OCONUS-based military personnel and their families pay the same price on merchandise as that which is sold in CONUS exchanges.

The consolidation proposal fails to recognize the fundamental reason for military resale - to provide a non-pay compensation benefit to military families. As stated earlier, military families save an average of 31% by shopping in the commissary and an average of over 20% by shopping in the exchanges. These savings to military families were estimated at \$5.6 billion last year.

The CBO proposal makes some significant assumptions without the benefit of a business-case analysis to prove its conclusions. For instance, the 7% increase in prices on merchandise is based on an arbitrary assessment of the cost of operations of a new consolidated system. CBO assumes that a 7% across-the-board price increase would cover the costs. How does CBO know what the cost would be to operate one system? CBO does not provide any details on how it arrives at this assumption.

Further, CBO did not include the cost of consolidation into its assessment. This cost would be borne by military families through higher prices as well, since non-appropriated funds would be required to pay for consolidation. The 7% increase in prices is a floor, not a ceiling. The anticipated increases would be significantly higher to pay for consolidation and operations concurrently.

In our view, the proposal establishes a military resale system that is not sustainable and will result in the loss of the benefit. A fundamental law of retailing is that if you raise your prices arbitrarily, then your customers shop elsewhere. As the higher prices in the commissaries and exchanges drive military patrons to shop elsewhere, the system, in order to continue operations, will have to respond by raising

prices and/or cutting services, both of which will result in more and more patrons shopping elsewhere. The CBO's proposal will result in a downward spiral in sales, ultimately resulting in the demise of the resale benefit for military families.

CBO states that military families will have to pay \$1.4 billion more for the food and merchandise they purchase in the commissary and exchange. In essence, that is a \$1.4 billion tax placed military families.

However, as the benefit spirals downward, military families will pay more and more losing all of the savings currently enjoyed, ultimately resulting in the loss of all savings, making them pay \$5.6 billion more for their groceries and household items.

Consolidation of military resale, particularly the exchanges, is not a new idea. On the surface, consolidation appears to provide savings to the taxpayer while enhancing the benefit for military families. Thus, the Department of Defense has made many attempts at consolidation since 1968. The latest attempt took place between 2003 and 2006 when the United Exchange Task Force was created to implement consolidation. After \$17 million of studies and analysis of consolidation methods, it was determined that the most cost-effective approach was not consolidation, but rather cooperation between the systems. It should be clearly understood that, to date, no business case exists for the consolidation of the military resale systems. Otherwise, consolidation already would have occurred.

The CBO proposal actually encourages military families to use the annual \$400 stipend to shop elsewhere, but fails to recognize that military families overseas and in remote locations in the U.S. depend on commissaries and exchanges exclusively. Even if there were options outside of the gates of overseas bases, military families would

have to pay exchange rates, higher tax rates, as well as foreign exchange transaction fees if they use credit cards, resulting in their purchases costing significantly more.

It should also be understood that most of these overseas and remote stores do not generate enough sales to sustain themselves. Thus, the sales from stores in CONUS ensure the delivery of the benefit to military families in the more remote and overseas locations. Thus, undercutting sales in CONUS stores by having patrons shop elsewhere will hurt military families overseas and in remote locations.

The military resale system saves taxpayers money, too. These savings, as described below, would disappear with the implementation of the consolidation proposal. The loss of these savings was not a factor considered by CBO in its calculations to determine the amount of reduction in spending:

- *The exchanges generate \$300 million in MWR dividends which are used to support quality of life programs for military families. The loss of those dividends would mean taxpayers would have to make up for the loss of the dividends and/or the quality of life programs would be eliminated due to lack of funding.*
- *Military resale supports retention.* The Commissary benefit is the one of the most important benefits to military families - second only to healthcare - and is one of the leading reasons why expensively-trained service members stay in the military. Savings to the taxpayer are generated because less money is spent on training new personnel due to attrition.
- *Military resale supports readiness.* Ask most service members currently engaged in our war efforts what we can do to support them, they would respond, "Take care of our families." The peace of mind that military resale gives to our warfighters

helps them focus on their mission. The benefit helps to ensure that military families at home are able to pay their bills because of the savings provided. At a time where we are seeing the value of food stamp usage in the commissaries triple in recent years, the benefit is even more important in helping our military families make ends meet.

- *Military resale saves money by lowering Cost-of-Living Allowances (COLA).* DoD uses the savings generated by the commissaries and exchanges in their formula to determine the annual COLA. These savings to shoppers result in savings to the taxpayer through lower COLAs. As prices rise in the commissary and exchanges, the amount of off-set generated by the savings is reduced, resulting in more taxpayer dollars being spent to pay for the COLAs.
- *Military resale provides for the readiness of military lift capabilities.* Overseas transportation of goods to commissaries and exchanges on OCONUS bases helps maintain a robust and ready lift capability, particularly in peace time. Without military resale, ships and aircraft would be mothballed during times of peace and would have to be brought back to a ready state in times crisis. This process is very costly, time consuming and limits our ability to respond. Because of military resale, our lift capability is maintained at all times and is ready at a moment's notice.

The military resale system is a strong benefit and provides an incredible return on investment for the taxpayer. Combined, DeCA and the exchange systems receive \$1.5 billion annually and with those dollars they generate \$5.6 billion in benefit savings. That

means for every dollar spent to support military resale, the systems generate nearly \$4 in benefits.

The CBO proposal to consolidate the resale systems would reduce the savings to the patron, put the benefit on a death spiral and adversely affect recruitment and retention of our troops. The estimated savings determined by CBO will be greatly reduced or even eliminated by higher costs elsewhere in the budget due to the loss of offsets generated by resale. It is the view of the Council that without a business case analysis, it extremely premature to entertain the idea of consolidation. Additionally, any efforts to consolidate should not come at the expense of the patron through higher prices or loss of benefit.

Sequestration

As we look to 2013, we are very concerned about the lack of progress in reversing the automatic \$500 billion in additional cuts to the defense budget called for in the *Budget Control Act*, otherwise known as sequestration.

As stated earlier, we are pleased that military resale has remained relatively untouched in light of the \$487 billion in cuts the DoD proposed in its FY2013 budget. However, given the depth of cuts mandated under sequestration, which some are estimating at 12% in 2013 alone, we are concerned that the commissaries and exchanges will be adversely affected.

It should be noted that, given DeCA's efficiency efforts over the past decade and the decline in its budget since 2000, in real dollars, that the agency does not have 12%, or approximately \$168 million, of so-called "waste" in its budget. Cuts of that magnitude

would result in significant reductions in store operating staff, which would lead to store closures and significantly reduced store hours at best, or, at worst, would significantly alter the delivery of the benefit in a way that costs military families more.

Some have suggested moving DeCA to a variable pricing model, where some items are offered at a profit, with profits used to pay for operating costs. Some have discussed increasing the commissary surcharge amount, to even doubling it to 10%. The Armed Forces Marketing Council is strongly opposed to either of these ideas.

Past variable pricing models for funding combined commissary and exchange stores (i.e. Carswell Air Force Base) were complete failures and patrons stopped shopping those stores. Increasing the surcharge is nothing short of imposing a sales tax on families in the name of deficit reduction. That is a burden that military families should not have to bear.

The other threat to resale would be the loss of secondary destination transportation funding for the exchanges, which covers the cost of shipping products overseas and ensures that patrons stationed at OCONUS bases pay the same price on products as they would if they were shopping in the U.S. Loss of these funds would result in significant price increases, up to 30% in some instances, which far exceeds the savings offered by the exchanges.

Under these scenarios, it is the military family that has to pay more to balance our federal budget. In our view, given the eleven years of war where military families have served and sacrificed already, it is unconscionable that our nation would call upon them to bear the brunt of deficit reduction.

Relevancy

In this day and age of e-commerce and m-commerce, the brick and mortar store continues to lose ground in the world of retail. In today's shopping environment, patrons can shop multiple venues with their laptops, tablets, and smartphones, comparing prices and brands, reading reviews from other shoppers, and ordering while never leaving their homes or offices. Many "shop" before leaving home and go to the store that has their chosen brand at a favorable price. And patrons can shop and pay for products online for later pick up at the store.

Military resale is seeking ways to remain relevant in a constantly and quickly evolving market place. Meeting the needs of patrons goes beyond price and value to providing a shopping experience that extends beyond the four walls of a store.

The Armed Forces Marketing Council appreciates and supports the Department of Defense's efforts to study and determine the laws, policies and regulations that may need to be updated in order to ensure that military resale remains relevant in the 21st century marketplace. We would also encourage the Subcommittee to work with DoD and the resale systems in this endeavor so that the military resale continues to deliver a technologically-evolved, world-class benefit.

Fiscal Year 2013 National Defense Authorization Act

The Armed Forces Marketing Council greatly appreciates the interest of the Members of the Subcommittee in the military resale benefit as was demonstrated in the House's recently-passed version of the FY13 NDAA.

As the bill continues its progress towards passage, there are a couple of small items that we would like the Committee to consider.

- *Sec. 641 - Charitable Organizations Eligible for Donations of Unusable Commissary Store Food and Other Food Prepared for the Armed Forces.*

While a noble endeavor, we would note that DeCA currently provides food donations to 60 or so recognized food banks in the United States. The language in its current form opens up the opportunity for food pantries and soup kitchens to receive these donations. There are approximately 60,000 such organizations in the United States, many of which are also served by the food banks. We are concerned that the language could lead to an overwhelming number of requests for donations, requiring full-time staff support to determine whether organizations requesting donations are legitimate and distributing the food to them. With an already limited budget, it would seem more efficient and less costly to maintain the status quo in terms of DeCA's food donation process.

- *Sec. 642 - Repeal of Certain Recordkeeping and Reporting Requirements Applicable to Commissary and Exchange Stores Overseas*

The Armed Forces Marketing Council understands the reporting requirement that was established years ago has not been met in quite some time and therefore the requirement should be removed. The Council hopes that Congress will continue to maintain oversight of the underlying issue. It should be noted that the report that would no longer be required under this provision came about as a result of some stores in Germany selling imported products being distributed by a

local distributor and which competed directly with U.S. made products. Our concern is that this practice may be renewed without proper oversight.

- *Sec. 644 - Purchase of Sustainable Products, Local Food Products, and Recyclable Materials for Resale in Commissary and Exchange Store Systems*

While another well-intended provision, we are very concerned that if the provision becomes a requirement, it would impose significant costs on the resale systems and most probably lead to increased prices on the patron due to the increased operational costs as well as limited supply of required products, effectively reducing the value and savings of the benefit for military families.

- *Report language regarding state container deposit programs.*

We are proud to recognize the efforts put forth by many manufacturers to reduce waste by reducing the amount of packaging of many products, including plastic bottles. The initiatives by states to encourage recycling is commendable. In the case of military resale, we are concerned with language that would potentially diminish the immunity of the resale systems from state laws. We are also concerned that the mandate to comply would lead to higher costs for the systems and higher prices for the patron, reducing their savings and the value of the benefit. It is the view of the Council that local base commanders should be able to work with the commissaries and exchanges to voluntarily seek ways to support state container deposit programs rather than Congress seeking to establish a mandate for compliance.

Conclusion

Chairman Wilson, it is honor to offer this testimony to you on behalf of the Armed Forces Marketing Council. Our motto is, "Serving the most deserving." By our efforts, we know that we are serving and supporting the one-percenters - those who raise their hands and swear an oath to "support and defend" our constitution, our nation, our freedoms and our citizens, is a just and noble cause.

That the people of the United States rely on just one-percent of our fellow citizens to carry the burden to protect our way of life and, as well as that of our friends and allies around the world, is remarkable.

When some look at military resale, they wonder why it even exists. When we look at military resale, we know why it exists and for whom it exists. Taking care of our military families is critical if we desire to have the best and strongest military in the world. Military resale helps to take care of them, meeting basic and personal needs where ever they are in the world.

In conclusion, the view of the Armed Forces Marketing Council is that the military resale benefit works well. It is an honest, straight forward benefit. It is efficient and responds to the needs of the patron, even in times of crisis. And it is successful.

This success is derived from the unfailing commitment that exchange and commissary operators have made to customer service, patron savings and continued process improvements and efficiencies that serve to keep costs and, thus, prices low.

Credit is also due to this Subcommittee and its staff for its well-informed, non-partisan oversight and support. So I end with where I began - by saying, "Thank you."

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The members of the Armed Forces Marketing Council are grateful for the subcommittee's leadership in protecting and enhancing this incredible quality of life benefit for military families.

-END-

Exhibit I

Tom Gordy serves as the President of the Armed Forces Marketing Council, a position he has held since March 2008. In this role, he works to support and enhance the military resale benefit for military families by engaging with congressional and military resale industry leaders to address issues of concern to the members of the Council.

Prior to being appointed to his position at AFMC, Tom worked as a Senior Strategic Communications Consultant for The Wexford Group/CACI supporting the congressional and public affairs directorates of the Joint Improvised Explosive Device Defeat Organization.

In January 2001, Tom began a six-year career on Capitol Hill, serving as a Communications Director, Defense Policy Advisor, and Chief of Staff to two successive Members of Congress representing Virginia's Second Congressional District.

Tom is a native of Monroe, Louisiana, and alumni of the University of Louisiana at Monroe, graduating in May 1995 with a Bachelors of Business Administration.

While in college, Tom served as a minister of youth and pastor at various churches in northeast Louisiana. Following graduation, he and his wife, Theresa, moved to Juneau, Alaska where he served as Associate Pastor at Glacier Valley Baptist Church. Living in Juneau, the state capitol, Tom became involved in politics, which led to a career change in 1998.

In June 1998, Tom and his family moved to Virginia Beach, Virginia where he enrolled in the Masters of Arts in Political Management program at Regent University. He completed his degree in December 2003.

In November 2002, Tom was commissioned as a U.S. Navy Reserve Public Affairs Officer. From March 2009 to February 2010, Tom was mobilized to active duty and served in Iraq as the Legislative Affairs Officer and Deputy Public Affairs Officer to U.S. Army Gen. Ray Odierno, Commander, Multi-National Forces-Iraq. He is currently assigned to the Chief of Naval Personnel/N1 where he serves as Assistant Public Affairs Officer.

Tom's awards include Army Commendation Medal, Joint Service Achievement Medal, Joint Meritorious Unit Award, National Defense Service Medal, Iraq Campaign Medal, Global War on Terror Service Medal, Sea Service Deployment Ribbon, Armed Forces Reserve Medal with "M" Device, and Navy Expert Pistol Marksmanship Medal.

Since October 2008, Tom has successfully owned and managed River Woods Retreat, a mountain-side log cabin vacation rental in Virginia's Shenandoah River Valley.

Tom and his family reside in Prince William County, Virginia.

**DISCLOSURE FORM FOR WITNESSES
CONCERNING FEDERAL CONTRACT AND GRANT INFORMATION**

INSTRUCTION TO WITNESSES: Rule 11, clause 2(g)(5), of the Rules of the U.S. House of Representatives for the 112th Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants) received during the current and two previous fiscal years either by the witness or by an entity represented by the witness. This form is intended to assist witnesses appearing before the House Armed Services Committee in complying with the House rule. Please note that a copy of these statements, with appropriate redactions to protect the witness's personal privacy (including home address and phone number) will be made publicly available in electronic form not later than one day after the witness's appearance before the committee.

Witness name: Thomas T. Gordy

Capacity in which appearing: (check one)

Individual

Representative

If appearing in a representative capacity, name of the company, association or other entity being represented: Armed Forces Marketing Council

FISCAL YEAR 2012

federal grant (s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

FISCAL YEAR 2011

federal grant (s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

FISCAL YEAR 2010

Federal grant (s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

Federal Contract Information: If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) with the federal government, please provide the following information:

Number of contracts (including subcontracts) with the federal government:

Current fiscal year (2012): 0 ;
 Fiscal year 2011: 0 ;
 Fiscal year 2010: 0 .

Federal agencies with which federal contracts are held:

Current fiscal year (2012): N/A ;
 Fiscal year 2011: N/A ;
 Fiscal year 2010: N/A .

List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.):

Current fiscal year (2012): ___ N/A _____ ;
Fiscal year 2011: ___ N/A _____ ;
Fiscal year 2010: ___ N/A _____ .

Aggregate dollar value of federal contracts held:

Current fiscal year (2012): ___ N/A _____ ;
Fiscal year 2011: ___ N/A _____ ;
Fiscal year 2010: ___ N/A _____ .

Federal Grant Information: If you or the entity you represent before the Committee on Armed Services has grants (including subgrants) with the federal government, please provide the following information:

Number of grants (including subgrants) with the federal government:

Current fiscal year (2012): ___ 0 _____ ;
Fiscal year 2011: ___ 0 _____ ;
Fiscal year 2010: ___ 0 _____ .

Federal agencies with which federal grants are held:

Current fiscal year (2012): ___ N/A _____ ;
Fiscal year 2011: ___ N/A _____ ;
Fiscal year 2010: ___ N/A _____ .

List of subjects of federal grants(s) (for example, materials research, sociological study, software design, etc.):

Current fiscal year (2012): ___ N/A _____ ;
Fiscal year 2011: ___ N/A _____ ;
Fiscal year 2010: ___ N/A _____ .

Aggregate dollar value of federal grants held:

Current fiscal year (2012): ___ N/A _____ ;
Fiscal year 2011: ___ N/A _____ ;
Fiscal year 2010: ___ N/A _____ .

Exhibit II

The Armed Forces Marketing Council was incorporated on April 25, 1969 as a non-profit business league. It is comprised of firms representing manufacturers who supply consumer products to military resale activities worldwide. The purpose of the Council is to:

- Promote unity of effort through a cooperative working relationship among the Congress, the military, and industry.
- Provide a forum for addressing industry issues.
- Encourage worldwide availability of quality consumer products at the best possible prices and value.
- Encourage continued congressional support and funding of the resale system.
- Assist in maintaining the resale system as an integral part of military life.
- Promote awareness of sales and marketing agency services to the military resale system.

Council firms also subscribe to a code of ethics requiring that each member firm maintain the highest level of integrity and professional conduct and consider this to be critical to its credibility.

Some firms serving on the Council have been providing service to the resale system for over sixty years. For the most part, member firms are small, privately-held businesses formed in response to the need for quality, specialized sales representation to the unique worldwide military resale market. These firms have developed marketing and merchandising programs tailored specifically to deliver efficient support to military resale operations.

Through the link they form between the resale services and the manufacturers, these firms assure continuous availability of the complete array of consumer products normally found in the civilian marketplace. They offer services in a more efficient manner than all but the very largest manufacturers can provide using their own resources. If that were not the case, the firms belonging to the AFMC would not exist.

AFMC firms collectively represent several hundred manufacturers, both large and small. Together, our firms have nearly 3,000 people working directly in the stores, with the various resale services headquarters, and with the manufacturers to assure that the right products are on the shelf at the right time, in the right quantities and at the best prices and value. By so doing, they have played a significant role in maintaining the resale system as a vital part of the fabric of military life.

It is important to note that AFMC members see themselves as:

- "Stakeholders" in the military resale system.
- Interested in contributing to the continued viability and health of the resale system.
- Having expert perspective based on many decades of experience in servicing the military resale system.

Member Firms of the Armed Forces Marketing Council

Acosta Military Division

8031 Hampton Blvd.
Norfolk, VA 23505

Dixon Marketing, Inc.

301 Darby Avenue
PO Box 1618
Kinston, NC 28503

Dunham & Smith Agencies

8220 Elmbrook Dr.
Dallas, TX 63103

GET Marketing

3744 Arapaho Road
Addison, TX 75001

Overseas Service Corporation

1100 Northpoint Parkway
West Palm Beach, FL 33407

S&K Sales Co.

2500 Hawkeye Ct.
Virginia Beach, VA 23452

Specialized Marketing International

8220 Elmbrook Dr.
Dallas, TX 75247

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

JUNE 7, 2012

QUESTIONS SUBMITTED BY MR. WILSON

Mr. WILSON. Are there legislative or policy barriers that prevent the military resale activities from fully supporting military patrons and their communities and maximizing sales? If so, what are those barriers and what are your recommendations for improving the environment?

Admiral BIANCHI. Armed Services Exchange Regulations restrict certain types of products offered by the Exchange services thereby restricting Exchanges from offering a wider variety of merchandise to Service Members and their families that are already available to the general public. The Navy Exchange Service Command's preference is to eliminate all exchange merchandise restrictions.

Mr. WILSON. Are there legislative or policy barriers that prevent the military resale activities from fully supporting military patrons and their communities and maximizing sales? If so, what are those barriers and what are your recommendations for improving the environment?

Mr. DILLON. The Marine Corps' preference is to eliminate all merchandise restrictions imposed by Congress. In the last decade, Congress supported requests to eliminate most of the restrictions on merchandise sold by Exchanges in the United States. The Exchanges continue to seek removal of the remaining restrictions, which include the size of diamonds and finished furniture selling space. The authority to sell a wider variety of exchange merchandise improves our capability to meet the needs of members and their families, and to provide goods that are already available to the general public.

We would like to thank Congress, especially this Subcommittee, for all of the support they have shown to the military resale system. We appreciate your continued support to protect the Exchange and Commissary benefit that is so vital to Service members and their families.

Mr. WILSON. Are there legislative or policy barriers that prevent the military resale activities from fully supporting military patrons and their communities and maximizing sales? If so, what are those barriers and what are your recommendations for improving the environment?

Mr. GORDON. The Defense commissary system is limited by statute (title 10 U.S.C. § 2484) as to the products which can be sold. The Department does not recommend any change to the current merchandise restrictions on Commissaries.

The Department's preference is to eliminate all Exchange merchandise restrictions imposed by Congress. In the last decade, Congress supported the Department's requests to eliminate most of the restrictions on merchandise sold by Exchanges in the United States. The Exchanges continue to seek removal of the remaining restrictions, which include the size of diamonds and the cost of jewelry; finished furniture selling space and finished furniture, home furnishings, small appliances, recreational boats and equipment, and power tools. The authority to sell a wider variety of exchange merchandise improves our capability to meet the needs of members and their families, and to provide goods that are already available to the general public.

Mr. WILSON. Are there legislative or policy barriers that prevent the military resale activities from fully supporting military patrons and their communities and maximizing sales? If so, what are those barriers and what are your recommendations for improving the environment?

Mr. GORDY. In the view of the Armed Forces Marketing Council, there exist both legislative and policy barriers that limit the extent to which military patrons are supported by the resale systems and limit sales.

The Armed Services Exchange Regulations is one such example, particularly the merchandise restrictions on CONUS exchanges. Given the dynamic shift to an Internet- and mobile-based economy, these restrictions are antiquated and, in some cases, are irrelevant (i.e., projection televisions). The Council's view is that these limitations should be eliminated. If not eliminated, then the cost limitations should at the least be either increased automatically on an annual basis to keep up with inflation or reviewed on an annual basis by the Department of Defense and Congress to ensure the exchanges can provide a wide selection of merchandise to meet

the divergent needs of military families while also ensuring that the regulations are reflective of an ever-changing marketplace.

We are also concerned that there may exist some limitations on the resale systems that would preclude them from actively and aggressively participating in e- and m-commerce or would limit their adaptability in a fast-changing marketplace to meet patron needs and demands. We are aware and appreciative of efforts by the systems and DOD to take a look at current policies, laws and regulations that hinder military resale's participation in the cyber marketplace and seek remedies in order that military resale remains relevant, especially with younger, tech-savvy patrons. We look forward to their conclusions and working with them and the Subcommittee to develop new policies and regulations that ensure military resale can adapt to new technologies and reach the patron through new and emerging technologies.

Mr. WILSON. Are there legislative or policy barriers that prevent the military resale activities from fully supporting military patrons and their communities and maximizing sales? If so, what are those barriers and what are your recommendations for improving the environment?

General HENDRICKS. Below are five issues that are currently or will affect the service of AAFES to our military patrons:

Defense Business Systems over \$1M: Section 901 of the National Defense Authorization Act for Fiscal Year 2012, which includes the word "non-appropriated," could be interpreted to include the military exchanges and result in policy that is not conducive to efficient and effective operations. Specifically, an interpretation that creates policy bringing military exchange information technology initiatives under the Investment Review Board certification and Defense Business Systems Management Committee process would have an adverse impact on our ability to change IT systems to respond to changing customer needs or industry standards to the detriment of service members. Military exchanges estimate losses in revenues of \$4.9 million each month execution of information technology initiatives are delayed through increased oversight, which would reduce dividends available to support morale, welfare and recreation programs.

We believe AAFES annual IT certification process is sufficient to confirm NAFI business systems conform to standards contained in DOD IT Standards Registry (DISR) and also provides a process to address deviations or recommendations needed.

Services Contract Act: Amend the Service Contract Act of 1965 to exclude contracts for retail services for members of the Armed Forces. The Service Contract Act provides a minimum wage base for service employees on Federal service contracts. The law requires that persons employed to provide services under a Federal service contract be paid at prevailing wage rates determined by the Department of Labor.

An amendment would exclude service contracts entered into by the United States to provide retail services to members of the Armed Forces. These are unique contracts to which the United States is a party, but not a beneficiary. The beneficiaries of the services are Soldiers, Sailors, Airmen and Marines. While protecting the service employee, application of the Service Contract Act to these contracts artificially increases the costs of services under the contract, a cost that is not borne by the Government, but rather by the individual warfighter who actually uses the service. In some cases, it is difficult to find businesses that will operate on the base, which may deny the full range of services offered to the military customer. This amendment would simply put these services on par with other public sector retail service operations, which are not required to pay similar minimum wages to their service employees.

New Car Sales: Clarify the current DOD policy to authorize new cars assembled in North America (including Mexico) by allowing exchanges to take orders for North American manufactured U.S. name-plate automobiles; North American manufactured foreign name-plated vehicles with at least 75 percent U.S. or Canadian content; and motorcycles. North America is defined as the continental United States, the District of Columbia, Canada, and Mexico."

ASER Restrictions: AAFES appreciates the support of the House Armed Services Committee/Senate Armed Services Committee in recent years to continue to ease merchandise restrictions. The committee's recent efforts to relax Armed Services Exchange Regulation (ASER) restrictions on TVs, furniture, and diamonds allows AAFES the authority to sell a wider variety of exchange merchandise, which improves our capability to meet the needs of service members and their families.

AAFES will continue to advocate for the relaxation of all merchandise restrictions that effectively deny military families the ability to buy a more extensive range of products and services from their exchange. Another proposal might be to tie merchandise cost limits to inflation rates which would automatically adjustment to meet

the changing needs of the market. In short, we want to minimize the barriers that keep military families from making major purchases utilizing the low prices and the favorable credit terms that the exchange can deliver.

Advertising Restrictions: Presently, advertising authority is limited to those products and services the military exchanges are authorized to sell. Expansion of military exchange advertising authority would support efforts to raise awareness of quality of life benefits and enhance exchange dividends through further amortization of marketing costs. AAFES proposes that authority be extended to pay advertising for military benevolent organizations, military community cooperatives and other commercial organizations that offer products and services that would be of benefit to military Service Members. Of course any such advertisements would be in accordance with Joint Ethics Regulation, DOD Directive 5500.07-R, which requires advertisements for products and services not authorized for exchange resale to include a disclaimer that it does not constitute Department of Defense, U.S. Armed Services, or military exchange endorsement.

Mr. WILSON. Are there legislative or policy barriers that prevent the military resale activities from fully supporting military patrons and their communities and maximizing sales? If so, what are those barriers and what are your recommendations for improving the environment?

Mr. JEU. The Defense commissary system is limited by statute (title 10 U.S.C. § 2484) as to the products which can be sold. The Department does not recommend any change to the current merchandise restrictions on Commissaries.

Mr. WILSON. Are there legislative or policy barriers that prevent the military resale activities from fully supporting military patrons and their communities and maximizing sales? If so, what are those barriers and what are your recommendations for improving the environment?

Mr. NIXON. The American Logistics Association appreciates the support of the House Armed Services Committee in fostering an environment wherein resale programs can optimize their ability to support our valued patrons and looks forward to working with the Committee in ensuring a responsive and efficient business environment.

There are several key market and budgetary dynamics that prompt a re-examination of the restrictions that are placed on resale programs. These include:

- Effects of increased deployment on military families and the need for on-base retail services to be more responsive.
- Increased reliance on the National Guard and Reserve that drives changing product awareness.
- Exchanges offer favorable credit terms that are sensitive to the financial needs of military patrons and help insulate military personnel from high-interest off-base merchandisers.
- Need for resale agencies to continue to optimize efficiency in operations in order to minimize reliance on appropriations and keep prices low for patrons.
- The need for on-base retailers to be free from restriction in order to rapidly respond to evolving consumer demand.
- Market dynamics including the proliferation of mass-merchandisers, specialty big-box retailers.
- Increasing electronic commerce options, communications evolution, peer-to-peer marketing through social media, and e-commerce rapid supply chain response and delivery.
- Instant price and product comparison technology.
- And a more well-paid, better educated, brand-conscious, sophisticated, mobile, tech savvy, and discerning military shopper demographic.

ASER Restrictions

The ALA appreciates the support of the Armed Services Committees of the House and Senate to relax Armed Services Exchange Regulation restrictions. We support removing all remaining restrictions on the sale of merchandise in exchanges.

Advertising Restrictions

The ALA also supports a re-examination and change to the current policies on advertising. Currently, there are limitations on dissemination of sales prices in media that can be removed from the store. While we understand the spirit and intent of this restriction, the Internet now allows market segmentation where only eligible military shoppers can be isolated and informed. This electronic and targeted media should be allowed to inform eligible patrons of pricing.

A family of four can save nearly \$7,000.00 per year by shopping at exchanges and commissaries with savings in commissaries in the range of 30 to 50 percent and exchange savings above 20 percent. These benefits are the only benefits in the Department of Defense where there is a lower cost per user as volume increases. Therefore,

it benefits the overall compensation package when more shoppers are aware of these benefits and use them. We therefore encourage a re-examination of the price advertising restriction to allow prices to be disseminated to eligible patrons with targeted print or electronic media.

We are aware of efforts by the resale agencies to review the policy on promotion of products and will work with these agencies to ensure patrons are aware of all that resale agencies have to offer.

Service Contract Act Application

The ALA also supports a re-examination of the application of the Service Contract Act to retail services for military patrons. Application of this Act artificially increases costs of services under the contract—costs that must be passed on to military patrons.

New Car Sales

ALA also supports a correction to the current policy to authorize new cars assembled in North America and allow exchanges to respond to the service members' needs by being permitted to sell North American assembled cars, motorcycles or other vehicles.

IT Modernization

Further, ALA supports exclusion of nonappropriated fund information technology systems from the requirements of Section 901 of the Fiscal Year 2012 National Defense Authorization Act. Including NAF systems under this Act unnecessarily impedes the rapid execution of IT systems that can make exchanges and MWR programs more efficient and responsive to patrons. This would not effect the DOD's efforts to control duplicative and wasteful IT expenditures on enterprise wide systems for human resources, finance, and acquisition which appear to be the problem that Section 901 sought to remedy.

