



Defense Commissary Agency: Valuable Nonpay Benefit

Prepared statement of Maj. Gen.
Richard E. Beale Jr., USA, director,
Defense Commissary Agency, to the
House Armed Services Morale, Welfare
and Recreation Panel, March 15, 1994.

... It is my pleasure and privilege to be here today to present my first report to the panel. Since I became DeCA's director in December 1992, the Defense Commissary Agency has made tremendous progress in delivering this valuable nonpay benefit to our military members and their families in a more efficient and cost-effective manner.

I am proud to be the spokesman for the outstanding accomplishments of all the fine people involved with the formulation, establishment and operation of the new Defense Commissary Agency. DeCA has a great story to tell.

First, as you know, the Jones Commission predicted \$132.8 million in annual savings within a five-year period. We are delighted to report that we have exceeded their expectations for savings. The consolidation of the commissaries has realized \$144 million in annual savings.

Second, the bill-paying problems that plagued DeCA's first year are behind us. The \$400 million backlog is gone. Over 95 percent of the bills are paid on time. We've now maximized discounts taken. Many vendors have told us they now receive a higher level of on-time payments from DeCA than they previously received from any of the prior four military commissary systems.

Third, the DoD inspector general has just confirmed the validity of our progress and informed us that DeCA's internal controls and financial accounting procedures have been improved to the fullest extent possible using current automated systems.

Fourth, our relations with industry have changed from adversarial to a partnership. By working together we've succeeded in resolving most of the past complaints. To reiterate, we have successfully reduced our costs, removed bill paying as a problem and improved relations with our counterparts in industry.

Next, I would like to report that the commissary consolidation was good for the patron too! The pre-DeCA baseline in 1991 showed average customer savings to be 23.2 percent. In spite of the fact that DeCA was preoccupied with bill-paying problems during its first year, overall customer savings have not declined but have marginally increased. Customer savings remain a primary focus as we carefully monitor the value of the benefit.

High Rating

The most recent patron survey of the benefit was conducted by the Army Times Publishing Co. With 8,000 patrons replying, over 90 percent rated it a high- or the highest-priority basic benefit. That message was also clear when the Army Family Action Plan Planning Conference designated the commissary benefit as the top service provided to Army families.

Even though satisfaction is high, we have never seen the commissary benefit under such intensive scrutiny, both from within and outside the government. Cost-wise the commissary provides a tremendous return on investment. To provide the equivalent "dollar-in-the-paycheck" for our soldiers, sailors, airmen and Marines would

cost the taxpayer \$2 for every dollar now spent to provide the commissary system.

Likewise, the commissary is under constant scrutiny from private sector retailers and associations who sometimes perceive that commissaries compete with them. We are not in the kind of head-to-head competition found in the private sector.

Actually, the commissary total sales represent a very small portion, only 1.7 percent, of the \$347 billion annual United States grocery store sales. Since 20 percent of military commissary sales occur in overseas locations, this perceived competition is really reduced to 1.4 percent of total grocery sales in the United States. Further, in fact, we provide American goods overseas that would otherwise not be available to meet the needs of our patrons.

While our savings of \$144 million exceeded the Jones goal, we recognize that we still need to save the taxpayers money. Downsizing has become a fact of life for all in government — DeCA included! Even though we project our sales to decline by 15 percent through FY [fiscal year] 1999, we will reduce manpower by 32 percent over the same period, with a corresponding reduction in funding. In order to meet this challenge, DeCA must become more efficient with minimal impact on customer savings and service.

DeCA has a highly qualified, multidisciplinary internal working group that identifies all facets of commissary operations where further savings can be achieved. I want to outline the following areas

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of progress for you: financial management, delivery ticket invoicing, delivery systems and automation improvements.

Financial Management Plan

We have made considerable progress in financial management. Operating jointly with the Department of the Treasury, the Department of Agriculture, the DoD comptroller and the Defense Finance and Accounting Service, our financial posture has never been better. DeCA's comprehensive Financial Management Improvement Plan, developed in FY 1993, received priority handling by all concerned and is nearing a successful conclusion.

We are also working closely with the Defense Finance and Accounting Service to ensure the transfer of the bill-paying function will occur without interruption to vendor payments. This transfer is not expected to delay implementation of weekly billing periods or efforts to implement electronic invoicing and delivery ticket invoicing methods which will further improve the payment process with industry.

Delivery ticket invoicing, which allows DeCA to pay from a delivery ticket instead of waiting to match a mailed invoice to a receiving report that the goods were delivered to the store, is proving very beneficial to both DeCA and our suppliers. In fact, it has been so successful that one of our largest suppliers has announced it will change its internal financial system in order to take advantage of DeCA's delivery ticket invoicing.

In CONUS [continental United States], the Frequent Delivery System and direct store delivery methods of distribution have enabled us to do away with the large store warehouses of the past. Overseas, we are achieving the same results by maximizing the use of existing central distribution

centers for delivery of product to our stores.

The benefits to DeCA from these distribution methods are reduced inventory investment, increased inventory turns, conversion of warehouse space to retail floor space and reduced warehouse workload. Our industry trading partners also reap several advantages: reduced number of invoices due to roll-up of deliveries, smoother demand cycles leading to uniform production cycles, and increased sales due to better in-stock rates. This is a definite improvement from the former way of doing business.

In today's operating environments, the central nervous system of any organization is an integrated, automated business system. I'm very happy to report that we will complete this month the rollout of our DeCA Interim Business System, known as DIBS. For the first time in commissary system history, all operating locations will be working with a single business system, albeit with 1970s technology.

Likewise, our implementation of the DIBS FDS module, which allows us to provide the weekly rollups, is on schedule. This accommodates industry's request that we provide an option of four billing periods per month. We will begin offering this invoicing option to contractors on July 1, 1994.

Stabilizing and standardizing DeCA's business operations with DIBS provides us the stepping stone to modernize our business systems and integrate needed commercial practices and products to meet our strategic objectives. But DIBS is not the ultimate solution. It is the springboard to that solution.

Our business system of the future, the Defense Commissary Information System, will carry DeCA into the 21st century. DCIS will provide DeCA the open and flexible architecture necessary to

enter the "information superhighway" and establish the architectural baseline needed to expand the options for future cooperative efforts and economies of scale among DeCA and the exchanges. DCIS will also reduce the costly maintenance requirements for the older technology used by DIBS.

We are developing a competitive solicitation to upgrade the point of sale, or front-end, systems over the next five years in all DeCA commissaries. These are the scanners and cash registers at the checkout lanes. DeCA inherited 10 variations of the POS system. Much of that equipment is at or beyond the end of its expected life. Maintenance is increasingly expensive and replacement parts difficult to obtain. The modern POS system will enhance DeCA capabilities to support electronic transactions, such as debit cards and electronic food stamps.

Keeping Pace With Industry

Our ADP modernization plans will enable DeCA to meet the challenges of tomorrow with the same commercial solutions used by America's leading supermarket chains. By being able to take advantage of promising industry strategies, such as efficient consumer response, the program to improve customer-supplier relationships and streamline the entire distribution system, DeCA will attain a true mirror image of commercial grocery practices.

I also believe DeCA will benefit from the Government Performance and Results Act and the vice president's National Performance Review. We are participating in departmental and governmental programs that will enable us to act with the quickness and efficiency of the best private sector operation.

Today's environment calls for the ability to garner savings rapidly through timely implementation of business practices that improve efficiency. DeCA has submitted several initiatives to the Defense Performance Review office which will reinvent certain of our processes by eliminating restrictive regulations, rulings and policies.

Of course, none of this is possible without strategic planning. DeCA is fully committed and has

become a strategic planning leader in DoD. DeCA's strategic plan focuses the agency on five primary goals: maximize customer satisfaction; improve the effectiveness and efficiency of operations at all levels; ensure proper stewardship of funds and assets; attract, develop, advance and retain a trained and diverse work force; and communicate the value of the benefit to military personnel, families and employees.

DeCA developed its strategic plan in accordance with the guidance in the Government Performance and Results Act, and correlated our results-oriented measures with the Chief Financial Officer's Act. Our plan is being considered by OSD [Office of the Secretary of Defense] as a model for other DoD agencies.

Our Customer Service Evaluation System, designed to measure customer satisfaction, is consistent with President [Bill] Clinton's executive order on setting customer service standards. It is already measuring our effectiveness in providing the commissary benefit.

Subjective and objective data is gathered from surveys administered in the store and from the statistical store operations data. Store management personnel can now assess the climate of their customer service program utilizing hard data on customers' perceptions of their operations. The preliminary results from the initial 28,000 surveys from 118 stores show that commissary patrons give DeCA high marks in customer relations.

An important factor to remember in evaluating the commissary is that

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49 percent of our appropriated funds supports 22 percent of DeCA's sales. These are the operations overseas and in remote locations in the United States, such as the National Training Center at Fort Irwin, Calif., where the closest grocery store is an hour away. These are the very stores the soldier, sailor, airman and Marine need the most, but if we were in a profit-orientated business, these are the very stores we'd close.

Streamlining Needed

Within the Defense Commissary Agency, we clearly understand the need to streamline the system further so we can deliver the very best in savings and service to our customers while continuing to reduce appropriated fund support.

Many have invested tremendous time and effort in getting the commissary system to where it is today. Our industry trading partners, with whom we've worked so closely, have steadfastly helped us plow this new ground. Many have made considerable changes within their own operations, some investing significant resources, in attempts to best posture their capabilities to serve the military customer under this dynamic reinvention of commissary business practices. We are

making progress and are proud of the role DeCA plays in developing the evolution of the American grocery industry of tomorrow.

As the members of this panel are so well aware, the military's benefits structure is designed to help offset and compensate for the sacrifices we ask of our military people every day of their life. The commissary benefit has been factored into each member's compensation package for decades. Retirees left service with the implicit understanding these benefits would remain for them. Benefits, such as the commissary systems, which are cost effective and return a value greater than the cost of providing them are those that should be viewed as models for efficient government operation.

On behalf of all the dedicated employees of DeCA and our extended family of military customers, I thank the members of the panel for this opportunity to report to you our successes in improving the military commissary system.

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