

**STATEMENT OF**  
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**DIRECTOR, DEFENSE COMMISSARY AGENCY**

**BEFORE THE**  
**MORALE, WELFARE AND RECREATION PANEL**  
**OF THE**  
**COMMITTEE ON ARMED SERVICES**  
**UNITED STATES HOUSE OF REPRESENTATIVES**

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**BY THE HOUSE ARMED SERVICES COMMITTEE**

Mr. Chairman and Members of the Panel, it is my pleasure to present my first report to the Panel. Let me start by saying I am a strong believer in the commissary benefit. I believe it is vital to retention and quality of life and it is the most important non-pay benefit to our citizens in uniform—past, present, and future. I welcome the opportunity and challenge to make this benefit even stronger.

The transition from General Dick Beale's leadership has been very good. The people at the Defense Commissary Agency have welcomed me and been very open and informative. We clearly have a strong benefit and a cast of top professionals at DeCA delivering that benefit.

Since becoming the Director of the Agency in December 1999, I have spent my time learning about the Agency from the Headquarters and Region point of view—and spent time understanding about the benefit at the store level—talking to first line DeCA employees and, most importantly, our customers. I have begun to use, with the help of my wife, spouse focus groups at the store level to obtain feedback from all customers—but especially the young active duty families. I'll discuss more about that a little later.

I have spent a considerable amount of time looking at the Agency from

a planning, programming and fiscal management point of view. I, in cooperation with the leadership at all levels in the Agency, have come to some conclusions about the challenges and issues facing DeCA *and* the direction that we should take for the future. I will be discussing the present condition of DeCA and then look at the future decade. I believe that a 10-year block of time is about as far out as any Agency director ought to address in the annual report to the Panel. So my discussion today will address six areas. First, I will discuss the benefit itself and my assessment along with my intentions for the future including my approaches to running the Agency. Then, I will discuss the surcharge trust fund status—again how I assess things now—and a plan for the future. Then I'll get into the produce segment of business—yes, fruit and vegetables. I will follow with a discussion on the young active duty family customer base, followed by an update on our best value program and finally talk about a process to determine how we determine when a downscaled combined commissary and exchange store is the appropriate vehicle to support patrons of the military resale system.

First, let me address the commissary benefit itself. I believe we can increase our customer base, and, in turn, our sales, encourage greater

category and product competition, which should yield lower prices, and provide improved recapitalization of our infrastructure. I believe that while DeCA is not really a business, that it must be run in a “business-like” manner whenever and wherever modern business management tools allow us to do so without compromising the benefit. Using these tools, I firmly believe we can strengthen the commissary benefit by focusing on what the customer needs and by defining our outputs. By shifting our focus from a purely budget culture to a cost and performance culture we will be able to enhance our customer service while reducing costs. In other words, instead of focusing on inputs and spending authorities, we will instead identify our outputs to the customer, the cost of those outputs and improve our productivity in terms of the cost per unit of output. We will be adopting a methodology which links planning, programming, budgeting, and execution, that will allow us to set annual objectives which drive up the quality and responsiveness of the benefit while driving down the unit cost. In short, we need to be both effective *and* efficient if we are to make the commissary benefit stronger. Simply choosing one or the other is not acceptable. Only a coordinated approach that focuses on both improving our outputs or performance and reducing our cost per unit of these outputs will allow us achieve our end

goals. Thus, the challenge we accept is to visibly improve the commissary benefit in real terms to our customers, while reducing the cost per unit of output required to deliver the benefit.

Let me now transition to the surcharge trust fund. Over the past decade the surcharge account has experienced operating expense growth in most items of expense and an increase in operating expense categories. Information technology is one that fits both elements of growth—a new expense element and considerable growth. The net affect has been to defer, and in effect squeeze out, the available funds for recapitalization of the store infrastructure. We have essentially mortgaged our infrastructure requirements and caused a considerable backlog of store repair, upgrade, and replacement to develop. To cope with this we have drawn into the Agency's cash balances to finance needed recapitalization. The cash balance is a set aside for known non-recurring construction program prior year obligations and recurring month-to-month cash flow payment requirements. This movement of funds out of the cash balances has been over a five-year period and has reached the point where only recurring cash reserve assets are available. This is interesting because most of us would agree with the premise that the surcharge fund is really for recapitalization of the

infrastructure or, in more finite terms, the design, construction, repair, maintenance, and replacement of infrastructure, including real property and equipment. Yet, we find many operating expenses on the surcharge side of the ledger and others on the appropriation side most of which seem to grow—some just from inflation. We are assessing legislative and budgetary implications of realigning certain categories of expenditures consistent with the changing emphasis.

We believe that the surcharge would be able to sustain the recapitalization needs and eliminate the existing backlog over a ten-year period. While there is some possibility of the need for increased appropriated fund support through this realignment, I believe that our assessment of the entire DeCA operation on a cost per unit of output basis, with initial focus on all support costs above store level, will reduce some appropriation expenses. Of course, our goal has to be to reduce these costs with no reduction in performance or delivery of the commissary benefit.

Now I would like to address produce in our commissaries. We need to make produce the reason a customer comes to the commissary to shop. My feeling is that if you can attract people to the stores for produce and meat that they will naturally stay and shop for all the other categories of food. We

have three key result areas. First, is to provide a quality equal to or superior to that found in local supermarkets. Secondly, we need to make this quality consistent from store-to-store. And finally, we must do this while maintaining or improving customer savings. I believe produce quality is impacted by four factors—the performance of the supplier, the local management emphasis, training and merchandising fixtures. To that end, I have entered into a teaming arrangement with the Defense Supply Center Philadelphia. We intend to develop statistically based sampling techniques to randomly evaluate store-displayed produce nationwide; to assess on-site quality; and to identify, determine the cause, and fix produce problems at store level. This joint effort will ensure that the Defense Subsistence Offices which acquire the produce we sell and the DeCA produce professionals work together to make sure that our customers have high quality produce at reasonable prices.

Now I would like to discuss what up until now has been called our initiative for “best value brands.” Some of our customers perceive they can obtain better prices for grocery items off base from merchants using private or store label brands. We conducted a test at 22 locations and found that our patrons do have a preference for certain best value items and that price levels

compared to local commercial sector private labels does have an impact on selection and sales. But, the concept of “value brand” connotes some special labeling, display or category by themselves which will be confusing to the commissary customers. Therefore, we are changing the title of this program to “best value items”. We intend to openly compete this program for the “best value items” in those categories where we determine they are required. In many cases we see the possibility of national brands winning this competition and being classified as “best value items”. Regardless, only quality items consistent with national brands will be allowed to compete. The “best value items” will be clearly identified and signed as such in the aisles with other brands of the same category or class. Of course, success here will be determined by how well we merchandise and market this program—and how well we match the private brand prices downtown.

The commissary should be an important tool for both recruiting and retention of our service members. And, with every new recruit and every re-enlistment the commissary benefit becomes an even more valuable return on investment for our military training costs. Thus, we must change our strategy to attract the young active duty member to the commissary benefit.

One of my former assignments was as the Wing Commander for Air

Force Basic Military Training and Technical Training at Lackland Air Force Base. Every week we graduated approximately 600 to 700 new airmen basics into the Air Force. Every week the parents, brothers and sisters of many of those graduates attended the ceremony. Every week the new airman basic's family had an opportunity to see how their son, daughter, brother, or sister would be treated in their new Air Force home by visiting various facilities—most notably the exchange and MWR activities. They never went to the commissary. However, I believe it is important that they do so for two reasons. First, the basic trainee, many of whom are married—or will soon be, understands the value of this tremendous benefit and that they can save, on the average 27 percent in grocery costs, and that this can amount to thousands of dollars per year in savings for an entire family. Second, the parents have the opportunity to see the benefit in the physical terms of a commissary store and understand this benefit will be there no matter where the military takes their son or daughter. Their child will have a bit of America or a taste of home in the form of a commissary store no matter where in the world they are assigned.

But, to attract the young member currently on active duty we need to do even more. We need to make our stores more convenient. In this age

where everyone has come to expect fast service everywhere in the retail world, convenience starts at the parking lot and provides for minimum cycle time from entry to exit. This is of special concern to young enlisted and officer families. We need to design our stores to be attractive, and based upon the local demographics, meet the needs of its customers. In short, we need to take the mystery away from the building labeled “commissary” and transform it into a pleasant shopping experience that fits their lifestyle. The young spouse, whether carrying young kids into the store or stopping at the store on the way to the child development center from work—needs to visit an attractive well stocked store in minimum time.

We also need to focus on better communication of best value items as a means to improve benefit awareness and retention especially with regard to our young enlisted and officer members and their families. To that end we need to provide advertisements in base papers that appear right along side our private sector competitors that show percent of savings comparisons on best value and promotional items relative to downtown private label brands. We are not suggesting advertising commissary sales prices—just the percent of savings a commissary customer can expect on particular items. Perceptions are difficult to combat, and we must use all the means we can to ensure every

service member takes full advantage of his or her benefits.

I am now going to change subjects on you again—this time addressing the issue of when and how we should have combined stores for the commissary and exchanges. You requested a report on the process and criteria to be used for establishing combined stores. This report obviously needs to be an agreed upon position from DeCA, the Exchange Services, their respective Operating Boards, the Services and DoD. We are not there yet. We do agree in principle that the pivotal question to be answered at the outset, is whether or not a commissary, of some size, should be provided at a particular location. If it should, that ends any combined store discussion. If it doesn't, we need to come to consensus on a process to address those instances where a BRAC closure and realignment has occurred or it is found to be not economically feasible to operate separate commissary and exchange facilities. This process is not intended to assess the current variations of hybrid stores that exist, but rather provide a road map for the future. In following that map, I firmly believe we need to place the interest of the customers we collectively serve first to determine who can best provide the needs they—the customer—desire.

This concludes my discussion on selected challenges and issues facing

DeCA. Please note that three of the areas discussed namely the surcharge fund plan, our position on combined stores, and our best value items program, were areas that you requested reports or consultations on previously. You should receive the Department's formal responses on these issues shortly.

Thank you for giving me the opportunity to talk to you about the issues facing the Defense Commissary Agency and our view of the future. I look forward to working with the Panel to ensure the commissary benefit remains strong and viable for the future generations of America's fighting men and women, we so proudly serve!

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