

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

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Mr. Chairman and Members of the Panel, it is my pleasure to appear before you again and provide you an update on the Defense Commissary Agency. Last year I gave you a broad outline of the business operating methodology and some of the programs I would focus on to meet the charter given to me by the Department of Defense, the Commissary Operating Board and by members of this Panel. Let me start by saying the support and confidence all three of these groups have given me has been tremendous and allowed us to develop a stronger commissary benefit. Your role has been the key to this success. Without the passage of the surcharge revitalization legislation enacted last year I would not be in a position to provide you with a positive report regarding the future of the Defense Commissary Agency. In short, we now will be able to use the surcharge income, without any increases in the surcharge rate, for its intended purpose of improving the capital infrastructure of our stores. Additionally, we've gotten back in touch with our customers and we're running the Agency in a business-like manner. The results show it—our customers are enjoying greater savings and improved levels of customer satisfaction. We have also committed to reducing our costs to cover those net operating expenses shifted from the surcharge to the appropriations as a result of the surcharge revitalization.

We have always known that the commissary plays a vital role in providing the quality of life for our military members and their families. Shortly after last year's hearing I brought all the leadership of DeCA together, including representatives from our stores, and we developed a cohesive and challenging strategic plan to ensure the Defense Commissary Agency delivers the promise it holds to the men and women of the Armed Forces and their families.

We started with a vision -- a vision for our customers, our employees and our stakeholders. Simply stated our goal is to deliver the premier quality of life benefit for our military efficiently and effectively! But without definition of two of those phrases, this goal is just another slogan. So, by "premier" we mean customer savings of at least 30% over the commercial sector, sales increases over the next few years, more innovations that serve our customers, and more attractive stores that match the military family needs. Providing the commissary benefit "efficiently and effectively" means reducing unit cost of all our outputs while providing increased savings, improved customer service and first class stores. This we will do through better use of technology, working more closely with our business partners, enabling our employees to meet future job and skill requirements, and revitalizing our stores. We understand that to fulfill this

vision we must become more externally focused, more concerned over cost, and considerably less bureaucratic.

After defining the vision we determined we needed to focus on five corporate objectives—Increase Savings, Reduce Unit Cost, Shape the Workforce, Improve Infrastructure, and Leverage Technology. While I don't want to go into the detail you might find in a corporate annual report, I would like to take a few minutes to tell you what we have achieved to date and what we have planned as we move toward achieving our goal.

Ever mindful of the reason for our existence, our key focus is to increase savings. This is really the core of our commissary benefit. Achievement of this objective requires a partnership with our suppliers. The leadership of DeCA believed an attainable objective was a 30% savings over commercial groceries and super centers by FY 2002. I am extremely pleased to report that today customer savings have reached 29% and I project we will reach 30% by year's end.

Now that we have access to sales and pricing data for the commercial sector, as well as our own, our buyers have the negotiation tool they need to drive down prices. We have established a balanced approach in our merchandising. We are listening to our customers, identifying the groups that shop each store, and targeting our merchandise selections to their needs.

We do this through a variety of marketing initiatives. We look for the best manufacturer promotions, we take advantage of “power buys,” and we have expanded the Best Value Item program, I told you about last year, to over 400 items. The Best Value Item program has become the rallying point for young enlisted members and others on a fixed income. Our shoppers tell us they now know that if a DeCA item bears the “Best Value Item” tag that they don’t need to comparison shop down town—they know it’s the best price available.

Working with industry on the Best Value Item program, tremendous promotions and wonderful power buys have put excitement into the commissary shopping experience and is frankly breaking the “payday shopping only” patron view of our commissaries. A very popular program, which has added to the growing excitement in shopping DeCA, has been the case lot sales. These events not only offer great value, but also create so much excitement patrons can’t wait for the next sale. It has also given us the ability to take the commissary to the patron and we have held a number of them at Guard and Reserve Centers.

But we also need to better understand the needs of those who shop in our stores, especially the young enlisted families, and at the same time reach more of those who are not frequent shoppers or who do not visit the

commissary at all. We are establishing communications programs that bring the savings offered by the commissary to life for new service members. We have institutionalized focus groups to obtain feedback on a recurring basis from various patron groups that use our stores – and those single members who perhaps do not often use the commissary. Additionally, the Services have all added a block in the financial management segments in their basic training programs that addresses the value of the commissary. Other outreach efforts are underway. Among them is the DeCA Patron Council comprised of individuals representing all aspects of our customer base— active duty, reserve/guard, retirees and military families, which provides a two-way communications vehicle to provide feedback to us and information on the commissary benefit to those they represent. We are doing all these things, but also attending to the critical elements in operating stores, such as, keeping our shelves stocked, improving the Neilson Survey areas rated as important by our customers – produce, deli, bakery and meats – and providing clean, well maintained, attractive and customer friendly stores.

Our second objective is to reduce the cost per unit of output. Achieving this objective is required to eliminate the imbalance in the appropriated cost of our operating expenses created with the passage of the surcharge revitalization plan. We promised to execute a program of cost-

based management that achieves a reduction in agency unit costs of goods and services by 7% by FY 2004. Last month, I informed the Commissary Operating Board that we will deliver on that promise and have even projected that we will exceed that amount. Even more importantly, we will achieve this reduction in costs while meeting or exceeding performance, service and quality standards our customers deserve.

We have implemented a number of measures to reduce costs. These include streamlining our existing organizational structure and establishing business areas to manage the agency, examining and reducing operating expenses at all levels using business based financial operating statements and means analysis, using field developed templates for store and region organizations, and eliminating unnecessary or duplications in overhead and management functions. Further reductions will become available with the deployment of new technology such as computer assisted ordering, exporting business area management to our region headquarters, and further streamlining store operations by improving processes and transitioning to a more flexible workforce.

The requirement for better shaping our workforce to our future needs is our third objective. We are moving towards more multi-skilling, more flexibility, and reviewing all of the positions in DeCA to determine what

skills or expertise are or will be required as new technology drives us to greater efficiency and effectiveness. We have three on-going tests sites in for developing optimal workforce template of the future. We are developing programs to provide the training, development and recruitment necessary for our people and tomorrow's workforce.

The fourth objective involves the steady improvement over time of the capital infrastructure of our stores. Additionally, we will need to right size our store numbers and size them to better fit the patron base served. We now have an aggressive program to update and replace the entire inventory of stores and build new stores where we need them by FY2009. As required by the Department of Defense Directive, we annually review all of our stores to ensure there is a continued need for the commissary benefit at each location. This annual inventory matches our store requirements to the customer base we serve. At the same time, good business assessments, applying the approved criteria allow us to place and right size our stores. Primarily we look at a combination of factors in balancing the Quality of Life needs of the active duty assigned to an installation against the business performance of the commissary at that location. Of course, the Quality of Life assessment is paramount and we would never close a store simply because it has a high cost of operation.

Last, but not least, our fifth objective leverages technology and will put us at parity with the commercial sector by FY2004. We are, however, mindful of the excessive costs that can be encountered by chasing technology, so we will limit our investments to those that are required by security or have a return on investment of four years or less. And all of our investments must focus on systems that improve savings/prices, reduce unit costs, support a skilled workforce or improve infrastructure. We're already capturing data on item movement and management in our data warehousing system, the same system that is so successfully employed by some of the leading retail operations in the private sector and our friends at the Army and Air Force Exchange Service. We now have the capability for the front end of our stores where the sales occur to communicate with the back of the store where the deliveries are received. This action sets the stage for computer assisted ordering to replenish the goods sold, which we will begin deploying at the start of the next calendar year.

In conclusion, the strategic plan we developed revolves around the surcharge revitalization plan. This cornerstone plan allows us to not only fix our stores, but also potentially increase customer savings and sets the stage and critical need to reduce our operating costs. Thank you for giving me the opportunity to tell you about DeCA's bright future. I look forward to a

continued good working relationship with this Panel. I know that working together the commissary will become an even stronger and more viable benefit for America's fighting men and women and their families. They deserve no less!

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