

**STATEMENT OF
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DIRECTOR, DEFENSE COMMISSARY AGENCY**

**BEFORE THE
HOUSE ARMED SERVICES SPECIAL OVERSIGHT PANEL
ON MORALE, WELFARE AND RECREATION (MWR)**

MARCH 12, 2002

Mr. Chairman and Members of the Panel, it is my pleasure to once again appear before you to provide an update on the Defense Commissary Agency. We have faithfully followed the road map laid out over the last two years. The realignment of funding authorized by the surcharge revitalization legislation that became effective last October provided the key to achieving the corporate objectives and goals we developed in our strategic plan. Using a business approach we are not only on track in achieving our corporate objectives, but in some instances we are ahead of schedule. I would like to take this opportunity to thank the Department of Defense, the Commissary Operating Board and the members of this Panel for the support and confidence they showed by allowing us to operate the Defense Commissary Agency as much as possible like a business. As a result, today I am able to report that the commissary benefit is stronger than ever and we are delivering on our promises to the men and women of the Armed Forces and their families.

Today, we are providing greater savings for service members and their families on the goods and services they buy than at any other time in history. And, we're also operating the Agency more efficiently and effectively than ever before. Instinctively we have always known that the commissary plays an important role in the lives of our military members and their families. But, as with other governmental functions that role has become clearer in this time of crisis and we can readily define what commissaries are really all about. They are about family readiness in that they enable families to locate and live around the world with military members. They are about consistent delivery of U.S. grocery products and prices worldwide. They are about extending the purchasing power of military families by providing substantial savings on grocery prices over the commercial sector. They are about improving quality of life that impacts families and retention. And finally, they are about providing a sense of community at our military installations that is especially important when military members deploy and families are left behind. In short, the commissary provides a critically important core military family support function!

My report this year will focus on two of our corporate objectives—first, Increasing Savings and Sales, and secondly, Reducing Unit Cost. While the remaining three objectives—Shaping the Workforce, Improving the Infrastructure, and Leveraging Technology—are important, they enable our achievement of the two main objectives and except to illustrate where they played a supporting role, I will not dwell on them. The bottom line result for our customers is savings which I am pleased to report is now at an all time high. Meanwhile, had it not been for the tragic events of September 11, we would have exceeded our projected FY01 sales targets. Additionally, one other key commitment for you, the Department and our taxpayers was to reduce our cost of operations. That is also another success story. Let me now go into each of these objectives with more specifics.

We all recognize that the Defense Commissary Agency is more than just selling groceries. It's about savings and being at the right places worldwide to serve families. We provide groceries of consistent quality and price for service members and their families that results in a substantial increase in their disposable income. With industry suppliers providing outstanding support in their pricing structure we are producing a net savings to our customers of 30 percent over the private competition. That translates into an additional \$2,400 annually in a military family's budget. This savings, achieved by selling at cost plus five percent and leveraging the efficiencies of big stores so we can operate small stores particularly those in remote or overseas locations, has made the commissary a top non-pay benefit. The key here is not so much that we can operate stores and deliver savings in metropolitan areas like Washington, DC -- but that we can also operate stores and deliver the same savings in places around the world like Kunsan, Korea. Just as the General Accounting Office reported in August of 1999, my conversations with service members reveal they still rate the commissary as one of their top benefits and reasons to stay in the military.

As mentioned earlier regarding sales, we were on the verge of a great year. Our store managers had become actively involved in their military community. Case lot sales, theme promotions and expansion of the best value item program had created excitement in the family shopping experience that never existed before. And, we were asking our customers to tell us how they felt about their shopping experience. In fact, our latest customer survey shows that we are at an all time high in terms of customer service and increased levels of satisfaction across the board. We have broken the code and know what customers want, when they want it, in what quantities, and at what price.

Then tragedy struck and just like the rest of America we're feeling the impacts of September 11, 2001. Many of us had personal relationships affected as a result of these cowardly attacks, including the loss of one member on the Commissary Patron Council. The 9-11 attacks also caused us to fall short of our sales goal and resulted in losses of sales revenue of approximately \$20 million under our projection for the remaining three weeks of the fiscal year 2001.

Immediately following the attacks, I asked installation commanders to declare commissary operations key and essential facilities. When you think of moving several semi-trucks full of boxed and palletized products through an installation's gate each night to restock the commissary, this became a major challenge during increased THREATCON conditions. Working with industry and commanders, installation security requirements were met and most commissaries were up and running the day after the attacks. This unprecedented teamwork between manufacturers, distributors and the military command structure, ensured military family needs were provided by their commissary.

We have continued to see an impact as deployments and increased security at military facilities have led to a reduction in the number of shoppers visiting our commissaries within the continental United States. Based upon the first quarter performance for fiscal year 2002, we saw a decline of 2.5 percent in sales over the same period last year. Recognizing that increased security is not temporary, but rather a new way of life, we anticipate that the recovery from 9-11 will be slower for the military retail sector than the commercial sector. However, our store managers realize they must accept an even larger challenge by engaging the military community wherever they are. They are actively hosting special events to draw customers back to the stores;

they are talking to audiences that don't reside on installations to allay their fears because of heightened security conditions; and they are contacting family members of deployed personnel to ensure they are aware of their eligibility to use the commissary. We have taken action to invite especially our total force Guard and Reserve members and their families to understand their privileges and use commissaries even when the member is deployed. Industry is helping also, placing advertisements in the military media emphasizing the value of the commissary benefit. All of these efforts have one goal in mind—enabling our customers to benefit from commissary shopping and savings.

On the business efficiency side of things, we have essentially completed the transformation from a budget driven to a cost and output culture. I can report that activity based management is now the way of life at the Defense Commissary Agency. Adopting this philosophy has enabled us to reduce operating costs by 10 percent and unit costs by 12 percent, reduce above store overhead by 20 percent, and staff our stores with an efficient and effective workforce. Along the way, we have been able to improve and double our capital investment program providing new and upgraded stores. These efforts have made the Defense Commissary Agency competitive while also improving customer service and the value of the benefit to commissary patrons. And, by reducing operating costs we have increased the commissary benefit's value to the taxpayer. We consistently benchmark our outputs and financial performance against industry. Average sales per store, per transaction, per operating hour, per employee and just about any other output measure all exceed those of commercial grocery chains. Yet our unit cost averages seven percentage points below those same competitors. We have learned about workforce shaping, staffing of stores, more effective use of technology, and how to make stores exciting places to shop. Today, we have become as much of a business as we can be and, with further information technology enhancements, we can achieve additional cost savings and efficiencies.

The 10 percent reduction in operating costs has also delivered on the promise we made to you and the Services in return for the passage of the surcharge revitalization legislation. The cost reductions were more than sufficient to cover the operating costs shifted from the surcharge to the appropriation as called for in this legislation. Our plan involved all levels of management in the Agency including many store directors. The result was more efficient staffing templates for our stores, reductions of headquarters and other above store level overhead, and fully assessing and then reducing supply, equipment and utility costs. Thus, we have obtained the funds we need to invest in capital infrastructure for the future and at the same time operate the entire Agency at less cost and less burden on the DoD appropriations. We are well on the way to providing the modern and attractive facilities that will make our stores enjoyable places for customers to shop.

In conclusion, the Defense Commissary Agency is facing the challenges every other business is encountering today and is striving to meet them. I believe our strategic plan and its corporate objectives provide a great road map for the future and if followed faithfully will ensure the continuation of the commissary benefit. As with the rest of the Nation, 9-11 caused us to look within and as a result the Defense Commissary Agency is stronger than ever.

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

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