

STATEMENT OF
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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 Converter 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.