

STATEMENT OF
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Chairman Wilson, Ranking Member Davis, Members of the subcommittee, the commissary continues to be one of the most valued non-pay compensation benefits our military members, past and present, and their families enjoy. This integral element of the total compensation package plays an important role in the economic well-being of our military families providing patron savings of over 30 percent compared to civilian supermarkets, allowing patrons who consistently use the commissary to 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 commissary not only enhances the quality of life for military families, but also provides an excellent return of \$2.00 in patron savings for every taxpayer dollar invested. However, this two for one return on investment is insufficient to shield the commissary from scrutiny as it faces the same fiscal challenges as other government agencies.

Commissary patrons were significantly impacted by sequestration. The Department-wide hiring freeze harmed customer service. With the Defense Commissary Agency's (DeCA) high turnover rate of lower graded employees in our stores, the hiring freeze quickly reduced manning levels and over two-thirds of our stores fell below the manning levels required to effectively run the stores. While the Department has provided some relief by allowing the hiring of personnel, the cure is not immediate because of the employee vetting time lag. The closure of most stores for one day a week for six weeks because of the furloughs necessary to meet the 2013 sequestration requirements impacted customers further. Customer complaints rose by over 50 percent and hit an all-time high during the furlough. While our employees struggled to provide our goal of excellent customer service, they could not always overcome the challenges. Customers often found

long checkout lines, closed registers, and empty shelves. Checkout wait times of 20-30 minutes were not uncommon. A 20 percent reduction in pay during the furlough period was particularly hard on our store employees, many of whom are part-time and need every dime of their regular earnings to make ends meet.

The sales figures also show the impacts of sequester. Sales for fiscal year 2013 were down \$210 million or 3.5 percent versus fiscal year 2012. Likewise, there were 3.9 million or 4.0 percent fewer patron shopping visits versus last year. Commissaries experienced a sales loss totaling over \$99M driven by sequestration closures in FY 13 and government shutdown closures in October of FY 14. And we were also forced to cancel our popular on-site sales at Guard and Reserve locations and the case lot sales provided at virtually every store. To make up for the loss of case lot sales, several vendors are offering specials in our lower 48 U.S. stores with discounts ranging from 40 to 50 percent off on their products. These limited time period specials are less costly for the commissary to support but still provide our customers with extra savings in their pocket.

Customers were not the only ones to experience an impact. Our distributors faced sporadic delays in offloading deliveries at commissaries; orders frequently being held up or delayed resulting in overtime for the distributor and late deliveries; shipment of wrong products and damages not processed in a timely manner; and ordering delays due to closures making scheduling a challenge.

Cost Reduction Culture. While I am pleased to report that DeCA is fully funded in the President's fiscal year 2014 budget, if sequestration is not addressed its impact on the commissary benefit is likely to be considerable as the Department establishes priorities and balances resources. Yet, DeCA has a proven history of taking cost out of the system.

Since its activation on October 1, 1991, DeCA's pre-BRAC operating costs have been reduced by over \$700 million and its workforce reduced by over 2,500 full time equivalent positions. DeCA also reduced its inventory by over \$500 million. Over the past 20 years, we have "picked the low hanging fruit" by seeking innovative initiatives to achieve operating efficiencies and through good stewardship of taxpayer dollars as we made the commissary system significantly less costly to operate. Examples of these efficiencies and cost reductions include: the elimination of warehouses and associated inventory and commissary employees in the contiguous United States; the centralization and automation of accounting functions; and consolidations of headquarters and regional offices. With this history, any further reduction resulting from sequestration will diminish the commissary benefit.

Performance Measures: Prior to sequestration we had an impressive year in fiscal year 2012—sales were up, topping the \$6 billion level for the first time since 1992; the cost of delivering the commissary benefit, once again, came in under budget; customer service scores and patron savings levels remained relatively constant.

Prior to sequestration, patrons continued to confirm the value provided by the commissary benefit, expressing their satisfaction with an overall customer service rating of 4.61 on a scale of 5, slightly under last year's score. Again this year our internal measures were validated externally by the American Customer Satisfaction Index (ACSI). DeCA's latest score increased to 82, the highest score ever for DeCA, significantly exceeding the ACSI commercial supermarket industry average of 77. DeCA's score of 82 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.

Financial Accountability. In fiscal year 2012 DeCA earned its eleventh consecutive unqualified audit opinions on annual financial statements. This continues an unblemished record since 2002 of achieving unqualified opinions on our consolidated financial statements—a feat matched only by three other defense activities. DeCA also continues its role as a Departmental leader for its annual Statement of Assurance, 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 accountability.

Sustainability. DeCA’s goal is to provide healthy products produced in an environmentally and socially responsible manner. Recognizing that the retail sector’s sustainability concept is a changing and evolving process, DeCA, nevertheless, endeavors to integrate sustainability into its operations. Our sustainability policy includes not only the products sold, but the retail operation itself. Simply stated our policy is:

“Consistent with price, quality, and customer preference, DeCA will endeavor to provide patrons with products produced through sustainable methods. In addition, DeCA will continue to showcase domestic products and encourage its contractors to, where practical and again consistent with price, quality, and customer preference, work with local producers and provide fresh meat, poultry, seafood, fish and produce for sale in commissary stores.”

DeCA is committed to conducting business in a manner that adds value for our patrons and our stakeholders, including the American taxpayer. For example, DeCA has worked hard to reduce energy use since 1993 and achieved high levels of energy efficiency

prior to the establishment of Federal energy reduction goals. As a consequence, today a typical commissary is much more energy efficient than a commercial supermarket. DeCA opened its first "green" commissary, equipped with the newest energy-saving features, in Ansbach, Germany this year; and the new store in Portsmouth, Virginia featured our first commissary with energy-conserving glass doors on most display cases. Future initiatives include a worldwide equipment assessment to meet fiscal 2015 energy and water goals, starting web-based refrigeration monitoring, testing low ambient "layered" and "day" lighting, establishing an energy reporting website, and providing annual computer-based, energy efficiency training for the agency's facility energy supervisors.

During Earth Week commissary customers found extra savings on earth-friendly items such as carbon fluorescent light bulbs and a good assortment of green cleaning products and high-efficiency laundry cleaning products. There are also innovative waste-reduction products such as paper towels and bathroom tissue without cardboard tubes, so there is nothing to throw away after the last towel is used.

Diverting the commissary store waste stream from landfills is paramount. Every effort is made to reduce the amount of waste disposed of as garbage. Actions including recycling, composting and food donation will assist in achieving this goal. DeCA continued its active recycling program, generating over \$3.6 million in revenue by recycling over 60,000 tons of cardboard and 1,300 tons of plastic. We diverted over 11 million pounds of garbage from the waste stream by composting and our stores donated over a half a million pounds of food stuffs to those few food banks that had been designated by the Secretary as eligible to receive food donations from commissaries. This coming year we will actively engage additional local food banks to determine their interest

in seeking designation as authorized food donation recipients and will continue to encourage our industry partners, whose unsalable products are on buy back, to participate in the food donation program. Another 730,000 pounds of food were collected at commissaries in support of the Feds Feed Families program.

Construction: This year we conducted a comprehensive review of the requirements for surcharge funding and projected revenue to include not only facilities, but also information technology and equipment costs. Including facilities maintenance, information technology and equipment requirements, the total surcharge construction backlog as of fiscal year 2013 is \$354M, but is projected to grow to \$779M by fiscal year 2022. We have taken a number of steps to address the shortfall by reducing construction costs. For example, DeCA has eliminated the mechanical mezzanine, simplified the ventilation system below frozen food storage rooms, and moved refrigeration piping, and power, communications and data cabling overhead.

We decided to adopt the Corps of Engineers' BUILDER program for facility assessment and condition index calculations. This construction assessment tool will be the standard for use in the Department of Defense. Sequestration and official travel restrictions prohibited government personnel from performing the baseline BUILDER facility assessments. So in July 2013, we outsourced the application of the new assessment tool which takes a fresh look at our facilities and develops a more objective reset of our facility condition baseline. As of early September, over 50 of the 256 stores and central distribution facilities have been assessed. The effort will be complete in the second quarter of FY2014, in time for the bi-annual update of construction requirements. This program is critical to accurately identify and program the construction projects to address the greatest

need and ensure efficient use of limited surcharge funds, as we move to a “living within our means,” philosophy in programming construction projects in accordance with available surcharge funding.

DeCA's focus continues to be on renovation vice replacement, improving as many commissaries as possible, and making a positive impact on the shortfall. This allows DeCA to defer major investments while providing safe, well maintained facilities DeCA’s customers expect and deserve. DeCA devotes over 40 percent of its facility budget to ongoing maintenance and repair. Adequate maintenance combined with renovations, or minor construction projects that replace refrigeration and air conditioning systems while addressing other needed facility repairs, extends facility life and reduces the need for major construction or facility replacement. However, store replacement and major construction projects to address facility and operational deficiencies cannot be avoided. Between fiscal years 2013 and 2018 only two or three major construction projects are planned each year. Twice as many renovation projects are planned for the same timeframe.

We have initiated the acquisition process for a third-party study of all aspects of DeCA’s engineering process. The study will provide external perspective and advice with the goal of identifying areas of improvement and cost savings. The study will provide a thorough analysis of the way DeCA Engineering currently conducts business to include a comparative analysis between DeCA commissary facilities and private sector grocery stores, as well as other comparable military construction projects. Areas to be evaluated will include organizational structure, store programming, planning, design, procurement, and project delivery of new construction, addition/alteration, architectural and refrigeration

upgrade, and maintenance and repair projects. The contract is scheduled to be in place in early fiscal year 2014.

Relevancy for the Future: In July 2013 the Agency reorganized its Sales Directorate mirroring state of the art retail processes using modern retail analytical techniques and merchandising methods. Category Management Units under the new sales alignment, will improve the synergy of DeCA's product buying, promotional, marketing, and product placement activities based on real-time business analytics and an annual buying plan. Today's grocery industry is being shaped by consumers who, through the Internet and smart phone technology, have more information to make their shopping decisions. By realigning our category management system, we are positioning ourselves to ensure the commissary benefit and its savings remain relevant to our patrons. Through the new system, the sales directorate's traditional buyer and vendor relationships will give way to a staffing structure where category managers interact with industry. Category managers will negotiate commissary pricing and patron savings based on business metrics that affect product movement—inventory turns, promotions, in-store merchandising and plan-o-grams--that dictate optimal product exposure. We are in the process of training and certifying the employees mirroring industry best practices. This change allows the clear assignment of responsibility for category managers who will be held accountable for their performance.

The grocery industry in the United States is adopting the online ordering system prevalent in the retail sector, and DeCA is keeping pace by piloting a curbside pickup service. We're testing the concept to increase accessibility to the commissary benefit by offering our patrons the ability to order groceries online in addition to shopping

conventional brick and mortar stores. Our CLICK2GO model will allow patrons to order groceries online, select an order pickup time then pick up their order at the commissary curbside location. CLICK2GO is being tested at Fort Lee, Virginia, Offutt Air Force Base, Nebraska and soon at Travis Air Force Base, California. The one year pilot will measure patron acceptance, operational execution to ensure that online shopping will not degrade current commissary service levels, and cost to deliver the benefit at which time we will decide whether to expand the concept to other commissaries.

The Agency is also developing a mobile application for smart phones that will help patrons prepare for their shopping trip and show them the tremendous price savings the commissary offers. Initial features of the mobile application will include such things as store locations, contact and navigation details, recipe lists, ability to make a shopping list feature and listing current promotional items or specials.

Of course, the Commissary Rewards Card continues to be very popular, winning a prominent place in customer's wallets and purses around the world. The card gives customers access to digital coupons redeemable at any of the Agency's 245 stores. In the first year more than one million cards have been registered by shoppers, who have downloaded more than 12 million coupons so far. That means bigger savings for them, on top of the commissary's usual savings of more than 30 percent. I would like to take this opportunity to publicly thank our industry partners who are stepping up with great coupons on all kinds of items everyone uses every day.

We are also utilizing social media to engage customers in a 21st century medium that helps spread information about the benefit, positively promotes the brand, and communicates with customers. Social media meets the needs and expectation of younger

customers as a communication channel they use to gain insight into current trends and product recommendation.

DeCA is a key partner in the effort to reduce obesity and create sustainable healthy lifestyles through the Department's Healthy Base Initiative (HBI) and represents the single best source for healthy food options at those installations in the pilot program. DeCA is uniquely positioned to be the community classroom for nutrition, food selection, and food preparation education and demonstrations to help guide our patrons to healthier eating habits. We look forward to hosting and contributing to a variety of HBI educational and promotional programs targeting Active Duty members and their families, and vigorously support HBI as an essential contributor to recruiting, retention, and readiness.

It has been my pleasure to tell you about DeCA's accomplishments, its challenges, and its contribution to the quality of life of our military families. Even with the budget uncertainty due to sequestration, as we move into this next era DeCA is excited about its ongoing initiatives to seek innovative and efficient methods of benefit delivery. In closing, I would again like to thank the members of this Subcommittee as well as each Member of Congress for their continued support of the commissary benefit.

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