

## **STATEMENT OF WORK:**

The intent of both pilots is to maintain the current level of savings provided to patrons. Other than the normal market based price fluctuations, the “category-based” pilot will not raise or lower current prices in commissaries. The “store-based” test will entail the adjustment up or down of prices on individual products to achieve a level of savings on all items in the commissary as compared to the local commercial retailers recommended by DeCA. This will be accomplished by increasing prices on higher margin products and lowering them on products with a low margin; however, the overall market basket of goods purchased by patrons will remain the same.

The Defense Commissary Agency requires the following activities and assistance. Contractor shall create and recommend the stages of pilot plans within the scope below. The contractor shall also provide written recommendations on the implementation of the pilots and provide written reports that meet the requirements of the Congressional Committees as outlined above. As part of this requirement, the contractor will work with DeCA to use previously developed concepts to finalize and document at the various stages of pilot plans as outlined within the scope, consult on the implementation of the pilots, and provide input on initial pilot approval reports. Further, the contractor shall define and develop the pilot measurement features required by the NDAA and any which may be required by DoD and DeCA. Deliverable table indicates expected timelines/due dates.

## **GUIDING PRINCIPLES**

BCG will work in collaboration with DeCA personnel, DeCA selected third party providers and stakeholders towards success of the DeCA.

BCG will work with DeCA as a trusted business partner to create an environment of transparency during the course of this agreement. Except as required by law, BCG shall not release information concerning all activities related to the DeCA’s transformational initiatives without the consent of DeCA. This restriction will not apply to any information that is publicly available.

BCG will work with DeCA to establish an environment where commercial best practices related to this statement of work are identified, trained and potentially implemented.

## **SCOPE**

1. Private Label Program Plan and Implementation. DeCA’s private label program will be incorporated into the pilots. The following activities are required:

- Review and provide recommendations of improvements of our requirements and make recommendations on the method of selection and actual selection of a Private Label broker for DeCA. Analyze, develop, review and provide recommendations with the orderly integration of the private label program into the pilots. Work in collaboration with DeCA personnel and DeCA selected third party private label provider and analyze the best options for the decision on items, formulas of the product, packing to use and pricing as part of the stock assortment/optimization activities for the pilots.
- Provide expertise and recommendations on assortment and layout options as they relate to our private label strategy.
- Provide an overall Private Label Strategy Report that documents the issues, decisions to be made, strategies related to stock assortment, and analysis of considerations related to DeCA’s existing distribution model. Document will capture the thought process as well as the decisions made based on DeCA and contractor deliberations as the program progresses.
- Recommend to DeCA a pricing/margin strategy against brand name which includes background, reasoning and associated documentation.

- Contractor will provide a Private Label Execution Manual that contains recommendations and strategies for the continuation of the program after completion of the pilot. To include specific guidance on how to price private label SKUs to include line-up, item introduction, planogram, forecasting inventory at introduction. Ensuring that there is an integrated approach of private label with categories for cost of goods negotiations.

2. Pilot Design, Pilot Administration. Develop and make recommendations in the development of pilot plans and assist in the administration of pilots. Contractor shall provide recommendations on how to implement pilots described within the Boston Consulting Group's (BCG) December 2015 final transformation plan for category-based and store-based pilots which incorporates a DeCA private label program. Contractor may also recommend additional variable pricing pilot models.

Using overarching pilot concepts previously laid out by BCG, contractor shall define, recommend, and provide plans on activities and timelines to implement pilots incorporating a DeCA private label program. Contractor will provide documented preliminary and final Pilot Plans that capture actions, milestones and specific activities/decisions required to conduct the pilots. Contractor will recommend and develop any additional benchmark measurements necessary to gauge success of pilots by using best commercial business practices.

Contractor shall define and provide recommendations to DeCA reference the resources, processes and functional requirements to support the pilots and business rules required to manage the business system applications. This will include specific discussions on data flow, systems, price management at stores and best ways to successfully implement the pilots. Contractor will develop activities associated with Cost of Goods (COG) negotiation; altering item prices on certain products while maintaining baseline basket savings levels for each store, and pilot store selection criteria. Contractor shall monitor the pilots and ensure milestones are progressing and on schedule. Contractor will notify designated agency representatives of any potential problems within 2 business days once they have become aware of potential timeline delays. Upon making DeCA aware, the contractor will provide recommended solutions and get-well plans within 2 business days.

At agreed upon points during the pilots, Contractor shall be responsible for producing interim written progress reports. No more than 3 such reports are anticipated. The interim Progress Reports shall contain a combined discussion of all pilots undertaken to include the status of value/margin created, associated savings, additional costs, schedule impacts, performance, stakeholder assessment and next steps. Contractor shall be responsible for collecting all necessary data to do the analysis and shall evaluate the outcome to date of the pilots undertaken, providing DeCA with this analysis. While DeCA anticipates that the pilots will continue, the contractor shall, as appropriate, provide updates, reports of interim progress and results as expected by stakeholders. Pilot consultant services will be required for twelve months after the start of the first pilot.

3. Pilot Implementation/Operation: Contractor shall provide expertise and assistance to DeCA to successfully accomplish the following as part of the pilots.

a) Review and recommend assortment decisions to include SKU optimization for select categories. Contractor shall provide recommendations to DeCA personnel for the development of a SKU optimization plan for each category selected.

- Contractor will develop a Category Strategy/Criteria Plan that includes but is not limited to the items listed below. Contractor will then provide these recommendations to the DeCA Category Managers (CM) on:
  - Assess SKU productivity and profitability goals and objectives by categories
  - Develop baseline information for each category such as retail vs. DeCA SKU comparison;
  - Determine shelf management (product positioning); space management strategy by category and promotional strategy for categories;

- Research price elasticity of name brand products and provide recommendations on assortment, layout, selling price points, business rules, and margin contributions.
  - Using existing data available to DeCA provide analyzed data sets for each category that will assist in making decisions. If additional data is necessary, this should be identified to DeCA as well as the potential sourcing of this data.
  - Contractor will provide necessary on-site training to DeCA personnel to prepare and enable the DeCA personnel to accomplish SKU optimization independently.
  - Contractor will provide a Documented Category Review Strategy/Decisions which includes the history for each category. This documentation must be comprehensive and complete to enable response to industry questions on additions and deletions.
  - Provide an overall SKU Optimization How-To Manual that includes guidelines that can be used by all CMs for future efforts.
- b) Contractor will prepare DeCA personnel for COG negotiations for selected categories and document the results of those negotiations (Wave 1).
- Contractor will analyze the information/data available to DeCA to develop information on product profitability at the SKU level and how patrons feel about specific brands. Contractor will provide this information to DeCA and make recommendations on how to improve both.
  - Contractor will train the individual CMs on how to incorporate category/brand/SKU economics; provide insights on market dynamics, competitive benchmarking, and consumer research developed tailored category strategies.
  - Contractor will provide templates that detail the activities associated with the overall COGS process to include how to document the agreements with the vendors and how to track execution.
  - Contractor will develop/draft a negotiation strategy for each CM, and train and coach CMs in executing the strategies within the individual negotiations with the product suppliers to reduce COG. Contractor will provide CMs with on the job training (OJT). Contractor will assess the effectiveness of the OJT and provide additional on-site training to DeCA personnel as necessary to equip them for effective future COG negotiations.
  - Contractor will provide category documentation of: 1) Negotiation Strategy; 2) Negotiation Results/History for each negotiation conducted that captures what was agreed upon by both parties; and 3) the Negotiated Agreement between DeCA and the vendor.
  - Contractor will provide a How-To Manual on COG Prep/Negotiation Techniques/Process.
  - Contractor will receive updates on the negotiations and develop additional recommendations as necessary based upon any changes to the negotiations offered by either party.

4. Program Management/Change Management/Communications. Contractor will provide guidance and consultation on the pilots and their integration into DeCA's other initiatives/activities to advise DeCA's designated Program and Change Management representatives. Provide assistance in responding to external inquiries within 2 business days. Contractor will collaborate on communications as part of an overall change management function. Contractor will collaborate and make recommendations to DeCA regarding the ongoing plans and execution to ensure appropriate timing and content of communication with Stakeholders. Contractor will provide support in developing and managing milestones, KPIs (data collection, analysis), and status updates to various stakeholders. Contractor will make recommendations on organizational and process constructs that may require review based on change to how DeCA will do business in the future.

Contractor will provide a Program and Change Management Plan with supporting documentation within 30 days of the startup of the contract. The plans are considered "living documents" and updated every 60 days and shall include cost and schedule status/updates, performance assessments, communication plans, stakeholder/and resistance assessments, coaching, training plans and next steps. Update and brief program and communication plan

as required or at a minimum every 21 business days throughout the contract period. Contractor will provide advice with the program and change management communications strategies, sponsor and stakeholder management to include commissary patrons, leadership briefings, corporate messages, videos, etc. and will be asked for recommendations on content, timing, audience, etc. Contractor will collaborate with the DeCA designated person to perform analysis of stakeholder impact and need for revision of strategy, content, etc.

5. Briefings. Contractor will be responsible for additional support to provide briefings in formats designated by DeCA to educate and answer questions from the stakeholder community on pilot design, pilot activities, pilot benchmarks, private label introduction, and final results. All briefings will be in the Washington DC area or Ft. Lee, Virginia and may include high level DoD representatives (civilian and military), congressional members, congressional staffers, and military organizations. This effort is expected to extend through May 2018 (if the option period is exercised) and will include approximately 30 formal briefings and 20 informal, office call discussions.

6. Progress Reviews and Other Discussions. Contractor shall provide status updates to DeCA leadership on activities at least every 30 days. In addition, contractor will be expected to participate in weekly internal oversight meetings where DeCA leadership discusses transformation progress. Contractor shall provide recommended revisions related to the current organizational structures, responsibilities, or initiatives that are noted as they work through various efforts. This may include expert advice or guidance on staffing related to pricing teams, private label teams, category management/promotion processes and team composition. Contractor will be expected to provide input and recommendations on the overall pilots, private label introduction, and other activities under this contract.

**Written Document/Activities Deliverables Table:**

| <b>SOW Reference</b>                                   | <b>Major Activities/Deliverables and Written Documentation<br/>(Narrative Word.doc Format)</b>   | <b>Reference BCG Technical Proposal dated Feb 29, 2016 as Revised</b> | <b>Due Date</b>  |
|--|--|---|--|
| 1. Private Label Program Plan & Implementation         | - Private Label Guidance/ Assistance<br>- Private Label Strategy Report<br>- Private Label integration into stock assortment and consistent with COG negotiations  | PP 22-23  | Starting upon award with efforts to culminate with Report due October 1, 2016  |
| 2. Pilot Design/ Administration                        | - Documented Pilot Plan  | PP 17-20  | - Preliminary Plan by May 31, 2016<br>- Final Plan by June 30, 2016<br>- Interim Pilot Progress Results<br>-- 3 months intervals after start of first pilot<br>- Overall Pilot Administration 12 months after start of first pilot |
| 3. Pilot Implementation/ Operation                     | - Assortment Activities/-SKU Optimization  | PP 22-23; 30-32   | All activities finalized/ documented and implemented to allow commencement of pilots by October 1, 2016  |
| 4. Program Management/Change Management/ Communication | - Program Management/collaboration services as part of DeCA's Program Team. Includes delivery/ coordination on documents, reviews, congressional responses, reports input, and milestones based on ongoing activities.<br>- Program and Change Management Plan | PP 35-37  | - Within 30 days of award and every 60 days thereafter   |
| 5. Briefings   | Various briefings as requested   | PP 37-38  | - As requested   |
| 6. Progress Reviews                                    | Ongoing Status Reviews/Discussions   | PP 37-38  | - As requested   |