

STATEMENT OF
MAJOR GENERAL RICHARD E. BEALE, JR.
DIRECTOR, DEFENSE COMMISSARY AGENCY

BEFORE THE
SUBCOMMITTEE ON FORCE REQUIREMENTS AND PERSONNEL
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

FIRST SESSION, 103rd CONGRESS

JUNE 22, 1993

NOT FOR PUBLICATION UNTIL RELEASED
BY THE SENATE ARMED SERVICES COMMITTEE

Mr. Chairman and distinguished members of the subcommittee:

I am Major General Richard E. Beale, Jr., and it is my pleasure and privilege to be here today to provide you with an overview of the Defense Commissary Agency's (DeCA) progress over a year and a half and an assessment of the future as we seek to deliver the military's most valued non-pay compensation benefit.

I became DeCA's second director in December 1992 and have since developed the deepest sense of appreciation for the tremendous accomplishment our employees achieved in getting this Agency launched as rapidly and professionally as they did. Most of the tough, start-up work has been completed by DeCA. And while we're still in the latter stages of the total consolidation effort, I believe we can safely relegate some of the thorniest challenges of the past year to the history books. We realize that we are now in a very dynamic period and are looking at bold options for the future. I believe the commissary system is alive and well, getting better every day, and has a very bright future.

Commissaries assist Commanders in maintaining combat readiness by enhancing the welfare of military personnel and their families. Thus, the commissary is tightly woven into the fabric of military living, providing a basic quality of life and needed financial support. Today's all volunteer force is often called the most highly trained, best equipped force in the history of the world. A commitment to the quality of life of the people who make up this outstanding force has been key in attracting and retaining quality people.

Although the term "commissary" has been around since Washington's Continental Army, commissaries as resale stores trace their official start to 1866. Congress, seeking to abolish a corrupt "sutler" system and provide reasonably-priced sales stores wherever the need existed enacted the legislation that called for a military commissary system.

But commissaries were not designed solely to take care of troops at distant, remote outposts. The first Army store was at Fort Delaware, Del., and the first Navy store was at the Washington, D.C., Navy yard, both of which were hardly "remote" posts. The Appropriations Act of 1866, stated, "And be it further enacted, that the office of the sutler in the Army and at military posts is hereby abolished, and the subsistence department is hereby authorized and required to furnish such articles as may from time to time be designated by the inspectors-general of the Army, the same to be sold to officers and enlisted men at cost prices..."

Commissaries have always mirrored the civilian stores of their time. Critics say commissaries have expanded their services beyond "original" intent, however, historical research disagrees. The first commissary authorized items list contained 82 items. This was about the same as any dry goods store in 1862. When supermarkets first developed in the 1930's, commissaries evolved as well and resembled the supermarkets of 1930.

Studies consistently show the commissary benefit, along with medical care, is tops, in terms of value to military personnel. This is consistent among both active duty and retired personnel.

Retired personnel, many of whom are subject to immediate active duty recall in the event of major conflict, are among the most faithful users of their earned benefits, as many are living on fixed incomes and their retired pay was set based upon a career of service reimbursed at a base pay rate that had the commissary benefit factored in. Retirees visit an installation primarily for the medical and commissary benefits. While there, they also patronize the exchange. As the commissary system goes, so goes, very much, the military exchange and the exchange system's capability to provide funds for MWR.

Our Reserve components are expected to play an increasing role in national defense. These trained personnel are also authorized to shop 12 days per year.

Our authorized customer base is diverse. We provide full support to our active duty forces virtually everywhere there is a significant American military presence. Commissaries, therefore serve as vital quality of life centers on every installation, as well as integral parts of the military's pay and compensation package. The commissary system provides one of the few benefits, perhaps the only one that delivers a return on investment in terms of nonpay compensation, double the cost of running the system.

Commissaries provide American food products at the best possible prices. The benefit is equally important to people stationed stateside or overseas. Overseas commissaries are usually the only source for American products. Stateside commissaries, especially in high cost areas, provide needed financial relief for

military personnel. Most of these personnel are in the junior and middle pay grades, who struggle to achieve an acceptable standard of living while serving their country. Last year, military commissaries redeemed \$24.5 million in food stamps.

Commissaries provide an income benefit averaging over 23 percent, with savings in several parts of the country and across some product categories exceeding 27 percent. These savings were scientifically researched and validated this year by the Wirthlin Group. Savings for the military member can range from a few hundred dollars for a single person to more than \$1,500 a year, depending on family size and shopping frequency.

The system is under constant scrutiny from private sector retailers and associations who sometimes perceive that the commissary system competes with them. We, are not in the kind of head-to-head competition found in the private sector.

The commissary system's total sales represent a very small portion, just 1.7 percent of United States grocery store sales. Total U.S. grocery sales exceed \$347 billion, (Supermarket News, September 1992). If one considers that about 20 percent of military commissary sales occur in overseas locations, this tiny percentage is reduced even further.

Looking at the challenges facing us today, we recognize two primary goals. First, DeCA must do all it can to become more efficient for the American taxpayer. Second, we must achieve those efficiencies without degrading customer savings and service. If we sacrifice the savings our military people receive, there will be no

benefit.

The cost of operating the commissary system is decreasing. DeCA has achieved cost reductions, especially in those areas that were previously categorized as "direct appropriation" dollars. Agency officials are committed to driving down the total cost of operating the system while providing the high level of savings and service our military deserve.

The top to bottom restructuring and consolidation of the military commissary system following the Jones Commission study resulted in the elimination of 1,600 overhead positions above store level. Mandated savings, including \$35 million in DeCA's first year of operation, are already programmed. Consolidation savings will reach \$90 million in Fiscal Year 1995.

The military commissary system has been downsizing along with the rest of the Department of Defense. More than 40 commissaries have closed in response to force and infrastructure reduction, achieving appropriated fund cost savings of \$86.9 million in Fiscal Year 1993. Another \$114 million in BRAC and force reduction savings is anticipated for Fiscal Year 1994.

The military commissary system provides nearly \$6 billion annually in resale products to authorized customers. The products are sold at cost and inventory is replenished through a revolving stock fund that requires no annual infusion of appropriated funds. The commissary system is not designed to make a profit and has no profit motive. We are in operation solely to provide a non-pay benefit. The military community pays for 21 percent of DeCA's

operating costs through the 5 percent surcharge that is applied to each sale. This goes into a trust fund account which is reinvested back into the system to maintain and replace equipment, replace or renovate stores, pay operating costs, and to buy operating supplies for stores.

DeCA's annual appropriated operating budget is about \$1.1 billion. This figure is higher than we all currently would like and many mistakenly perceive that the move to a consolidated system resulted in an increase in the commissary system's budget. This is not the case. What happened was a change in DoD accounting procedures under the Defense Business Operating Fund which itemized all costs, both direct and indirect, to DeCA. Indirect costs, such as base engineering support, personnel support, fire protection, base telephone lines, and many more, were previously contained in the budgets of the military services. Now, the costs are all within the DeCA budget and then paid back to the military services. In those areas of direct support that were previously tracked by the former military commissary systems, DeCA is showing increasing savings. Through continued improvement and cooperation with the services and other DoD activities, we will find ways to further reduce the indirect cost portion of our budget, as well.

An interesting fact about the readiness contribution of our budget is that 47 percent of it supports commissary operation overseas, which comprise only 20 percent of the sales. If you add in some of the CONUS remote stores, such as the National Training Center at Fort Irwin, California, where the closest grocery stores

are an hour away, then we find 49 percent of our budget supports 22 percent of our sales. This means half of our total budget supports 78 percent of our sales in our larger CONUS commissaries. This is indicative of true efficiency. "Overhead" costs to the system for the Agency's headquarters and seven regional headquarters is about 9 percent of the total annual operating budget (and is included in the referenced costs for CONUS and overseas operations). This low number shows we are focusing our resources on those areas which directly impact our customers.

We are properly turning our overall focus back to the basics of providing grocery and household items at the lowest possible prices to our deserving military people and their families. Cost-effective customer service is our top priority and it is our vision to be the military's most valued benefit.

Toward this end, my staff and region directors are focusing on the long range goals and initiatives that will result in a revised agency strategic plan in the first quarter of Fiscal 1994. This strategic planning process will develop concrete performance measures to judge the appropriateness of our objectives and our subsequent progress. This is consistent with current administration policy as contained in the proposed Government Results Act of 1993.

As always, we consider the thousands of manufacturers, brokers, distributors, and others who provide strong, dedicated support as full partners in realizing our vision. We can share solutions and successes in making the system more cost efficient while preserving and enhancing levels of savings and service. There are a great many

outstanding people within American industry who understand the commissary benefit, know what it means to our troops and their families, and give their best effort every day. We meet frequently with industry at all levels, small and large, from salespeople to accounting technicians, to CEOs. We know we will succeed only through a team effort toward increased efficiency and effectiveness. We appreciate their dedication and commitment.

We're doubly proud to count many companies affiliated with the National Institute for the Severely Handicapped (NISH) and the National Institute for the Blind (NIB) as valued contractors. Some 2,000 severely handicapped people are afforded quality employment opportunities through the military commissary system. Military commissary contracts to NISH-affiliated activities total some \$45 million annually. Military commissaries sold \$8.1 million of NIB's Skilcraft products in 1992 and projections for this year show sales may exceed \$10 million. DeCA was recently presented NISH's 1992 Government Award for its outstanding support of NISH programs.

We have many issues on our plate, all of which deal with how we can continue to refine our system enroute to becoming the most cost-efficient, business-effective agency in the Department of Defense.

The agency is making solid progress in the area of automated information systems. In October 1991, DeCA opened for business with 27 different automated systems, patchworked together to keep DeCA in business. While each of the former commissary systems did an admirable job in operating their individual piece of the program, no one had foreseen the need for commonality among the service's

automated systems.

We have been slowly weaning ourselves from some of these systems and I'm pleased to report that, for the most part, our automated systems and the interfaces that support them have stabilized.

We are steadily fielding our DeCA Interim Business System, or DIBS, which will ultimately standardize procedures in our commissaries and regions. Approximately 100 locations are scheduled to be on DIBS by the end of June. This major effort has significantly stabilized DeCA's business operating systems, centralized pricing and contributed to improved bill paying. DIBS should be fully operational, DeCA-wide, by March 1994 and we believe DIBS will save us money, especially in terms of personnel resources and system maintenance dollars.

DIBS is but phase one of a two-phase approach toward obtaining a modern, efficient standardized business system. Phase Two is the Defense Commissary Information System (DCIS) Acquisition Program, which is progressing satisfactorily.

Automation, standardization and electronic commerce figure heavily into our future plans. We have people working feverishly on the goals of conducting business electronically, eliminating paper transactions, their associated handling and storage costs and improving business accuracy and discipline.

The Logistics Management Institute has completed its electronic commerce business case study and provided a report of its findings in April. Not surprisingly, DeCA's involvement in business

transactions is significant and accounts for 12 percent of all DoD financial transactions and 37 percent of all DoD procurement actions. The majority of savings identified by the study were from EDI invoicing. We completed the necessary development and testing, and began live processing with RJR Tobacco on February 1. Payments since then have exceeded \$30 million.

Additional vendors are being added as we complete our trading partner agreements and the targets of opportunity are significant. Our top 22 trading partners (just .35 percent of our total number of trading partners) submit 11 percent of the total invoices to the agency. Our top 166 trading partners (or 2.9 percent of the total) submit an astounding 53 percent of the invoices! Getting into an electronic interchange mode of business with these companies will clearly posture DeCA at the leading edge of the electronic commerce movement within the DoD and make us leaders in the world of supermarket type electronic operations. Projected net 10-year saving from this initiative beginning in Fiscal 1993 are \$54.7 million. Programs, such as this, are reasons to be excited about the commissary system's future potential to operate at optimal cost effectiveness.

Although it is not really an electronic commerce program, DeCA has also been pursuing with its trading partners another initiative, "Delivery Ticket Invoicing," (DTI) designed to reduce the amount of paperwork and manual intervention in the ordering, delivery, receiving and bill paying processes and save both the government and the vendor community money, time and effort.

DeCA currently spends a significant amount of time trying to reconcile invoices mailed from manufacturers with receipts mailed by the stores. This lengthy, manpower-intensive reconciliation process was one of the causes of the bill paying problems of last year. "Delivery Ticket Invoicing" allows DeCA to simply treat a delivery ticket as an invoice and pay for what was actually delivered instead of relying on the mailing and then matching of invoices and receipts. This program has been approved for continued use and is being expanded to all relevant regions and commissaries. It was initially implemented in all Southern Region commissaries on May 1, 1993 with 71 DTI contracts.

Let me also touch briefly on some of the other areas we are looking at to save appropriated dollars and preserve levels of savings and service.

DeCA currently has responsibility for the Air Force's troop issue mission and the operation of tactical field exchanges for the Army & Air Force Exchange Service during times of hostility or difficult deployment. Shortly after I arrived at DeCA, the Army asked if DeCA would be interested in Army troop issue. This put us at a decision point crossroads as we sought to define our future.

After consultation with the Defense Commissary Board and lengthy discussion with senior staff and other DoD staff, DeCA decided to divest itself of all troop issue. The net savings will only be about \$10 million. However, a disproportionate amount of management time and attention was always being devoted to this side of our operation, especially with the recent deployments to Somalia.

These are important missions, but we felt it was better to return them to the Air Force and to focus on our primary mission of supporting the non-pay compensation of military members through the resale of grocery items at the lowest possible price.

Related to this issue is our plan to dramatically draw down the level of active duty presence working within the agency from about 1,849 today to just 18 by the end of Fiscal 1996. The decision is related to the troop issue divestiture outlined above as well as a hard look at the number of active duty people needed to operate the commissary system.

Perhaps the most controversial of the money saving options we are exploring is the closure of low volume, higher cost stores in areas already served by a larger, more full-service commissary. The entire DeCA headquarters and all seven region headquarters, only cost \$72 million to operate. The rest is tied up primarily in the operation of stores. We have tentatively identified 30 to 40 locations which may be candidates for closure over a three to four-year period. The annual savings from closing these locations would be about \$30 million at the end of this period.

I list this as an example of the difficult questions we are asking ourselves. We also are looking at many other programs, relationships with other DoD activities, and consolidations for opportunities to improve operations and achieve efficiencies.

We have invested much in making the commissary agency functional. We are now aggressively and creatively attempting to streamline the system further, delivering greater savings and

service to our customers while reducing appropriated fund support. We know we are making progress and are proud of the role the commissary plays in military quality of life and combat readiness.

As the members of the subcommittee are so well aware, the military's benefits structure is designed to help offset and compensate for the sacrifices we ask of our military people every day of their life, across a full career. The commissary benefit has been factored into each member's compensation package for decades. Retirees left service with the implicit understanding these benefits would remain for them. Benefits, such as the commissary system, that are cost effective and return a value greater than the cost of providing them, are those that should be viewed as models for efficient government operation.

I thank the members of the Subcommittee for the opportunity to acquaint you with the Defense Commissary Agency.