

STATEMENT OF
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BEFORE THE
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OF THE
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Mr. Chairman and Members of the Panel, I am pleased to appear before you today to update you on the exciting developments occurring within the Defense Commissary Agency. During the last three and one-half years, DeCA has made great strides in gaining the respect and credibility of industry as well as those in Government. We have also maintained faith with our patrons who have earned the indirect pay the commissary provides.

The commissary, which delivers this important segment of service member's total compensation, is in its best condition since Congress first authorized the purchase of groceries at cost in 1826. Yet, like other government entities, we too face the need to reduce costs by streamlining and improving operations while maintaining quality service to all our customers. We understand the challenge. To meet it we are both reorganizing and re-engineering. While re-engineering is the preferred route, it requires a more intensive look at work processes and a two to three year period of time to implement. Consequently, reorganizational changes are being made for the short term to meet downsizing and budget requirements.

A primary objective in achieving efficiencies and economies in the Defense Commissary Agency is to target overhead areas for close scrutiny and to reduce costs where return on investment is marginal. To this end, reorganization of regions, service centers, and headquarters is a major initiative for streamlining. By

September 1997, staffing above store level will be reduced by about 40% from the December 1993 level. The streamlining of our regions will account for over 46% of that reduction.

In general, DeCA's priorities are to streamline regions, streamline headquarters, and streamline commissary operations. To achieve these goals, DeCA has established zone managers, created an Operations Support Center with a Marketing Business Unit, and is assuming certain functions previously accomplished by the Defense Logistics Agency (DLA). These efficiencies move us closer to achieving the commercial supermarket practices in a more cost effective manner without diminishing customer service.

Adopting an industry concept, zone managers were selected, trained, and deployed throughout all regions. Each one-person zone has supervisory responsibility over 5-10 commissaries in the same geographic area. The zone manager is supported directly by both the region and our new Operations Support Center. The zone managers visit commissaries regularly to assist in identifying and solving problems. The primary purpose of the zone manager is to ensure that the patron is receiving full and quality service.

The major reorganization change for the Agency was the creation of an Operations Support Center on December 4, 1994. The Center will provide direct

operational support to commissaries, regions, and zone managers. Many dispersed functions previously conducted either in our regions, in the service centers, or at the headquarters have been consolidated within the Operations Support Center to improve overall operations. An example of this is our consolidation of contract execution functions within the United States. This merger permits the integration of developing requirements, logistics, and contracting functions for operational equipment, supplies, and services in reducing acquisition costs and improving customer service.

One of our great successes continues to be the Marketing Business Unit which was formed in March 1994. Now part of the Operations Support Center, this strategic business unit addresses and resolves operational issues pertaining to electronic commerce, contracting for brand name resale products, merchandising at national levels, cataloging of products to support category management, delivery ticket invoicing (DTI), frequent delivery system (FDS), and electronic passing of pricing information to our front end systems.

By September 30, 1995, we will have assumed several functions currently performed for DeCA by the Defense Logistics Agency (DLA). This realignment of missions, already decremented in the budget, will reduce the DBOF costs to DeCA by approximately \$54 million. As a result of this transfer, DeCA will assume

responsibility from DLA for the requisition and distribution of resale products to be shipped overseas. DLA will continue offshore acquisitions and provide support through their Defense Subsistence Offices by purchasing our fresh fruits and vegetables from strategically sited terminal markets and field crop purchase programs. Military Standard Requisitioning and Issue Procedures (MILSTRIP) requisitions for semi-perishable and perishable brand name product overseas will be eliminated and replaced by the DeCA Overseas Ordering and Receiving System (DOORS). Future contracts for meat, milk, bread, and ice cream will be accomplished by DeCA. DLA brand name supply bulletins are being converted to DeCA Resale Order Agreements (ROAs) which results in a 73 percent reduction in the number of contracts. The ROA simplifies the ordering and payment process. In addition, price changes for those vendors who have ROAs will be downloaded directly to our stores electronically from central DeCA locations.

DeCA has incorporated quality management into its common business practices and principles. DeCA also combines the principles of the Government Performance and Results Act into our quality improvement process. This effort has included partnering with industry to work on the details of business processes that require close coordination between DeCA and our trading partners. Industry has joined us on process action teams (PAT) in both the United States and in Europe to

improve pricing accuracy, distribution of point of sale materials, and product accountability. PAT teams will take the processes we are reengineering and keep looking for ways to improve efficiency while maintaining customer satisfaction.

By partnering with industry, DeCA has embraced the concept of Efficient Consumer Response (ECR) as a core business practice. The DeCA Overseas Ordering and Receiving System (DOORS) to support commissaries overseas was developed through a joint industry, trade association and DeCA team. As mentioned above, DOORS will replace DLA's MILSTRIP requisitioning system overseas commissaries have used for over 30 years. Eliminating MILSTRIP will reduce the order ship time from over 60 to under 30 days. In addition, the on-hand inventory will be reduced by an average of 35 percent because of the increased frequency in ordering and the reduction in order ship time. DOORS deployment begins this month and will be completed in August of this year.

Another important aspect of ECR that DeCA and its trading partners are working to implement is category management. This cutting edge concept is based upon the supplier/distributor/retailer managing selected categories of products as strategic business units by sharing information to develop efficient product assortment, new line-item introduction and product promotions. Industry is partnering with DeCA in the development of objectives and strategies to achieve

DeCA's category goals which will result in a better product mix for our patrons at lower prices.

But perhaps one of the greatest labor savings initiatives implemented by DeCA and industry has been Delivery Ticket Invoicing (DTI). DTI is a payment method whereby the delivery ticket or receipt accompanying each commissary delivery also serves as the invoice or demand for payment. Companies that participate in DTI are no longer required to submit separate invoices for payment. This process has resulted in considerable cost savings for industry, DeCA, and the Department of Defense as virtually all invoice mailing and direct processing costs are eliminated. The DoD Comptroller and the Defense Finance and Accounting Service are extremely interested in the potential DTI may have throughout the Department of Defense.

We are also partnering with the exchanges. DeCA maintains a constant dialogue with both the Navy Exchange and AAFES. Cooperative construction efforts are in the planning stages at Fort Bragg, North Carolina, Port Hueneme, California, and Elmendorf AFB/Fort Richardson, Alaska. We continue to search for additional areas which will provide efficiencies for the total Department of Defense resale community.

I would like to take a moment to update you on our systems modernization efforts. Both our Point of Sale (POS) system and Defense Commissary Information System (DCIS) acquisitions are well under way.

We will be procuring a standardized, proven, commercial off the shelf (COTS) computer system to support our point of sale operations. While it may be an oversimplification, point of sale operations include the cash registers and all of the functions the computer connected to them accomplishes at the front end of the store. This automated system will provide our patrons the same functionality found within the supermarket industry while providing management with real time data. Industry proposals were recently received and are being evaluated. We anticipate fielding the system beginning in fiscal year 1996. This totally non-developmental item (NDI) remains a key investment that will drastically reduce operating costs, modernize DeCA business practices, and integrate the customer checkout function with the business system.

The other key element to support DeCA's reengineering effort is the Defense Commissary Information System (DCIS). Another COTS system, DCIS will provide us the management information the commercial grocery industry uses and the business system DeCA requires. Industry proposals for DCIS have also been received and are under evaluation.

Since fiscal year 1992, 43 major construction projects, including new stores and upgrades of existing stores, have been completed at a total cost of \$290 million. A DeCA team of engineers, architects, and operations specialists devised ways to save up to 10 percent of the cost of an "average" new store construction project. This is being done while increasing functional efficiency and building quality. For their effort, DoD is awarding DeCA the "Team" award for excellence in value engineering initiatives.

DeCA successfully tested concepts aimed at improving the relationships between the government and contractor on commissary construction which parallel those employed in the commercial construction industry. Under this concept, the successful bidder and the Government representatives build a team by agreeing to talk together instead of relying on litigation to resolve construction and contractual problems. In the two projects where we tested the teaming concept (Everett Naval Station and Portsmouth Naval Shipyard), we have found that the resulting cooperation reduced the adversarial relationship that generally develops between the government and its contractor during construction.

The value in which patrons hold the commissary is particularly noticeable when we open new stores or remodel older ones. With 1.5 million square feet of new retail space and another 1.3 million in renovated retail space, we experienced a

tremendous growth in sales in the new and remodeled stores. For example, when the new store at Fort Sam Houston opened, sales exceeded projections by almost \$2 million per month without a corresponding decrease in the other commissaries in the San Antonio area. This demonstrates that when patrons are provided with a modern, pleasant shopping environment they return to use the commissary system they have earned as indirect pay through their years of faithful service.

In conclusion, DeCA delivers this valuable non-pay compensation to our service members in a cost-efficient and effective manner. The cost-saving initiatives have far exceeded the benefits envisioned by the Jones Commission and DMRD 972. Nevertheless, DeCA is dedicated to providing its patrons the quality and valued service they deserve in the most efficient manner within the fiscal and staffing realities of a re-engineered government. Using 1993, the high point of appropriated funding for the commissary, as the baseline, by the end of fiscal year 1997,¹ DeCA will have reduced its operating costs by more than 25 percent; implemented savings initiatives of \$385 million; reduced its workyears by over 15 percent; and reduced above store level staffing overhead by 40 percent. These impressive accomplishments demonstrate DeCA's commitment to provide the highest quality service at the lowest cost to taxpayers.

¹Expressed in FY92 constant dollars and decremented in budget.