

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

**BEFORE THE**  
**MORALE, WELFARE AND RECREATION PANEL**  
**OF THE**  
**COMMITTEE ON NATIONAL SECURITY**  
**UNITED STATES HOUSE OF REPRESENTATIVES**

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Mr. Chairman and Members of the Panel, it has been an exciting and busy year at the Defense Commissary Agency (DeCA). We have reduced operating costs to a new low and increased patron savings to an all time high. When I came to DeCA three years ago, we talked of benchmarking on industry. Today, we are a leader; and our industry trading partners look to DeCA for solutions. But as I have promised in the past, DeCA has not and will not stop. The men and women of DeCA are committed to achieving more. While this will be my last report to you as the Agency's Director, I leave assured in the knowledge that acceptance of the Vice President's nomination of DeCA to be a Performance Based Organization will safeguard the commissary's important contribution to the total compensation package for the soldiers, sailors, airmen and marines who have, and who continue to deserve, our nation's support.

DeCA's re-engineering and streamlining efforts are showing dividends for the taxpayer. From a high of \$1,272 million in FY 1993, DeCA will have reduced its' operating costs to \$939 million by the end of FY 1997. To accomplish this, we have reorganized to achieve greater efficiencies and cost reductions by eliminating duplication and centralizing such functions as contracting, category management, buying, merchandising and distribution. In addition, we will have achieved one-time inventory savings totalling \$161 million in resale stocks with the implementation of our stateside frequent delivery system and a recently implemented system to order and receive goods for overseas stores. The inventory savings are compared to stockage levels capitalized in October 1991. These combined reductions vastly exceed the predictions of the Jones Commission which targeted savings of \$90 million in the first four years of operation. And, we will deliver this

substantial sum in spite of the lack of a business management information system.

We have recently awarded the contracts for the modernization of our business systems and we will begin deployment before the end of this calendar year. I anticipate these systems will present many further opportunities for savings. Examples of a few of the labor and other savings we expect from these automation modernization programs include computer assisted ordering, automated coupon processing, and electronic shelf labels. Computer assisted ordering will allow over 90 percent of the merchandise to be ordered by computer. It will determine the amount of goods needed to replace those sold as measured by the scanner at the front of the store rather than the current labor intensive requirement of personnel physically walking the aisles and entering an order manually. Our new system will also allow coupons to be scanned into the system so they can be electronically processed for reimbursement from the manufacturers. A significant labor intensive task will be eliminated when the electronic shelf labels are installed. In the future, we'll be able to update the prices at a push of a button replacing the current practice of printing shelf labels, manually searching the shelves for the correct product and posting the new price label. When the deployment of our new business systems is complete we anticipate even further savings with the efficiencies they will deliver.

Last year I told this Panel that with all the challenges DeCA faced we had not yet had time to concentrate our merchandising efforts to realize the full potential savings available for our patrons. We recently completed the 1996 formal market basket price comparison study to determine differences between commissary and private sector supermarket prices and the savings to patrons. I am delighted with the results! Our customers have experienced a

significant rise in savings. The study, which conformed to the methodology recommended by the DoD Inspector General, disclosed an average savings of 29.7 percent to the commissary patron. That's 6.3 percent more than the 23.4 percent savings in the last market basket price comparison study conducted in 1992. This means that the typical E-4 with over four years of service, with a family of four who does all their grocery shopping at the commissary, saves \$1,581 per year. The commissary savings amounts to 6.8 percent of their total income, which is money available to this typical military family for other living expenses.

This is what your predecessors designed the commissary to do. Put pay in the service member's pocket! Furthermore, with a low operating gross margin and tremendous savings for the patron, I believe no one can deliver this portion of the service member's total compensation package better than DeCA!

We continue to maintain the trust of our employees. On February 20, 1996, DeCA signed a labor agreement with the National Association of Government Employees (NAGE). Even though there are 26 separate local store units and one region headquarters unit represented by NAGE, a single labor agreement was negotiated to apply to all of those employees. This was a major first for DeCA. In addition, DeCA is currently negotiating an agreement with the American Federation of Government Employees (AFGE) to cover all AFGE units nationwide. The National Federation of Federal Employees (NFFE) has also requested a nationwide agreement. These nationwide agreements are unusual in that local bargaining units agreed to abide by the terms of collective bargaining agreements negotiated by a team of managers and unit employees. Nationwide agreements ensure consistency in commissaries and save time and effort at the bargaining table on the part of

management and the unions. We think that these efforts are directly in line with the cooperative relationship envisioned by the President and the National Performance Review.

We also continue to maintain the respect of our trading partners. One of the greatest labor savings initiatives implemented by DeCA and industry has been the Delivery Ticket Invoicing (DTI). DTI is a payment method whereby the delivery ticket or receipt accompanying each commissary delivery also serves as the commissary supplier's invoice or demand for payment. In Fiscal Year 1995, commissary suppliers were paid \$1.6 billion using DTI. This represented 34 percent of the dollars we paid them. Some companies told us they were receiving payment before they could establish their accounts receivable. But, they quickly added they were very happy to get paid that quickly. Commissary bill paying performance exceeded the DoD average in Fiscal Year 1995 with 98 percent of its invoices paid on time. This all time high was due largely to DTI. We expect our DTI payments will approach \$3.6 billion in Fiscal Year 1996. When we started DTI it was to prevent the bill paying problems of the past. We did not realize that DTI would become the financial concept industry would adopt as its benchmark. Those in industry who have tried it agree that electronic commerce truly makes doing business with the government easier and cheaper.

As an undisputed leader in electronic commerce, by partnering with industry, DeCA has become a forerunner in other areas as well. The most significant of those is category management. Stated simply category management seeks to put the right product, at the right price, in the right place, in the right amount on the shelf to meet the patron's needs. This is accomplished when our category managers make decisions on all similar

items in a category instead of focusing on a single product traditionally followed in the grocery industry. All of the products carried in our stores are divided into distinctly manageable groups, for example, ready to eat cereal. Instead of just buying the lowest priced items, our buyers seek the largest savings for the highest volume sellers in a category. This practice has not only improved our buying practices and reduced our industry partner's costs, but also played a significant role in achieving the tremendous savings reported in our 1996 Market Basket Survey. Both industry and DeCA are excited about the further potential of category management which seeks to drive excess costs out of both the manufacturer's and the retailer's business.

Can we do more? The answer is a resounding YES! I believe the vehicle to deliver further efficiencies lies in the March 4, 1996, announcement by the Vice President that DeCA is a candidate to become a Performance Based Organization. While we have not worked out the details as of yet, the concept is exciting and we expect to gain many efficiencies in all aspects of DeCA's operations. I believe that becoming a Performance Based Organization will provide further opportunities for reducing the commissary system's dependence on appropriated funds. I believe becoming a Performance Based Organization will allow DeCA to maintain a high level of customer satisfaction in an environment of downsizing and reduced resources. I believe becoming a Performance Based Organization will afford DeCA greater operational flexibility and increased opportunities for cost efficiencies while holding the Agency accountable for its performance. While stressing his continued commitment to preserving the commissary benefit for service members while looking for ways to save appropriated funds and streamline operations, the Secretary of Defense showed great faith in nominating DeCA

to be a Performance Based Organization. With your support, we will not disappoint him!

In closing, I would like to take this opportunity to thank you for your support during my tour at DeCA. The legislative initiatives you enacted earlier this year will allow DeCA to further reduce operating costs. Your early release of the Fiscal Year 1996 construction program will help provide much needed facilities upgrade for our service members and our work force. While DeCA has faced many challenges during my tenure, the support and confidence of the Panel made our job easier. As always, I will leave my post as the Director of the Defense Commissary Agency with mixed feelings. I leave knowing the commissary is in good shape for the immediate future; but I also leave knowing the excitement has just begun!