

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

Mr. Chairman and Members of the Panel, this will be my last report to you as Director of the Defense Commissary Agency (DeCA). Having made the decision not to seek reappointment for another term, I will bring my tenure at DeCA to a close later this year. I do so with mixed feelings for as I have often said, being DeCA's Director has indeed been "the ride of a lifetime!"

Before I begin my final report, I would like to take this opportunity to thank each member who is serving or has served on the Morale, Welfare and Recreation Panel during my time at DeCA. The outstanding support of the Panel has helped to preserve the commissary benefit for the soldiers, marines, sailors, and airmen who deserve our nation's support.

However, before I leave there are several matters which I must address to the Panel. The first involves our attempt to acquire a commissary information management system, which we called DCIS.

In 1992, DeCA outsourced the procurement and life cycle management of its modernization business system to the Air Force. Computer Sciences Corporation was awarded a contract in July 1995, bidding a system used in the New England-based Shaw's grocery stores with additional commercial packages and minimal development. After three years of significant, hard work by DeCA, the Air Force, and the contractor, I decided to allow the contract to expire because of escalating costs, uncertainty that the end-product was attainable, and the fact the system could not be deployed before the Year 2000.

As directed by Congress, the DoD Inspector General has audited DCIS. As briefed to me, their preliminary report indicates that the DCIS procurement, program management, and contract management were conducted in strict accordance with the law and Department regulations. They found that the DCIS program became high-risk when it shifted from 90 percent commercial off-the-shelf to 90 percent development. They noted that DeCA directed three independent assessments in making every effort to salvage the program, and finally, that the DCIS delay created too much competition for available Y2K dollars.

But, permitting DCIS to expire neither broke the bank nor interfered with operational systems support. While we waited for DCIS, we had to make functional enhancements to existing systems to garner operating efficiencies. We eliminated depot ordering, reduced overseas order-of-ship time, expanded electronic data interchange, and overhauled just-in-time delivery to stateside commissary shelves. By the time that the first independent assessment in January 1997 rated the DCIS program "high risk", DeCA was fully immersed in the continuing process of redefining our business goals, mapping them to priority business initiatives, and identifying the information required to achieve them. This approach takes advantage of both emerging technologies and incremental acquisitions allowed by Clinger-Cohen.

We concurrently standardized and modernized commissary front-ends as part of DeCA's other major automation acquisition, point-of-sale system. From program start to expiration, we spent on average less than \$7 million per year on DCIS. Point-of-sale, however, took the lion's share of surcharge dollars -- approximately \$120 million by the end of this fiscal year. Point-of-sale is a complete success and well worth our investment. We've improved patron service, reduced maintenance costs, provided patron credit/debit card capability, and postured DeCA to make the same use of the valuable product movement information as do our private-sector counterparts.

DeCA and the Department of Defense asked the Logistics Management Institute (LMI), to assess post-DCIS alternatives. LMI reports that DeCA's in-house enterprise system, including Y2K improvements, provides the most functionality at the lowest price with the least risk in the near-term. Hence, our strategy becomes one of enhancing our current systems with incremental purchases of information technology as specified in our business plan and budget, based on the best return-on-investment, and completely in accordance with the intent of the Clinger-Cohen Act.

DeCA systems will be Y2K compliant by October 1999. We have contingency plans to recover from minor challenges that will occur. As I sit here today, I can tell you that DeCA is in better information technology shape than we have ever been. Y2K has driven a major technology refresh, requiring us to open all our systems. We have learned our lessons from past endeavors. We have a sound enterprise systems plan. We know what we need to do to grow our business. And, we have a solid information technology foundation upon which to build.

The second matter concerns scanner data. Commissaries have provided scanner data to industry through various contractual instruments for many years. The most recent formal contract inherited from the Air Force ran from January of 1991 through March of 1996 (63 months). That instrument provided exclusive rights to the scanner data to a single company. While the contractor received \$44.3 million in revenue, DeCA received about \$3.9 million over the life of the contract. An attempt to award a replacement contract resulted in long term litigation. As an interim measure, DeCA provided data to interested parties by auctioning the right to use our scanner data. The interim auction, even though it was a speculative business venture for two of the three subscribers, produced a little over \$1 million in revenue for DeCA during its 18 month life. Upon conclusion of the litigation, DeCA moved to a new auction process to help us realize market value for the scanner data.

The results of that auction indicate DeCA will receive market value for the use of its scanner data. I must remind the Panel that despite some controversy surrounding the auction methodology, it has been both successfully implemented and upheld in Federal courts.

The third matter involves the controversy surrounding the test of additional value brand merchandise in the southern area of the Eastern Region. Commissaries have offered value brand merchandise for over 20 years. The current test placed 40 value brand items in 22 stores. As the grocery industry in the United States raised the bar in terms of quality and price competitiveness of private label merchandise, many consumers embraced store brands. Many commissary patrons have come to believe that while the commissary consistently offers the best day-to-day prices on national brands, they can obtain products of equal quality at a lower price by purchasing private or control labels downtown. This perception is most evident among the younger active duty families who are trying to stretch their grocery dollars. I commend to your attention the cover story in the November 1998 issue of Military Market. We are monitoring this test closely and will provide more information to the Panel over the one-year test period. With only two full months of sales data since the test began, conclusions regarding the 40 test items would be premature.

To shift gears, DeCA has come a long way since I first arrived in November 1992. I am proud of our many accomplishments during my watch. The employees of DeCA have worked hard and deserve a huge pat on the back for their achievements. It starts with the streamlining and reengineering of our business practices that resulted in appropriated savings of \$330 million, over and above the \$196 million attributed to base closures and troop draw downs. Another significant streamlining initiative was the reduction in staffing above store level. In FY91 the overhead staffing for the four commissary systems was 3,272 authorizations. At the end of FY98 DeCA's above store level staffing was 1,269 authorizations. This represents a reduction of 61 percent.

Re-engineering has been a way of life at DeCA resulting in the improvement of many business processes. We reduced the order-ship-times and on-hand inventory for overseas operations thereby providing better management of inventory turns and inventory-to-sales ratios while increasing stock availability to our customers.

We also took significant costs out of the infrastructure by absorbing functions which were core to the commissary system, such as overseas distribution centers and brand name procurement -- functions previously performed by others. In each case, we have been able to perform these functions with fewer people at less cost to taxpayers.

One of our greatest successes has been the Delivery Ticket Invoice -- a process that gained national attention. It reduced manpower within DeCA and the Defense Finance and Accounting Service, eliminated multiple processing of papers documents, and eliminated the need for vendors to submit a separate invoice for payment beyond the delivery ticket which accompanies the product. Finally, it reduced by millions of dollars the amount the Agency previously incurred as interest penalties and discounts lost. I'm proud to report that DeCA has, since FY94, consistently ranked first in DoD for on-time payments.

DeCA has placed a renewed emphasis on training store level managers. We are currently training every produce and meat manager to improve our operations. We are also listening to suppliers as they explain the best way to merchandise their products. These initiatives have led to a more responsive workforce at the commissary store.

Of course, all these accomplishments were driven by our strategic planning process. Through planning we were able to target specific goals, objectives, strategies and metrics aimed at improving customer satisfaction, better managing our resources, and continuously striving to make DeCA both the Military's Marketplace of Choice, and our employees' workplace of choice. Again, the outstanding efforts of our employees were recognized last year when DeCA received the 1998 Presidential Quality Achievement Award. This award measured DeCA against the world class Malcomb Baldrige criteria and recognized that our use of quality management tools and techniques has transformed the Agency into a world class customer service organization.

Over the past six and one-half years, I have poured most of my energy into preservation of the commissary benefit by increasing operational effectiveness and focusing on the customer. While DeCA, with the support of Congress, the Department of Defense, the Military Services, industry, and the many associations which support our military, has been very successful in maintaining a much improved commissary benefit and system; we have, in my opinion, neither fully understood what has occurred over the past five years in the grocery sector of commercial retail, nor spent sufficient time evaluating how our customers, particularly our younger customers, are responding to the overwhelming changes downtown. I firmly believe we are in a battle for the hearts and minds of junior military personnel, both officers and enlisted, and their family members.

Our view is jaded because we still sell lots of groceries, and we still experience lines at checkout stations on payday. While I have no empirical data to support my claim, my numerous informal surveys lead me to believe that nearly two-thirds of our shoppers in the United States are retirees. Loyal, retired shoppers came into that status by being loyal active duty shoppers for 20 to 30 years. We must continue to cultivate the younger shoppers since young blood is lifeblood to most commercial endeavors. Today's younger shoppers increasingly rate convenience and time over price. And those that rate price first will often choose the low price without regard to brand loyalty.

The challenge to DeCA, and if I may be so bold, to the entire military resale community is to retain the loyalty and support of our older customers while offering the right combination of convenience, selection, price and accessibility to earn the loyalty of our younger ones. Members of the Panel, that is a tall order.

Commissaries have always been the foundation of military resale. If commissaries are to maintain that role, we must understand our customers, particularly the ones we are not getting -- their likes, their dislikes, their expectations. For if we don't, they will simply take their business elsewhere. And I fear many are already doing just that. We must be willing to change notions, attitudes, operating policies, regulations, and even laws if we are to continue to meet customer expectations.

I would like to quote an excerpt from the editorial page of the February issue of Exchange and Commissary News.

"If you really think about it, DeCA in 1999 is operating with most of the same policies that were in effect at the end of World War II. It just can't operate an effective retail organization in 1999 the same way it did in 1949.

We hear all kinds of rumblings indicating that we are losing customers to the outside. Some experts are shocked that we have any patrons left. If it weren't for the loyalty that military families feel for the commissary, we wouldn't. Things have to change for the benefit to remain a benefit." I could not have said it better.

Finally, I urge the Panel to place faith in the Commissary Operating Board you created and work with them to develop the required flexibilities. I have been extremely impressed with the ability of the Board members to put Service parochialism aside and act corporately in the interest of the commissary patron. Thus, as I bring my government service to a close later this year, I am confident that our customers will be well served under the watchful eyes of the Commissary Operating Board, the Department of Defense, and the Congress. Again, thank you for your continued support during my time at DeCA.