



T H E M I L I T A R Y C O A L I T I O N

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STATEMENT FOR THE RECORD

OF

THE MILITARY COALITION (TMC)

Submitted to the

**HOUSE ARMED SERVICES
SUBCOMMITTEE ON MILITARY PERSONNEL**

concerning

Views on Commissary Reform

January 13, 2016

Chairman Heck, Ranking Member Davis, and distinguished members of the Subcommittee, on behalf of The Military Coalition (TMC), a consortium of nationally prominent uniformed services and veterans' organizations, we are grateful to the committee for this opportunity to express our views concerning commissary reform. This statement for the record provides the collective views of the following military and veterans' organizations, which represent approximately 5 million current and former members of the seven uniformed services, plus their families and survivors.

Air Force Sergeants Association
Air Force Women Officers Associated
AMVETS
Army Aviation Association of America
Association of Military Surgeons of the United States
Association of the United States Army
Association of the United States Navy
Chief Warrant Officer and Warrant Officer Association, U.S. Coast Guard
Commissioned Officers Association of the U.S. Public Health Service, Inc.
Enlisted Association of the National Guard
Fleet Reserve Association
Gold Star Wives, Inc.
Jewish War Veterans of the United States of America
Marine Corps Reserve Association
Military Chaplains Association of the United States of America
Military Officers Association of America
Military Order of the Purple Heart
National Association for Uniformed Services
National Guard Association of the United States
National Military Family Association
Naval Enlisted Reserve Association
Non Commissioned Officers Association
Reserve Officers Association
The Retired Enlisted Association
United States Army Warrant Officers Association
United States Coast Guard Chief Petty Officers Association
Veterans of Foreign Wars

The Military Coalition, Inc. does not receive any grants or contracts from the federal government.

First and foremost, we express our deep thanks to this Subcommittee for your longstanding support of the commissary program and your commitment to maintaining the value of this important benefit for the entire uniformed services community. It is solely because of your strong support that the commissary benefit has been preserved from those who, over the course of many decades, have sought to weaken, defund, privatize, or eliminate it entirely.

Last year's Administration proposal to phase out the commissary subsidy over several years was only the latest of these efforts. It focused entirely on cutting spending, with little regard for the dramatic reduction in compensation value such action would impose on millions of currently serving, retired, and survivor patrons and family members.

This committee's insistence on preserving the current levels of patron savings, satisfaction and high product quality – and specifying those requirements in the FY2016 National Defense Authorization Act (NDAA) -- has been crucial to altering the tone and direction of the discussion on commissary changes. Your specification of these standards of measurement for any effort to make commissaries cost-neutral effectively forced the Defense Department (DoD) to acknowledge the reality that the two are mutually exclusive. That is, any major reduction in funding must necessarily lead to reduced patron savings, satisfaction, and product quality.

We are deeply gratified that DoD's Deputy Chief Management Officer (DCMO) Peter Levine acknowledged that past proposals focused on cost-cutting over maintaining the benefit. He has assured us that, thanks specifically to your efforts, savings to the patron is now the Department's priority, and cost cutting will only be implemented to the point that patron savings are sustainable at current benchmark levels. In that vein, the Coalition believes any proposed changes to commissary programs must be evaluated against these same NDAA-established standards – i.e., would the proposal sustain patron savings and satisfaction?

Why Commissaries Exist

For nearly 200 years, our government has funded commissaries, in one form or another, for our military personnel. The original purpose was to provide goods on post without involving civilian vendors, to allow the Army to care for its own by providing more than was available through rations, and to supplement military pay.

As the government began assigning servicemembers to remote and overseas locations, commissaries evolved to provide members, and then families, relief from limited food options in the remote or overseas locations, and to sustain access to the kinds of food and other products they would have had available if the government had not assigned them to such locations. Finally, acknowledging the particular compensation value of the commissary program, an additional purpose has been to provide a reasonably consistent benefit across the range of locations where substantial numbers of servicemembers and families are assigned. Military personnel can rely on finding a similar offering of items at military installations around the world.

As military demographics have changed over the decades, to include more and more families, military personnel policy also has evolved to recognize the retention value of family-related programs, including not just commissaries, but healthcare, housing, funding for local schools, family programs, and more that reflect the needs of military families and their effect on military readiness.

The Commissary Subsidy Is Cost-Effective

The commissary remains one of the most cost efficient benefits provided by the DoD to our military families, in terms of benefit value delivered per federal dollar spent. If an E-5 (8 years) with a family of four spends \$600 per month at the commissary that provides a savings level of 30%, those same items would cost \$857 in a civilian store. The difference of \$257 per month is a direct compensation value for that enlisted family. In effect, that level of monthly savings is equivalent to a 9% basic pay raise compared to what the family would spend on food if the commissary were removed from the equation.

For the last three years, military families have seen pay raises smaller than in the private sector, cutbacks to housing allowances, increases in pharmacy copays, and increasing numbers of pink slips given. Military families are not providing fewer sacrifices in their service to our nation. But they are being asked to do so with fewer dollars, fewer support programs, and fewer training opportunities.

In the midst of all these cutbacks, the commissary continues to provide a substantial, consistent and highly valued compensation offset. Study after study has shown commissaries rank only behind healthcare as the most valued non-cash benefit, and that significant commissary cuts would reduce morale and pose a threat to retention.

Reports and Recommendations to Consolidate

The Military Compensation and Retirement Modernization Commission (MCRMC) proposed to consolidate the broader military resale system, merging commissaries and Exchanges. The Military Resale Study by Boston Consulting Group (BCG) and the proposals outlined by the DoD would consolidate backroom and high level administrative activities only. While the 1990's merge of separate commissary agencies into Defense Commissary Agency (DeCA) was successful, efforts to merge the separate Exchanges have not been, in part because of different service structures.

The laws that define what the commissary and Exchange can each sell allow them to provide savings benefits to the same servicemember without competing directly. In fact, studies have shown patronage at one results in increased foot traffic and sales for the other. The performance of the two entities has been carefully integrated into the support activity structure on installations around the world.

The Exchanges are able to subsidize numerous activities on installations and during contingency operations with their profits. These include lodging, MWR activities and quality of life programs, varying by service and location. Any changes to the way the two interact or perform their current missions inevitably raise the potential for adverse effects on other smaller programs funded via MWR dividends. A RAND review confirmed these potential deficits and other secondary effects resulting in higher costs for the DoD to adequately support military personnel.¹

We urge caution in pursuing legislative changes to that nexus with secondary and tertiary effects on other quality of life programs. MWR programs remain vital to the support of servicemembers and their families, and their cuts have the potential to affect retention. While retention is not a driving concern during times of downsizing, the potential effects over the long term must be evaluated.

While many consolidation issues may be considered strictly "business decisions," the NDAA-imposed standards should still be the primary measuring stick. Would the proposals sustain or erode the current levels of patron savings, benefits, and satisfaction?

¹ The Likely Effects of Price Increases on Commissary Patronage, RAND, (2015).

Changes to Merchandising, Private Label and Surcharge Rules

The BCG report made several recommendations that would require legislative action. We believe it is reasonable to provide DeCA more operational flexibility in the way it provides service, so long as patron savings and satisfaction are maintained. These changes could include flexibility in merchandising, the use of a private label and how the 5% surcharge is used. Many times, DeCA has been asked to find efficiencies, only to respond they have cut all of the “low hanging fruit.” We believe them.

We are not fully convinced that these changes are the golden ticket to generating savings while preserving the benefit. We have questions about how these changes will provide customer satisfaction and high product quality.

Currently, customers get name brand items for low prices. It is unclear how a change in the variety of name brand items to a different ratio of private label items might affect customer satisfaction, savings or product quality. The RAND report cites that commissaries have a significantly smaller footprint than most private grocery stores and already sell a smaller selection of items.² Private grocers’ flexibility in pricing on the private label items allows them a larger profit margin, while DeCA has a mandate to provide savings.³ These are two very different goals. Additionally, DeCA would need to “add team members to manage relationships with third-party private label manufacturers or sourcing companies.”⁴ This proposal is not a simple one, with potential wins and pitfalls.

Additionally, we have seen commissary sales fall over the last several years. Some may attribute this to downsizing, but others might cite the possibility of lower customer satisfaction. Budget cuts have resulted in reduced hours, and perceived degradation in store performance or appearance reduces patronage. It is important to look at each commissary and determine whether it has what it needs to “sell” the products. Is it clean? Are the shelves fully stocked? Does it look inviting? Are the aisles wide enough for a cart full of children and a wheelchair to get by one another? Does security, parking, or other barriers make it too difficult to use the benefit? Flexibility to preserve savings may be useless if funding is cut in other ways that make commissaries less desirable and accessible.

The bottom line is the Coalition is not opposed to pursuing additional flexibility for DeCA managers to find additional savings options, but the net effect of any such flexibility adjustments must be scrutinized for potential impact on the patron experience.

Conversion to NAF system

We have some concern about other proposals requiring legislative action that will have a potential employee impact. Many of DeCA’s employees are military affiliated, meaning they are military family members or veterans/retirees themselves. In 2012, approximately 27% of DeCA’s 15,276 employees were military spouses or family members.⁵ BCG proposes that savings can be achieved in store operations by reducing dependence on contract labor and increasing the number of employees, but with all under a Non-Appropriated Fund (NAF) system. This includes converting current employees under the General Schedule (GS) system to NAF positions. Such a conversion includes a significant cut in wages and benefits for these employees.

²The Likely Effects of Price Increases on Commissary Patronage, RAND, pg. 18, (2015).

³ Military Resale Study, Boston Consulting Group, pg. 42 (July 10, 2015).

⁴ Id., pg. 44.

⁵ *Costs and Benefits of the Department of Defense Resale System*, Resale and MWR Center for Research, pg. 32 (December 2012).

We understand this conversion will result in congruency for business and IT systems necessary to achieve savings. It is our hope that plans going forward will include equivalent substitute compensation packages for employees being converted to NAF status and that retirement and other benefits already earned will be “cashed out” for deposit in the new system. Where possible, we would urge that such changes be done through natural attrition.

Locally Sourcing Food, Elimination of Second Destination Transportation Subsidy

The BCG study identifies potential changes that can be implemented without legislation. One of these is locally sourcing goods, thereby reducing or eliminating the second destination transportation (SDT) subsidy for getting foods to overseas locations.

In 2014, DeCA proposed a larger portion of their produce in Pacific commissaries be sourced locally for savings. Some advocates, industry experts, and legislators, including members of this subcommittee, were concerned the change would result in lower quality and more expensive produce for patrons in those OCONUS locations.

DeCA has been able to do this in Europe fairly successfully, as the type of produce available there is more in common with that in the United States. This is not so easily achieved in Asia, where produce availability is highly variable. As such, implementation has not gone as smoothly as hoped. In Asia, where produce must be transported across oceans, the higher costs for procurement and transportation have been passed onto the patron. In December, a Military Times article outlined some of the difficulties, highlighting that the price for a 22-ounce package of Romaine lettuce in Guam had increased to \$10.69.

The Coalition believes strongly the SDT subsidy is a cost of doing military business, as the whole reason military members and families are assigned overseas is for military readiness. Therefore, we believe the SDT subsidy should be borne by the taxpayer through appropriated funding; ensuring our servicemembers and their families can eat healthy fresh food they are familiar with. Removing the subsidy results in it being figured into the cost borne by the contractor, and passed on to the patron. Servicemembers and their families are overseas at the pleasure of their government. They should not be responsible for paying for the cost of transporting necessary support goods to that location.

This subcommittee has been highly supportive of retaining the SDT, and we thank you for it, and ask that you continue to fight its elimination. The SDT is necessary to provide high product quality, sustain savings and maintain customer satisfaction.

Store Hours

DeCA has had to resort to cutting hours or days of operation as appropriations have been reduced. This has damaged patronage and customer satisfaction. Our military requires a lot from our servicemembers and their families, and requires it at all hours, whether it is convenient to the family schedule or not. However, many of the support functions have limited hours in comparison. Additionally, store hours being available after work on weekends is especially important to Guard and Reserve members who may only have access to commissaries during drill weekends.

We know that military families value access to the commissary. When hours of operation are limited, it impacts a family’s access to the benefits required. This forces them to choose more convenient, albeit more costly options to provide for their family needs when the commissary isn’t available. We oppose

cutting hours of operation as a cost saving measure because it does not meet the benchmarks of preserving savings and customer satisfaction.

Market Basket Savings Standard

One concern we have is possible changes to the calculation of savings based on a newly defined market basket. DeCA calculates their average savings of 30% on an annual market basket study of the pricing of thousands of items compared against other grocery stores, regionally.⁶ However, the BCG study used a different market basket analysis using 50 key items compared locally, and calculated that the average savings was only 16-21%.⁷ A new market basket benchmark could potentially reduce savings to patrons if limited compared to DeCA's broad measure. We ask that DeCA's annual market basket methodology be retained to ensure savings levels are measured accurately against the current savings benefit.

Conclusion

The Coalition is grateful to the Subcommittee for this opportunity to present our views. We are particularly grateful for your leadership in establishing patron-based benchmarks against which proposals can be measured. This is the most significant development on commissary issues in many years. Any changes that undermine DeCA's ability to attract a stable patron base effectively erode the benefit. Changes in pricing formats, funding for store maintenance and improvements, and funding for new marketing strategies all have the potential to impact patronage for the better. On the other hand, such changes have at least some potential for adverse consequences. While savings and satisfaction can be measured in surveys, declining patronage is also a concern that must be monitored as an additional indication of declining patron satisfaction.

It must be emphasized that a decrease in commissary usage does not just mean a reduction in surcharge revenue. It brings a reduction in Exchange foot traffic (i.e. shoppers and their profits) and reduced MWR dividends. Those reduced dividends mean that important quality of life and MWR programs lose their primary source of funding as a Non-Appropriated Fund activity. This threatens readiness, morale and retention.

The commissary is not just a DoD-operated grocery store. It is not a failing business model. In fact, it is not a business at all. It is a landmark benefit provided by DoD as part of the cost of doing business and supporting an all-volunteer-force. It provides food and goods to servicemembers stationed in remote locations with few shopping choices, and an opportunity to connect with their military community in high density areas. For those stationed overseas, it allows them to recognize the food that they buy, be able to afford it, interact with store employees in a language they understand, and experience a little taste of home to ease some of the challenges of military life. It gives access to the retiree to help make ends meet and an opportunity to maintain a connection to their military community. It is also important to families who are straining to make ends meet financially, providing them with more goods for their dollar than they can get elsewhere.

The commissary remains a landmark benefit common to generations of servicemembers. It is tremendously efficient for the cost of maintaining it, putting real compensation value in the pocket of every servicemember, retiree and wounded warrior who uses it far exceeding the amount of federal

⁶ New Price Study Validates Commissary's 30% Savings, http://www.commissaries.com/press_room/press_release/2014/DeCA_01_14.cfm (accessed Jan. 5, 2016).

⁷ Military Resale Study, Boston Consulting Group, pg. 26 (July 2015).

outlays for the commissary subsidy. That value can't be replaced, and if broken, may not be easily repaired.

Thank you again for your continued strong support of the commissary and the millions of patrons who use them.

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Mrs. Brooke Goldberg is a graduate of the University of Oregon, with a Bachelor of Science in Political Science, a Minor in Spanish, and a Juris Doctorate with certificates in Environmental and Natural Resource Law and International Law. Goldberg is also eligible for a Professional Teaching Certificate in English as a Second Language. Goldberg has been an Air Force spouse since 2002, serving as a Key Spouse at both the installation and headquarters levels during her family's time assigned to Hurlburt Field, Florida. She has served as the Secretary and Vice President of the Board of Directors for a non-profit with an annual budget of \$2 million dollars, and taught Spanish for two years in Santa Rosa County public high schools.

She is now an Air Force Reserve Key Spouse serving at the Wing level at Dover Air Force Base, Delaware. She has served on the DoD Financial Readiness Roundtable, the Military Saves Advisory Roundtable, and several subcommittees of The Military Coalition (TMC). She currently sits on the Personnel, Compensation and Commissary and Military Construction/MWR subcommittees of TMC and the Department of Defense Military Spouse Ambassador Network.

Goldberg joined MOAA in 2015 after serving two years as Deputy Director of Government Relations at the National Military Family Association.