

**NOT FOR PUBLICATION
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THE HOUSE ARMED
SERVICES COMMITTEE**

**STATEMENT OF
MR. MICHAEL P. DOWNS
DIRECTOR**

**PERSONAL AND FAMILY READINESS DIVISION
MANPOWER AND RESERVE AFFAIRS DEPARTMENT
HEADQUARTERS, UNITED STATES MARINE CORPS**

**BEFORE THE
MILITARY PERSONNEL SUBCOMMITTEE
OF THE
HOUSE ARMED SERVICES COMMITTEE
CONCERNING**

MORALE, WELFARE, AND RECREATION AND MILITARY RESALE

ON

March 15, 2006

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Michael P. Downs
Director, Personal and Family Readiness Division



Michael P. Downs entered the U. S. Marine Corps via the Naval Reserve Officers Training Course, and was commissioned a second lieutenant in June 1961. In April 1962, he completed The Basic School in Quantico, VA, and was assigned to a transplacement battalion where he served as a platoon commander, company commander, and assistant operations officer at Camp Pendleton, CA, and the Far East until December 1964. His next assignment took him to Marine Barracks, Yorktown, VA, where he served until February 1967. He was promoted to first lieutenant in December 1962, and captain in September 1965.

Upon completing the Amphibious Warfare School in Quantico in September 1967, he was transferred to the Republic of Vietnam where he served with the 1st Marine Division as Commanding Officer for Company F, 2nd Battalion, 5th Marines; Assistant Operations Officer for the 5th Marine Regiment; and Operations Officer for the 3d Battalion, 5th Marines. While serving as Company Commander of F/2/5, he was awarded the Silver Star Medal for heroic actions during Operation Hue City in February 1968.

He returned to the United States in October 1968, and was sent to Quantico where he was assigned to the Development Center, and then to The Basic School. From 1971 to 1974 he was assigned to Marine Barracks, Washington, D.C. He was promoted to major in November 1968.

After his tour in the National Capital Area, he attended the U.S. Army Command and General Staff College, Fort Leavenworth, KS, and upon graduation in July 1975 was assigned to Okinawa, Japan, where he served as Executive Officer, 1st Battalion, 9th Marines, 3d Marine Division.

Follow on assignments included Headquarters Marine Corps, Washington, D.C., where he was Administrative Assistant to the Deputy Chief of Staff, Operations and Training, and then monitor for Ground Lieutenant Colonels; student at the National War College, Washington, D.C.; Plans Officer at Headquarters, Allied Forces Central Europe, Brunssum, The Netherlands; Director of Operations and Training, and Commanding Officer, 27th Marines, 7th Marine Amphibious Brigade, Marine Corps Air Ground Combat Center, Twentynine Palms, CA; and Deputy for Marine Corps Matters, Office of Program Appraisal, Department of the Navy, Washington, D.C. He was promoted to

lieutenant colonel in November 1977 and to colonel in November 1982, and was selected for promotion to brigadier general in December 1986.

In March 1987 he was assigned as the Director, Facilities and Services Division, Headquarters Marine Corps where he remained for about two and one half years. In July 1989, he was transferred to Camp Lejeune, NC, where he served first as Commanding General, 6th Marine Expeditionary Brigade, and then as Commanding General, Marine Corps Base. He retired from the Marine Corps in August 1992 after more than 31 years on active duty.

After his retirement from the Marine Corps, he was a consultant to the U.S. House of Representatives, House Appropriations Committee, and to Textron Inc. He became Director, Personal and Family Readiness Division, Manpower and Reserve Affairs Department, Headquarters Marine Corps, on May 1, 2000.

In addition to the Silver Star Medal, his personal decorations and awards include the Distinguished Service Medal; Purple Heart; Defense Meritorious Service Medal; Combat Action Ribbon; Presidential Unit Citation, with bronze star; Meritorious Unit Commendation, with two bronze stars; and the Vietnamese Cross of Gallantry with palm.

He is married to the former Martha Leigh Puller, of Saluda, VA. They have two sons, Mike Jr., and Burwell.

Chairman McHugh, Congressman Snyder, distinguished members of the Subcommittee, thank you for the opportunity to testify before the Military Personnel Subcommittee to report on the Marine Corps Exchange (MCX) and our Morale, Welfare, and Recreation (MWR) Program. In 2000, upon becoming the Director of the Personal and Family Readiness Division and assuming responsibility for oversight of the Marine Corps Community Services (MCCS), the organization was in its beginning stages. While I could see initial benefits associated with the organization's changes, I realized it would take time to reach full potential. Today, as I update you on the state of the Marine Corps Exchange and MWR Programs, I am mindful of how far we have come and am proud of the progress. To address the 21st Century needs of Marines and their families, however, we cannot become static or too satisfied. At the start of the MWR program in the 1950's, and over 109 years ago for the Marine Corps Exchange, Marines and their families were essentially "issued" their MWR and Exchange benefits. Customer feedback was not encouraged. Fast forward to 2006 and you will find that Marines and their families are active participants in defining their needs and advocating for sustainment of their non-pay benefits. Today, our program managers have learned the value of customer feedback and are actively engaged in seeking ways to improve the overall experience of serving as U.S. Marines. What we do, how it is perceived by our customers, and, of course, the support of senior leaders are all vitally important to creating a positive experience that contributes to recruitment, retention, and readiness outcomes.

From 1999 to today, the employees of MCCS have banded together to make transformational changes to long-standing organizational structures, feedback mechanisms (operational and customer service), workforce quality and professionalism,

knowledge management, and program offerings such as the deployment support provided to our expeditionary force. Our transformation initiatives are returning great benefits to customers and employees alike. I am extremely proud of our employees. Our senior Marine Corps leaders have embraced the changes and understand the benefits of the “MCCS way of operation.” Throughout my statement, I will specifically address these far-reaching changes and contributions to the evolutionary MCCS.

The Right Organization for the Marine Corps. MCCS was established by consolidating the previous programs of MWR (including the already consolidated Exchange System), Child Development, Family Services, and Voluntary Education under a single overhead structure. This action was taken, in part, to answer customer requests for a community services “single point of contact,” but also to address our senior leaders’ desire for increased effectiveness and leverage all community services assets and capabilities to achieve common outcomes. In other words, to make it simple and easy for our Marines and their families and achieve efficiency standards that are a Marine Corps hallmark. MCCS’s 80 programs make our bases and stations livable communities and help Marines and their families pursue goals associated with healthy lifestyles, lifelong learning, responsible citizenship, family readiness, and quick acclimation (whether a result of relocation or transition), while providing value goods and services to support basic necessities and offering other desired commodities.

Recently completed Customer Satisfaction Index (CSI) and Associate Satisfaction Index (ASI) surveys reveal that our customers and associates similarly believe MCCS is succeeding in promoting this sought after network of community services. These CSI/ASI surveys, which I will refer to throughout this statement, are conducted to

measure satisfaction levels at regular intervals, identify problem areas, and provide recommendations for program improvement. Scores from the survey can be zero to 100 and represent a raw score rather than a mathematical percentage. Customers believe MCCS programs and services directly contribute to the readiness of the Corps; are committed to providing quality customer service; and offer valuable benefits to Marines and their families. Associates demonstrate increasing loyalty to MCCS and express pride and satisfaction in our organization. These attributes have led to overall increased satisfaction in the organization.

Feedback Mechanisms. The Key to program success and quantifying value to Marines and families depends on our ability to collect and assimilate customer feedback. Our program managers must also have an opportunity to collectively make program changes and plan a “to-be” state for improved effectiveness.

For over 10 years, we have implemented CSI and ASI surveys at our Exchanges. We have learned to value the information gleaned and “opportunity areas” identified for improvement. As such, we have subsequently extended our survey administration to six MWR Programs and plan to employ this tool within our social services programs, as well.

To obtain program manager feedback on the state and quality of our “as-is” operations, we are conducting functionality assessments on all of our MCCS programs. This is a rigorous process that requires our program managers to critically assess their productivity, staffing levels, and performance management plans. Functionality assessments help to standardize programs so that program managers may benchmark their operation within the Marine Corps, but also with other public or commercial

operations. Today, we are past the mid-way point with 44 of our programs having completed a functionality assessment review.

A Professional Workforce. Today's Marines and their families expect to encounter highly qualified professionals who have the technical expertise and program knowledge necessary to provide quality customer service. Over the past five years, through functionality assessments and other efforts, we have identified career training and education, as well as certification/licensure requirements for our MCCA employee community of interest. We have additionally utilized national-level training to improve the individual competencies of our managers and to broaden their skill sets. Through these trained professionals, we will ensure MCCA continues evolving to better serve Marines and their families and to also nurture the managers of tomorrow.

System Modernization — A Program Managers Tool for the Future.

Understanding program utilization; preferences, and specific habits of our customers, and the financial position of our programs is critical to program effective management. Over the past five years, MCCA has replaced legacy systems with modern, commercial-off-the-shelf management information systems. Within every program and support discipline, we are learning to value technology and working to become super-users of our modern systems. Program management in the 21st Century depends on the ability and talent of our staff to turn data into useable knowledge and beneficial actions.

MCCA continues to move forward with our aggressive systems modernization and integration initiatives. These new technologies are providing us the capability and flexibility to adapt to emerging requirements and make sound business decisions that will improve Marine Corps quality of life. Our RECTRAC system allows us to successfully

measure usage, demographics, customer feedback, and standardize business practices in our recreation activities. ESSENTUS is a modern retail merchandising system that tracks and monitors the inventory and sale of exchange merchandise. HRMS provides our MCCA managers with nonappropriated fund personnel pay and benefits processing and recordkeeping. AXS-ONE is a commercial-off-the-shelf finance and accounting system that supports the entire nonappropriated fund operations and transactions of MCCA.

Our program managers are now gathering data on their operations that was previously unknown or unverifiable. Today, they can make business decisions based less on their intuition and more on facts. For all of our accomplishments, however, we know that we will never be completely finished in this area. Systems upgrades and replacements will need to be implemented to ensure we keep pace with modern technological changes.

Deployment Support

As an expeditionary force, MCCA must be “road tested” and tough. As an evolving and learning organization, the protracted deployments associated with Operation Enduring Freedom and Operation Iraqi Freedom (OEF/OIF) have provided crucial experience necessary to evaluate our long-standing deployment support policies, procedures, and programs. As a result, we have been able to incorporate lessons learned for the total cycle and designed pre, during, and post-deployment programs to strengthen the personal and family readiness of Marines and their families.

Today, 46 percent of the current Marine Corps active duty force and 49 percent of Ready Reserve Marines have been deployed to OEF/OIF. This statistic is indicative of the far-reaching impact of the Global War on Terrorism and the prosecution of OEF/OIF.

Many Marines are on their third deployment to a combat zone. Regardless of the number of times deployed, Marines and their families must be prepared and, therefore, continuously hone their personal and family readiness skills. Of equal importance, they are entitled to an appropriate quality of life that is commensurate with their commitment to the Nation's defense.

"In Theater." Marines are immensely appreciative of the touches of home provided by MCCS and other agencies. Support varies depending upon the duration, location, and intensity of the mission. We strive, however, to ensure that all deployed Marines, especially those at remote sites, enjoy some measure of recreation and relaxation. The Army serves as the executive agent for MWR "in theater" and through a contract with Kellogg, Brown, and Root/Halliburton, operates facilities in Afghanistan, Iraq, and Djibouti. A typical representation of MWR support at the more stable forward operating bases includes: fitness equipment, movie theaters, recreations centers, Internet service, televisions, and video games. At the remote sites, Marines are provided portable self-directed recreation opportunities. Examples include: gym, recreation, and sports equipment; playing cards; and board games.

In OEF/OIF theaters, the Army and Air Force Exchange Service (AAFES) operate and staff Exchanges, except at designated joint MCX/AAFES activities. I am pleased to report that the MCX has the dedicated support of 31 Exchange Military Occupational Specialty (MOS) Marines and 13 civilian personnel currently assigned to these joint MCX/AAFES activities. Working with AAFES, we provide MCX-type products, such as health and comfort items, DVDs, magazines, and snack foods. At the main Marine Corps camps, we have Exchanges available seven days a week, but also

operate Tactical Field Exchanges at various less stable forward locations. Additionally, we have placed a high priority on our mobile Warrior Express Service Teams, who travel to outlying Marines at remote sites to ensure that they have access to Exchange items with a pre-determined level of frequency. To further boost morale and keep Marines in contact with home, there are 71 call centers in OEF/OIF (provided by AAFES), cyber cafes for access to email and the Internet, and mail services. Since March 2004 through January 2006, postal Marines have delivered approximately 52.5 million pounds of mail to our deployed Marines. "MotoMail," our Internet-based mail-like service continues to be heavily utilized with nearly a million MotoMail letters created and delivered in theater since 2004. With the enthusiastic response to MotoMail, we will be extending this service to other Marine Corps deployed environments.

At Camp Lemonier, Djibouti, Africa, MCCA runs a cantina to provide quality products and services at reasonable fees for all military and civilian personnel aboard the camp. The cantina is open six days a week and provides beverages, snacks, and recreational activities including television via the Armed Forces Network, music played by volunteer disc jockeys, darts, and billiards. As previously mentioned in this statement, Kellogg, Brown, and Root/Halliburton also provides MWR-type programs and services such as gyms and theaters aboard the camp under a contract overseen by the Army.

Home-Station Support. For Marines and the families who remain behind at our bases and stations, MCCA provides the caring support, programs, and services that make these installation "hometowns" great places to live, work, and recreate. Our service support network and program offerings have been constructed to provide in-person and/or electronic access to social, recreational, and community services. This manner of

support helps to mitigate the military lifestyle challenges and assure deployed Marines that their families are secure and strongly supported while they are away. As needed, MCCS programs surge to meet the special needs of those who keep the home fires burning. For example, hours of operation are extended to meet parent support and child development needs, youth programs are expanded to make the waiting for parents return easier, and specifically developed support events such as puppet shows, nutrition and health fairs, fashion shows, and fitness challenges are provided to strengthen the communities and enhance quality of life.

Our Marine Corps Family Team Building Programs, in particular, the Key Volunteer Network (KVN) and Lifestyle Insights, Networking, Knowledge and Skills (L.I.N.K.S) elements, continue to evolve and adapt to the deployment support needs of families. The KVN supports the spouses of deployed Marines by providing official communication from each deployed Command about the welfare of the unit and their Marine. The KVN is a source for accurate and reliable information and referral, but also helps create strong bonds among neighbors and deep-rooted Marine Corps communities. To help Marine spouses adapt to the military lifestyle and understand Marine Corps history, tradition, and language, MCCS offers L.I.N.K.S. training and mentoring program. L.I.N.K.S. sessions are informal, with a nurturing structure and format facilitated by knowledgeable and “seasoned” Marine Corps spouses. Participants learn about benefits and services such as health, housing, compensation, and also available community support. Attendees can learn from the L.I.N.K.S. pros on how to survive deployments and even flourish during separation periods. For those who cannot attend a L.I.N.K.S. class in person, we offer on-line training. For our Reserve families, we have

updated and streamlined our KVN and L.I.N.K.S. training guides to more appropriately address their remote access. Under a recent enhancement, Reserve unit Key Volunteers can contact MCCS/Military One Source and request a “Know Your Neighborhood” report on all available community support resources to be used as part of the “Local Resources” portion of their KVN education. The Marine Corps is fortunate to have the support of our thousands of dedicated volunteers who make the KVN, L.I.N.K.S., and other MCCS programs valuable personal and family readiness tools for our Commanders. Their hours of volunteer service and dedication to the Corps are beyond measure and bring great credit to our success and mission readiness.

Morale, Welfare, and Recreation

All Marines are strengthened by a culture that perpetuates the values of the Corps and the commitment to taking care of our own. MCCS offers opportunities to Marines and their families that are in keeping with Marine Corps values. MCCS proactively engages Marines and their families, fosters esprit de corps, and increases the socialization and camaraderie that improves the experiences of serving in the Marine Corps.

Intellectual/educational, physical, and recreational development activities are some of the many wide-ranging and wholesome leisure-time activities MCCS offers Marines and their families. Our programs serve many purposes, but perhaps most notable today, they are helping mitigate the risks of isolation and separation that are inherent to deployments and frequent relocations.

Intellectual/Educational Activities. We actively encourage our predominantly young population (66 percent of Marines are 25 or younger and the average age of Marine Corps spouses is 29) to pursue lifelong learning and establish goals for continued

growth and development. MCCS libraries are very important to accomplishment of these goals. Our patron count for Marine Corps libraries is nearly 2 million per year, computer use has exceeded 460,000 hours, and there were over one million various materials (i.e., books, periodicals, CDs) circulated to customers in FY05. In October 2005, we administered CSI/ASI surveys in our MCCS Library Programs. I am pleased to report that across our library programs, customers rated their library experiences very positively with an overall customer satisfaction indexed score of 87 and associates score of 75, very high scores, indeed.

Our Library Program supports our voluntary education and leisure-reading programs by ensuring appropriate resources are available to support professional, academic and recreational pursuits. Tuition assistance class enrollments climbed to over 70,000 with nearly 25,000 Marines participating. Our tuition assistance program is not only beneficial to career Marines, but also to those intending to transition to civilian life.

Physical Fitness. Marines and their families are devoted to physical fitness and they pursue healthy lifestyles for both recreation and fitness goals. We continue to make significant investments in our fitness program, to include our centers and their exercise equipment, and fitness and health professionals associated with these centers.

Cumulatively, our 53 fitness facilities are 96 percent compliant with recently revised DoD fitness facility standards. Under these revised standards, which contain two categories (installations and facilities), the Marine Corps complies with 98 percent of the installation standards and 94 percent of the facility standards. Over a year's time, we recorded more than seven million visits to our fitness centers – the “center of gravity” for health and fitness within the Marine Corps. Our concept of fitness encompasses far more

than just working out or gearing up for the twice-yearly Physical Fitness Test. Our program is a fully integrated fitness and health promotion capability that is professionally managed by trained, nationally certified personnel (personal trainers, clinical exercise specialists, lifestyle weight management consultants, and health educators). In the past year, nearly 60,000 personal trainer assessments have been conducted in our Semper Fit Physical Fitness Centers.

In terms of fitness enhancing sports participation, over 80,000 Marines participate in intramural sports annually. Of that number, approximately 20,000 go on to participate above intramural levels to include National and International competitions.

To maximize our health promotion efforts and leverage existing education capabilities within the Marine Corps, our Semper Fit Program has developed a fitness and health curriculum. To promote healthy lifestyles and reduce risks identified in the Department of Defense (DoD) Survey of Health Related Behaviors Among Military Personnel, we are producing nine interactive health promotion Distance Learning Courses (fitness, nutrition, injury prevention, hypertension, tobacco cessation, HIV/STD prevention, suicide awareness and prevention, alcohol and substance abuse prevention, and stress management) to be available on installation or via the Internet by August of this year. All courses will be tracked via the Training and Education Command's Learning Management System. This allows MCCS to track the number, rank, and completion of all courses, and/or target education programs by demographic and prevalence of health risks.

Physical training is core to Marine Corps culture and a vital component of our mission success. Marines, however, have not been formally educated in standardized and

institutionalized physical training practices and principles. We are addressing this need by collaborating with the Marine Corps Institute (MCI) on a major education initiative to develop two non-resident courses (a basic and advance course) on fitness, nutrition, and injury prevention. The courses will provide Marines and Marine leaders with a comprehensive, science-based curriculum on the principles of these topics. These MCI courses will ensure “one voice” on fitness education and provide training credits for Marines that may be used to enhance promotion opportunities.

Recreation. As for recreational development, there are endless opportunities for Marines and their families. They can use our aquatics programs; rent outdoor equipment for camping, picnics, and parties; rent watercraft from our marinas; or visit our recreation centers to use the Internet, play table games, watch television/movies, or engage in specially-programmed social activities.

Our customers prefer a professional recreation workforce and we are making substantial progress to accommodate them. Through our membership with the National Recreation and Park Association (NRPA), we are working to increase the number of certified park and recreation professionals throughout MCCS. We also require our pool managers/operators to have an Aquatic Facility Operator Certification, which is provided through NRPA. Additionally, through our membership with the Learning Resources Network’s Program Management Institute, we have trained approximately 96 individuals as Certified Program Planners.

Our recreation and leisure programs are as diverse as the people who participate in them. From golf, auto skills, travel and leisure, and food and hospitality, we strive to serve our customers and enrich their leisure time.

Golf. Marines of all ages and ranks and their families will be found at the fairways of our 11 golf courses. Several of our courses offer special clinics and lessons to introduce golf to junior Marines. By introducing our young enlisted Marines to the wholesome and challenging sport of golf, they will likely embark on a lifelong, productive, and fulfilling activity. Approximately 40 percent of our usage comes from enlisted ranks. Moreover, we have programs that are directed toward our junior Marines, such as reduced pricing to increase participation. At certain times, junior Marines are even offered free rounds of golf. Most of our courses offer driving ranges, fully-stocked pro shops, locker rooms, and snack bar operations. Professional Golf Association teaching pros are on staff and available for club fittings and individual and group lessons. According to the October 2005 CSI/ASI survey, our customers rated our golf programs as an 80 and the associates at 72, both very credible indexed levels of satisfaction.

Auto Skills. At our Auto Skills Centers, we have a host of specialized equipment available at nominal charges to enable our customers to accomplish self-maintenance on their vehicles and to become skilled auto repair enthusiasts. The program offers instruction in a group environment or one-on-one to patrons requiring assistance with repairs and maintenance. The instructions are particularly valuable to the spouses of deployed Marines. They can speak to trusted auto skills professionals and receive training to take care of auto repair needs that arise while their Marine is away. For our Marines, it provides a valuable skill that will serve them throughout life, promote socialization, and open a new interest area for Marines off duty. Importantly, Auto Skills Centers save users money. For example, a Marine can save: \$15 by changing oil at an Auto Skills Center compared with a quick lube; \$50 for a tune up compared with a

specialty tune-up center; and \$150 when changing brake pads and drums compared with a chain auto center.

Information, Tickets, and Tours (ITT). Our ITT professionals provide Marines and their families with varied off- base travel and leisure opportunities. In fiscal year 2005, nearly 500,000 discount tickets for events, such as theme parks, sporting events, and entertainment shows were sold to satisfied customers who appreciate the value and benefit.

Food and Hospitality. During the past year, our clubs offered outstanding entertainment opportunities thanks to the support of our commercial sponsors, including Coors Brewing Company, Miller Brewing Company, Coke USA, Tyson Foods, Inc., and Weber Grills. With our sponsors' support, we sent a Marine and his guest to Super Bowl XL, gave away three jet skis, and provided two trips (one winner was from an East Coast Command and the other from a West Coast Command) to a NASCAR race in Florida that included a tour of the Florida Keys. We also teamed with Weber Grills in a recipe and steak cook-off promotion at 10 installations. In addition to winning new grills for themselves and their units, the top grill chef from each installation will journey to New York City during Fleet Week in May to compete for the top Marine Corps Grill Chef honor.

A 2004 CSI/ASI for our clubs resulted in indexed scores of 78 and 68, respectively. From the accompanying data and suggested areas of improvement, we are working to increase satisfaction of club guests and associates at each installation in 11 priority areas. As with other program areas, we are developing a training program (in this case, with Penn State University) to offer our Food and Hospitality Directors and

other senior foodservice professionals courses in leadership and operational skills development.

The safety of Marines is of paramount importance. To encourage safe driving, we coordinated with *Operation Wheels of Freedom* (a program that entertains and honors Servicemembers and delivers key messages about driving skills) to deliver an automotive safety stand-down program promoting “drive smarter, not harder” to 3,000 Marines at four installations. It was a memorable experience for all involved.

Our Temporary Lodging Facilities (TLFs) are very valuable resources for our personnel and serve a variety of needs; most importantly, as a transitional home at a good value. Our TLFs continue to receive high marks via the CSI/ASI survey. In the most recent survey, our customers rated their experiences very positively with an 88, while our associates rating was an equally positive 76.

With the addition last June of 52 rooms at MCAS Miramar, our Marine Corps TLF program now has 928 quality rooms at 12 installations. These rooms achieved a 98 percent compliance rate to DoD Lodging Standards. Occupancy in FY05 remained strong at 82 percent. Using the TLF’s, our guests saved approximately \$13.6 million in travel expenses as compared to per diem rates of commercial hotels.

To further establish our identity and reputation for quality lodging facilities, we have begun a branding campaign with a new logo, “Inns of the Corps.” We also plan to implement enhanced standards for TLFs that will ensure consistent quality in facilities, customer service, and staffing standards. As a recommended standard from our Lodging Functionality Assessment, the Performance Plus Training Program from the American Hotel and Motel Association was provided to each TLF to use as their in-house

employee-training program. Our operation of this lodging program as an MWR activity within MCCS has proven to be the best organizational fit for the Marine Corps. Finally, our TLFs greatly benefit from our MCCS centralized construction program, while the Marines and their families at our installations benefit from the revenues generated by the TLFs through enhanced MWR offerings.

Taking Care of Children. Our child care initiatives are diverse and we make every effort to see that the young members of the Marine Corps family receive appropriate support. Over the past three years, we have been engaged in deployment support initiatives. At deploying bases, we offer pre-deployment briefs for children that are led by our New Parent Support staff who use appropriate children's books to describe impending separation from a deploying parent and encourage informal discussion to open the lines of communication between parents and their young children. In addition, there are "Deployed Kids' Group" meetings at Youth and Teen Centers for children ages 8 to 10 and 11 to 13. For children who are having difficulty adjusting to deployments, we offer the Operation Hero Program in conjunction with the Armed Services Young Men's Christian Association. This program targets children from 6 to 12 years and provides after-school tutoring and mentoring assistance in a small group with certified teachers. We also have initiatives that target care and support for children of activated Reservists who are geographically separated. In this regard, we have established partnerships with the Boys and Girls Clubs of America, the Early Head Start/Zero to Three Program, and the National Association for Child Care Resource and Referral Agencies. We also have extended child care for families in emergency situations when their regular child care is

not available. Under the extended child care program, care is available 24/7 as needed in Family Childcare Homes with no cost to the parent.

In terms of DoD standards, we are exceeding the current DoD potential need standard of 65. At 70 percent (12,562 spaces) today, we continue to strive toward the FY07 DoD target of 80 percent. For example, we are using the DoD-sponsored Military Child Care in Your Neighborhood Project in association with the National Association of Child Care Resource and Referral Agencies to help Marines locate, select, and fund quality civilian childcare. We are also providing temporary modular facilities at Camp Lejeune and Camp Pendleton this year to meet emergency needs. These facilities will increase our overall capacity by 400 spaces (200 at Camp Lejeune and 200 at Camp Pendleton) increasing our percent of need met to 72 percent.

MWR Nonappropriated Fund Construction. Our MCCS Board of Directors has actively supported MWR recapitalization requirements and for FY06, approved seven projects totaling \$28 million. These projects will construct or renovate clubs, youth activity centers, auto skills centers, and temporary lodging facilities.

Marine Corps Exchange (MCX) Operations

The strength of MCCS comes from the synergies derived from its component programs. The inclusion of the MCX within MCCS is no exception – these entities are mutually supporting. Due largely to the inclusion of the MCX, the MCCS structure not only enables material efficiencies through a sharing of overhead costs, but also enables a strengthened infrastructure of resources and human talent that is leveraged to support the entire MCCS organization. No transformation change within MCCS has been more pronounced than within the MCX. The successful transition to centralized buying,

implementation of modern IT infrastructure, the implementation of unified operating standards, and our aggressively funded capital program have postured the MCX brand for strength and viability well into the 21st Century.

The MCX continues to actively pursue new and improved ways to enhance our customers' shopping experiences. We currently operate approximately 170 resale facilities, including Exchange retail stores, branch and convenience stores, auto parts stores, auto service and repair stations, car washes, and gas stations. We also offer services, such as barbershops, vending machines, dry cleaning, and automobile and truck rentals. In all that we do, we make absolutely no assumptions when it comes to serving our customers and meeting their expectations. We always rely on hard data and over 10 years of customer research. We know our demographics and customers, which gives us a firm grasp of what they want and expect from "their" MCX. In our most recent MCX CSI/ASI survey in April 2005, our customer satisfaction score increased to 71 and associate satisfaction to 66. Customers indicated our pricing remains a positive strength for the organization and is a key driver of satisfaction levels. Our customers are consistently loyal.

Image and Brand Campaign. Our image and brand campaign started with a centralized logo and slogan for the MCX. J. Walter Thompson, who is responsible for the highly-effective Marine Corps Recruiting Command marketing campaigns, designed a new logo and slogan that builds on MCX strengths: value, brands, and tying our customers to the already-established brand and pride of the Marine Corps. The MCX brand goes far beyond a logo and slogan. "MCX Core Brands, Corps Value" encompasses the customer's entire experience from the parking lot to the checkout.

MCX Retail Master Plan and Design Standards. In developing our plan and standards, we started with critical customer feedback. Focus groups were conducted at each Marine Corps installation and themes were developed to give our plan its direction. We found that our customers are time-deprived and need to be able to shop quickly and at times that suit their needs. Simply stated, they want a store that is easy to shop. We contracted the help of Mason, Norris & Associates and Hermes Architects--retail planning professionals--to research the best in class with industry and develop retail design standards to address our customers' concerns. We made several benchmarking trips to learn first hand from labs the impact of varying types and levels of lighting on shopping. We also visited successful convenience stores to identify possible best practices from their operations.

To test out our strategies and plans, we selected the Elmore MCX at Camp Allen to serve as our new small store format prototype. Its existing design was ideally suited for the test of our shopping concepts and it was additionally in need of improvement. All of the design elements necessary for a pleasant and productive shopping experience were included in the renovation. The look of the new Elmore store is crisp and clean – not unlike Marines. It is well lit and easy to navigate. It has very wide aisles, including secondary aisles, which are highly conducive to our shoppers with baby strollers. Among the new design elements, merchandise is attractively presented and organized logically with collocated departments based on customer shopping habits and industry research. The store also offers comfortable and relaxing seating areas for customers to wait for service at the barbershop, to have a beverage and a bite to eat, or to simply rest and enjoy the MCX. There are two entrances, a Main Store entrance and a Marine Mart entrance.

This ensures the “convenience” factor of being able to park close to the store and “get in and get out” as so many of our customers have noted they like or need. Additionally, our shoppers have access to the entire store during convenience store hours without adding additional payroll expenses. The projected personnel savings from this new format is approximately \$200,000.00 per year. We recognized the success of the Elmore MCX immediately. Sales for opening day were up 150 percent and opening weekend sales exceeded expectations with a more than 200 percent increase.

Future MCX Improvements. Over the next five years, we have an aggressive renovation/replacement strategy for our Exchanges. We know that new and renovated stores contribute to revenue generation, ultimately having a direct, positive impact on the MWR dividend. By improving the shopping experience, we will clearly attract more customers and sales. We currently have five main stores under design with plans for an additional six stores over the next five years. More specifically, for FY06, the MCCC Board of Directors has approved approximately \$33 million for renovation, expansion, and replacements of our Exchanges. Going forward in FY07, more than \$20 million has been approved for Exchange improvements.

Advertising Improvements. Over the past year, we have made vast refinements in our advertising. MCX ads now focus on our “less is more” concept and ensure that our brand signature is used appropriately and consistently. The photos in our ads are uncluttered by extraneous items and they focus solely on the merchandise. The photograph style and use of models is also changing. The models are full of life, with movement and a sense of fun. Instead of using different models for each photograph, we have found that using the same model repeatedly in composition is highly effective. Our

still photograph of items uses uncommon styling and the merchandise itself is the focus, bringing out the detail of the items.

Providing Value and Quality Merchandise. We guarantee that any item shopped in the exchange is less expensive than the competition, and the quality of our name brands is indisputable. For those customers who are “advanced penny pinchers” and “quality inspectors,” the MCX provides high quality private label merchandise that far exceeds the competition in value. Our Exchange Select product line, a cooperative effort with AAFES and NEXCOM, offers generic household cleaning and health and beauty aids comparable to national brands, but for much less. Our “Another Core Value” items offer name-brand electronics, small electrics, and house wares at great savings. We are particularly pleased with the success of our private label soft lines program, “1775.” It offers high-quality clothing and accessories at unmistakable values. The 1775 Brand plays to our strengths: value, quality, and the pride of the Marine Corps. Our customers recognize these strengths and our sales show it. Of the customers who have purchased a 1775 item, 96 percent said they would do so again.

Centralized Buying. Implementation of our centralized buying initiative is complete and our Headquarters buyers are looking forward to changing their focus from implementation to execution. Our 2006 centralized buying strategies will ensure consistency and protection of niche markets while simultaneously building the MCX brand.

For 2006, we would like to focus specifically on our operational requirements and our organizational imperatives. Our talented and professional merchants are poised to immerse themselves in the MCX vision.

Armed Services Exchange Merchandise Restrictions (ASER). We commend the Subcommittee's efforts to eliminate the ASER restrictions and were pleased to see that your work came to fruition last year with the elimination of the restriction on projection television sales. I am pleased to report that in the short time we have had the authorization to sell the televisions, the MXC has sold more than 1,000 units, with sales of more than \$2 million. We project sales in 2006 to top \$4.3 million. The Marine Corps continues to support lifting all restrictions. In view of the existing retail industry that is largely populated with big box enterprises, the restrictions, which were intended to protect small business, have outlived their usefulness. These outdated restrictions severely limit our ability to provide MCX customers with the products they are requesting and deserve to find at their Exchange. For all intents and purposes, the restrictions are compelling our customers to shop outside of the Exchange system, where prices and credit conditions are oftentimes less than optimal. To illustrate, as is often the case, the first purchase of a prospective husband and wife, such as a diamond ring or furniture, will be financed by a high-interest, private label credit card that will additionally include the expense of sales tax. Conversely, the MCX offers its customers layaway plans and accepts the low-interest Military Star Card. Beyond providing a benefit to our customers, lifting the remaining restrictions on merchandise for which there is a known market, would result in additional MWR dividends for Marines and their families. By lifting the restriction on sales of diamonds over 1 carat, we expect sales would increase by over \$1 million.

Merchandise Test in Commissaries. The Marine Corps believes that efforts to enhance the Commissary shopping experience should not erode the Exchange benefit,

which is directly tied to the MWR dividend. The current test, which includes the sale of film, one-time use cameras, and phone cards, should not be expanded. Expansion would undoubtedly undermine the Exchange mission, ultimately harming our customers.

FY05 Nonappropriated and Appropriated Funding Financial Results. In FY05, MCCS realized the landmark achievement of passing \$1 billion in direct and concessionaire sales. This is particularly significant in the context of extensive deployments. Exchange sales were \$754 million, an increase of four percent over the prior year. Merchandise sales were up just under two percent and although fuel sales were up over 15 percent, we reduced the profit margins to help minimize the increasing gas costs to our patrons. It is important to note that approximately \$100 million in sales was realized by AAFES for Marine-operated forward exchanges. These sales do not directly translate to MCX sales results. Our profits for FY05 were \$30 million, an increase of two percent over last year. Our revenue-generating (Category C) MWR Program generated sales in FY05 of \$124 million, an increase of eight percent. Net income for the same revenue-generating MWR Program for the same period was \$22 million, an increase of 38 percent. As with previous years and despite deployments, we continue to have the best dividend-to-sales ratio of all the Exchanges. Our dividend to MWR remained stable at \$26 million.

Our appropriated fund financials continued on target to sustain achievement of OSD MWR 85/65 standards for Category A and B, respectively. For FY05, the Marine Corps posted a 92% for Category A and 71% for Category B. These results are compared with the FY04 funding levels of 88/65, respectively for Category A and B. Increases in fiscal year 2005 appropriated fund percentages are due to receipt of

supplemental funding, special child care program support, and other year of execution decisions by our installation Commanders and others. Therefore, sustainment of the inflated funding levels is not expected to continue in future years. Barring any emergent contingencies, MWR funding for mission sustaining and community support programs will remain stable through fiscal year 2007.

Conclusion

MCCS is the right organization for the Marine Corps. The credit for its success is largely due to the installation Commanders and their MCCS professionals who are located around the world. Through their energetic and passionate engagement, Marines and their families are being provided 21st Century programs and services. With their ongoing support and yours, we will ensure that MCCS continues to provide quality support to our Marines and their families by evolving and adapting to changing needs and environments.