

Prepared Statement
Of
Mr. Robert L. Gordon III
Deputy Assistant Secretary of Defense
(Military Community and Family Policy)

Before the
House Armed Services Committee Subcommittee on Military
Personnel
“Military Resale Programs”

June 07, 2012

Chairman Wilson, Ranking Member Davis, and distinguished members of the subcommittee, it is a privilege to appear before you today, and I appreciate the opportunity to testify on our commissary and military exchange programs.

This subcommittee has a tradition of strong support for the important benefits our Service members derive from resale programs. Commissaries and exchanges are a highly-valued non-pay compensation benefit for our service members and their families, and we appreciate that you recognize their value. You rightly insist that these benefits be provided in an efficient manner that protects the trust of the taxpayers as well as the funds contributed by members of our military community who use and rely on these programs. You recognize, as do we, that these programs are crucial to the quality of life of military members and military families.

IMPORTANCE OF THE BENEFITS

The Department's leadership remains committed to these important programs. Secretary Panetta has been clear that we want to maintain the quality of benefits that flow to our troops and to their families. At the same time, we have a responsibility to control costs in those areas as well. In contemplating changes to the benefits, we will ensure any proposed changes do not break faith with current members. We must also understand, to the fullest extent possible, the impact of any changes on the future of our all volunteer force.

We have and will continue to spend considerable time and effort validating the importance our Service members place on resale activities. The Defense Manpower Data Center periodically surveys our customers to understand how they value commissary and exchange benefits. These surveys repeatedly record high marks for service, quality, value and overall satisfaction. In addition, the Department uses the American Customer Satisfaction Index

(ACSI), a nationally recognized measure of customer satisfaction that includes the largest U.S. retailers as a general measure of satisfaction with the commissary and exchange benefits. We are proud to share that in 2011 the Defense Commissary Agency and all three exchanges met or exceeded the ACSI industry average for customer satisfaction. These tools, along with the internal commissary and exchange customer satisfaction assessments, help us identify improvement opportunities that reach across all retail activities. One such opportunity is to address evolving customers' expectations about their commissary and exchange. For example, in 2011, through the ACSI, we identified that the military resale activity websites rated significantly below the industry average. The Department is encouraged by the Resale systems' initiatives to address this issue and other evolving requirements by investing in technologies and expanding communication channels that will give customers more information about best value and access to their resale benefits.

However, we must be cautious as we consider well-intended recommendations to expand eligibility for these benefits, so as not to jeopardize their continued viability or dilute their value to those who have earned these important benefits through their service. The commissary and exchange benefits are an integral part of the military compensation and benefits package that is designed to recruit and retain professional, ready Armed Forces. The Department and Congress have exercised close scrutiny over patronage of the commissaries and exchanges to ensure their continued effectiveness.

Everywhere I go on my visits to military communities, I hear of the tremendous appreciation for, and in some cases, the need for commissaries and exchanges. Often, they are the only source of high quality, American-made products. But equally important, they are the lifeblood to many of our installation support programs. I see how important it is to have these

programs that are the number one employer of our family members. Our military spouses, in particular, represent a significant percentage of all resale system employees. These programs, and their trading partners, contribute directly and indirectly to community events and special emphasis programs that support military personnel and their families. How the family is treated or served sends a message that contributes to the perception of military life. The Department must continue to address quality of life as a total benefits package that is fair to the Service members, effective for the Nation, and contributes to retention of the high quality men and women required to execute our Nation's defense. The commissary and exchange benefits are important components of the total benefits package and contribute to a robust community support program. I am sure their leaders will provide further detail in their testimony.

THE RESALE SYSTEM

The flagship of our resale system, the Defense Commissary Agency (DeCA) operates a worldwide enterprise of 248 commissary stores that sell brand name grocery and household necessities to active duty military personnel and their families. The commissary system is operated entirely with appropriations, and goods are sold at cost plus a 5 percent surcharge. This fiscal structure is designed to save military families an average of 30 percent below commercial grocery chains and generate over \$300 million annually from customer surcharges to support capital investment in store systems and shopping facilities.

The Military Services run three world-wide exchange systems that operate 279 main retail stores, catalogs, and web sites that sell a wide range of merchandise and services to the military community. The exchanges also provide resale activities to support military missions on board 158 ships and in 73 contingency operations, including deployed locations and disaster

relief areas. The Army and Air Force Exchange Service (AAFES), the Navy Exchange Service Command (NEXCOM), and the Marine Corps Exchange (MCX) are operated predominantly with self-generated nonappropriated fund resources; Military Service appropriations are only authorized for limited purposes. The exchanges this past year generated an average 24 percent savings to the customer, excluding tax, and produce earnings at a level set by their Military Service. These earnings sustain exchange capitalization requirements and last year also provided over \$300 million in dividends to help finance Service MWR programs. The triad of commissary, exchange and MWR programs provides an array of valuable benefits at a relatively low cost to both the user and the American taxpayer.

OVERSIGHT

The Secretary of Defense assigns responsibility to the Under Secretary of Defense for Personnel and Readiness, USD(P&R), for overall supervision and policy direction of the commissary and exchange operations. The Military Departments, through their representation on the DeCA Board of Directors, advise the USD(P&R) on the funding and operation of the commissary system, and assist in the overall supervision of the Defense Commissary Agency. The Military Departments have fiduciary responsibility for funding the three exchange systems and each Military Service supervises its exchange through a Board of Directors. Where the commissary and exchange interests intersect, the Congress showed great foresight by establishing the DoD Executive Resale Board. Through these multiple levels of oversight, both the Department and this subcommittee have an opportunity to scrutinize initiatives with an eye toward making sure we don't promote the interests of one organization over another. We appreciate the congressional oversight committees' close scrutiny of proposed legislation that

would use commissaries and exchanges as “bill payers” or create unfunded mandates such as supporting new customer populations that could dilute the benefit.

DeCA Board of Directors. The DeCA Board, chaired by Air Force Lt. General Darrell D. Jones, has proven effective in making recommendations that the Military Services will support financially and supervising DeCA’s performance. The Board provides critical advice on the commissary stores needed by the Military Services; management initiatives to improve DeCA’s performance; and priorities for investing in systems and construction. It also has an important role in continuously assessing and balancing the Services’ proposals regarding commissary operations and funding. Under the Board’s supervision, DeCA’s management has a proven track record of achieving performance goals. Over the past decade, DeCA increased sales, sustained capital investment, and reduced costs through business process improvements – all while improving customer savings and satisfaction ratings.

Executive Resale Board. The DoD Executive Resale Board advises the USD(P&R) on the complementary operation of commissary and exchange systems. Since its members may also serve on the DeCA Board of Directors and the exchange boards, the Executive Resale Board shows great potential to improve oversight where there are mutual or competing interests. As we enter a period of fiscal austerity, this Board will play an even more influential role.

APPROPRIATED FUNDING FOR MILITARY RESALE PROGRAMS

The President’s budget submission continues the Department’s strong support for Service members and their families. This budget honors commitments made to our military family. It does keep faith with them.

The Fiscal Year 2013 budget request fully funds the operation of the commissary system. The DeCA Board of Directors ensures that DeCA is funded commensurate with its mission and the support provided to each Armed Service.

The Fiscal Year 2013 budget request fully supports transportation requirements to ship U.S. procured goods to overseas locations as is required by the law. This budget request also includes funding for exchange programs that support security stabilization efforts in Afghanistan and the fight against terrorism in other locations. Similar to DeCA, the Exchanges are implementing several initiatives aimed at reducing transportation costs and improving the customer experience.

As for Fiscal Year 2014 and beyond, the Department is committed to our quality of life initiatives, and that means doing the best for our people using today's most innovative business practices. We must develop the benefits that appeal to future members and their families. We have to operate in the smartest, most efficient and economical way. Throughout the process, uppermost in our minds, is the role that quality of life plays in retaining high quality Service members while attracting the best of our young people into service.

CONCLUSION

Mr. Chairman, commissaries and exchanges are an essential component of our quality of life programs. With deployed forces returning from Afghanistan, and as our re-positioning continues, especially overseas, our military members and their families will be faced with a myriad of challenges and risks. We continue to institute necessary changes so our men and women in uniform today will always consider these services as one of their most valuable non-

pay benefits. The military resale system has the management, resources and drive necessary to see these important benefits through the challenges.

Our 138,000 military resale employees work very hard every day to accomplish this important mission. I believe the commissary and exchange employees, at ground zero, understand the fundamental change required to be in step with modern corporate America, reduce the taxpayer burden, and assure that our customers are receiving a meaningful benefit.