

Statement of

**F. Jed Becker**

**Chairman**

**Armed Forces Marketing Council**

before the

**Subcommittee on Military Personnel**

**Committee on Armed Services**

**United States House of Representatives**

**February 25, 2009**

**Submitted for the record.**

**Not for publication until**

**released by the House**

**Armed Services Committee.**



## **Introduction**

Good afternoon, Madam Chairwoman, and distinguished members of the Subcommittee on Military Personnel.

My name is Jed Becker and I am Chairman of the Armed Forces Marketing Council (AFMC). Thank you for inviting me here today to offer comments regarding the military resale services and the vital role they serve in supporting the quality of life of our service members and their families.

As per Rule XI, Clause 2(g) of the Rules of the House of Representatives, I have included a curriculum vitae (Exhibit I) and a Disclosure Form for Witnesses Concerning Federal Contract and Grant Information (Exhibit II).

Today, I am representing the Armed Forces Marketing Council, which was incorporated on April 25, 1969 as a non-profit business league. It is comprised of firms representing manufacturers who supply consumer products to military resale activities worldwide. A list of firms serving on the Council is included in Exhibit III.

The purpose of the Council is to:

- Promote unity of effort through a cooperative working relationship among the Congress, the military, and industry.
- Provide a forum for addressing industry issues.
- Encourage worldwide availability of quality consumer products at the best possible prices and value.
- Encourage continued congressional support and funding of the resale system.
- Assist in maintaining the resale system as an integral part of military life.

- Promote awareness of sales and marketing agency services to the military resale system.

Council firms also subscribe to a code of ethics requiring that each member firm maintain the highest level of integrity and professional conduct and consider this to be critical to its credibility.

Some firms serving on the Council have been providing service to the resale system for over sixty years. Member firms are small, privately held businesses formed in response to the need for quality, specialized sales representation to the unique worldwide military resale market. These firms have developed marketing and merchandising programs tailored specifically to deliver efficient support to military resale operations. Through the link they form between the resale services and the manufacturers, these firms assure continuous availability of the complete array of consumer products normally found in the civilian marketplace. They offer services in a more efficient manner than all but the very largest manufacturers can provide using their own resources. If that were not the case, the firms belonging to the AFMC would not exist.

AFMC firms represent several hundred manufacturers, both large and small. (A representative sampling is at Exhibit IV). Our firms have a total of over 2,800 people working directly in the stores, with the various resale services headquarters, and with the manufacturers to assure that the right products are on the shelf at the right time, in the right quantities and at the best prices and value. By so doing, they have played a significant role in maintaining the resale system as a vital part of the fabric of military life.

It is important to note that AFMC members see themselves as:

- “Stakeholders” in the military resale system.
- Interested in contributing to the continued viability and health of the resale system.
- Having expert perspective based on many decades of experience in servicing the military resale system.

### **Value of the Resale Benefit**

Madam Chairwoman, the Council strives to do its part to assure the continuation of the military resale system and the value it provides to our service members and their families. We hope the information and perspectives presented here will be useful in your review of military resale activities.

In spite of the current economic environment and the challenges it presents, we continue to see the growing value of the resale benefit for our military families. Not only are their hard-earned dollars going further, but many more families who did not participate in the benefit before are finding that the value offered by the exchanges and commissary are helping them weather these tough economic times.

Some may say that military families are insulated from the fluctuations of the economy. However, military spouses are contending with potential job losses like those outside of the military and military families have felt the impact of higher prices for products, particularly gasoline, on their wallets.

Thankfully, the military resale benefit is providing an economic cushion for these families who are already sacrificing so much for the security of our nation.

Congress can be proud of the fact that the dollars appropriated to support this benefit produce a savings and value that far outweigh the costs. In 2008, the Defense Commissary Agency (DeCA) had gross sales of \$5.8 billion. Those same products would have cost military families an average of 30 percent more outside of the gate at an approximate cost of \$8.3 billion. That is a savings of nearly \$2.5 billion.

That is the value of the commissary system - \$2.5 billion of savings at a cost of nearly \$1.3 billion. Stated another way, every dollar appropriated for the commissary provides nearly \$2 of benefit to military families. That is a 100% return on investment that cannot readily be found anywhere else in the federal government.

This means that in 2008, a military family of four saved on average \$3,400 when they shopped for groceries at the commissary.

The value proposition of the benefit is true for the exchange systems as well, which provide an average savings of 20 - 25%. For military families, that is a significant benefit they have earned through their service to our nation.

These are not loose judgments. Instead, they are based on scientific surveys of pricing and on largely favorable comparisons with outside-the-gate retailers on sales trends, business systems, and asset management.

The Customer Satisfaction Index also continues to show that military families are very satisfied with their benefit. It is said that you recruit a service member, but you retain the military family. The military resale benefit, we believe, helps to retain these families, which adds value to the taxpayer in the form of savings on training, recruitment, and morale, welfare and recreation (MWR) programs.

Another value benefit of the resale system is its support of military family financial readiness. No one can say that the military commissary or exchanges prey on military families. Rather, when so many everyday items such as energy costs put a strain on the family budget, it is the value savings provided by the commissary and exchanges that helps military families absorb the higher price of commodities and stay within their budgets.

The military resale system, through favorable credit programs and terms for items purchased through the exchanges, protects these families, particularly when a loved one is deployed or, God-forbid, dies or becomes disabled while in service to our nation.

It must be remembered that the value of the benefit cannot be always measured in dollars. When a service member forward-deployed in Iraq or Afghanistan can walk into a PX and pick up a candy bar or a bag of cookies, and a can of her favorite soda, that is a taste of home, a taste of America.

Little things we take for granted everyday, like batteries and hygiene products, mean so much to our troops on the front lines to maintain their health, morale and ability to communicate with loved ones at home.

The value of the resale benefit cannot be found anywhere else or provided by anyone else, and that is why we believe all efforts should be made to support, improve and strengthen this important benefit for our military families.

### **Improving and Strengthening the Resale Benefit**

One fact we can all be proud of is that the military resale system works well! It's honest, efficient and responsive. This success comes as a result of the dedication

exchange and commissary operators have made to customer service, patron savings and an unfailing commitment to continued process improvements and efficiencies to keep costs and, thus, prices low.

While credit is due to DeCA and the exchange systems for much of this success, credit is also due to this Subcommittee and its staff for its well-informed, non-partisan oversight and support. The members of the Armed Forces Marketing Council thank you for that, as would other segments of the supplier community. But more importantly, given the chance, military members and their families who fully understood your role, would also offer their gratitude.

In an effort to continue this track record of success, we offer some observations and suggestions that we believe will serve to further protect, enhance and strengthen the benefit for our military families.

**Support of HR 275 - Repeal of 3% Withholding on Payments Made to Vendors by Government Entities**

In 2005, Congress passed and President Bush signed into law HR 4297, *The Tax Reconciliation Act of 2005*. This legislation included a provision, Sec. 511, which mandates that federal, state, and local governments withhold three percent from payments for goods and services.

In the recent economic recovery legislation signed into law by President Obama, the implementation date of Section 511 has been delayed to 1 January 2012. It is our desire that Section 511 be repealed, which is the intent of HR 275, sponsored by Rep. Meeks.

Although this legislation does not fall under the jurisdiction of this Subcommittee, it must be understood what the impact of implementation of Section 511 would be on the military resale benefit.

We are very concerned that, if implemented, withholding three percent on payments to vendors for products sold in exchanges and commissaries would diminish the value of the benefit through potential higher costs for products, as well as increased costs by DeCA and the exchange systems to develop accounting processes and systems to comply with the withholding requirement. Additional costs on the exchange systems result in reduced dividends for MWR programs.

In the 110<sup>th</sup> Congress, Mr. Meeks' legislation had over 260 cosponsors. For the sake of preserving the value of the military resale benefit, we encourage Members of the Subcommittee to cosponsor HR 275 and encourage its passage in order to repeal this onerous provision and the threat it presents to value of the military resale benefit.

### **Relief from ASER Restrictions**

The AFMC is most appreciative of the past actions by Congress to alleviate many item and cost restrictions imposed upon the military exchanges. These actions produced significant increases in exchange sales and earnings, and in customer satisfaction. We are convinced that further lifting of restrictions will yield similar positive results.

Existing policy, established by Congress and promulgated in DoD Instruction 1330.21 "Armed Services Exchange Regulations" (ASER) prohibits the military

exchange services from initiating capital construction or renovating existing facilities for the purpose of providing additional space in which to sell furniture.”

Although the maximum amount of cost for a piece of furniture was raised to \$1,100 last year, a move that we greatly appreciate, there is still the issue of not having the appropriate space in which to sell the merchandise. This denies military patrons the opportunity to purchase these items at the best value and savings, and on credit terms that are favorable to their way of life.

Many families, both in and out of the military, must use credit in order to purchase furniture. For military patrons, they have the ability to use the Military Star Card, which allows military families to:

- pay significantly lower interest rates than private sector credit programs.
- have their payments and interest deferred during deployment (significantly lightening the stressful financial burden faced by families, as well as giving peace of mind to the deployed member)
- have their account balances written-off for those members who make the ultimate sacrifice.

Military families deserve to be able to examine and purchase furniture in the exchanges at a favorable price, using credit that is sensitive to the challenges they face every day. This can only be accomplished if there is proper space in which to display the merchandise. Therefore, we respectfully request the lifting of the ASER limitation on construction and renovation of facilities for the purpose of selling furniture.

## **Price Parity for Tobacco Products sold in Commissaries and Exchanges**

It has come to the Council's attention that there is a move within the Department of Defense to raise the price of tobacco products by five percent in the military resale system to match the prices on those items in the civilian marketplace, a policy being termed "price parity."

We understand and appreciate the desire to reduce the number of military personnel who use tobacco products and know the effect of those products on the health and well-being of our service members and the costs associated with treating tobacco-related health problems. However, we are very concerned about establishing various pricing structures for certain products sold in the resale system. This move would equate to the Department of Defense imposing a tax on military members purchasing these products.

The Armed Services Exchange Regulations already set strict guidelines for the sale of tobacco products in military retail outlets, which include:

- a prohibition from entering into "any new merchandise display or promotion agreements, or exercise any options in existing agreements, that provide for an increase in total tobacco shelf-space"
- a prohibition of "military only" coupons or promotions,
- setting an age requirement of 18 for those purchasing tobacco products
- requiring identification checks of patrons purchasing tobacco products
- encouraging the retail outlets to "display tobacco cessation products in areas that provide visibility and opportunity to customers who desire to change their tobacco habits."

It should also be noted that all of the Services have tobacco cessation programs which are partially funded through the MWR dividend.

Further, the recently enacted law regarding the States' Children's Health Insurance Program (SCHIP) will significantly raise the prices on all tobacco products, including those sold in the military resale system. For instance, the price of a pack of cigarettes will be increased by \$1.0066.

It is our belief that the pricing structure should remain consistent for all products sold in the resale systems to maintain the integrity of the benefit and the imposition of new pricing programs for certain products equates to a tax on these products, which will diminish the value of the benefit for military families.

### **CBO Proposal to Consolidate Resale Activities**

In past years, the Congressional Budget Office has repeatedly recommended that (i) military commissaries and exchanges be consolidated, (ii) prices in commissaries be raised to generate operating funds, or (iii) that a yearly grocery allowance be provided to active duty personnel. We continue to point out that there are several significant fallacies in these ideas:

- No compelling evidence has ever been developed that demonstrates that consolidating the exchanges and commissaries will achieve significant savings, either in operating costs or prices to service men and women.
- Increasing the cost of products in commissaries would clearly reduce overall military compensation, particularly for those who would not qualify for any

allowance (including retirees and most National Guard and reservists), and for those families whose current savings exceed such an allowance.

- The current billion-dollar commissary subsidy equates to a fraction of the dollar value of the savings that are generated when authorized patrons shop in military stores. As pointed out earlier, total purchases by commissary patrons of over \$5.8 billion would cost well over \$8.3 billion at private sector commercial prices.
- Active duty service members are astute in assessing the “value” of the benefits they are afforded. While several initiatives driven by the CBO may meet short-term fiscal objectives, it is the continuity of your vigilance that must serve to recognize the complexity of the perceived value these benefits hold and the impact they have on recruitment and retention.
- The Exchange Services and the Defense Commissary Agency continue to develop promising collaborative initiatives.

### **Second Destination Transportation Funds**

The Congress passed legislation that clearly mandates the funding of Second Destination Transportation (SDT) Funds, to assure that American products get shipped to foreign-based exchanges and commissaries at taxpayer expense. In the absence of SDT funding, prices would be unfairly raised to overseas-based troops and families, in order to absorb the freight costs associated with getting these goods to these service members and their families.

Additionally, the services would be forced to reduce MWR earnings by an unacceptable amount, or to shift all their overseas procurement to offshore sources.

Simply stated, none of these consequences are acceptable. SDT must continue to be fully funded – it's the right thing to do for our forces.

### **Summary**

Madam Chairwoman, the Armed Forces Marketing Council appreciates the opportunity to discuss these issues with you. We recognize, given the economic conditions and continued war footing that we find ourselves facing at this time in history, that budgets are tight and dollars are short.

But it is in times like these that the military resale benefit means more to our military families, when the value of the benefit is maximized for those serving our nation. Thus, we must remain vigilant in our efforts to enhance, improve and strengthen this benefit for these families that sacrifice so much for our security.

To that end, we encourage the Members of the Subcommittee to support the repeal of the 3% withholding requirement on payments to vendors, which will lead to increased costs by the Services to comply with the provision and, subsequently, a reduction in the MWR dividend. Further, it could lead to higher prices on the products on the shelf to cover costs of compliance by the vendors.

We also request a repeal of the prohibition on the construction and renovation of facilities for the purpose of selling furniture, as established in the ASER. We believe military patrons should be able to purchase furniture at the exchanges where they receive favorable pricing and credit terms that honor and respect their way of life.

Additionally, we request the Subcommittee oppose any and all efforts to establish new pricing structures on certain products. Doing so will diminish the integrity of the benefit and a reduce the benefit's value for military families.

We also ask the Subcommittee to reject potential proposals to consolidate the exchanges and commissary systems or to end the military resale benefit and replace it with an allowance. No studies have shown that these efforts will provide long term costs savings for the government.

Finally, we thank the Subcommittee for its past support of Second Destination Transportation Funding and ask that you continue support for SDT to ensure that American service members and their families overseas, particularly those who are on the front lines in Afghanistan and Iraq, are able to enjoy the full value of the military resale benefit.

Thank you, Madam Chairwoman and members of the Subcommittee on Military Personnel for the opportunity to appear before you and for your attention and consideration of the Armed Forces Marketing Council viewpoints. We appreciate your interest in assuring the best for our troops. I stand ready to receive your questions.