

## Military shopping gets some private-sector upgrades

By Maria Halkias, *The Dallas Morning News*

The first civilian to run the military's \$10 billion-a-year retail business has his work cut out for him.

The CEO of the Dallas-based **Army & Air Force Exchange Service**, Tom Shull, is the first retailer to hold the post, which had been a two-year officer assignment for 117 years. Shull, 61, joined **AAFES** in June under a 2011 Defense Department "efficiency initiatives" program, and his tenure doesn't have a time limit.

After his hiring was written up in *Military Times*, many of the reader comments were critical, touching on everything from **AAFES'** size availability to prices.

"We've got to better understand the dynamics of our competitors and provide better value," Shull said.

As troops head home from Iraq and Afghanistan and more families move near and onto U.S. military bases, **Exchange** stores are competing with the likes of Wal-Mart, Best Buy, Dick's Sporting Goods and Cabela's.

**AAFES** is the U.S. military's largest retail enterprise, operating **permanent and temporary malls, base Exchange stores, movie theaters, fast-food restaurants and convenience stores in 30 countries**. If it were a private company, it would be as big as Bed Bath & Beyond or Office Depot.

Shull is using his military and business backgrounds to give **AAFES** facility upgrades, new merchandise and a better Web presence. Until recently, for example, a Google search for "military uniform shopping" wouldn't bring up the **Exchange's** website.

Google's little spiders couldn't get past the firewall of **shopmyexchange.com** to perform their search engine optimization duties. To see the merchandise, military family members had to sign in first.

"That's not the way people shop," Shull said. "We have to replicate an experience just like the rest of retail."

Now the merchandise is outside the firewall to make browsing easier.

According to the American Consumer Satisfaction Index from year-end 2012, **AAFES'** website satisfaction rose 9 points, to 77, the industry average. Overall, service quality moved up 1 point to 83, above the industry average of 78.

**AAFES** is planning a Web redesign to help push online sales up to \$1 billion in four years from last year's \$220 million.

Last year, Shull also started shifting away from expensive printed catalogs. Two “big books” and 17 supplements a year are being replaced with four online buying guides.

### *Military, retail résumé*

Shull was raised in a military family and is a West Point graduate with a master’s degree from Harvard. His Army experience includes a stint as an infantry company commander and assignments at the White House and National Security Council.

He has been CEO of Wise Foods Inc., Hanover Direct Inc., Barneys New York and, most recently, Meridian Ventures LLC. He was on the board of Irving-based Zale Corp. in the early 2000s.

Shull’s early retail career included time in Dallas at the now-defunct Sanger Harris department store, where he worked with Kosta Kartsotis, chairman and CEO of Richardson-based Fossil Inc.

Shull is using his contacts to upgrade the merchandise mix at Exchange stores with brands such as Fossil, Michael Kors and Polo Ralph Lauren. “We want to make a stronger national brand statement,” he said.

As a retailer, he has a better understanding of what suppliers can do for **AAFES**, one major wholesaler said.

“He’s made his organization more deliberate about their expectations of us,” said Jed Becker, president of Eurpac Service Inc., a Connecticut-based company that represents major brands such as Colgate-Palmolive and Frito-Lay.

Last summer, with federal budget cuts on the horizon, one of the first things Shull had to do was cut expenses.

He instituted a hiring freeze and offered voluntary early retirement to the retail enterprise’s 42,000 employees, knowing **AAFES** had to shrink by 1,000 jobs.

In Dallas, the Exchange headquarters and customer service call center employ about 2,900 people. Locally, 323 staffers were approved for early retirement.

“We won’t have to have layoffs, and we aren’t cutting from the stores,” Shull said. “We don’t want to jeopardize their ability to provide good customer service.”

Last year, **AAFES**’ Dallas payroll was \$192 million, and it spent more than a \$1 billion with area companies that include Haggar, Williamson-Dickie, Fossil and GameStop.

Dallas Market Center executive vice president Robbin Wells said **AAFES** has been one of the wholesale market’s largest buyers for many years. “They’re starting to try some new things,” she

said. Last year, for example, **AAFES** buyers asked for help in setting up pop-up shops at Fort Hood for Christmas.

“They asked us for help finding vendors in certain price points and gift categories,” Wells said. “They haven’t always been this active.”

### *Big-money upgrades*

In Texas, **AAFES** estimates that more than 400,000 authorized customers live within 50 miles of an **Exchange** store. Prices through **AAFES** are about 20 percent lower than retail, and shoppers don’t pay sales taxes.

Since 2008, **AAFES** has spent \$235 million on upgrades in Texas.

It spent \$120 million at Fort Bliss near El Paso, where the active duty population has tripled in the last couple of years to more than 30,000. The **Freedom Crossing shopping center** that opened at Fort Bliss in 2010 is 450,000 square feet.

Last year, **AAFES** finished a \$50 million distribution center in Waco.

In Texas, it plans to spend \$65 million over the next three years at Fort Hood, Fort Sam Houston and Lackland Air Force Base.

Profits from the retail operations also fund other military family programs such as child development, fitness centers and playgrounds.

That’s a huge difference from his previous jobs, Shull said. “As a retailer, I’ve been schooled in the art of making money for shareholders and private equity holders,” Shull said. “So it’s really exciting to be in an environment where what you do every day really makes a difference.”

Shull said he also enjoys dealing with a workforce that is “emotionally tied to its customers.”

The pay grade for his annual salary is between \$120,000 and \$180,000, well below the common salary of \$1.5 million before bonuses and stock options for retail CEOs at a company the size of **AAFES**.

“There is no greater honor than to serve those who serve. No dollar amount can equal the pride I feel going to work at the **Exchange**,” Shull said.

Even after leaving the military in the 1980s, Shull wanted to leverage his civilian experience for the benefit of military families. “The Exchange is where I want to be. It humbles me to be on this team.”