



DeCA

Commissary Transformation Activities

HASC Military Personnel Subcommittee Briefing

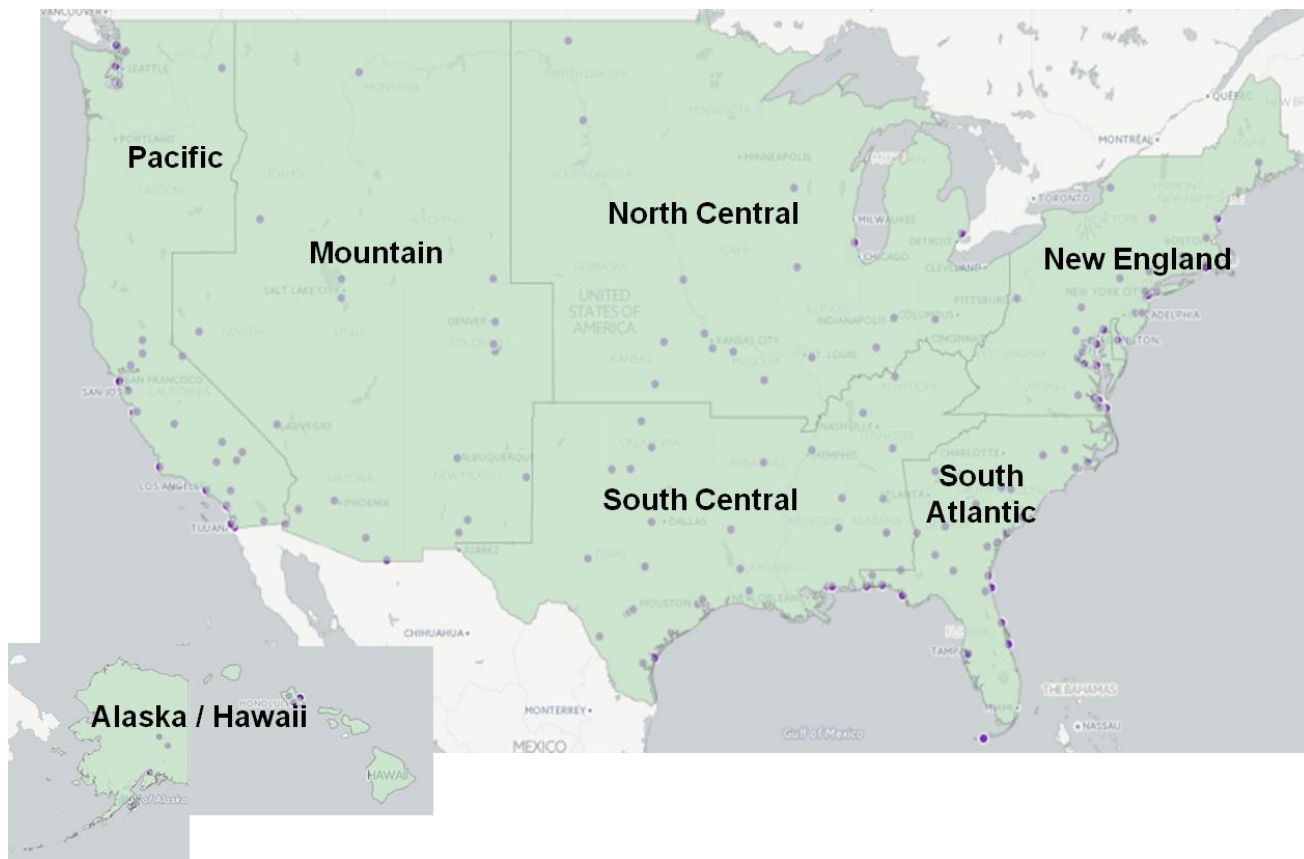
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- NDAA 2016/17
 - Pilot programs for commissary efficiency
 - Current patron savings level to be maintained
 - New market basket survey to re-baseline savings level
 - Waiver of Chapter 147 provisions
 - Eliminates “at cost” commissary model (variable pricing)
 - Business optimization revenues may supplement APF
 - If variable pricing successful, Secretary may convert commissary agency to NAF
- Our Guiding Principles
 - Reduce operating costs
 - Maintain the patron benefit
 - Improve the shopping experience

- As a pre-requisite to business changes, the 2016 and 2017 NDAA's requires an updated savings baseline:
 - Provide a more regional, specific view
 - Better reflect actual patron shopping patterns
 - Monitor more frequently
- Purpose of the baseline is to protect the patron benefit in future
- New measurement does not change the actual dollars patrons save

Savings baseline by region



Baseline: Current savings level*

	Commissaries	Savings %**
New England	36	21.4%
South Atlantic	30	19.9%
South Central	33	18.1%
Pacific	31	20.9%
Mountain	20	17.6%
North Central	18	20.2%
Alaska / Hawaii	9	32.6%
US Average	177	20.2%
Overseas	61	44.2%
Global Average	238	23.7%

*Baseline savings measured Oct-Nov 2016

**Calculation includes applicable taxes in commercial grocery store prices and surcharge in commissary prices; without these, savings would be US (22.3%); Overseas (45.6%); Global (25.7%). 35 States do not have sales tax on food items

Cost-plus
(old method)

All items sold at cost set by manufacturer + 5% surcharge

Variable pricing
(new method)

Item prices set based on a variety of factors, e.g.: customer preference, competitive dynamics, item cost and margin, size and brand relationships etc.

**Why we are
making the
change****Problems with cost-plus:**

- Inconsistent savings across store (e.g. some items 50%+ savings, others cheaper at retail)
- Confusing shopping experience (e.g. size relationships that don't make sense)
- No ability to respond to market competition or customer preference
- No ability to offset operating costs

Implement variable pricing as well as item optimization:

- Evaluated and negotiated 7,000-8,000 items (~20% of assortment)
- Deleted ~650 low-performing, redundant, or higher-cost products
- Reallocated space to fast-moving, popular items and private label
- \$25M+ in savings through reduced cost of goods and increased promotions

What is private label?

- Private label is an **in-house brand** often sold as an alternative to national brand items
- Will be made at national brand **equivalent quality** (often on same manufacturing lines)
- Can be **sourced and sold much more cheaply** than equivalent national brand items

Why we are making the change

- **Common in the marketplace** – accounts for ~20% of sales in private sector retail, and growing
- DeCA patrons want private label
- Will **increase patron choice** and offer quality products at a **better price**
- Will **generate revenue** for DeCA to offset operating costs



Food Items



Non-Food Items

Patrons

- Maintained patron benefit – more consistent savings levels across the whole store
- Enhanced choices, with high quality store-brand products available at lower prices
- Better shopping experience: more relevant assortment, easier to navigate, fewer out of stocks

Taxpayers

- Cost savings and reduced appropriations

Early CY 2017 *(first half)*

- **Announce updated patron savings numbers** (Jan.)
- **Complete Category Performance Improvement (CPI) Wave 1 negotiations** (Feb.)
- **Begin store-based project** (Mar.)
- **Begin category-based project** (April)
- **Rolling shelf resets** (begins April)
- **Launch initial private label products** (May)
- **Continue next wave CPI negotiations**
- **Monitor patron savings and satisfaction** (ongoing)

Late CY 2017 *(second half)*

- **Shelf resets complete**
- **Complete launch of Wave 1**
- **Private label products, 500 + items**
- **Monitor patron savings and satisfaction** (ongoing)

Beyond CY 2017

- **CPI negotiations for all categories complete**
- **All shelf resets complete**
- **Variable pricing fully implemented across all categories, locations**
- **Full private label assortment across all categories**
- **Monitor patron savings and satisfaction** (ongoing)