An Event You Won’t Want to Miss!
Coming up on August 25 from 9:00 a.m. to 11:55 a.m. ET, many in the senior AAFES executive team will be talking to ALA members about their business and plans to continue to boost support for the military community. Companies wanting to register should contact bellis@ala-national.org. AAFES speaker line-up:

- Tom Shull, Director/CEO
- Ana Middleton, Chief Merchandising Officer
- Chris Burton, Hardlines
- Martha Robuck, Softlines
- Eric Sidman, Consumables
- Eric Bowman, PAR-PIM
- Kyle Allison, Omnichannel Marketing
- David Lemons, eCom operations
- Sandi Lute, Social Media Marketing Opportunities
- Jim Skibo, CRM
- Alan French, Logistics update

Commissary cuts. The Pentagon is constantly reviewing it’s spending plans. And, these reviews are now looking at fiscal year 2022 which begins in October 2021…not that far off. Defense reportedly is focusing on “Fourth Estate” agencies, the agencies that operate outside of the branches of the Armed Services—Army, Navy, Air Force, Marine Corps. The Pentagon’s Chief Management Officer has been tasked to find $5 billion in savings from the $100 billion Fourth Estate budget. On the list for review is a $2.2 billion cut to the Defense health care system where some Pentagon folks think that the private sector can handle. DeCA is on the list. Some sources are saying that there is a $70 million or 6 percent cut in the works. The cuts are curious because DeCA was just programmed for a $38 million increase in funding from COVID-19 CARES I funds. Other sources say that this reduction could be a down payment of a renewed effort to cut the commissary budget by greater numbers. Several years ago, ALA worked to kill a plan by Pentagon decision-makers to cut the commissary budget by $1 billion. The appropriations committees on Capitol Hill didn’t go along with the Pentagon plan and kept restoring the cuts in several successive years after several successive attempts. The Pentagon relented and move to “reform” the commissary program with a series of initiatives including consolidating the resale entities into one system. Looks like we’re entering another round of budget debate on the system. ALA will be on top of it and will continue its advocacy for continued funding and responsible and sensible reforms.

CPI redux—risky business. Speaking of reforms, a discussion is taking place in the Pentagon bringing back aggressive “Category Performance Improvement” into DeCA’s negotiations with manufacturers and
other suppliers to the commissary program. It’s part of an effort to capture up to $30 million in price and trade funding, employing tactics recommended by a consulting firm. ALA is very concerned about this report. DeCA had recently been moving in a more collaborative approach in industry in their category management area and industry was embracing the more collaborative approach.

ALA urges the DoD to move with great care in exploring aggressive CPI processes. The supply chain is more fragile now than ever with COVID-19 exacerbating an already stressed system. Already, we are seeing weaknesses across the commissary supply chain, some associated with COVID and some not…with major stress on the ability of manufacturers, distributors and brokers to maintain service levels.

Major consumer product companies make trade dollars available to their trading partners including distributors, brokers, and retailers. This funding is key to building business. The aggressive CPI process being considered by the Pentagon would chew up trade dollars that otherwise would be flowing to in-store support and promotions. The objective of retailers in employing these aggressive CPI tactics is a dead, dead net cost. This can result in consumer product companies deploying trade dollars away from retailers who do not use funding to grow business but rather use the funding for other purposes. The result is less store excitement, less promotions, and in the end, less funding for the retailer. Retailers employing these tactics usually lose more than you gain with these aggressive tactics.

Advocates for the CPI process are basically saying that by reducing the cost of goods sold, military resale can realize larger margins and profits to offset appropriations. However off-base competition is getting more intense and sales declines in DeCA have reduced bargaining leverage. DeCA has tier 1 status among most major CPG companies because of their affinity for the military. Aggressive practices threaten Tier 1, status with suppliers, and could add major percentages to cost of goods and could eliminate some logistics benefits usually reserved for Tier 1 customers.

ALA is comprised of major consumer product companies and suppliers up and down the chain. We also work with leading experts in category management the retail grocery business. Almost universally, these experts say:

Suppliers are ready and willing to engage with DeCA to achieve growth. Retailers who do this well have six main behaviours:

- They promote *customer first* thinking and manage their categories to meet customer needs;
- They share data with suppliers;
- They develop a clear statement of the roles that categories play in serving their customers and share this with respective suppliers;
- They specify a consistent joint business planning format and process that includes joint performance metrics;
- They hold themselves and suppliers accountable for delivering those metrics, using regular performance reviews with suppliers as a means to keep focus on results;
- They conduct regular trials, in partnership with suppliers, to optimise assortment and in-store execution.
**Congressional review of DeCA programs.** The CPI move comes when Congress is questioning the implementation and execution of the reforms implemented by the Pentagon “on DeCA’s sales, expenses, need for appropriated funds, and/or customer savings and satisfaction,” and is asking for a Government Accountability Office review. The language was included in the report accompanying the Senate version of the 2021 National Defense Authorization Act. It appears below:

“Comptroller General report on the impact of reforms in the defense commissary system

The Defense Commissary Agency (DeCA) operates about 240 commissaries worldwide that sell groceries and household goods at reduced prices to eligible customers, including uniformed servicemembers, their families, and retirees. To pay for operating costs that exceed sales revenue, the Congress has appropriated approximately $1.3 billion annually from amounts appropriated to the Defense Working Capital Fund for commissary use from fiscal years 2015 through 2019. Additionally, sales at the commissaries have fallen from $5.5 billion in fiscal year 2015 to $4.5 billion in fiscal year 2019.

To help the DeCA improve its business operations without diminishing customer savings, the National Defense Authorization Act (NDAA) for Fiscal Year 2017 (Public Law 114-328) authorized certain reforms for the commissary system. For example, the NDAA authorized the DeCA to set commissary prices in response to market conditions and customer demand (i.e., variable pricing), and it authorized the Secretary of Defense to convert the commissary system to a non-appropriated fund entity or instrumentality, subject to certain conditions.

The committee seeks to understand the extent to which the DeCA has used these authorities and/or implemented other reforms (e.g., the sale of private label goods) to improve its operations and to reduce its need for appropriated funds.

Therefore, the committee directs the Comptroller General of the United States to conduct a review and to provide a briefing to the Committees on Armed Services of the Senate and the House of Representatives no later than March 1, 2021, with a report to follow, that includes the following:

(1) What reforms the DeCA has implemented within the past 5 years to improve its business operations;

(2) What effect those reforms have had on DeCA’s sales, expenses, need for appropriated funds, and/or customer savings and satisfaction;

(3) What challenges the DeCA faces in providing reduced-price groceries and household goods, and what steps the DeCA is taking to address those challenges; and

(4) Any other issues that the Comptroller General determines are applicable to DeCA’s operations and reform efforts.

**Meeting with DeCA Director.** ALA met on August 12 with Bill Moore, the new DeCA Director in his Pentagon office. Moore assumed the DeCA Directorship from Pentagon manpower official Ms. Vee Penrod, who served double-hatted. Mr. Moore will be reporting to DeCA over the next couple of weeks. Moore will also replace Admiral Rob Bianchi (USN-Ret.) who served as the “Special Assistant for Commissary Operations”. Admiral Bianchi will return full-time to his leadership of the Navy Exchange Command. During the meeting, we discussed ALA’s commitment to increasing sales in the commissary program. We discussed the best way to protect the benefit is to show that the troops and their families want and use it. We committed to doing all we can toward that end. ALA and Mr. Moore also agreed to engage frequently with industry. The discussion also centered around challenges presented by
the pandemic. We congratulate Mr. Moore on his Directorship and are greatly appreciative to Admiral Bianchi for taking on so many challenges and his work to advance the commissary program and simultaneously navigating NEX and DeCA through the COVID-19 pandemic shocks.

**Commissary distributor stress.** Distributors for the Defense Commissary Agency have been stepping forward with extraordinary efforts to keep stores supplied during the pandemic. ALA is working with the Department of Defense to recognize these extraordinary efforts and provide these operations with the same consideration that they are providing to other affected sectors of the Defense industrial base. ALA has been participating on calls several times a week with Pentagon officials raising this matter along with the urgency of aid to exchanges that have been affected by the pandemic, support to small businesses affected by the pandemic, securing the supply chain from source to shelf, and provision of protective gear up and down the supply chain and in the stores. Here’s part of our letter to Defense on aiding commissary distributors:

> Unlike traditional wartime logistics mobilizations undertaken by the Department of Defense, the COVID-19 pandemic was first and foremost a human problem requiring immediate and sustained efforts by the supply chain to provide goods and services to military personnel and their families. In the early days of the pandemic and continuing today, it is important to recognize that if any of the Nation’s key military distribution hubs were forced to close, many of the basic daily needs for military personnel and families would be unmet. The Department recognized the essentiality of this supply chain when the Under Secretary of Defense (Personnel and Readiness) issued a memorandum on March 25, 2020 designating commissaries “and all operational support facilities” as “mission critical”. The reprogramming accompanying the first tranche of CARES I funding provided $38 million to commissaries. However, these allocations did not extend to supporting the supply chain behind the commissary program.

> We appreciate your efforts and those of the entire Department of Defense in recognizing the contributions of the Defense industrial base and the need to keep this sector viable during the pandemic. We respectfully ask that you consider providing financial aid to contractors which have been instrumental in ensuring the success of the DoD’s strategy to contend with the pandemic and provide goods and services needed to provide for their military personnel well-being including minimizing the spread of the virus throughout DoD.

> The military’s food lifeline is comprised of a combination of commercial distribution centers and distribution capabilities of the Department of Defense. This supply chain is only as strong as its weakest link. Commercial military distributors are the cornerstone of the military resale supply chain. Over the course of time they have invested in critical infrastructure and now they manage and carry the cost of the inventory to support the military stores. They are experiencing extraordinary demand and throughput for critical products that are needed to sustain our military personnel and their families. These distributors have experienced major expenses that are not being reimbursed. They have extended hours of operation, hired emergency staff and are the source of airlift capability to provide critical products directly to overseas bases. And, these distributors are trying to react to convulsions in the supply chain as military base access restrictions are instituted. While these distributors continue to fill a massive increase in orders for vital food products, their ability to sustain this level of non-reimbursed support without supplementary support threatens the viability of this supply chain.

> From the outset, several companies have stepped forward in the distribution of critical consumer products to our military families. This has resulted in military families being provided with family support staples no matter where they serve. In order to achieve this result, these companies have incurred extraordinary costs.
Commissary customer survey. The Defense Commissary Agency (DeCA) will launch its annual worldwide Commissary Customer Service Survey (CCSS) starting Aug. 24. "This CCSS is an extremely important measure of commissary performance and it provides us the mechanism to benchmark commissary performance during a fixed period of time," said James Taylor, chief of DeCA’s store operations division. "We're committed to delivering a premiere customer experience in every store, and the CCSS survey platform continues to be a powerful tool to help us do that.” It’s unclear whether the survey will include eligible patrons that do not shop at the commissary.

Re-stationing forces in Europe. As we reported last week, the U.S. Secretary of State Mike Pompeo formalized a deal with the Polish government for continuing the re-stationing of U.S. forces from Germany to Poland. There are around 4,500 troops there now with another 1,000 or so on the way and some headquarters flags are going to be relocated as well. AAFES is providing support to the troops that are being restationed. Defense planners are looking at permanent facilities to support the re-stationing plans, the re-stationing also would involve vacating facilities in Germany that were just built with tens of millions of troop dollars—including nonappropriated exchange funds and commissary surcharge funds.

Share of wallet. While the military resale system does come $17 billion a year in business, it only captures a fraction of the military and veteran marketplace. Millions of shoppers have been added to the roles of eligible patrons, most recently all disabled veterans getting access to brick and mortar exchanges and commissaries. This coming year, an advanced ALA communications platform is being developed and will key-in on partnering with the Pentagon and our resale partners in capturing more of the market share of the increased patronage.

AAFES moving out on digital innovation, health care, and enhanced troop food offerings. AAFES continues to innovate and push the envelope on customer enhancements. A Digital Garrison app has been launched as a partnership between the U.S. Army and the Army & Air Force Exchange Service. It is intended to provide a one-stop information source for Army communities. The free app is available in the Apple and Google Play stores. “Digital Garrison provides information at the ready to improve the quality of life for Soldiers and their families,” said Lt. Gen. Douglas Gabram, Commanding General, United States Army Installation Management Command. “Staying connected as a community is key to strengthening readiness and resiliency.”

Digital Garrison features:

- Information specific to each user’s community such as an installation directory of available services, gate locations, fitness and recreation options, events and more.
- A dashboard, including user profile, weather and event details and information on local Exchange shopping and restaurants.
- Push notifications, newcomer information
- Access to ShopMyExchange.com, with in-app shopping.
- A mobile wallet with sales promotions and a secure method for storing payment options.

“Digital Garrison puts real-time information in Soldiers’ hands,” said Exchange Director/CEO Tom Shull. “Through Digital Garrison, Army MWR, IMCOM and the Exchange are taking hard-earned benefits to the next level to make our Nation’s military communities the No. 1 place to live in and work.”

It’s the latest in efforts by AAFES to team with Installations Command. The Exchange is also looking at collaborating with the Army on campus-style troop food offerings whereby the troops could also use their meal allowance cards to dine at AAFES facilities.
Other initiatives by AAFES include expanding into health care with dental clinics, durable medical equipment and other health offerings on the way.

**Advance Estimates of U.S. Retail and Food Services.** Advance estimates of U.S. retail and food services sales for July 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $536.0 billion, an increase of 1.2 percent (± 0.5 percent) from the previous month, and 2.7 percent (± 0.7 percent) above July 2019. Total sales for the May 2020 through July 2020 period were down 0.2 percent (± 0.5 percent)* from the same period a year ago. The May 2020 to June 2020 percent change was revised from up 7.5 percent (± 0.5 percent) to up 8.4 percent (± 0.2 percent). Retail trade sales were up 0.8 percent (± 0.5 percent) from June 2020, and 5.8 percent (± 0.7 percent) above last year. Nonstore retailers were up 24.7 percent (± 1.4 percent) from July 2019, while food and beverage stores were up 11.1 percent (± 0.9 percent) from last year.

**Kroger online marketplace.** Kroger is expanding its ship direct to customer digital marketplace beyond groceries to a range of other categories including natural and organic products, international food, specialty items, housewares and toys. 50, items will be available. Customers earn loyalty rewards. Kroger’s annual sales are $121 billion.

**More online shopping.** 78.7 of U.S. consumers reported shopping online for groceries, up from 39 percent before the pandemic. 51 percent said they preferred a grocery retailer that had the item they wanted in stock and 39 percent wanted delivery in the time slot they wanted.

**Commissary shopping services for quarantined sailors.** Since March, U.S. Forces Japan has required all personnel and families arriving in Japan from another country to quarantine as a precaution against spreading the coronavirus. For most, that means their first two weeks in Japan are spent in a hotel room with no opportunity to leave, even for a trip to the commissary. That’s where volunteers from Yokosuka’s Samaritan Shopper Program step in. They take grocery lists from the quarantined folks, shop for and deliver the groceries to their doorsteps.

Best regards,

Stephen Rossetti
President

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