

**STATEMENT OF
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DIRECTOR, DEFENSE COMMISSARY AGENCY**

**BEFORE THE
TOTAL FORCE SUBCOMMITTEE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

MARCH 3, 2004

Mr. Chairman and Members of the subcommittee, it is my pleasure to appear before you to provide an update on the Defense Commissary Agency (DeCA). Serving as DeCA's Director for the past 20 months has not only been very challenging, but also the most enjoyable time of my career. DeCA has achieved many of the goals I spoke of last year in my update to the subcommittee, but I have learned that maintaining a strong commissary benefit is a never-ending task. With the outstanding support provided by this subcommittee, and the legislation the Congress enacted last session, I am pleased to report that the commissary benefit is the strongest it has ever been. On behalf of all of the members of the Armed Services community we serve—thank you for your unwavering support of the commissary benefit.

A Year of Successes

DeCA had a great fiscal year 2003! Not only did we receive a clean audit report for the second year in a row, a feat that only two other Defense Agencies achieved, but all the numbers moved in the right direction. Sales were up; operating costs came in below budget; we doubled capital investment; and we achieved the highest customer satisfaction scores ever. For the first time in DeCA's history, every one of the 14 categories included on the customer satisfaction survey of store performance went up, as well as the overall score. We are even more pleased that the external survey conducted for the Department of Defense through the American Customer Satisfaction Index verified the satisfaction of our patrons, awarding us a score of 76, compared to a rating of 74 for America's supermarket industry. Patron savings at over 30 percent, continued to be strong and the overall condition of our shopping facilities improved with the expanded construction program made possible through the Surcharge Revitalization Plan you enacted in 2000. Moreover, cumulative cost savings initiatives of over \$123 million have been delivered since fiscal year 2000, and on the technology front, we developed a data management strategy and are improving our business capabilities and efficiencies. The outstanding men and women I lead at DeCA, our industry trading partners, the Commissary Operating Board, our leaders in the Department, and the Members of Congress, collectively should take credit for these achievements. I thank each and every one

of them for their steadfast support.

A Year of Challenges

Yet, the year was not without its challenges! Some were the daily challenges experienced by any retail business, such as delayed or short deliveries. Others were more serious—like overcoming damages and shortages caused by typhoons, a hurricane, an earthquake, power outages, wild fires, and a distributor bankruptcy. Some were unique to our military clientele. Supporting families left behind became a principal focus, particularly at those installations that experienced the deployment of a large number of troops. To accommodate this changed family structure, the amounts and types of products stocked required adjustment. And those adjustments did not just occur at the losing installation, but also at the receiving installation. The opportunity presented by your extension of full commissary shopping privileges to Guard and Reserve members and their families was another positive challenge—ensuring a whole new group of people are aware of and use their expanded commissary benefit. We gladly accept this challenge and continue to work with Guard and Reserve commands and support organizations to get this vital message to our Guard and Reserve families. Guard and Reserve use of their commissary benefit has a positive impact upon their morale, shown a slight increase in sales, no detrimental impact on customer service, and no increase in costs. Let me thank you for extending full commissary privileges to the Guard and Reserve and recognizing the important role these members and their families play in the total force structure. Perhaps our biggest challenge is our re-engineering effort. Our strategic planning process and our pursuit of best business practices led us to this re-engineering initiative. We are no different from the rest of DoD and industry in this regard. Re-engineering is required not only to meet DoD transformational goals, but also to survive in the retail marketplace. Retailers must adapt to meet changing customer desires; accommodate new products and product lines; and meet the productivity and efficiency demands necessary to stay competitive. Just consider the frequency and magnitude of consolidations and reorganizations that have occurred in the commercial marketplace over the past year. Our comprehensive transformational effort is designed to make us as productive and competitive as possible. It will position DeCA to respond to competitive sourcing goals and the General Accounting Office recommendations on overhead and productivity, as well as taking advantage of any opportunities that may be presented through the implementation of the National Security Personnel System.

Benchmarking the best practices found in industry and focusing on our critical key processes, the DeCA re-engineering effort will integrate and streamline all corporate and store-level activities over an 18 to 24 month period. Our two-pronged approach recognizes the center of attention must be on our stores, and that all of us collectively must do our part to ensure their success. This focus on store-level will facilitate the more efficient and effective operation of all of DeCA. We are reducing the number of personnel classifications and the ratio of

full-time employees to part-time employees; in short, we are adapting industry practices that have proven successful. The concentration above store-level will create a unified organization providing corporate support to our stores. By fostering a multi-skilled workforce which promotes flexibility and innovation, our re-engineering effort takes advantage of the opportunities created by the recent change in OMB Circular A-76 to develop the most efficient organization for our stores and at our above store-level activities. In the past, our study of individual functions within stores, coupled with an inflexible personnel system, eliminated the potential for developing a more multi-skilled workforce similar to that found in the commercial sector. I am confident that this effort will posture the DeCA workforce to be competitive in future studies.

Challenges On The Horizon

Three other challenges are being addressed this year: A solution to the continuing combined store issue; exploiting the strengths of the individual military retail entities to benefit the entire resale system; and identifying which eligible patrons do not use our commissaries.

The combined commissary and exchange concept established by section 2490a of title 10, United States Code, has not been successful. Commissaries and exchanges are dissimilar operations with separate and distinct missions and have each developed an expertise in fulfilling their respective missions. Attempts to combine both into a single operation that is financially viable have proven to be a difficult, if not impossible, challenge. I do believe, however, that if a commissary benefit is going to be provided to our patrons, it should be at the expense of appropriated funds, not at the expense of the exchange. The exchanges and DeCA are continuing to work on this issue; I'm confident that we'll collectively come up with an acceptable solution in the near future.

We are continuing to explore opportunities for cooperative efforts with the exchanges, the Veterans Canteen Service, and the Service MWR activities, to improve efficiency and/or drive costs out of the resale system. Our initial efforts have focused on identifying candidate projects in construction, acquisition, and information technology realms. I believe there are some opportunities for real cost savings if we look at the common aspects of our individual and separate and distinct businesses.

Finally, we are making a concerted effort to identify patrons that do not currently use the commissary. We have inserted questions in a number of military surveys to help identify the reasons that some people do not use our stores so that we can refocus on customer service and institute more effect traffic-building strategies. You have recognized the critical importance of the commissary benefit as part of the compensation and benefits package for our military family; it is up to us to do all that we can to offer what our eligible patrons desire. A benefit is only as valued as it is used.

Focus on the Future

DeCA has successfully shifted from an input and budget-based culture to an output and cost-based orientation to become a proven leader in both the Department of Defense and the supermarket industry. It benchmarks well against major grocery chains. For example, the Defense Commissary Agency remains the industry leader in sales per square foot, sales per store employee and sales per transaction. Our results—sales, savings, cost reduction, and customer satisfaction, all show positive trends. We got there by asking the hard, and sometimes unpopular, questions. More of those questions require answers if we are to maintain this leading edge and with it, the commissary benefit. One of those efforts involves the request by the Department that we examine the effect of expanding our Best Value Item product line so that it more closely resembles the private label program found in commercial supermarkets and what the effect would be if variable pricing were used to manage the gap between the best value and national brand products while sustaining an average savings of 30 percent on all products. I expect to deliver the results of this study to the Department by the end of this month.

We continue to look for efficiencies that will benefit the commissary system. We are on the verge³ of completing our review of existing processes and functions and at that point will have squeezed virtually every efficiency we can out of the existing commissary system. Future efficiencies, I believe, will come through technological advances. We have just started testing one of those advances -- self-checkout -- at our Langley Air Force Base, Virginia store. We also see great potential in Radio Frequency Identification (RFID) technology for inventory management. While there are many technological improvements being developed with the promise of producing efficiency, we will exercise good stewardship and prudent management to ensure we only pursue promising technologies.

Conclusion

Last year I told you our goal was to create “Raving Fans” of our customers, our suppliers and our employees. This year I am happy to report that we are well on our way. I am also pleased to report that the commissary benefit is the strongest it has ever been. Not only in a retail sense, as demonstrated by the enormous successes I outlined earlier, but also in our governance of this integral element of the total compensation package. While it may seem trivial for an entity like DeCA, that costs about one-quarter of one percent of the Department of Defense budget, to crow about their cost savings initiatives and stellar performance—never before has the taxpayer and customer gotten so much “bang for their buck” from the commissary system. We have been blessed with great people, not only employees and suppliers, but also great supporters like the Members of this subcommittee. Yet we are mindful that we must be ever vigilant in looking for new opportunities to improve the commissary performance. All of us at the Defense Commissary Agency recognize that we have been entrusted to administer

one of the most valuable benefits our Service Members enjoy. And, we, at DeCA, proudly wear that trust like the “badge of honor” it is!