

**DEFENSE COMMISSARY AGENCY (DeCA)
WORKING CAPITAL FUND**

**FISCAL YEAR (FY) 2000/2001 BIENNIAL
BUDGET ESTIMATES**

OPERATING BUDGET



**FEBRUARY 1999
CONGRESSIONAL DATA**

**DEFENSE COMMISSARY AGENCY (DeCA)
WORKING CAPITAL FUND**

FY 2000/2001 BIENNIAL BUDGET ESTIMATES

OPERATING BUDGET

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DEFENSE COMMISSARY AGENCY - CORPORATE OVERVIEW
DeCA WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS AND COMMISSARY OPERATIONS

The Defense Commissary Agency (DeCA) provides a valuable non-pay compensation by operating military commissaries worldwide. Commissaries sell food and related household items to active and reserve members of the Military Departments, their families, retirees, and other authorized patrons. Commissaries sell product at acquisition cost, resulting in patrons receiving direct savings of at least 25 percent off the typical market basket. This savings is an integral non-pay component of the total military compensation package and is instrumental in recruiting and retaining military members, for fostering a sense of community, and for maintaining a positive sense of quality of life, especially in overseas communities and remote locations. Military members have embraced this valuable contribution to their lifetime compensation package and rank the commissary as their number one non-pay compensation in importance.

DeCA headquarters and 8 field operating activities are located at Fort Lee, Virginia. There are 4 region offices, 37 zones, 295 commissaries, and 12 Navy Exchange Marts (NEXMARTs) on military installations worldwide. DeCA employs over 19,000 personnel, has annual sales of \$5.0 billion, and has an annual operating budget of approximately \$1.4 billion (\$1.1 billion in DeCA Working Capital Fund and \$300 million in Surcharge Collections).

DeCA also uses services from Defense Logistics Agency, Defense Finance and Accounting Service, Defense Information Services Agency, US Transportation Command, and the Military Departments for support in areas associated with procuring fresh fruits and vegetables, accounting, systems development, construction, transportation, and base support. Personnel related support previously provided by DLA will be transitioned from DLA through DeCA in-house support and then to the Washington Headquarters Services (WHS) by the end of FY 2000.

Defense Reform Initiative Directive (DRID) #37, Devolvement of the Day-to-Day Oversight of the Defense Commissary Agency to the Services, May 5, 1998, transferred responsibility for requesting appropriated funding for Commissary Operations to the Military Services, effective October 1, 1998. The share of customer funding by each Service is based on a percentage of total active duty personnel and military retirees by Service. The DRID also established a Commissary Operating Board (COB) to exercise operational authority over the commissary system. The COB is accountable to the Secretary and Deputy Secretary of Defense and to the Under Secretary of Defense (Personnel and Readiness).

I. OPERATING BUDGET

DeCA financially manages two activity groups within the Defense Working Capital Funds: Commissary Resale Stocks and Commissary Operations. In FY 1999, DeCA assumed

responsibility for its own revolving fund cash management within the Defense Working Capital Funds for these activity groups.

a. Commissary Resale Stocks finances the purchase of inventory for resale to authorized patrons. Authorized patrons are unlike the typical DoD customer, which is normally a government entity financed by an appropriation. DeCA patrons are cash paying commissary customers who predicate their demand based on military paydays. Products offered by commissaries include groceries, meat, poultry, fruits, vegetables, dairy products, and household products. There is no requirement for appropriated fund support in FY 2000. Projected sales for FY 2000 are \$5.0 billion.

b. Commissary Operations finances operating costs for resale stores, agency and region headquarters, field operating activities, and support services. Specific costs include civilian and military labor, labor contracts, travel, transportation of commissary goods overseas, and indirect support. The primary revenue source for this activity group is appropriated fund reimbursement from the Military Departments. Commissary Operations also receives additional revenues, about \$34 million, from processing manufacturers' coupons, handling fees for tobacco products, and reimbursements for other support. Commissary Operations unit cost goal, which is defined as cost per dollar of Resale Stocks sales, is about \$.21 in FY 2000.

Surcharge Collections represents a third major source for funding commissary operations. Surcharge Collections is a trust fund primarily funded by a five percent surcharge applied to patron sales at the check-out counter. This fund was established so authorized patrons share responsibility for overall costs of commissary operations, including commissary supplies, equipment, utilities at CONUS locations, information management equipment and support, and commissary construction program. This fund also receives revenue from prompt payment discounts, the sale of used cardboard and equipment, and services provided to others.

II. WORKLOAD ASSUMPTIONS

The annual Resale Stocks sales forecast for FY 2000 is \$5.0 billion. Sales are the primary factor in determining DeCA's workload; however, there are many other factors that influence workload; e.g., authorized patrons, number and location of commissaries, operating hours and days, distribution systems, information management systems, facility condition, and regulatory and statutory requirements.

a. DeCA's total authorized patron base is approximately nine million people. DeCA's customers include active duty military members, reserve component members, retired personnel and their families, government departments or agencies, and DoD civilians in overseas areas.

b. DeCA plans to begin FY 2000 with 292 commissaries. There are also 12 NEXMARTs, which combine commissary and exchange operations at small locations overseas. The Navy Exchange Command (NEXCOM) manages these stores, but DeCA provides the resale inventory and reimburses NEXCOM for total costs of commissary operations.

c. DeCA operates 11 Central Distribution Centers (CDC) to support inventory requirements: 2 each in Germany, United Kingdom, Korea and Alaska; and 1 each in Japan, Okinawa, and Guam.

Commissary operating hours and days are determined by sales, patron demographics, and local installation needs. Due to funding limitations, commissaries are open an average of 48 hours a week. To make commissaries more accessible to patrons, DeCA is changing store operating hours by reallocating hours from existing stores to other stores and by adding hours to the baseline with the approval of the Commissary Operating Board.

The President's Budget for FY 1999 eliminated the funding for four BRAC locations: Fitzsimmons AMC (Colorado); Orlando NTC (Florida); El Toro MCAS (California); and Fort McClellan (Alabama). However, each of these locations retained an active duty population that warrants retention of the commissary. The Department is committed to retaining these stores and the Services are providing the additional appropriated fund support to pay their operating costs in FY 2000.

Personnel staffing is determined through application of workload based engineered staffing standards. To maintain the personnel scheduling flexibility needed in commissaries, DeCA employs a mix of full-time, part-time, and intermittent workers. There are 18,747 civilian employees planned in FY 2000, using 16,454 workyears. Military staffing remains constant at 12.

OCONUS and remote locations cost more per dollar of sales than CONUS locations, using about 45 percent of available appropriated fund support to produce 22 percent of sales. These commissaries are more expensive because operating and support costs in foreign and remote locations are higher. Many locations service small-to-medium military populations with smaller sales and higher fixed costs. Additionally, there are significant support costs incurred in providing U.S. food products and household items to overseas locations, e.g., transportation of \$156 million in FY 2000.

a. In spite of these cost considerations, commissary operations overseas are efficient and effective because DeCA's infrastructure provides economies that are not achievable by other alternatives. The commissary system is also instrumental in reducing cost of living allowances (COLA) overseas by providing low-cost groceries.

The commissary system is critical in supporting military members and their families overseas. This military population does not have adequate alternative shopping available. OCONUS commissaries are more than a place for acquiring groceries. They are an essential "life-line" of the overseas military community and their quality of life.

An integral component of DeCA operations and workload efficiency is information systems. During this budget, DeCA will continue to modernize its business systems. The DeCA Enterprise Business System (DEBS) initiative will involve making the DeCA Interactive Business System (DIBS) and the Point of Sale-Modernization (POS-M) systems Year 2000 compliant.

a. POS-M replaces several legacy systems transferred from the Military Departments. The POS-M system includes price scanning and upgraded checkout counters to improve throughput efficiency at checkout. With the deployment of POS-M, DeCA is also pursuing electronic shelf labels to assist with price changes, electronic surveillance, and Electronic Benefits Transfer for food stamps. POS-M will enable DeCA to retain and track an item's cost and sales price.

b. DIBS will be modified to become Year 2000 compliant hardware and software. New/enhanced features for automated reordering, enterprise decision support, and overseas central distribution center support will be integrated into the system. The enterprise decision support provides the capability of placing critical business data into a data warehouse for use in analysis, projections, reporting and business decisions. Enhancements for the overseas CDC support include use of radio frequency handheld computers to allow further efficiencies in the management and accounting of CDC inventories. Both these enhancements will use commercial-off-the-shelf software and be integrated with the Year 2000 compliant DIBS.

III. PRODUCTIVITY ASSUMPTIONS

DeCA has successfully demonstrated its ability to operate an efficient and cost effective commissary system that provides a valuable non-pay benefit, improves the quality of life of authorized patrons, and enhances military readiness by retaining quality personnel. DeCA continues to decrease operating costs by reducing full-time equivalents (FTEs), outsourcing selected functions and services under OMB Circular A-76 procedures, implementing additional joint ventures with the exchange systems, streamlining acquisition of produce, reducing inventory levels, and developing procedures to recoup operating losses in Resale Stocks.

a. FTEs decreased by 2 percent during this budget cycle, from 16,720 FTEs (16,708 civilians and 12 military) in FY 1999 to 16,466 (16,454 civilians and 12 military) in FY 2000. Since FY 1992, FTEs have decreased overall by 29 percent. This decrease is comparable with 121 store closures (29.4 percent) over the same period. However, sales have decreased only 19 percent.

b. Outsourcing selected functions and services under OMB Circular A-76 procedures has proven to be cost effective. Savings are \$.6 million for FY 2000. DeCA expects to aggressively pursue additional A-76 and direct conversion opportunities. There are currently about 200 A-76 contracts in effect for shelf stocking, custodial and warehousing functions.

c. Joint ventures with the exchange systems are producing economies in the construction program. Nine joint construction projects are planned through FY 2001 between DeCA and the Exchange Systems.

d. DLA eliminated an intermediary level within the acquisition process for produce based on a joint review and re-invention of the process. This resulted in a cost avoidance to DeCA of \$3.8 million in FY 1999.

e. DeCA continues to reduce the Resale Stocks inventory investment. On-hand inventory will decrease 33 percent, from \$442.6 million to \$296 million, from the levels maintained by the Military Departments prior to FY 1992. The number of days of on-hand inventory will decrease from 36 days to 21 days or 42 percent over this same period.

f. DeCA has been unable to recoup normal operating losses in Resale Stocks due to system limitations. These losses are primarily the result of inventory shrinkage, spoilage and pilferage. In conjunction with the newly deployed POS check-out system, DeCA will have the capability to retain and account for a distinctive acquisition cost and sales price by item, allowing for recoupment of these losses beginning in FY 2000.

DeCA continuously strives to improve the quality of goods and services provided to its patrons while developing more cost effective business practices. To satisfy mission requirements, DeCA must modernize its operations to meet the changing demands of authorized patrons. The patron of today is much different than of yesterday. The stark warehouse of the past is not acceptable in maintaining the quality of life expected by the modern volunteer military member. With the pressure to retain a qualified workforce, the commissary system must adapt and provide services that are required by today's forces.

a. Cooperative efforts with the exchange system has improved customer service through manufacturer/broker cross promotions, joint parking lot/sidewalk sales, cross coupons, giveaway gift certificates, and coupon inserts/flyer advertising.

b. DeCA has established Process Action Teams to develop creative and more efficient operations in the meat and produce departments to provide quality goods and service for our patrons at the lowest price possible.

c. Human Resources has developed a new one-week training course for produce department operations. The new course will enhance merchandising techniques for produce, resulting in preferred operations.

d. In-store banking services have enhanced customer service and operational capability. DeCA is planning to increase the number of in-store banks by approximately 65 through this budget cycle.

e. By expanding the number of Value Brand items, DeCA will offer its patrons greater savings. Value alternatives are quality name-brand goods, but may not be as widely advertised and promoted by their manufacturers, as are the national brands. Value Brands typically have the lowest prices available.

f. The test on Home Meal Replacement (HMR) program, consisting of precooked and prepackaged side dishes and entrees, has been successful at 11 commissaries. Current plans are to expand this program by an additional 50 locations through FY 2000.

DeCA continues to be recognized for its innovative and business-like approach in managing the commissary system. During FY 1998, DeCA received the "Achievement Award" in

the President's Quality Award Program, which represents an outside validation of accomplishments in terms of quality and business results. The National Performance Review report on customer service, "World-Class Courtesy, A Best Practices Report," acknowledged DeCA's customer service and favorably compared DeCA to acclaimed private sector leaders. The Environmental Security Program also recognized DeCA for outstanding accomplishments in pollution prevention for its aggressive efforts in recycling and energy conservation.

	FY 1998	FY 1999	FY 2000
<i>Efficiencies/Closures</i>			
Commissary Operations (\$M)	30.0	4.7	6.6
<i>Workload Indicators</i>			
Commissary (begin year)	299	295	292
Annual Sales (\$M)	4,911.3	5,000.0	5,000.0
Resale Inventory (\$M)	294.9	296.0	296.0
<i>Performance Indicators</i> <i>(Goals for FY97-FY99)</i>			
Inventory Turns	16	16	16
In-Stock Rate	97%	97%	97%
Customer Savings	25%	25%	25%
<i>End Strength and Workyears</i>			
Civilian End Strength	19,288	19,001	18,747
Military End Strength	12	12	12
Civilian Workyears	17,040	16,708	16,454
Military Workyears	12	12	12

**DEFENSE COMMISSARY AGENCY
DeCA WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS**

FUNCTIONAL DESCRIPTION

Resale Stocks finance inventory sold by the commissary system. Products stocked include groceries, meat, poultry, fruits, vegetables, dairy products, and household goods. Revenue from sales at cost is used to replenish the retail inventory. Therefore, Resale Stocks is self-sufficient requiring no appropriated fund support, except for recovery of inventory losses due to natural disasters.

DeCA provides an invaluable non-pay compensation to authorized commissary patrons. Recent customer surveys rank the commissary as the number one quality of life benefit. Commissary authorized patrons include: military members and their families, reserve forces personnel, retired personnel and annuitants. Other authorized sales are made to government civilians overseas, troop issue subsistence, non-appropriated fund activities, U.S. State Department activities, and others. DeCA's total authorized patron baseline is approximately nine million personnel.

A five percent surcharge is applied to sales at the check out counter. This surcharge is required by law and finances certain commissary operation and construction costs. Revenue from this surcharge is accounted for in the Surcharge Collections, Sales of Commissary Stores, Defense account.

BUDGET HIGHLIGHTS

Revenue consists primarily of cash, charge sales, and coupon sales. Cash and coupon sales to active duty and reserve military members and their families, retirees, foreign entities and non-appropriated funds represent over 99 percent of total revenue. Charge sales include Army troop issue subsistence, NEXMARTS, National Guard and other appropriated fund sales.

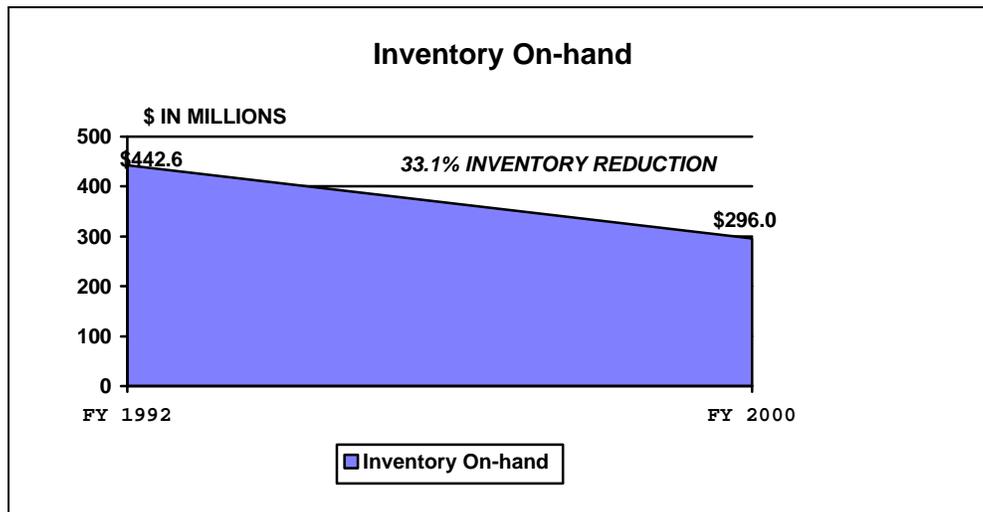
The unit cost goal for this activity group is \$1.00 per dollar of sales because resale products sold must recoup costs to make the fund whole. Therefore, the Net Operating Result (NOR) for the budget years is planned to be zero.

CHANGES IN OPERATIONS

Rightsizing efforts undertaken by the Department of Defense from FY 1992 through FY 2000 will result in the closure of 121 Commissaries, approximately 29 percent. Sales will decrease for the same period of time by about 19 percent.

Tobacco sales continued to impact on sales. The policy change in November 1996 to make tobacco an exchange item, and sell it at exchange prices in the commissaries, caused a significant and continuing decline in sales of tobacco and non-tobacco products. Tobacco sales plummeted \$98 million in FY 1997, \$60 million in FY 1998 and are projected to decrease another \$15 million in FY 1999 before leveling off in FY 2000.

DeCA has reduced the investment in inventory operating and safety levels. The inventory levels are normally expressed in days of supply based on average daily sales. Average daily sales are projected to be \$13.8 million during this budget cycle, with 21 days of supply. In comparison, average daily sales for FY 1991 were \$16.7 million with 36 days of supply. This represents a 42 percent reduction in terms of days of supply. DeCA will also reduce the on-hand inventory level by over 33 percent from the level maintained by the Military Departments at the end of FY 1991 as noted in the following chart:



Centralizing key aspects of commissary management under field operating activities was accomplished to improve category management and to reduce costs to the Agency and the food industry. The following business units have been instrumental in the success of the Agency's re-engineering efforts and in achieving overall cost reductions:

a. The Contract Management Business Unit (CBU) centrally orders supplies and equipment and non-brand name subsistence and prepares service contracts. It develops standards for items and services through market research, establishes contracts to support commissaries, regions, and headquarters, and manages property accountability. The CBU works to reduce costs and improve services to commissaries by consolidating the Agency's requirements and employing innovative commercial practices. Less than 1,200 contracts exist now, where there used to be more than 3,300.

b. The Marketing Business Unit (MBU) performs centralized category management reviews for new and national brand name items. The recent establishment of the Regional and Local Products Branch in the MBU has centralized regional and local brand product management. Analysis of product movement data applicable to regional and local items will be used as the basis for establishing both category plans and plan-o-grams, and ensuring the right product facing and quantity are available for the patrons.

DeCA is continuously looking to improve the quality of goods and services we provide our patrons while developing more cost effective business practices. Some of the current initiatives include:

a. Cooperative efforts with the exchange systems are producing economies and increasing convenience for patrons. For example, patrons were extremely pleased with the Port Hueneme, CA combined commissary and exchange complex. Additionally, joint construction projects for the following locations are planned through FY 2000: Fort Buchanan, North Island, Hanscom AFB, Buckley, and Bangor. Other initiatives in cooperation with the exchange system include manufacturer/broker cross promotions, joint parking lot/sidewalk sales, cross coupons, giveaway gift certificates and coupon inserts/flyer advertising.

b. The recent Military Commissary Study prepared by Consumer Link, Inc. provided good feedback on areas for improvement and DeCA has seized this opportunity to re-look how it can improve patron support in these specific areas:

(1) The Functional Training Department within DeCA recently finished establishing a new one week training course for produce department operations. Implementation of the new training course is expected to start at the end of FY 1998. The new course will enhance produce merchandising techniques that should result in significantly improved operations in future fiscal years.

(2) In an effort to bolster sales and provide our patrons with optimal access to their most valued benefit, DeCA plans to increase sales days and operating hours at strategic locations. Increasing days and hours of operation are expected to generate sales of \$100 million a year.

(3) DeCA has established Process Action Teams to look at new ways of conducting business in the meat and produce departments in an effort to provide quality goods and service for our patrons at the lowest price possible.

c. Value brand items is another area where DeCA will offer its patrons greater savings by expanding the number of items available. Value alternatives are quality name-brand goods that may not be as widely advertised and promoted by their manufacturers, as are the national brands. Value brands typically have lower prices than the good deals found at the commissary. The Agency will test various value brand program areas and evaluate items from all manufacturers who offer them. Customer survey and focus group results consistently show commissary patrons, particularly young military families and retirees living on tight budgets, want a similar choice at their commissary. DeCA's goal is to provide its patrons with the same kind of choices that are available to the general public when they go shopping for groceries.

d. DeCA is rolling out special Super Saver promotions on the high-profile items. Super Savers feature commissary prices comparable to the lowest prices available anywhere. Increasingly, commercial retailers across the board are paying close attention to prices on larger groups of items that tend to heavily influence the shopper's perception of savings and value. By keeping prices low on a dozen or two dozen items identified by customers as high-profile items, retailers try to create the perception that they are cheaper than the commissary. To give patrons the choices they want in low-cost and quality goods, and to strengthen its low-cost image, DeCA is working closely with grocery suppliers to get Super Saver prices in addition to the usual low prices.

e. Home Meal Replacement (HMR) program, consisting of precooked and prepackaged side dishes and entrees, is a growing trend in the commercial sector, and continues to gain popularity in the 11 commissaries that have established HMR programs. Current plans for implementation of the HMR program include 10 more commissaries in the immediate future with expectations for an additional 50 locations.

f. In-store banking services are currently available at three commissary locations. DeCA is planning to increase the number of in-store banks by approximately 65. Some of the benefits derived from in store banks include: help for installations where banks are considering closing their current location; possible elimination of armored car services for the commissary; increased services for patrons; and increased traffic flow in the commissary.

Productivity in DeCA is best illustrated by comparing workload data between commercial supermarkets and the commissary system. This comparison clearly demonstrates that commissaries are cost effective and highly used by their patrons.

(Source for Supermarket Data: Progressive Grocer, April 1998)

<i>WORKLOAD MEASURE</i>	<i>COMMISSARY</i>	<i>SUPERMARKET</i>
Average Weekly Sales per Store	\$ 406,776	\$ 212,300
Weekly Sales Per Square Foot	\$ 15.60	\$ 7.66
Average Weekly Sales per Employee (Store level)	\$ 6,679	\$ 3,319
Average Weekly Sales per Checkout	\$ 29,232	\$ 24,196
Sales per Customer Transaction	\$ 55.60	\$ 19.20

(Commissary data for CONUS locations is used for comparison.)

<u>Workload Indicators</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>
Number Commissaries (begin year)	299	295	292
Sales (\$M)	4,911.3	5,000.0	5,000.0
Ending Inventory On-Hand (\$M)	294.9	296.0	296.0

<u>Performance Measures</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>
Inventory Turns	16	16	16
In-Stock Rate	97%	97%	97%
Customer Savings	25%	25%	25%

<u>Financial Indicators</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>
Revenue (\$M)	4,895.6	4,983.0	4,983.0
Cost of Goods Sold (\$M)	4,946.9	5,023.0	4,983.0
Net Operating Results (\$M) *	(51.3)	0.0	0.0
Accumulated Operating Results (\$M) **	(230.1)	0.0	0.0
Unit Cost (Per \$ of Sales)	1.01	1.00	1.00

* Net Operating Results as of September 30, 1999 will be eliminated through a one-time cash transfer of \$40 million from the Surcharge Collections account.

** Accumulated operating results as of September 30, 1998 will be eliminated through offsets from other Commissary Resale Stocks capital equity accounts. As a result, Accumulated Operating results for FY 1999 will begin on October 1, 1998 with a zero balance.

**DeCA WORKING CAPITAL FUND
ACTIVITY GROUP: COMMISSARY RESALE STOCKS
REVENUE AND EXPENSES
(Dollars in Millions)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Revenue:			
Gross Sales	4,911.3	5,000.0	5,000.0
Operations	4,911.3	5,000.0	5,000.0
Capital Surcharge			
Depreciation excluding Major Construction			
Other Income	(16.7)	(17.0)	(17.0)
Refunds/Discounts			
Total Income:	4,894.6	4,983.0	4,983.0
Expenses:			
Cost of Material Sold from Inventory	4,946.9	5,023.0	4,983.0
Salaries and Wages:			
Military Personnel Compensation & Benefits			
Civilian Personnel Compensation & Benefits			
Travel & Transportation of Personnel			
Materials & Supplies (for Internal Operations)			
Equipment			
Transportation of Things			
Depreciation			
Printing & Reproduction			
Advisory & Assistance Services			
Rent, Communication, Utilities, & Misc. Charges			
Other Purchased Services			
Total Expenses	4,946.9	5,023.0	4,983.0
Operating Result	(52.3)	(40.0)	0.0
Less Cash Surcharge Reservation	0.0	0.0	0.0
Plus Appropriations Affecting NOR/AOR	1.0	0.0	0.0
Other Adjustments Affecting NOR	0.0	40.0	0.0
Net Operating Result	(51.3)	0.0	0.0
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	(230.1)	0.0	0.0
Non-Recoverable Adjustment Impacting AOR	230.1	0.0	0.0
Accumulated Operating Results for Budget Purposes	0.0	0.0	0.0

**ACTIVITY GROUP ANALYSIS
DEFENSE COMMISSARY AGENCY/COMMISSARY RESALE STOCKS
SOURCE OF NEW ORDERS AND REVENUE**

(Dollars in Millions)

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY2000</u>
1. New Orders			
a. Orders from DoD Components:			
Army	4.1	4.2	4.2
Navy	8.1	8.2	8.2
Air Force	4.5	4.6	4.6
Marine Corps	-	-	-
Other	5.5	5.6	5.6
b. Orders from Other Fund Activity Groups	-	-	-
c. Total DoD	22.2	22.6	22.6
d. Other Orders:			
Other Federal Agencies	3.3	3.4	3.4
Trust Fund	-	-	-
Non Federal Agencies	4,885.8	4,974.0	4,974.0
Foreign Military Sales	-	-	-
Total New Orders	4,911.3	5,000.0	5,000.0
2. Carry-in Orders	-	-	-
3. Total Gross Orders	4,911.3	5,000.0	5,000.0
4. Funded Carry-Over	-	-	-
5. Total Gross Sales	4,911.3	5,000.0	5,000.0

FY 1998 BUDGET				DIVISION			
				Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT							
INVENTORY STATUS				TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP				328.0		328.0	
2. BOP INVENTORY ADJUSTMENTS							
a. RECLASSIFICATION CHANGE (Memo)							
b. PRICE CHANGE AMOUNT (Memo)							
c. INVENTORY RECLASSIFIED AND REPRICED							
3. RECEIPTS AT STANDARD				4,922.7		4,922.7	
4. SALES AT STANDARD				4,911.3		4,911.3	
5. INVENTORY ADJUSTMENTS							
a. CAPITALIZATIONS + or (-)							
b. RETURNS FROM CUSTOMERS FOR CREDIT +							
c. RETURNS FROM CUSTOMERS WITHOUT CREDIT							
d. RETURNS TO SUPPLIERS (-)							
e. TRANSFERS TO PROPERTY DISPOSAL (-)							
f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)							
g. OTHER (LIST/EXPLAIN)				33.8		33.8	
h. TOTAL ADJUSTMENTS							
6. INVENTORY EOP				305.6		305.6	
7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED)							
a. ECONOMIC RETENTION (Memo)							
b. CONTINGENCY RETENTION (Memo)							
c. POTENTIAL DOD REUTILIZATION (Memo)							
8. INVENTORY ON ORDER EOP (Memo)				5.2		5.2	
9. NARRATIVE (Explanation of unusual changes)							
5g. Inventory Loss							

FY 1999 BUDGET				DIVISION		February 1999	
				Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT							
INVENTORY STATUS				TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1.	INVENTORY BOP			305.6		305.6	
2.	BOP INVENTORY ADJUSTMENTS						
	a. RECLASSIFICATION CHANGE (Memo)						
	b. PRICE CHANGE AMOUNT (Memo)						
	c. INVENTORY RECLASSIFIED AND REPRICED						
3.	RECEIPTS AT STANDARD			5,000.0		5,000.0	
4.	SALES AT STANDARD			4,997.6		4,997.6	
5.	INVENTORY ADJUSTMENTS						
	a. CAPITALIZATIONS + or (-)						
	b. RETURNS FROM CUSTOMERS FOR CREDIT +						
	c. RETURNS FROM CUSTOMERS WITHOUT CREDIT						
	d. RETURNS TO SUPPLIERS (-)						
	e. TRANSFERS TO PROPERTY DISPOSAL (-)						
	f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)						
	g. OTHER (LIST/EXPLAIN)					-	
	h. TOTAL ADJUSTMENTS						
6.	INVENTORY EOP			308.0		308.0	
7.	INVENTORY EOP, REVALUED (LAC, DISCOUNTED)						
	a. ECONOMIC RETENTION (Memo)						
	b. CONTINGENCY RETENTION (Memo)						
	c. POTENTIAL DOD REUTILIZATION (Memo)						
8.	INVENTORY ON ORDER EOP (Memo)			5.2		5.2	
9.	NARRATIVE (Explanation of unusual changes)						

FY 2000 BUDGET				DIVISION			
				Commissary Resale Stocks			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT							
INVENTORY STATUS				TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP				308.0		308.0	
2. BOP INVENTORY ADJUSTMENTS							
a. RECLASSIFICATION CHANGE (Memo)							
b. PRICE CHANGE AMOUNT (Memo)							
c. INVENTORY RECLASSIFIED AND REPRICED							
3. RECEIPTS AT STANDARD				5,000.0		5,000.0	
4. SALES AT STANDARD				5,000.0		5,000.0	
5. INVENTORY ADJUSTMENTS							
a. CAPITALIZATIONS + or (-)							
b. RETURNS FROM CUSTOMERS FOR CREDIT +							
c. RETURNS FROM CUSTOMERS WITHOUT CREDIT							
d. RETURNS TO SUPPLIERS (-)							
e. TRANSFERS TO PROPERTY DISPOSAL (-)							
f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)							
g. OTHER (LIST/EXPLAIN)							
h. TOTAL ADJUSTMENTS							
6. INVENTORY EOP				308.0		308.0	
7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED)							
a. ECONOMIC RETENTION (Memo)							
b. CONTINGENCY RETENTION (Memo)							
c. POTENTIAL DOD REUTILIZATION (Memo)							
8. INVENTORY ON ORDER EOP (Memo)				5.2		5.2	
9. NARRATIVE (Explanation of unusual changes)							

**DEFENSE COMMISSARY AGENCY (DeCA)
DeCA WORKING CAPITAL FUND
COMMISSARY OPERATIONS**

FUNCTIONAL DESCRIPTION

The Commissary Operations activity group finances 295 resale stores, 11 central distribution centers, 12 NEXMARTs, 37 zones, 4 region offices, field operating activities, headquarters, and related support services. Areas of significant cost include U.S. and foreign national civilian labor, A-76 and other support contracts, travel and PCS, transportation of commissary goods overseas and in-theater, DoD service providers like DFAS and DLA, base operations support, and depreciation of capital assets. As part of the lifetime military compensation package, these costs are financed by reimbursements from the Military Departments and are not passed on to the military member and their families.

Commissaries sell products at acquisition cost to authorized patrons, while maintaining high standards for quality, facilities, products, and services. Reimbursements received from Military Department appropriations are an essential part of this process and are the foundation that allows military members and their families to receive direct savings of at least 25 percent below the typical market basket. The commissary has become an integral segment of the entitlement and lifetime military compensation package used in recruiting and retaining military members.

BUDGET HIGHLIGHTS

The Military Services' reimbursements represent about 97 percent of required revenue. Remaining revenue is obtained through other sources such as, fees paid by grocery manufacturers for redemption of manufacturers coupons, cost recovery fees for selling tobacco in commissaries, and funds from the Government of Korea as part of their agreement to share costs.

The Department has committed to retaining the commissary benefit at the FY 1996 baseline, adjusted for mission changes due to base realignment and closure, quality of life concerns, and other business-like considerations. The FY 2000 President's Budget (PB) reflects this commitment by requesting cost authority of \$1,050.3 million. The planned Accumulated Operating Result (AOR) in FY 2000 is a break even with a unit cost goal of \$.2101 per dollar of Resale Stock sales.

The chart below summarizes revenue and expenses during this budget cycle. Included is the one-time appropriation request to fund the beginning cash balance for the DeCA Working Capital Fund.

	FY 1999	FY 2000
REVENUE \$M	1,082.8	1,043.5
Army	338.4	346.1
Air Force	302.1	309.1
Navy	256.8	263.1
Marine Corps	86.6	90.8
Other	34.4	34.4
Depreciation	.8	
Beginning Cash	63.7	
EXPENSES \$M	1,012.3	1,050.3
Depreciation	.8	.8
NOR \$M	6.8	(6.8)
AOR \$M	6.8	0

For FY 2000, DeCA projects 18,747 civilians resulting in 16,454 workyears. Civilian workyears are consistently below the civilian end strength levels because DeCA uses a mix of full-time, part-time, and intermittent employees to provide scheduling flexibility required by commissaries. Military personnel strength is expected to remain constant at 12 through FY 2000.

a. DeCA has adopted the use of “single store” engineered staffing standards in lieu of its previous practice of “store department” standards. This allows for a whole store approach to staffing that facilitates scheduling flexibility to reduce overall requirements and sustain patron service.

b. DeCA has been successful in reducing Full Time Equivalent (FTEs) by outsourcing certain functions and services under OMB Circular A-76 procedures. DeCA expects to aggressively pursue additional A-76 and direct conversion opportunities. There are currently about 200 A-76 contracts in effect for shelf stocking, custodial and warehousing functions. Over this budget cycle, about one hundred A-76 and direct conversion studies are planned for completion. Workyears are reduced by 247 and expected savings are \$.6 million.

c. FTEs will decrease nearly 2 percent during this budget cycle, from 16,720 FTEs (16,708 civilians and 12 military) in FY 1999 to 16,466 FTEs (16,454 civilians and 12 military) in FY 2000. Since FY 1992, FTEs have decreased by 29 percent. This decrease occurs while the number of stores is reduced by 121 or 29.4 percent, and sales will decrease by only 19 percent.

CHANGES IN OPERATIONS

The Base Realignment and Closure (BRAC) program will impact on commissary operations during this budget cycle. The President's Budget for FY 1999 directed that nine commissaries close. However, some of these locations retained an active duty population that warrants retention of the commissary. The number of commissaries are planned to change from 295 in FY 1999 to 292 in FY 2000.

Due to funding limitations, commissaries are open an average of 48 hours a week, while commercial grocery stores average about 117 hours. Required increases in commissary operating hours and days are supported to meet customer accessibility.

a. This condition was recently re-confirmed by an industry funded study that identified limited operating hours as the number one area for improvement. Limited hours present a problem for two reasons: (1) "often can't shop after work/evenings, when they need to shop" and (2) "forced to shop when everyone else is, adding to the crowding issue."

b. To make commissaries more accessible to patrons, DeCA is changing store operating hours by reallocating hours from existing stores to other stores and by adding hours to the baseline. This change in operating hours is based on business results and required quality of life criteria and will allow improved accessibility for the patron.

c. This initiative requires \$16.9 million in FY 2000 with a projected sales increase of approximately \$100 million a year.

Beginning in FY 1999, DeCA changed support requirements from the Defense Logistics Agency (DLA) for personnel support and acquisition of produce. DLA will no longer provide personnel support, which will be transitioned to DeCA in-house resources as an interim solution for two years. Then, this support probably will be transferred to Washington Headquarters

Services (WHS) by the end of FY 2000. DeCA is also evaluating the potential for successfully outsourcing this requirement. Support costs for personnel will increase to \$9.5 million.

MISSION EFFECTIVENESS

DeCA has successfully demonstrated its ability to operate an efficient and cost effective commissary system that provides a valuable non-pay benefit, improves the quality of life of authorized patrons, and enhances military readiness by retaining quality personnel.

a. The President's Quality Award Program presented DeCA with the "Achievement Award". The award acknowledged specific achievement in improving customer satisfaction with the commissary system by 15 percent, with an overall satisfaction rate of over 87 percent. Correspondingly, there was a reduction in complaints, per million shopping visits, from over 24 to under 13. This improvement occurred while the American Society for Quality's "American Customer Satisfaction Index" indicates a decline in customer satisfaction with supermarkets as a whole.

b. The National Performance Review report on customer service, "World-Class Courtesy, A Best Practices Report", compared DeCA favorably to acknowledged private sector leaders in world class customer service like Federal Express and Nordstrom.

c. The Environmental Security Program also recognized DeCA for outstanding accomplishments in pollution prevention for its aggressive efforts in recycling and energy conservation.

d. Customer surveys have found that the military member and their families, the reserve components, and retirees consistently rank the commissary system as their number one non-pay benefit, ahead of other non-pay benefits such as medical and MWR programs. This perception of the commissary benefit greatly assists the Department in retaining a quality military force.

e. In addition to being recognized as an effective customer-oriented organization, DeCA has streamlined the cost of operations by 35 percent since being established in FY 1992. To improve customer satisfaction, while significantly reducing operating costs, is an accomplishment not made by many organizations.

To continue satisfying its mission requirements, DeCA must continue modernizing commissary operations. The patron of today is much different than of yesterday; e.g., over 67 percent of active duty population are married. Given the mobile and deployable force of today, family considerations are extremely important to the modern volunteer military member. With the pressure to retain a qualified workforce, the commissary system must better understand customer expectations and provide services that are required by today's forces.

a. DeCA continues to seek improved customer service by using the Customer Service Evaluation System (CSES). The scores have shown the positive results of a customer service focus. Patrons now rate all areas at “good” or better on a zero to five scale, with the lowest score being 3.92 for quality of produce and the highest being 4.45 for courteous/helpful employees. This survey has developed significant demographic data that has never been available in the past. This data will make an important contribution in future operational decisions.

- 51.6 percent spend \$250 or more at commissaries each month
- 52.0 percent shopped four or more times per month
- 60.5 percent came from households with three or more persons
- 72.9 percent were in grades E-1 through E-9
- 63.5 percent lived five or more miles from the commissary

b. In a response to patron feedback and benchmarking analysis, DeCA has secured the services of a consultant to provide an assessment of its customer image. The tasking involves evaluating store layout, signage/décor, merchandising, and customer convenience. The goal is to maximize customer satisfaction through improved performance or output from existing facilities and resources.

<u>Workload Indicators</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Commissaries (begin year)	299	295	292
Annual Sales (\$M)	4,911.3	5,000.0	5,000.0
Resale Inventory (\$M) On-hand	294.9	296.0	296.0

<u>Performance Indicators</u> (Goals for FY98-FY00)	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Inventory Turns	16	16	16
In-Stock Rate	97%	97%	97%
Customer Savings	25%	25%	25%

<u>Financial Indicators</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Cost of Goods Sold (\$M)	970.6	1,012.3	1,050.3
Net Operating Results (\$M)	11.9	6.8	(6.8)

Accum Operating Results (\$M)	14.8	6.8	0
Unit Costs (Per \$ of Sales)	0.1976	0.2025	0.2101

<u>End Strength and Workyears</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Civilian End Strength	19,288	19,001	18,747
Military End Strength	12	12	12
Civilian Workyears	17,040	16,708	16,454
Military Workyears	12	12	12

**DeCA WORKING CAPITAL FUND
ACTIVITY GROUP: COMMISSARY OPERATIONS
REVENUE AND EXPENSES
(Dollars in Millions)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Revenue:			
Service-Reimbursable Income	0.0	983.9	1,009.1
Other Income	38.1	34.4	34.4
Depreciation Offset	0.1	0.8	0.0
Cash Surcharge	0.0	63.7	0.0
Total Income:	38.2	1,082.8	1,043.5
Expenses:			
Salaries and Wages:			
Military Personnel Compensation & Benefits	0.8	0.7	0.7
Civilian Personnel Compensation & Benefits	600.0	617.6	635.1
Travel & Transportation of Personnel	9.2	7.7	7.8
Materials & Supplies (for Internal Operations)	1.9	1.5	1.5
Equipment	4.6	0.2	0.2
Transportation of Things	134.8	145.0	155.7
Depreciation	0.1	0.8	0.8
Printing & Reproduction	0.2	0.1	0.1
Advisory & Assistance Services	0.9	1.2	0.8
Rent, Communication, Utilities, & Misc. Charges	2.7	2.7	2.7
Other Purchased Services	215.4	234.8	244.9
Total Expenses	970.6	1,012.3	1,050.3
Operating Result	(932.4)	70.5	(6.8)
Less Cash Surcharge Reservation	0.0	(63.7)	0.0
Plus Appropriations Affecting NOR/AOR	944.4	0.0	0.0
Other Adjustments Affecting NOR	0.0	0.0	0.0
Net Operating Result	12.0	6.8	(6.8)
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	0.0	6.8	0.0

**ACTIVITY GROUP ANALYSIS
DEFENSE COMMISSARY AGENCY/COMMISSARY OPERATIONS
SOURCE OF NEW ORDERS AND REVENUE
(Dollars in Millions)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
1. New Orders			
a. Orders from DoD Components:			
Army Operations and Maintenance	0.0	338.4	346.1
Navy Operations and Maintenance	0.0	256.8	263.1
Air Force Operations and Maintenance	0.0	302.1	309.1
Marine Corps Navy O&M	0.0	86.6	90.8
Other	13.2	13.5	13.5
Depreciation Offset	0.1	0.8	0.0
b. Orders from other Fund Activity Group			
DWCF	0.0	0.0	0.0
c. Total DoD	13.3	998.2	1,022.6
d. Other Orders:			
Other Federal Agencies	1.1	0.8	0.8
Trust Fund	0.0	0.0	0.0
Non Federal Agencies	23.8	20.1	20.1
Foreign Military Sales	0.0	0.0	0.0
Total New Orders	24.9	20.9	20.9
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	38.2	1,019.1	1,043.5
4. Funded Carry-over	0.0	0.0	0.0
5. Total Gross Sales	38.2	1,019.1	1,043.5

**Defense Commissary Agency/Commissary Operations
Changes in the Costs of Operation
February 1999
(Dollars in Millions)**

	<u>Expenses</u>
1. FY 1998 Actual Costs	970.6
2. FY 1999 PB	1,010.4
3. Program Changes	
Store Closures	(0.9)
Expanded Store Hours	16.4
Additional RPM	2.3
Retention of BRAC Closures	1.7
Other	3.3
4. Pricing Changes:	
Other - Capital Depreciation	0.8
Transportation	(21.6)
Civilian Pay Raise	1.9
DFAS	(0.8)
Other	2.6
5. Productivity Initiatives and Other Efficiencies:	
Other Efficiencies	(3.8)
6. FY 1999 Current Estimate	1,012.3
7. Pricing Adjustments	
Annualization of Prior year Pay Raises	5.2
FY 2000 Pay Raises	
Civilian Personnel	22.1
Military Personnel	0.0
General Purchases Inflation	3.4
Transportation	10.7
DFAS	3.2
8. Productivity Initiatives and Other Efficiencies:	
Savings Initiative (A-76 Conversion)	(0.6)
9. Program Changes:	
Other Contracts	(2.9)
Store Closures	(3.1)
10. FY 2000 Current Estimate:	1,050.3