

**DEFENSE COMMISSARY AGENCY
(DeCA)
WORKING CAPITAL FUND
FISCAL YEAR (FY) 2001 BUDGET
ESTIMATES
OPERATING BUDGET**



**FEBRUARY 2000
CONGRESSIONAL DATA**

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

FY 2001 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 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. These items are priced to recover product cost and also provide the commissary patron direct savings of at least 25 percent off the typical market basket. These savings are an integral non-pay component of the total military compensation package and are 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 consider it to be one of the most important non-pay compensations they receive.

DeCA headquarters and field operating activities are located at Fort Lee, Virginia. There are 4 region offices, 36 zones, 288 commissaries, and 12 Navy Exchange Marts (NEXMARTs) on military installations worldwide. DeCA employs over 18,000 personnel, has annual sales of \$5.0 billion, and has an annual Working Capital Fund-financed operating budget of approximately \$1.0 billion.

DeCA also uses services from Defense Logistics Agency (DLA), Defense Finance and Accounting Service (DFAS), Defense Information Services Agency (DISA), US Transportation Command (USTRANSCOM), and the Military Departments for support in areas associated with procuring fresh fruits and vegetables, disbursing services, construction, transportation, and local base support.

I. OPERATING BUDGET

DeCA financially manages two activity groups within the Defense Working Capital Fund (DWCF): Commissary Resale Stocks and Commissary Operations. DeCA is also responsible for cash management.

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, whose peak demand is greatest on military paydays, i.e. the first and fifteenth of each month. Products offered by commissaries include groceries, meat, poultry, fruits, vegetables, dairy products, and household products. There is no requirement for appropriated fund support for Commissary Resale Stocks in FY 2001. Projected sales for FY 2001 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 other indirect support. The appropriated fund request for FY 2001 for Commissary Operations is \$916.3 million. Commissary Operations also receives additional revenues, about \$34 million, from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support. Commissary Operations unit cost goal is based on sales as the output.

II. WORKLOAD ASSUMPTIONS

The annual sales forecast for FY 2001 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 2001 with 288 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 pays for commissary costs of operation.

c. DeCA operates 13 central distribution centers (CDC) to support inventory requirements: 4 in Europe, 1 in the Caribbean, and 8 in the Western Pacific.

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 50 hours a week. This is significantly less than the commercial grocery store average of 117 hours. This high sales volume, coupled with limited hours, has an extensive impact on store construction, store layout, and overall operations.

a. Consumer Link, Inc. completed a study on the commissary system that identified limited operating hours and days as the number one area needing improvement. Limited hours present a problem for two reasons: (1) "Patrons often can't shop after work/evenings, when they need to shop" and (2) "Patrons are forced to shop when everyone else is, adding to the crowding issue."

b. To make commissaries more accessible to patrons, DeCA increased store operating hours at 134 commissary stores worldwide in FY 1999 by reallocating hours from existing stores to other stores and by adding hours to the baseline. This change in operating hours was based on an evaluation of both business results and required quality of life criteria.

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 17,987 civilian employees planned in FY 2001, using 16,456 Full Time Equivalents (FTEs). Military staffing remains constant at 12. DeCA has been successful in reducing FTEs by outsourcing certain functions and services under OMB Circular A-76 procedures. DeCA continues to aggressively pursue, at every opportunity, competition and privatization A-76 cost studies.

OCONUS and remote locations cost more per dollar of sales than CONUS locations, using about 42 percent of available appropriated fund support to produce 20 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 \$109.1 million in FY 2001.

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.

b. The commissary system is critical in supporting military members and their families overseas. This military population does not have adequate alternative shopping available. Thus, OCONUS commissaries are more than a place for acquiring groceries. They are an essential "life-line" for 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 continues to modernize its business systems. The DeCA Enterprise Business System (DEBS) initiative involves making the DeCA Interactive Business System (DIBS) and the Point of Sale-Modernization (POS-M) systems more responsive to management needs.

a. POS-M replaced 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 enables DeCA to retain and track different cost and sell prices by item.

b. New and enhanced features to include automated reordering, information for management use in decision making and central distribution center product management (i.e. identification of out-dated product, not-in-stock items, product not moving) are being integrated into DIBS. Further refinements will be made in system interfaces to provide for agency-wide data availability.

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 FTEs, outsourcing selected functions and services under OMB Circular A-76 procedures, maintaining adequate inventory levels, recovering operating losses in Resale Stocks, and reducing transportation costs.

a. FTEs decreased by 5.6 percent during this budget cycle, from 17,460 FTEs (17,448 civilians and 12 military) in FY 1999 to 16,468 (16,456 civilian and 12 military) in FY 2001, because of store closures and the A-76 Outsourcing Program.

b. Outsourcing certain functions and services under OMB Circular A-76 procedures has proven to be cost effective. DeCA continues to aggressively pursue additional A-76 and direct conversion opportunities. There are currently 181 A-76 contracts in effect for shelf stocking, custodial and warehousing functions and 85 additional A-76 and direct conversion studies are planned for completion.

c. DeCA continues to reduce inventory investment by reducing the number of days of supply by 42 percent and decreasing the on-hand inventory level by over 33 percent from the levels maintained by the Military Departments prior to FY 1992. This results in more in-stock items to patrons, less out-of-date product in inventory, less inventory to managed - thereby reducing inventory losses, and less taxpayer dollars to maintain the inventory.

d. During FY 1999 DeCA began implementing a Commissary On-line Product Pricing System (COPPS) to provide a mechanism to recover normal grocery department operating losses. The COPPS program is capable of capturing and maintaining the data necessary to allow the Resale Stock fund to recover, from the customer, the actual cost of the products sold including, spoilage, breakage and pilferage.

e. DeCA's transportation costs are consistent with congressional direction. USTRANSCOM's charges to DeCA do not exceed the price at which the service could be procured through full and open competition.

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 have improved customer service through manufacturer/broker cross promotions, joint parking lot/sidewalk sales, cross coupons, giveaway gift certificates, and coupon inserts/flyer advertising. Additionally, twelve joint construction projects are planned through FY 2001 between DeCA and the Exchange Systems and should generate economies in the construction program.

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. For example, meat buyers now standardize meat department selections throughout DeCA and the Human Resources Division developed a new one-week training course for produce department operations, focusing on merchandising techniques.

c. The Home Meal Replacement (HMR) program continues to gain in popularity among commissary patrons. Sales of HMR products continue to increase as time constrained patrons purchase healthy, high quality HMR products. Currently over 120 commissaries DeCA wide carry HMR products with future expectations through FY 2001 for all commissaries to stock some assortment of HMR products.

d. The Super Store Concept, although in its infancy, is another area where DeCA plans to offer its patrons expanded product variety and more innovative service enhancements. Proposed programs for superstore's include: additional primary displays, expanded health beauty care sections, vitamin store within a store, total nutrition sections, club packs, various test concepts as they are developed, expanded HMR, and varieties in selected categories with documented consumption potential. Locations selected for superstore consideration can comfortably accommodate expanded product variety and innovative service enhancements within approved resources. Approximately 22 DeCA locations are slated for Super Store status.

DeCA continues to be recognized for its innovative and business-like approach in managing the commissary system. Winning the DoD Best Electronic Commerce Team, Small Business award in FY 1999 is but one example of DeCA's effort to improve operational efficiency. DeCA is also recognized by the military shopper to be an essential military benefit. DeCA's Corporate vision "The Commissary Benefit – Cornerstone of Military Quality of Life" is the heart of the FY 2001-FY 2005 Strategic Plan. DeCA is fully committed to continuously work toward improving operations at all levels, thereby keeping commissaries functioning at the optimum levels of customer service and mission efficiency. The three core strategic goals, "Customer Satisfaction", "People Commitment" and "Sound Operational and Financial Management" provided the focus for development of this budget submission.

	FY 1999	FY 2000	FY 2001
<i>Efficiencies/Closures</i>			
Commissary Operations (\$M) (Includes BRAC)	15.2	7.6	7.4
<i>Workload Indicators</i>			
Commissary (begin year)	295	289	288
Annual Sales (\$M)	4,947.5	5,000.0	5,000.0
Resale Inventory (\$M)	303.4	296.0	296.0
<i>Performance Indicators</i> <i>(Goals for FY 1999-2001)</i>			
Inventory Turns	16	16.4	16.7
Customer Savings	27%	25%	25%
Customer Service Evaluation System	89.5	88.4	88.5
<i>End Strength and FTEs</i>			
Civilian End Strength	19,070	18,693	17,987
Military End Strength	12	12	12
Civilian FTEs	17,448	17,102	16,456
Military FTEs	12	12	12

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

FUNCTIONAL DESCRIPTION

DeCA Resale Stocks finance inventory sold in the commissary system. DeCA's product assortment includes groceries, meat, poultry, fruits, vegetables, dairy products, and household goods. Sales of commissary products generate Resale Stock fund revenue that DeCA uses to replenish the resale inventory. DeCA Resale Stocks is self-sufficient, requiring no appropriated fund support, except for recovery of inventory losses due to natural disasters.

DeCA provides commissary patrons with an invaluable non-pay compensation. In September 1998, fifty-six percent of respondents to the DeCA survey rated the commissary benefit as their most important service benefit. Authorized commissary patrons include: military members and their families, reserve forces personnel, retired personnel and annuitants. Other authorized sales include government civilian employees overseas, appropriated, non-appropriated fund activities, and U.S. State Department activities. DeCA's total authorized patron baseline is approximately nine million personnel.

DeCA adds a five percent surcharge to sales at the check out counter. This Surcharge is required by Law and is used to finance certain commissary operation and construction costs. The DeCA Surcharge Collections account administers these funds.

BUDGET HIGHLIGHTS

Revenue of approximately \$5 billion consists primarily of cash, charge sales, and manufacturers coupons. Cash and coupon transactions 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 troop issue subsistence, NEXMARTS, National Guard, other appropriated and non-appropriated fund sales.

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

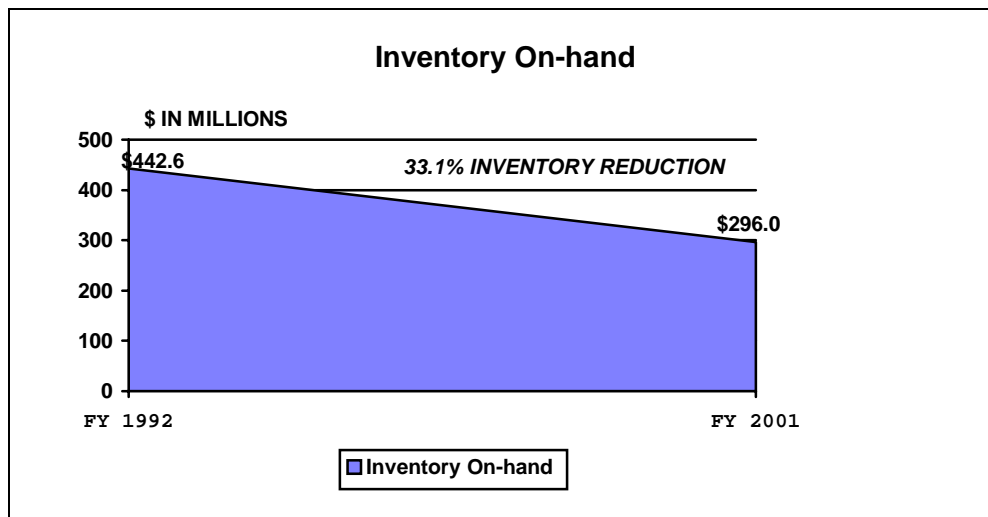
CHANGES IN OPERATIONS

Department of Defense right-sizing efforts from FY 1992 through FY 2001 will result in the closure of 122 Commissaries or a reduction of approximately 30 percent. Commissary sales during the same period are expected to decrease by about 17 percent.

Since FY 1992, DeCA Point of Sale (POS) systems capitalized from the four Military Services' commissary systems were outdated, incompatible and unable to recoup normal grocery department losses. Implementation of the Commissary On-line Product Pricing System

(COPPS) during the last quarter of FY 1999 has provided DeCA Resale Stocks with the mechanism to recover normal operating losses. The COPPS program is capable of capturing and maintaining the data necessary to allow the Resale Stock fund to recover, from the customer, the actual cost of the products sold, including spoilage, breakage and pilferage. In FY 2000 a one-time cash transfer from the Surcharge Collections account to the Resale Stock account will eliminate the FY 1999 Resale Stock Net Operating Result loss of \$43.7 million.

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 essential 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 Marketing Business Unit has been instrumental in the success of the Agency's re-engineering efforts and in achieving overall cost reductions.

The Marketing Business Unit (MBU) performs centralized category management reviews for new, national brands and Regional/Local products. The MBU conducts category reviews on a recurring basis, about every six months, to ensure product selections within the managed categories continue to provide our patrons with desired products. Analysis of product movement data for both National and Regional items is used as the basis for refining product selection for category plans and plan-o-grams to ensure the right product facing and quantity are available for commissary patrons.

DeCA is continuously looking to improve the quality of goods and services we provide our patrons while developing more cost effective business practices. FY 1999 is the first year that commissary sales exceeded prior year sales since DeCA's inception in FY 1992. Some of the initiatives that facilitated increased sales include:

a. Cooperative efforts with the exchange systems are producing economies and increasing convenience for patrons. Patrons are extremely pleased with the commissary/exchange joint projects at Port Hueneme, CA and Anchorage, AK. Other joint projects in process include Aviano, Fort Bragg, NAS North Island, Hanscom AFB, Fort Buchanan, NAS Sigonella, with plans for Buckley ANGB, NS Pearl Harbor, Giessen, Germany, and Charleston AFB through FY 2001. Other cooperative efforts include manufacturer/broker cross promotions, joint parking lot/sidewalk sales, cross coupons, giveaway gift certificates and coupon inserts/flyer advertising.

b. In response to patrons concerns and feedback presented in the Military Commissary Study prepared by Consumer Link Inc., DeCA is currently involved in the following initiatives:

(1) Making produce a category that draws patrons to the commissary; by focusing on quality products, support through direct interface with the Defense Subsistence Offices (DSO), networking with regional produce specialists, and continuous development of specialized education for produce department personnel. Produce department managers are focusing on receiving and displaying quality products. Deliveries of produce that do not meet quality standards are rejected to ensure undesired product is not displayed in our commissaries. Additionally, the Functional Training Department within DeCA established a Produce Department Operations Course and trained produce department managers and staff in the latest handling and merchandising techniques.

(2) Making the commissary benefit more accessible to authorized patrons, the Commissary Operating Board approved expanded operating hours at 134 commissary locations worldwide. DeCA implemented expanded operating hours during March 1999 with positive patron response. DeCA-wide patron transactions from March 1999 through September 1999 increased by approximately 1.6 million transactions compared to the same period in the previous fiscal year. Additionally, sales at expanded operating hour locations exceed those without expanded operating hours, however, no mechanism is currently available to capture sales related solely to expanded hours of operation.

(3) Enhancing meat department operations and making it a category that draws patrons to the Commissary. The DeCA MBU created a Meat Operations Enhancement Team to work with the meat buyers to standardize meat department selections throughout DeCA. Additionally, the MBU created plan-o-grams for meat display cases DeCA wide to provide space allocation for meat products.

c. Offering the Super Store Concept to patrons by expanding product variety and providing more innovative service enhancements. Proposed programs for superstore's include: additional primary displays, expanded health and beauty care sections, vitamin store within a store, total nutrition sections, club packs, various test concepts as they are developed, expanded

home meal replacement, and increased variety in selected categories with documented consumption potential. Approximately 22 DeCA locations are slated for Super Store status. These locations can comfortably accommodate expanded product variety and innovative service enhancements.

d. Offering the Home Meal Replacement (HMR) program, which is gaining in popularity, to commissary patrons. HMR products consist of precooked and prepackaged side dishes, entrees, and in some locations; hot food items. Sales of HMR products continue to increase as time constrained patrons purchase healthy, high quality HMR products. Currently over 120 commissaries DeCA wide carry HMR products with future expectations through FY 2001 for all commissaries to stock some assortment of HMR products.

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 1999)

<i>WORKLOAD MEASURE</i>	<i>COMMISSARY</i>	<i>SUPERMARKET</i>
Average Weekly Sales per Store	\$ 406,041	\$ 216,519
Weekly Sales Per Square Foot	\$ 15.27	\$ 7.71
Average Weekly Sales per Employee (Store level)	\$ 6,685	\$ 3,314
Average Weekly Sales per Checkout	\$ 33,099	\$ 24,403

(Commissary data for CONUS locations used for comparison.)

<u>Workload Indicators</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Number Commissaries (begin year)	295	289	288
Annual Revenue (\$M)	4,939.5	5,000.0	5,000.0
Ending Inventory On-Hand (\$M)	303.4	296.0	296.0

<u>Performance Measures</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Inventory Turns	16.0	16.4	16.7
Customer Service Evaluation System	89.5	88.4	88.5
Customer Savings	27%	25%	25%

<u>Financial Indicators</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Revenue (\$ millions)	4,939.5	5,000.0	5,000.0
Cost of Goods Sold (\$M)	4,983.2	5,000.0	5,000.0
Net Operating Results (\$M) *	(43.7)	0.0	0.0
Accumulated Operating Results (\$M) *	(43.7)	0.0	0.0
Unit Cost (Per \$ of Sales)	1.01	1.00	1.00

* Net Operating Results and Accumulated Operating Results for FY 1999 will be eliminated through a one-time cash transfer of \$43.7 million from the Surcharge Collections account in FY 2000.

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

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Revenue:			
Gross Sales	4,947.5	5,000.0	5,000.0
Operations	4,947.5	5,000.0	5,000.0
Capital Surcharge			
Depreciation excluding Major Construction			
Other Income			
Refunds/Discounts	(8.0)	(5.0)	(5.0)
Total Income:	4,939.5	4,995.0	4,995.0
Expenses:			
Cost of Material Sold from Inventory	4,983.2	4,995.0	4,995.0
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	4,983.2	4,995.0	4,995.0
Operating Result	(43.7)	0.0	0.0
Less Cash Surcharge Reservation		0.0	0.0
Plus Appropriations Affecting NOR/AOR	0.0	0.0	0.0
Other Adjustments Affecting NOR	0.0	0.0	0.0
Net Operating Result	(43.7)	0.0	0.0
Other Changes Affecting AOR	0.0	43.7	0.0
Accumulated Operating Result	(43.7)	0.0	0.0

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

(Dollars in Millions)

	<u>FY 1999</u>	<u>FY2000</u>	<u>FY2001</u>
1. New Orders			
a. Orders from DoD Components:			
Army	4.1	4.1	4.1
Navy	7.9	7.6	7.6
Air Force	3.2	3.6	3.6
Marine Corps	-	-	-
Other	2.5	2.3	2.3
b. Orders from Other Fund Activity Groups	-	-	-
c. Total DoD	17.7	17.6	17.6
d. Other Orders:			
Other Federal Agencies	2.3	2.9	2.9
Trust Fund	-	-	-
Non Federal Agencies	4,927.5	4,979.5	4,979.5
Foreign Military Sales	-	-	-
Total New Orders	4,947.5	5,000.0	5,000.0
2. Carry-in Orders	-	-	-
3. Total Gross Orders	4,947.5	5,000.0	5,000.0
4. Funded Carry-Over	-	-	-
5. Total Gross Sales	4,947.5	5,000.0	5,000.0

Exhibit Fund 11, Source of New Orders Revenue
February 2000

Defense Commissary Agency

**FY 1999 BUDGET
SUPPLY MANAGEMENT BY DIVISION**

(Dollars in Millions)

Obligation Targets

Division	Peacetime Inventory	Net Customer Orders	Net Sales	Operating	Mobilization	Other	Total	Commitment Target	Target Total
Commissary Resale Stocks	315.7	4,947.5	4,947.5	5,001.4			5,001.4		5,001.4

Defense Commissary Agency

FY 2000 BUDGET
SUPPLY MANAGEMENT BY DIVISION

(Dollars in Millions)

Obligation Targets									
Division	Peacetime Inventory	Net Customer Orders	Net Sales	Operating	Mobilization	Other	Total	Commitment Target	Target Total
Commissary Resale Stocks	308.0	5,000.0	5,000.0	5,000.0			5,000.0		5,000.0

Defense Commissary Agency

**FY 2001 BUDGET
SUPPLY MANAGEMENT BY DIVISION**

(Dollars in Millions)

Obligation Targets

Division	Peacetime Inventory	Net Customer Orders	Net Sales	Operating	Mobilization	Other	Total	Commitment Target	Target Total
Commissary Resale Stocks	308.0	5,000.0	5,000.0	5,000.0			5,000.0		5,000.0

FY 1999 BUDGET	DIVISION			February 2000
	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	4,993.4		4,993.4	
4. SALES AT STANDARD	4,947.5		4,947.5	
5. INVENTORY ADJUSTMENTS				
a. CAPITALIZATION + 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)	35.8		35.8	
h. TOTAL ADJUSTMENTS				
6. INVENTORY EOP	315.7		315.7	
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)	5.0		5.0	
9. NARRATIVE (Explanation of unusual changes)				
5g. Inventory Loss				

FY 2000 BUDGET	DIVISION			February 2000
	COMMISSARY RESALE STOCKS			
DEFENSE COMMISSARY AGENCY SUPPLY MANAGEMENT				
INVENTORY STATUS	TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP	315.7		315.7	
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. CAPITALIZATION + 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)	(7.7)		(7.7)	
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)	5.0		5.0	
9. NARRATIVE (Explanation of unusual changes)				
5g. Reduction of Y2K Inventory				

FY 2001 BUDGET	DIVISION			February 2000
	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. CAPITALIZATION + 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)	5.0		5.0	
9. NARRATIVE (Explanation of unusual changes)				

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

FUNCTIONAL DESCRIPTION

Commissary Operations finances 288 resale stores, 13 central distribution centers, 12 NEXMARTs, 36 zones, 4 region offices, field operating activities, headquarters, and related support services. Areas of significant cost include U.S. and foreign national civilian labor, commercial service and other support contracts, travel and permanent change of station, transportation of commissary goods overseas and in-theater, the provision of accounting and finance and logistics support by DFAS and DLA and base operations support. As part of the lifetime military compensation package, these costs are financed by a direct appropriation 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. The direct appropriation is an essential part of this process and is the major element that enables 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 appropriation request represents 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 is committed to retaining the commissary benefit. This FY 2001 President's Budget (PB) Submission reflects this commitment by requesting a direct appropriation of \$916.3 million. The planned FY 2001 Accumulated Operating Result (AOR) is zero with a unit cost goal of \$.2041 (commissary operations costs divided by resale sales).

The chart below summarizes revenue and expenses during this budget cycle.

	FY 2000	FY 2001
REVENUE (\$M):		
Direct Appropriation	1,009.1	916.3
Other Reimbursements	34.4	34.4
Total Revenue	1,043.5	950.7
EXPENSES (\$M)	1,019.6	1,020.4
NOR (\$M)	23.9	(69.8)*
AOR (\$M)	69.8	0.0

* Difference due to rounding

For FY 2001, DeCA projects there will be 17,987 civilians with 16,456 full-time equivalents (FTEs). Civilian FTEs 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 will remain constant at 12 through FY 2001.

a. DeCA has developed engineered staffing standards to support the new commissary organizational structure. The standards support both department level and total store staffing requirements.

b. DeCA has been successful in reducing FTEs by outsourcing certain functions and services under OMB Circular A-76 procedures. DeCA plans to aggressively pursue, at every opportunity, competition and privatization A-76 cost studies. Currently DeCA has 181 A-76 contracts in effect for shelf stocking, custodial and warehousing functions.

c. FTEs will decrease by 3.8 percent during this budget cycle, from 17,114 FTEs (includes 12 military) in FY 2000 to 16,468 in FY 2001. Since FY 1992, FTEs have decreased overall by 26 percent. This decrease occurs while the number of stores was reduced by 122 or 29.8 percent, and sales decreased by only 17 percent. Despite this, because of improved methods throughout the commissary system, the level of service to the patron has been maintained as reflected in annual customer surveys.

There has been a significant under investment in OCONUS facilities since DeCA was formed. This was mainly due to force structure changes that have taken place in the last five years in OCONUS. This era is now over and force levels and locations are stabilized. There is renewed emphasis on quality of life issues which is evident by the tempo of MILCON

construction in Europe and the Far East, as well as increased infrastructure investments by the exchange services and MWR community. DeCA has reallocated resources to address some of its real property maintenance and repair backlog, but an assessment of DeCA OCONUS facilities reflects backlogs of unfunded major maintenance and repair projects for FY 1999 of \$4.5 million; FY 2000 of \$5.0 million, and FY 2001 of \$5.6 million.

CHANGES IN OPERATIONS

The Base Realignment and Closure (BRAC) program will minimally impact commissary operations during this budget cycle. Two commissaries, Fort McClellan (Alabama) and El Toro MCAS (California) will close in FY 2000, and a new commissary will open at Mineo.

DeCA is currently working to make produce more appealing to customers by focusing on quality products, support through direct interface with the Defense Subsistence Offices (DSOs), and networking with regional produce specialists. Additionally, DeCA's Function Training Department has established a Produce Department Operations Course and trained produce department and staff in the latest handling and merchandising techniques.

USTRANSCOM reduced its transportation rates to DeCA in compliance with Section 363 of the Conference Report to the FY 1999 Defense Authorization Act. DeCA's lower transportation cost and appropriated fund request are a result of USTRANSCOM's actions.

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. 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.

b. DeCA has established a consumer advocate position for commissary shoppers as a first step in marketing the benefit. The advocate will bring customer's points of view to decision making and will report regularly to the Commissary Operating Board.

c. The Department of Defense presented DeCA with the Best Electronic Commerce Team-Small Business Award in FY 1999 for designing a CONUS electronic data interchange which improved its position on long lead time orders and updated the bill-paying process.

d. The National Industries for the Severely Handicapped (NISH) honored three DeCA employees with NISH Silver Anniversary Awards in FY 1999, in recognition of the agencies support and commitment to providing employment opportunities to individuals with disabilities through the Javits-Wagner-O'Day (JWOD) program.

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 the 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 conducting surveys at all stores annually and analyzing results using the Customer Service Evaluation System (CSES) process. The scores consistently show the positive results of a customer service focus. Patrons now rate all areas at "good" or "better" on a zero to five scale. Quality of produce, while scoring the lowest at 4.00, increased by .04 in both FY 1998 and FY 1999. The courteous/helpful employees score, currently at 4.50, has been the highest rated survey item each year. Indicative of DeCA's response to customer concerns is the rating for satisfaction with store hours of operation which increased from 4.02 to 4.17 following expansion of the operating hours in FY 1999. Represented as a composite score, CSES first year (FY 1994) results were 86.31. By FY 1998 the score increased by 2.1 percent to 88.14. FY 1999 results show a further gain of 2.1 percent to 89.47. The following key demographics, resulting from the survey, will be an integral part of future operational decisions:

	<u>1998</u>	<u>1999</u>
Percent spending \$250 or more at commissaries each month	51.9	53.0
Percent shopping four or more times per month	51.8	54.0
Percent from households with three or more persons	60.5	61.9
Percent in grades E-1 through E-9	79.3	80.3
Percent living five or more miles from the commissary	63.1	63.1

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.

The three core strategic goals, "Customer Satisfaction", "People Commitment", and "Sound Operational and Financial Management" provide the basis for this budget submission. DeCA continues to ensure that objectives of the Strategic Plan are fully integrated into financial planning.

<u>Workload Indicators</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Commissaries (begin year)	295	289	288
Annual Sales (\$M)	4,947.5	5,000.0	5,000.0
Resale Inventory (\$M) On-hand	303.4	296.0	296.0

<u>Performance Indicators</u> (Goals for FY99-FY01)	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Inventory Turns	16	16.4	16.7
Customer Savings	27%	25%	25%
CSES Score	89.5%	88.4%	88.5%

<u>Financial Indicators</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Cost of Goods Sold (\$M)	984.9	1,019.6	1,020.4
Net Operating Results (\$M)	45.9	23.9	(69.8)
Accum Operating Results (\$M)	45.9	69.8	0.0
Unit Costs (Per \$ of Sales)	0.1991	0.2039	0.2041

<u>End Strength and Full-Time</u> <u>Equivalents</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Civilian End Strength	19,070	18,693	17,987
Military End Strength	12	12	12
Civilian FTEs	17,448	17,102	16,456
Military FTEs	12	12	12

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

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Revenue:			
Other Income	43.3	34.4	34.3
Appropriation - Cash Surcharge	63.7	0.0	0.0
Total Income:	107.0	34.4	34.3
Expenses:			
Salaries and Wages:			
Military Personnel Compensation & Benefits	0.8	0.8	0.8
Civilian Personnel Compensation & Benefits	629.6	650.2	647.3
Travel & Transportation of Personnel	10.5	9.5	9.7
Materials & Supplies (for Internal Operations)	6.3	1.7	1.7
Other Purchases From Revolving Funds	27.7	35.7	37.7
Transportation of Things	108.0	126.0	109.1
Depreciation	0.7	0.6	0.6
Printing & Reproduction	0.3	0.2	0.2
Advisory & Assistance Services	0.5	0.8	0.8
Rent, Communication, Utilities, & Misc. Charges	3.4	2.6	2.6
Other Purchased Services	197.1	191.5	209.9
Total Expenses	984.9	1,019.6	1,020.4
Operating Result	(877.9)	(985.2)	(986.1)
Less Cash Surcharge Reservation	(63.7)	0.0	0.0
Appropriation Transfer From Services	983.9	1,009.1	0.0
Direct Appropriation	0.0	0.0	916.3
Other Adjustments Affecting NOR			
Supplemental - Kosovo	2.0	0.0	0.0
OMNIBUS Reprog	1.6	0.0	0.0
Net Operating Result	45.9	23.9	(69.8)
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	45.9	69.8	0.0

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

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
1. New Orders			
a. Orders from DoD Components:			
Army	0.0	0.0	0.0
Navy	0.0	0.0	0.0
Air Force	0.0	0.0	0.0
Marine Corps	0.0	0.0	0.0
Other Reimbursements	14.8	14.1	14.0
b. Orders from other Fund Activity Group	0.0	0.0	0.0
c. Total DoD	14.8	14.1	14.0
d. Other Orders:			
Other Federal Agencies	1.2	1.2	1.2
Trust Fund	0.0	0.0	0.0
Non Federal Agencies	27.3	19.1	19.1
Foreign Military Sales	0.0	0.0	0.0
Total New Orders	28.5	20.3	20.3
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	43.3	34.4	34.3
4. Funded Carry-over	0.0	0.0	0.0
5. Total Gross Sales	43.3	34.4	34.3

Exhibit Fund 11, Source of New Orders Revenue
February 2000

**Defense Commissary Agency/Commissary Operations
Changes in the Costs of Operation
February 2000
(Dollars in Millions)**

	<u>Expenses</u>
1. FY 1999 Actual Costs	984.9
2. FY 2000 PB	1,050.3
3. Pricing Adjustments:	
FY 2000 Pay Raises	
Civilian Personnel	2.2
General Purchases Inflation	(1.0)
VSIP/VERA	0.4
CA Contracts	(5.0)
Transportation	(34.1)
Other	(0.7)
4. Program Changes	
Store Closures (Worms)	(1.0)
New Stores (Gricignano & Mineo)	1.5
Transportation	4.4
Real Property Maintenance (RPM)	1.4
Training	1.7
Hqs Reduction	(0.5)
5. FY 2000 Current Estimate	1,019.6
6. Pricing Adjustments	
Annualization of Prior Year Pay Raise	7.3
FY 2001 Pay Raises	
Civilian Personnel	20.1
General Purchases Inflation	2.6
CA Contracts	(6.0)
Transportation	(16.9)
DFAS	1.4
Other	(0.3)
7. Program Changes:	
Store Closures (El Toro & McClellan)	(4.8)
8. Productivity Initiatives and Other Efficiencies:	
Savings Initiative (A-76 Conversion)	(2.6)
9. FY 2001 Current Estimate:	1,020.4