

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

**FISCAL YEAR (FY) 2003 BUDGET ESTIMATES**

**OPERATING AND CAPITAL BUDGET**



**FEBRUARY 2002  
CONGRESSIONAL DATA**

DEFENSE COMMISSARY AGENCY (DeCA)  
WORKING CAPITAL FUND

FY 2003 BUDGET ESTIMATES  
FEBRUARY 2002

OPERATING AND CAPITAL BUDGET

Operating Budget

	<b>PAGE</b>
<b>OVERVIEW</b>	
Operating and Capital Budget	1-2
Workload Assumptions	2-3
Productivity Assumptions	4-5
Workload Measures	6
<b>OPERATING BUDGET</b>	
Commissary Resale Stocks:	
Narrative	7-11
Revenue and Expenses	12
Source of New Orders and Revenue	13
Supply Management Summary by Division	14-16
Inventory Status	17-19
Commissary Operations:	
Narrative	20-24
Revenue and Expenses	25
Source of New Orders and Revenue	26
Changes in Costs of Operation	27
<b>CAPITAL BUDGET</b>	
Commissary Operations	
Activity Group Capital Investment Summary	32
Activity Group Capital Purchase Justification	33
Capital Budget Execution	38

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

The Defense Commissary Agency (DeCA) operates a world-wide system of commissary stores. These commissaries sell food and related household items to active and reserve members of the Military Departments, their families, retirees, and other authorized patrons. The items sold in the commissaries are priced to recover product cost and, as a result, provide the commissary patrons direct savings of over 30 percent on a typical market basket. These savings are the reason that the commissary system exists, as this benefit is a valuable non-pay component of the total military compensation package. This is especially true in overseas communities and remote locations where the commissaries provide the same quality and much of the same type items found in a typical state-side grocery store, but at substantial savings. The fact that the commissary benefit is instrumental in recruiting and retaining military members, fostering a sense of community, and maintaining a positive sense of quality of life is supported by a number of studies. Thus, military members embrace 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, 33 zones, 276 commissaries, and 12 Navy Exchange Marts (NEXMARTs) on military installations worldwide. DeCA employs over 16,000 personnel, has annual sales of around \$5.1 billion, and has an annual budget of approximately \$1.1 billion (\$1.1 billion in DeCA Working Capital Fund (DeCA WCF) Commissary Operations, and \$4.6 million in DeCA WCF Capital). The direct appropriation request for FY 2003 is \$996.8 million and includes the Federal Employees Health Benefit/Civil Service Retirement System accruals.

DeCA also purchases services from the 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 AND CAPITAL BUDGETS**

DeCA financially manages two activity groups within the DeCA 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. 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 2003. Projected sales for FY 2003 are \$5.1 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 primary revenue source for this activity group is appropriated funds that are transferred from the Military Departments Operations and Maintenance Accounts. Commissary Operations also receives additional revenues, about \$35 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.

Surcharge Collections represents a third major source of funding. 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 by law, so authorized patrons share responsibility for overall costs of the commissary system, including 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. Consistent with the FY 2001 National Defense Authorization Act (NDAA) all building, renovation, and repair and maintenance costs are funded by surcharge collections beginning in FY 2002 and all operational costs are funded with appropriated funds. This legislation substantially increased the funds available for store infrastructure revitalization through FY2007 and beyond.

## **II. WORKLOAD ASSUMPTIONS**

The annual sales forecast for FY 2003 is \$5.1 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, distribution systems, and operating hours and days, among other factors.

a. Patrons: DeCA's total authorized patron base is over 12 million. 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. Organization: DeCA plans to begin FY 2003 with 276 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. DeCA operates 11 central distribution centers (CDC) to support inventory requirements: 3 in Europe and 8 in the Western Pacific.

Openings and Closures - DeCA is charged by DOD Directive to annually evaluate and determine whether to establish, continue, or downsize commissary stores. Criteria used in the evaluation are: the active duty military served by the commissary, the availability of other commissaries in the general area, and economic viability. Based on these evaluations and

previous Base Realignment and Closure (BRAC) actions, the following stores were approved for closure by the Commissary Operating Board (COB) for this budget cycle: Fitzsimons (Colorado), Brooks Air Force Base (Texas), Naval Computer Telecommunications Station - Cutler NCUC (Maine), Defense Supply Center - Richmond (Virginia), Kelly Air Force Base (Texas), Pope Air Force Base (North Carolina), Defense Distribution Center - New Cumberland (Pennsylvania), Naval Air Warfare Center - Point Mugu (California), Presidio of San Francisco (California), and Fort Shafter (Hawaii). In addition, commissaries at the following locations will be closed as a result of the downsizing of forces and/or base closures: Bad Aibling (Germany), Bad Kreuznach (Germany), Costanzo (Sicily), and Winter Harbor Naval Security Group Activity (Maine). Using the same criteria that is used to develop closure recommendations, stores at Buckley Air Force Base, (Colorado), Camp Red Cloud (Korea) and the Navy Regional Contracting Center - Singapore (Republic of Singapore) were requested by the Services and approved by the COB for opening during this budget cycle.

c. Location: OCONUS and remote locations cost more per dollar of sales than CONUS locations. 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. 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 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" for the overseas military community and their quality of life.

d. Hours of Operations: 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. The high sales volume, coupled with limited hours, has an extensive impact on store construction, store layout, and overall operations.

e. Workforce: DeCA projects 16,439 civilians in FY 2003. During FY 2003 the Full-time equivalent (FTE) level is 15,040 and military personnel strength is 13. 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.

f. 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 187 A-76 contracts in effect for shelf stocking, custodial and warehousing functions. An A-76 Task Force has been established with primary responsibility of developing business strategy and determining the direction of DeCA's commercial activities program. The program plays a major role in reducing store level unit costs.

### III. PRODUCTIVITY ASSUMPTIONS:

This budget represents a milestone for the commissary system, as DeCA fully implements the cultural, managerial and organizational changes needed to reduce costs and improve performance throughout the agency. The incorporation of Activity Based Management concepts at all levels within DeCA, from headquarters down to the departments within each store, is making these changes possible. DeCA has instilled ownership, greater accountability, efficiency, and effectiveness in commissary operations, enabling us to streamline headquarters, region and store management, and improve store operations. The end result is a commissary system that will maintain quality service, but with a reduction in operating costs of over \$137 million by the end of FY 2003 from the levels in the FY 2002 Amended President's Budget. At the same time, DeCA is implementing a surcharge revitalization program that will eliminate the backlog of maintenance and repair by FY 2009, and improve the condition of stores. DeCA is continuously looking to improve the quality of goods and services for commissary patrons while developing more cost effective business practices. Some of the initiatives that facilitate increasing sales or reduce costs include:

a. Increased Customer Savings: Savings are the ultimate performance metric of the commissary system. Customer savings were 27 percent over the commercial sector in FY 2000 without considering supercenters. Savings are now above 30 percent when compared to the commercial sector including supercenters.

To promote customer savings, DeCA is making the job of bargain hunting easier for shoppers by ensuring they get the best prices on products ranging from snacks to paper goods. The Best Value Item, or BVI program, began in commissaries worldwide on July 1, 2000 with about 100 items in popular sizes and now number almost 600 items. Product selection and variety change rapidly in a continuing effort to drive commissary prices down even further. The BVI program ensures DeCA customers receive goods that are equal to or better than name brand items at the lowest price around. The BVI program also responds to customers' demand for more price savings. The commissary system is making an effort to encourage single shoppers, military families and retirees on fixed incomes to take greater advantage of their benefit.

b. Reduce Unit Costs: DeCA benchmarks well against industry, both operationally and financially. However, we believe we must strive to do even better at reducing unit costs, while at the same time improving performance. To this end, the metrics outlined in the FY 2003 Performance Contract are supported by sweeping cultural, managerial and organizational changes within DeCA. DeCA's corporate culture has strikingly changed from one that focused on inputs to one that is output focused, cost-conscious and performance-based. Building on this cultural change, responsibility and accountability are being assigned and managed through the implementation of Activity Based Management concepts at all levels within DeCA, from Headquarters down to the departments within each store. This will reduce unit costs throughout the organization. Technology investments are being made based on Return on Investment (ROI). Restructuring, realigning and reducing Headquarters, region and store management are providing more efficient and effective operations and are streamlining the organization. To support this

more efficient organizational structure, the workforce's ability to meet the flexible job requirements and multiple skills needed for the future is being assessed and will be adjusted as needed.

c. Improve the Infrastructure: The surcharge revitalization legislation enacted effective FY 2002 substantially increased the scope of DeCA's efforts to reverse the decaying conditions of the stores and to build new stores. The results of this landmark legislation are embodied in the sound capital investment program contained in this budget request.

d. Improved Convenience and Shopping Cycle Time of Customers: DeCA Zone Managers and Store Directors are identifying convenience products that are frequently shopped by young active duty single shoppers and resetting these categories to the front of the store for customer convenience. In addition, commissaries that carry Home Meal Replacement products are moving these products to the front of the store to allow quick stop and shop access for commissary customers. Resetting commissaries to allow easier access to these types of convenience products will allow express customers to shop and checkout in twenty minutes or less and will make using the commissary benefit more attractive for the active duty customers. Additionally, Store Directors and Zone Managers have coordinated with installations to establish reserved thirty-minute parking spaces for commissary customers.

e. Optimize Store Operating Hours: DeCA Regions are monitoring existing store hours to determine the average cost per output and will adjust store hours within current funding to maximize sales and cost per output. Stores with potential sales opportunities have implemented early bird shopping. The commissary will open earlier with minimum staff to service customers wishing to purchase fifteen items or less.

f. Improved In Stock Rate: DeCA Stores Directors are working with distributors to ensure proper delivery schedules are developed to achieve a ninety-nine percent in stock rate for commissaries throughout the shopping day. The in stock rate can significantly impact sales when the ninety-nine percent rate is achieved consistently throughout the shopping day. Stores will track distributor fill rates and report distributors that fall below the ninety nine percent threshold for appropriate action.

g. Improved Produce Customer Satisfaction: 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. The goal is to make DeCA produce departments the place where customers choose to shop for all their produce needs.

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 and restructure its operations to meet the changing

demands of authorized patrons while, at the same time, ensuring that costs are carefully controlled.

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b><i>Efficiencies/Closures</i></b>			
Commissary Operations (\$ Millions)	18.7	44.7	47.2
<b><i>Workload Indicators</i></b>			
Commissaries (begin year)	288	282	276
Annual Sales (\$ Millions)	5,058.1	5,089.4	5,139.8
<b><i>Performance Indicators (Goals for FY01-FY03)</i></b>			
Inventory Turns	16.6	15.5	15.7
Customer Savings	30%	31%	32%
<b><i>End Strength and Full-time Equivalents (FTEs)</i></b>			
Civilian End Strength	18,273	17,250	16,439
Military End Strength	12	13	13
Civilian FTEs	16,438	15,781	15,040
Military FTEs	12	13	13

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

**FUNCTIONAL DESCRIPTION**

DeCA Commissary 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 revenue that DeCA uses to replenish the resale inventory. DeCA Commissary 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. 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 and non-appropriated fund activities, and U.S. State Department activities. DeCA's total authorized patron baseline is approximately ten 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 store infrastructure and construction costs. These funds are managed by DeCA in a revolving trust fund for Commissary Surcharge Collections.

**BUDGET HIGHLIGHTS**

Revenue of approximately \$5.1 billion consists primarily of cash, charge sales, and manufacturer 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 NEXMARTS, National Guard, and 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 Commissary Resale Stocks fund whole.

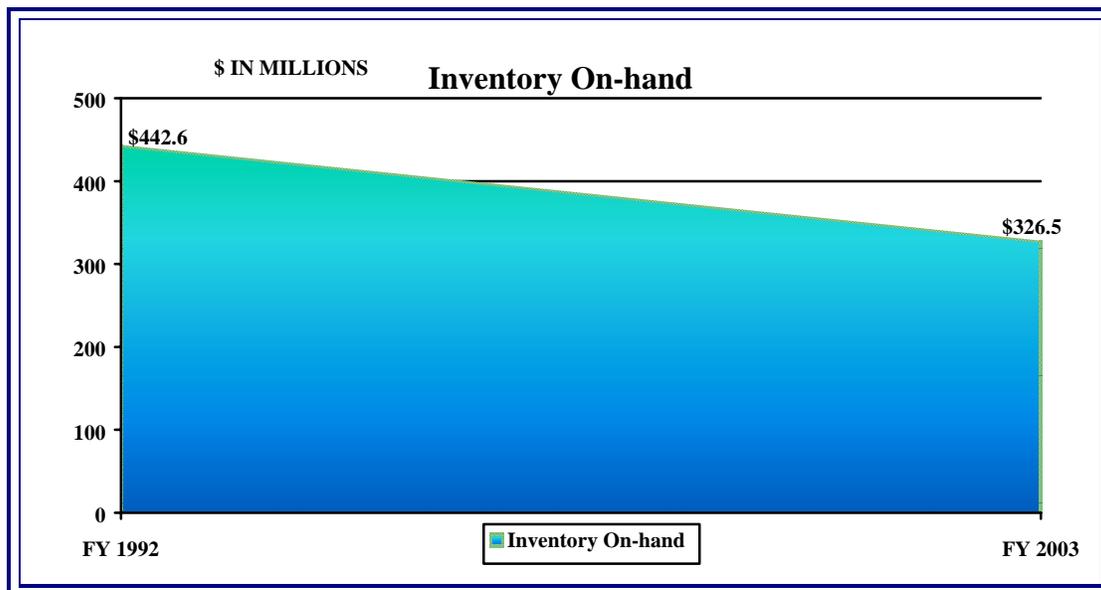
More than 57 percent of commissary shoppers selected the commissary benefit as their number one benefit in the October 2001 DeCA survey. Additionally, the commissary benefit was ranked second for enlisted members and third for officers in the rank order of quality of life factors that were satisfiers and reasons to stay in the military, in an August 1999 GAO Report.

**CHANGES IN OPERATIONS**

Department of Defense right-sizing efforts and efficiency reviews from FY 1992 through FY 2003 will result in the net closure of 136 commissaries or a reduction of approximately 33 percent. Commissary sales projections will decline by about 15 percent from FY 1992 through FY 2003.

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 FY 2000 has provided DeCA Resale Stocks with the mechanism to recover normal operating losses. Our analysis of FY 2001 Net Operating Results for Commissary Resale Stocks indicates the COPPS system is achieving the desired results.

DeCA has reduced the investment in inventory for both operating and safety levels. The inventory levels are expressed in days of supply based on average daily sales. Projected average daily sales are \$14.1 million for FY 2003, with 23 days of supply. In comparison, average daily sales for FY 1991 were \$16.5 million with 36 days of supply. This represents a 36 percent reduction in terms of days of supply through FY 2003. DeCA will reduce the on-hand inventory level by 26 percent from the level maintained by the Military Departments at the end of FY 1991 as noted in the following chart:



Realignment of functional areas into Business Areas within DeCA has improved operational efficiencies and effectiveness in delivering the commissary benefit. The Marketing Business Unit of the Product Support Business Area is one of the key players in the success of

the Agency's efforts to achieve overall cost reductions and keep customer prices at commissaries significantly below those in the commercial sector.

The Marketing Business Unit (MBU) performs centralized category management reviews for new, national brands and Regional/Local products. The MBU conducts category reviews to ensure product selections within the managed categories continue to provide our patrons with desired products at the lowest prices available. Analysis of product movement and price data ensures optimum price negotiations for both national and regional products. The category review and analysis also serves as the basis for refining product selection for category plans, planograms and store resets 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. Some of the initiatives that facilitate increasing sales include:

a. Increase Customer Savings. The Best Value Items (BVI) program is a great success as evident by increased volumes for BVI items. The BVI program ensures DeCA customers receive goods that are equal to or better than name brand quality items at the lowest price available. The BVI program responds to our customers demand for more price savings. The commissary system is making an effort to encourage single shoppers, military families and retirees on fixed incomes to take greater advantage of their benefit. DeCA customers have earned their benefit and DeCA is committed to ensuring they get the best prices through the BVI program.

b. Market the Benefit. In an effort to get in touch with our customers, Store Directors have created focus groups to receive feedback and provide continuous improvements in the delivery of the commissary benefit. Store Directors are briefing the commissary benefit to new recruits at the Services' orientation briefings, installation meetings and other avenues whenever the opportunity is available. DeCA is bringing the commissary benefit to Reserve and National Guard units through off-site case lot sales.

c. Improve Convenience and Shopping Cycle Time of Customers. DeCA Zone Managers and Store Directors are identifying convenience products that are frequently shopped by young active duty single shoppers and resetting these categories to the front of the store for customer convenience. In addition, commissaries that carry Home Meal Replacement products are moving these products to the front of the store to allow quick stop and shop access for commissary customers. Resetting commissaries to allow easier access for grab and go products will allow customers to shop and checkout in twenty minutes or less and will make using the commissary benefit more attractive for the active duty customers. Additionally, Store Directors and Zone Managers are working with installations to request reserved thirty-minute parking spaces for commissary customers.

d. Optimize Store Operating Hours. DeCA Regions are evaluating existing store hours to determine the average cost per output and will adjust store hours within current funding to

maximize sales and cost per output. Stores with potential sales opportunities will implement early bird shopping, where the commissary store will open up earlier with minimum staff to support foot traffic, for fifteen items or less. Implementation of early bird shopping hours will provide more access and convenience for our customers.

e. Improve In-Stock Rate. DeCA Store Directors are working with distributors to ensure proper delivery schedules are developed to achieve a 99 percent in stock rate for commissaries throughout the shopping day. The in-stock rate becomes significant when the 99 percent rate is achieved consistently throughout the shopping day. Commissaries need to have stocked shelves in order to generate sales and keep customers satisfied. Stores will track distributor fill rates and report distributors that fall below the 99 percent threshold for appropriate action.

f. Improve Produce Customer Satisfaction. DeCA continues to work with the Defense Supply Center Philadelphia (DSCP) to ensure they deliver quality produce to our commissaries. DeCA will reject produce deliveries that do not meet our quality standards at the time of delivery. DeCA is demanding superior support from DSCP for the replacement of rejected produce, with quality product, within a few hours of notification. In addition to obtaining better produce, the merchandising of produce will be eye appealing to enhance the visual impact and quality of selections offered our customers. Additionally, DeCA created and deployed a produce team to make unannounced visits to commissary produce departments worldwide. The produce team will provide technical expertise and training to enhance produce department operations worldwide. Produce department inspections focus on quality of product received from DSCP, merchandising of products, fixtures and equipment condition, proper handling and culling techniques to include technical assistance vital to improving our produce departments throughout DeCA. The produce team will take immediate action to help resolve any deficiencies that may exist in the stores they review. Our goal is to make DeCA produce departments the place where our customers choose to shop for their produce needs.

g. Super Stores. Super Store locations offer our customers larger selections of popular items like vitamins, DeCA Power Buys, and an increased supply of products that people buy in large quantities. The new store layout is designed to help busy active duty shoppers make a quick run through the store by placing baby food, snacks and other grab and go items at the front of the aisles. Heavier items will be placed earlier in the traffic flow so customers can put them in the bottom of their shopping cart instead of on top of their other purchases. Additionally, the new design will allow customers to find a few necessary items without having to shop the entire commissary.

h. Improve Store Infrastructure: DeCA has realigned operating costs that were previously paid out of the Surcharge Collections account, into the Commissary Operations account. The realignment will free up surcharge funding to re-energize the construction program and help reduce some of the construction backlog that currently exists. Because the new store layout designed for the Super Stores seems to work so well, DeCA plans to implement this design in all commissaries. Implementation of the new store design throughout DeCA commissaries will take a few years. Standardizing the commissary layout will allow our customers to travel around the

world and still feel right at home when they shop their commissary. The improved facility conditions and store layouts will enhance our customers shopping experience and should help to generate additional sales.

DeCA productivity 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: Supermarket Facts Industry Overview 2000)

<b>WORKLOAD DATA – AVERAGES</b>	<b>DeCA COMMISSARIES</b>	<b>COMMERCIAL SUPERMARKETS</b>
Weekly Sales per Store	\$ 454,157	\$ 334,479
Weekly Sales Per Square Foot	\$ 15.69	\$11.17
Sales Per Customer Transaction	\$ 56.93	\$ 23.04

(Commissary data for CONUS locations used for comparison.)

<u>Workload Indicators</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Number Commissaries (begin year)	288	282	276
Annual Sales (\$ Millions)	5,058.1	5,089.4	5,139.8
Ending Inventory On-Hand (\$ Millions)	315.1	323.3	326.5

<u>Performance Measures</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Inventory Turns	16.6	15.5	15.7
Customer Savings	30%	31%	32%

Commissary Customer Satisfaction Survey (CCSS)	4.24	4.25	4.30
<u>Financial Indicators</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Revenue (\$ Millions)	5,051.8	5,083.2	5,133.6
Cost of Goods Sold (\$ Millions)	5,028.5	5,099.4	5,129.8
Net Operating Results (\$ Millions)	23.3	(16.2)	3.8
Accumulated Operating Results	12.4	(3.8)	0.0
Unit Cost (Per \$ of Sales)	0.99	1.00	1.00