

AAFES Sales Directorate (SD)

Recent Key SD Milestones

Reported by Sales Directorate Senior VP Maggie Burgess



See the interview with Maggie Burgess in the January 2010 E and C News.

FY 2007 Major Milestones

PACE Merchandise Planning Solution from Palladium

Prior to using the PACE planning tool, AAFES did not have a standard merchandise planning process. The PACE application tool, designed to effectively manage inventory planning, open-to-buy management, and link those plans to the Finance and Accounting's corporate targets, now provides a critical link between Hyperion's Financial Planning and Business Intelligence tools as well as Oracle Retail Retek's item management and execution tools. One of PACE's benefits is an ability to point out opportunities within a commodity business by increasing sales and profit while lowering inventory. The teams are using the PACE tool in their Sales and Operations Planning meetings to drive better business decisions and the results are showing. To date, AAFES has realized a 7% decrease in inventory year over year.

Energy Star Partner

AAFES was recognized by the Department of Energy (DOE) as a certified Energy Star (ES) retailer. The certification requires professional verification to meet pre-established environmental standards. As a result of the certification, we created an ES certification training program which provides associates with the knowledge and skills to answer customer's energy-related questions. AAFES has more than 500 Stock Keeping Units (SKU's) that are ES rated, representing more than 12 different departments. The big three categories however, are TVs, computer hardware and major appliances. The combined "green" items, which include ES products, products made with recycled materials, waste reduction products, green packaging and green products, accounted for \$228M in FY 2009 sales, up 12% from FY 2008 sales of \$204M.

FY 2008 Major Milestones

Work Load Planning – Main Store

Work Load Planning (WLP) is a process improvement model that helps organize store processes to ensure timely and efficient execution. These processes include Plan-o-grams (POGs), price changes, promotions, inventory scans, product return to vendors, quality assurance (risk recall), door-to-floor and recovery. By implementing these processes, we are increasing in-stock position, sales potential and store efficiencies. On 28 September, we implemented WLP worldwide to all AAFES Specialty Stores.

Environment

SD has gone “green” through various initiatives and programs. Two of these high level programs include:

- Vending Machines: We have reduced energy consumption through the introduction of delamped vending machines in certain locations. This process saves energy consumption by “turning on” the machine during customer transactions only.
- Recycling: Main Stores are recycling used corrugated cardboard, plastic, Polyethylene Terephthalate (PET) bottles, hangers, aluminum cans, newspapers and magazines. The two-fold benefits include turning “trash for cash” (total income received February-September FY 09 \$71,645) and reducing cash payout for dumpster service. This effort collected a total of 2,300 tons during the February 2009 – September 2009 period.

Partnership with Martha Stewart

AAFES partnered with Martha Stewart national brands and launched worldwide in 59 doors, including a combination of basics in bed and bath linens, crafts and seasonal one-time holiday buys. These items are priced below the competition and provide a true value proposition for military shoppers. Our customers are embracing this new “concept shop line.” On average, shoppers save approximately 25% to 35% when they purchase these items from AAFES. Year-to-date sales are \$4.6M. As a result of the tremendous success story in our main stores, for 2009 we’ve expanded our merchandise offerings to 'mini-branded' housewares which are featured in mid-tier stores. This initiative was created so that we could maintain a presence in smaller locations that can’t support a larger Store-In-Store footprint.

PowerZone

Even before receiving Retail Forward findings, SD started focusing on the PowerZone environment to draw female shoppers into the area by creating a new sales counter known as the “ARK.” This layout captures customers’ attention by using interactive merchandise features (which includes laptops, GPS units, MP3/iPods, cameras, and camcorders). The whole merchandising strategy is about enriching the consumer experience. Complementing this strategy are specialty endcaps and music download kiosks that further enhance the shopping experience. Point of Sale (POS) signage provides new product information and communicates the “endless aisle” availability of products through aafes.com. Cash registers are positioned on the counter to help ease the main checkout counter traffic. All of these enhancements are designed to encourage add

on sales. September 2009 sales with the new PowerZone fixtures were up 3% vs. stores without the new fixtures.

Scan-Based Trading

American Greetings (AG) agreed to be responsible for owning and managing their in-store inventory. As a result, we were able to reduce AAFES inventory by \$13M (retail value). The AG implementation was a scan-based trading (SBT) pilot initiative. Initial results showed an increase of 5.28% in sales increase. We are currently designing a scalable implementation of SBT that should be live and ready for the next vendor (yet to be identified) in early FY 2010.

Launch of Premium Java Coffee Program

AAFES rolled the Premium Java program out to 380 stores worldwide. This program represents a proprietary blend designed to enhance Snack Avenue beverage offerings by rivaling competitors' hot beverage selections and providing an alternative for price-sensitive shoppers. In 2009, we added many new product offerings, including a loyalty program, seasonal flavor profiles and various combination promotions; all designed to strengthen the emotional connection with our customers. To date, we have sold more than 1.1 million more cups of hot beverages than we did last year during the same period, a 32% sales increase. Additionally, the Premium Java program provides a platform for launching new Snack Avenue offerings based on the hot beverage program's success.

Operation Be Fit

Operation Be Fit is designed to reduce healthcare costs by incorporating the "5 Fs" (Family, Fitness, Food, Fun and Financial) into an overall fitness campaign. We've done this by providing quality products, services and solutions that meet customer demand. Healthy alternative snacks, such as popcorn and raisins, are merchandised/displayed together for convenience. We also feature single-serve fresh fruit (e.g. bananas, apples, oranges) in Shoppettes as a healthy choice alternative. Additionally, we're featuring more top-of-the line exercise equipment, including elliptical machines, tread mills and home gym options.

FY 2009 Major Milestones

Markdown Optimization

Markdown Optimization (MDO) analyzes SKU performance by store cluster (location groupings based on similar sales patterns), optimizes sell-through percentages by a defined exit date while minimizing overall markdowns over the item lifecycle. The initial program rollout addressed the Easter seasonal and candy merchandise and realized a net sell-through improvement of 6%. We are using MDO for all seasonal buys and Men's branded clothing for fashion markdown rollouts.

Home Décor

Ashley furniture shops were created in 2008, with accessories added in 2009. Furniture line accessories include linens, rugs and lamps to add a comfortable store ambience. New

furniture walls and signage have been strategically placed throughout the area to complete the feel. Plan-o-grams have been published and store resets began last October, with plans to expand this program to all furniture stores beginning the first quarter of 2010. Detailed merchandise directions are being included in the plan-o-grams to simplify execution and enhance customer convenience.

Roll out Bose Home Theater Concepts in selected PowerZone locations

The military market has always been a strong outlet for Bose speakers and we are cranking up the volume with a new concept shop. The first Bose shops, located in KMCC and Kadena, have realized a 30% / 120% sales lift over previous years. More concept shops are under consideration.

GameStop

The GameStop concession concept has been a huge success for AAFES within CONUS locations. Additionally, we are working with the GameStop Corporate Office to discuss expanding the concept into select Europe and Pacific locations. YTD 2009 closed out with 47 stores and we're projecting an additional eight store opening during the first quarter of 2010, for projected annual sales of \$100M.

Beauty Bar

As strong as AAFES is in Prestige cosmetics, our Retail Forward Survey indicated an additional growth opportunity that will help us maintain our leadership position. To date, we have rolled out five Beauty Bar locations; three in CONUS and two overseas. Beauty Bars provide the opportunity to target the 18-28 year old female shopper, including women with darker skin tones. What's unique about this concept is their shared space and, in some cases, their shared advisors. Each separate concept targets a unique demographic segment and brings a fresh perspective to prestige cosmetics department. With year to date sales of \$321,000, we are looking at opening an additional 5 locations in 2010, which still have to be determined.

Snack Avenue

We're enhancing our product selections by introducing complementary menu selections such as fresh fruit, Icee Program, F'Real shakes and smoothies as well as multi-brand fountain beverages. Very soon, we will introduce value meal deals that will help anchor this program as a destination draw. The value meals will feature a variety of breakfast, lunch and dinner combinations which are currently under development. We see tremendous potential here and are excited with what the future holds.

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