

Power in Partnership, Product, Price ... And Above All, Patrons

Tasked with transforming its business model, its assortment, and its supply chain, with the hydra-headed goals of ensuring commissaries' relevancy to future patrons and delivering savings to offset operating costs — all while maintaining patron savings and satisfaction — the Defense Commissary Agency (DeCA) is in the midst of a sea of fundamental and pervasive change.

Shifts in processes and policies — for example variable pricing and private label — are being explored, which without careful attention to consequences, risk upending the commissary apple cart. Mike Dowling, DeCA's Deputy Director and COO, however, does not shrink from the prospect of steering DeCA through another quantum "transformation." After all, he's seen a few of them before, including the birth of the consolidated agency in 1991 from its various predecessor service branch commissary systems.

In this exclusive interview, Dowling takes a step back to survey the landscape of commissary benefit reform, explains what he expects the process can yield, and offers an underlying principle as to how the agency and its partners can play a part in ensuring that commissaries "have product on the shelves, at the best price available for patrons when they shop."



Commissaries take on a special vibrant and festive feel in the fall. A family shop the Ramstein AB, Germany, store.

DeCA PHOTO BY RICK BRINK

E and C News: When you speak with customers about commissaries, what do they tell you about their local stores and their perception of the benefit? What do they say they would most like to be improved?

DeCA Deputy Director and COO Michael Dowling: Many ask about the status of their commissary benefit. Let's face it: Over the past three years, our patrons have heard a lot of discussions about the future of commissaries. At the same time, they wonder about what's ahead for their exchanges or other services and benefits under the military umbrella. Every aspect of the De-

E and C News: What do you think are the most important things not to lose sight of through the difficult changes that DeCA is undergoing?

Dowling: First, that change is always part of the equation. If you don't change, you will quickly become irrelevant as everything else around you

changes. DoD is evolving and has continued to undergo a constant evolution throughout its existence. At DeCA, we cannot deliver the commissary benefit in a vacuum, disregarding changes in the military's force structure, manpower or mission. There were some who looked upon the very formation of DeCA as a "difficult change." Well, 25 years later, we've proven that change can not only work but save millions of dollars in the process.

As we look upon the transformation of our agency, we see a tremendous opportunity to update our business model so that we can remain relevant to the military community we serve. We know change can be difficult, but we're confident we are on the right path and that we are well-equipped to execute these changes. Despite the natural anxiety of change, we will remain committed to maintaining the patron benefit, improving the overall experience we offer customers, and offsetting operating costs currently funded by appropriations.

E and C News: The decline in patron transactions continues. What is DeCA's plan to reverse that decline? Aside from private label, is DeCA planning anything different involving industry to bring more footsteps to the stores and leverage those footsteps? Is the loss of surcharge revenue resulting from lower sales impacting store renovation, equipment repair and replacement, and maintenance plans?

Dowling: Let's put this in perspective. Sales and transactions for all elements of military retail are down — this isn't just about commissaries. Since 2013, all aspects of the military retail system have faced a number of challenges to include troop rotations and military drawdowns, and shifting consumption and shopping patterns.



Dowling

'Our partnership with the commercial vendors, suppliers and brokers is the engine that runs our entire supply chain. If we do nothing else, we have to do this right or there is no benefit for our patrons.'

— Michael Dowling, Defense Commissary Agency Deputy Director and COO

All that being said, we are doing the following:

- Putting more emphasis on customer service through our customer ambassador program,
- Turning up the volume on awareness of the benefit through social media, our web page and functional, exciting store displays and signage, and,
- Working with our industry partners to improve our in-stock status.

Looking forward, our goal remains to improve the overall shopping experience of our patrons, which requires that we identify the shopping experience our patrons are seeking. In some cases, this may require legislative relief as we seek to operate more like the retail grocery stores. If we can improve our shopping experience, we will increase store transactions, which also leads to increased sales.

One of the cornerstones of our new business model involves the implementation of a line of private label products. We're confident private label, along with other business model changes, will improve our patrons' trips to their commissaries in the following ways:

- Patrons will find an assortment that better reflects the products they've been purchasing, with great savings, and,
- Private label will provide our patrons with another option to access quality products at attractive price points.

To answer your question about reduced surcharge revenues, of course it affects our pace of store renovations and construction. But so do rising construction costs. Therefore, as good stewards of our appropriated funding, we continuously review and adjust our schedules for new store construction or existing store renovations. For example, if a renovated store can address the needs of a community, we will explore that option instead of more costly new construction. If everything goes as planned with our new business model as far as improved stock assortments and private label are concerned, we do expect to see more foot traffic in the stores, and that will certainly help revitalize our surcharge fund.

E and C News: *If the private label program shows early signs of not being successful, would DeCA be required to continue with the five-year pilot, would it modify the pilot, or abandon the private label program altogether? How often will DeCA report to DoD on the program's progress?*

Dowling: We have strong reason to believe the program will be successful – a 2015 survey of commissary patrons found that roughly 60 percent of DeCA patrons would be willing to purchase a private label product if offered at commissaries. Nevertheless, we're consciously using a phased approach to introduce products across categories so we can closely monitor customer acceptance, traction of products in the marketplace and the overall viability of the private label program. Decisions to add or discontinue products will be made on a SKU-by-SKU basis.

Although DeCA has legislative authority to offer private label there is no requirement to do so. Almost every grocery chain in the U.S. has a private label program and these programs account for a large portion of their sales.

Our customers tell us they want the additional savings private label will provide, and which they deserve. Variable pricing provides a means for paying for the private label product costs while generating revenue to offset our reliance on appropriated funds. We will, of course, monitor private label sales closely and solicit feedback from our customers as we grow the brand.

E and C News: *Based on the Congressional Budget Office's (CBO) recent estimate that the return on implementing private label would be only \$500,000 over the 2017-2026 period, what kind of analysis has DeCA done that would show a better justification for the cost of implementing private label?*

Dowling: When we conducted our evaluation of revenue generation opportunities in fiscal 2015, that effort included the private label program. That report

notes private label typically offers a gross margin of 40-50 percent (versus 20-30 percent for national brands) and approximately 20-percent penetration in a fully mature program. We know it will take four to five years for a private label program to mature. Based on that analysis, a fully mature private label program could contribute an estimated \$40 - \$100 million annually to DeCA's bottom line.

And, as I've said earlier, because of the high interest expressed by commissary patrons for private label products, we expect there to be a high penetration of these products in the marketplace.

E and C News: *With estimates of around 2,000-3,000-plus SKUs needing to be removed from the assortment (e.g., 19 percent supermarket average adoption) to make room for private label, what types of products will be coming out of the assortment — value brands, national brands or some combination of those?*

Dowling: As you know, we have often been criticized for carrying too many items and sizes in the same category. As part of our SKU optimization effort we're looking to maximize the holding power of the items that we will continue to carry, as well as providing space for our private label. We will be working with suppliers to adopt the best assortment to support our patrons. While it's too early to speculate on SKU-level decisions in specific categories, we are approaching national brands and value brands in the same way throughout this process.

E and C News: *With 35 years of experience in the commissary system, how do you see the outlook for the future?*

Dowling: The future of the Defense Commissary Agency is tied to remaining relevant. Remaining relevant requires change! We had a longstanding, successful partnership between the agency and our industry partners but *status quo* is not the answer. Our partnership with the commercial vendors, suppliers and brokers is the engine that runs our entire supply chain. If we do nothing else, we have to do this right or there is no benefit for our patrons.

Throughout my career in military retail, I've experienced the ebb and flow of the commissary's relationship with industry, and I can tell you that when we work together effectively everybody wins — especially the servicemembers and their families who depend on this benefit to extend their paychecks. If we unite with one goal in mind: have product on the shelves, at the best price available for our patrons when they shop, we will succeed. It doesn't get any simpler than that.

So ultimately, the future is what we make it as we continue to work diligently with our industry partners to maximize the best processes for serving our customers each day at 238 commissaries worldwide. We exist for no other reason than that.

—E and C NEWS

DeCA PHOTO BY JESSICA ROUSE



Savings are a family affair at the Customer Appreciation Case Lot Sale at the Fort Lee, Va., store. These two- or three-day events typically take place each spring and fall at commissaries in CONUS, Alaska, Hawaii and Puerto Rico, and can offer savings as much as 50 percent over these stores' already low prices.