

‘Making the NEX A Unique And Enjoyable Place to Shop’

Evaluating the current retail environment, Michael Good, the Navy Exchange Service Command’s (NEXCOM) executive vice president and chief operating officer (COO), is enthused about NEXCOM’s continued innovations and adaptations in serving the Navy and Navy Family. The exchange service is holding its own with sales and transactions, and even though several formerly robust categories have declined, other areas have stepped up to lead sales activity, including consumables, home and sporting goods. In this exclusive interview, the COO reviews NEXCOM’s strengths and goals, and the initiatives that are slated for development and implementation during the next few months.



Michael Good (center), NEXCOM executive vice president and chief operating officer (COO), speaks with Richard Ray (left), S&K Sales and Jed Becker (right), Eurpac Service, during a meeting at NEXCOM headquarters in Virginia Beach, Va.

E and C News: Where does NEXCOM stand regarding its sales and transaction goals for 2016? What factors have been influencing NEXCOM’s attainment of its goals?

Michael Good: Compared to last year, NEXCOM is trending slightly higher both in terms of sales and transactions, while margins are somewhat lower, primarily due to the shift in what and how the consumer is buying. Retail in general, and more specifically the department store segment, has put downward pressure on areas like apparel and “Center Core.” However, we’ve been able to make up some of those sales and margins in areas like consumables, home and sporting goods.

NEX Services sales are ahead of plan and last year through July, driven by our innovative vending programs that feature the aggressive rollout of Micro Markets and the expansion of vending machine credit card readers that offer convenience to our customers. The Micro Markets alone will deliver nearly \$500,000 in sales this year and are planned to reach \$1 million in 2017.

Through July, our Food Services sales have exceeded both plan and last year’s sales, and will continue to be a business focus for us in 2017 as we explore new growth opportunities. We’ve experienced tremendous growth at our Pentagon food court, where we continue to add new concepts such as Robert Irvine’s Fresh concept and an Au Bon Pain. We’re also introducing new and growing companies to the portfolio at locations worldwide to offer more fresh and healthy food choices to our Sailors and their families.

Our Food and Beverage Convenience Bars located in Mini-Marts are another success story. We’re expanding this concept to overseas locations and introducing a new, branded coffee program enterprise-wide that has been overwhelmingly successful at our test locations.

E and C News: How have gasoline prices and usage declines/pricing parity in tobacco and alcohol deglamorization affected sales?

Good: Both usage declines and pricing parity in tobacco have had an impact on total sales. Tobacco is a strong trip driver, particularly in our main stores. As our tobacco pricing has come to parity with the markets in which we compete, the category has become less of a trip driver for this customer.

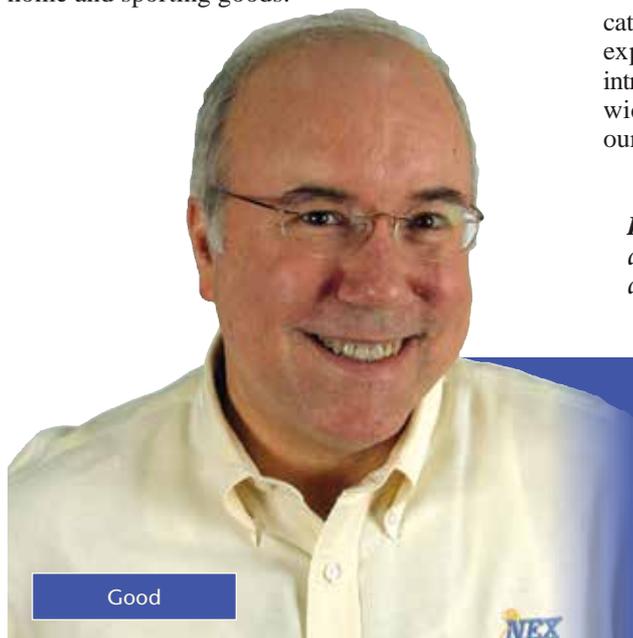
The trend is beginning to show a direct connection between declining tobacco sales and shrinking baskets in our main stores. While our convenience stores have not seen as big of an impact on the footstep, main stores — which have a higher basket — have, and this has a greater negative impact on total sales.

Gasoline sales have been tough for everyone due to external industry pricing pressure. Our gasoline “gallonage” sold has actually increased by 3.2 percent, or two million gallons, though the continued decline in retail gasoline prices around the country has negatively impacted our sales by \$33.2 million, or 17.8 percent through July. We continue to monitor and react to gas prices daily, and based on industry information, we don’t expect a sales turnaround this year.

E and C News: Although not every store can win a Bingham Award each year, how do you impress upon your worldwide network of stores that they can all be top-notch stores and fulfill the enterprise mission to the highest level?

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— Michael Good, NEXCOM Executive Vice President, Chief Operating Officer (COO)



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Good: Great question! We impress upon our store operations teams that EVERY store is a contender for the Bingham Award. They operate throughout the year with this objective in mind, by delivering our NEX mission and executing our key chief executive officer (CEO) focus areas, especially, “Delight our Customers to Create Advocates,” “Take Care of our Associates, Both Today and Tomorrow” and “Perform to our Financial Plan and Continually Improve Business Processes.”

These are foundational to everything we do every day of the year at all locations. The Bingham Award simply singles out stores in each sales volume class that have done this in a superior way.

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E and C News: It seems the streamlining of resale back-office operations is high on DoD’s agenda for military resale organizations. What are some of the ways NEXCOM has already worked on streamlining and efficiencies, including with its sister exchanges and the Defense Commissary Agency (DeCA)?

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Good: Cooperative efficiencies are not a new idea for the military exchanges. For example, establishing a ‘house brand’ credit card has helped the three exchange systems generate billions of dollars in sales while saving a couple of hundred million dollars in credit card fees, and saving our patrons an estimated \$200 million annually in credit card interest.

It’s an ongoing process though, and things such as joint contracting, joint private label programs and coordinating or combining logistics have been quite successful. However, the optimization efforts are not just focused on cutting costs — finding innovative ways to expand or create new revenue is on the table as well. For example, the Veterans Online Shopping Benefit (VOSB) is the most recent initiative to be reported out and, while it isn’t final yet, it looks quite promising at this point.

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E and C News: How would you characterize the progress of the Defense Resale Business Optimization Board (DRBOB) toward setting goals that will work for the Department of Defense (DoD), Congress, the Navy and NEXCOM?

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Good: Well, I think a critical mission of DRBOB is figuring out what is in the realm of the possible. As the team has worked through different options and business cases, they are having success at seeing what can work to make the system better, and all of the resale organizations are concentrating their efforts there.

Having said that, we still have a business to run and remain laser-focused, every day, supporting our servicemembers, their families and those who’ve already served with honor.

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E and C News: What are some of NEXCOM’s priority initiatives that customers might see in fiscal 2017 or even at the end of this



Michael Good (left), NEXCOM executive vice president and chief operating officer (COO) and Tom Gordy, president, Armed Forces Marketing Council (AFMC), speak before a meeting at NEXCOM headquarters.

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Good: We have several initiatives that we put in place in 2016 in response to customers seeking greater value, and which continue to grow at a healthy pace. Two in particular, our “Low Price Guarantee” in consumables and our “Trend Right/Price Right” in apparel, specifically in women’s, are tracking ahead of expectations and are helping us to win loyalty and share from our patrons.

Our business in “A Better You” categories continues to grow, and the addition of kids and the expansion of digital fitness options have been well received by customers.

We’ve also seen strong traction in new brand introductions. We will continue to introduce new and exciting brands and products to our assortment in the back half of 2016 and into 2017. We are especially looking at those brands that support our military customers with the newest products at the best possible prices. These are the relationships that we will continue to grow as we look forward to 2017 and beyond.

Our store operations team is as busy as ever working to ensure that our customers’ shopping experience remains top of mind. We’re beginning to see the positive impacts of some of the many new programs, businesses, facilities improvements and other initiatives that we launched earlier in the year, and will build upon them in our FY17 business strategies.

This year’s Customer Satisfaction Index survey (CSI) once again validates that the NEX shopping experience, which is among the top in the industry, contributes enormously to our customers’ satisfaction. Because it’s so valued, we constantly challenge ourselves to find ways to make it better and better every year.

This is where our talented operations team members are at their best and where they never fail to deliver. They develop new businesses to drive growth and to meet the expectations of the needs of our customers’ evolving lifestyles and preferences. They design and deploy new physical and atmospheric elements, refine floor layouts and implement branding and other types of store personalization to make the NEX a unique and enjoyable place to shop.

We’re always working to deliver a great shopping experience for our overseas customers, and beginning this fall, we’re expanding our “buy online at MyNavyExchange.com and ship-to-store” program. This initiative will give our overseas customers access to an expanded range of merchandise categories and a broader assortment of product within them.

NEX customers at our smaller, more remote locations are especially excited because these facilities can’t physically accommodate a wide range or depth of product. Store operators around the globe are gearing up for what is expected to be very significant volume going into the fourth quarter and are working hard to make sure our customers’ online store experience is among the best in the industry.

To meet the needs of our Sailors who work around the clock or who don’t have access to fresh and healthy food choices, a continued priority is the aggressive rollout of Micro Markets. They’re conveniently located within a short distance from workspaces and because of this, customer feedback has been exceptional!

Customers tell us they’re extremely happy with the convenience of being able to purchase healthier food options often without ever having to leave the building. Commands are also happy because they have seen an increase in the morale of their Sailors!

We currently operate eight Micro Markets and are on track to open five more by the end of the year. Six additional locations are on the leaderboard to open in spring 2017.

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E and C News: What would your message be to NEXCOM’s associates and managers in the field and also to NEXCOM’s suppliers and supply chain partners?

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Good: Thank you, as always, for your continued support of our military customers. We truly serve the best customers in the world. The products, PREMIER customer service and special events we are able to bring to them wouldn’t be possible without the support of both our vendor partners as well as our associates. Thank you for all that you do.

—E and C NEWS