

# POSITION PAPER ON MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION'S RECOMMENDATIONS REGARDING MILITARY RESALE

The Armed Forces Marketing Council (AFMC) appreciates the hard work the Military Compensation and Retirement Modernization Commission (MCRMC) and its staff put into its mission of determining the optimal mix of pay, retirement, health benefits and quality of life programs to support to the All-Volunteer Force. The AFMC's particular interest in the MCRMC's work is focused upon the military resale benefit provided through military commissaries and exchanges. Below are the AFMC's views and opinions regarding the future military resale concept presented by the MCRMC and the Department of Defense's implementation plan.

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## PROTECT THE BENEFIT

The Armed Forces Marketing Council applauds and agrees with the MCRMC's belief that both the access and savings at Department of Defense commissaries and exchanges should be protected.

These savings - food and household goods at cost in the commissaries and discounted products in the exchanges - are the benefit that military personnel were promised and have earned for themselves and their families. Additionally, the commissaries and exchanges ensure that military families have access to the name brand products they know and trust regardless of where they are stationed around the world. The AFMC believes that the access and savings must be protected in order to maintain the viability of the resale system and the benefit provided through commissaries and exchanges.

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## BUSINESS CASE REQUIRED

The MCRMC proposes to protect the access and savings at commissaries and exchanges through the establishment of a Defense Resale Activity (DeRA) which would oversee consolidation of the three exchange systems and the Defense Commissary Agency (DeCA) into a single resale entity.

While the establishment of the DeRA is viewed by the MCRMC as necessary in order protect the benefit through reducing the overhead costs and using the savings produced to offset reduced appropriated support, the reality is there does not currently exist a business case to substantiate the concept.

The AFMC proposes that, before any efforts take place to establish a new layer of administrative bureaucracy and consolidate the resale systems, that a full and complete study be conducted by a qualified retail consulting firm to determine whether a cost-effective and minimally-disruptive business case can be developed that will guarantee protection of the benefit.

In the opinion of the AFMC, the study must:

- provide a thorough assessment of the costs associated with consolidation
- provide a comprehensive estimate of return on investment and revenue forecasting that demonstrates that it is possible to achieve the level of earnings necessary to offset appropriated support while continuing to provide a dividend to support quality of life programs
- ensure this quality of life benefit is not diminished in order to achieve consolidation.

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## DISCONNECTING FROM THE MILITARY COMMUNITY

The establishment of the DeRA is also concerning in that it removes the exchanges, in particular, from the oversight and strategic planning of the Military Services and uniformed leadership, and transfers that oversight to OSD/DoD civilians who may not value resale as an integral part of the military community. The current oversight structure ensures that the exchanges are integral part of the military community, supporting readiness and retention, while remaining responsive to the needs of the military community and the quality of life of service members. The view of the AFMC is that the connection between the military exchanges and the military community should remain.

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## PATIENCE AND RESOURCES REQUIRED

In order to effectively study and develop a business case for consolidation and implement a new business plan, if determined feasible, time, space and resources will be required. However, the Department of Defense's FY2016 budget calls for drastic reductions of \$322 million to the Defense Commissary Agency's budget, which would require implementing new policies that would significantly reduce savings and access to the benefit, i.e. store closures, reduced hours, price increases, to name a few. Additionally, for FY2017, it is expected that the proposed reductions will total \$1 billion and would further erode, if not completely eliminate, the benefit.

While the discussions surrounding military pay, retirement and benefits focus on making adjustments to most other benefits, the desire of the Department of Defense, according to recent drafts of legislation to support budget reductions to DeCA, is to eliminate the commissary benefit by no longer selling food and household products at cost. They desire that margins be created to offset operational costs through mark-ups on all items sold, thus converting the commissaries into a business rather than a benefit delivery system. This clearly breaks faith with military families and undermines a highly-valued benefit of military service. Further, it would serve to undermine all of military resale as patrons abandon commissaries and exchanges for options outside of the gate, where available.

The AFMC believes that appropriate levels of appropriated support be maintained until a business case can be studied, developed and implemented that preserves the benefit provided through commissaries and exchanges. Further, the congressionally-mandated study related to commissaries, due Sept. 1, 2015, will provide answers to many of Congress' questions about proposed changes and their impacts on the commissaries, exchanges and their patrons. It would seem premature to move forward with DoD's budget cuts and associated legislative changes until after the congressionally-mandated study is published.

It should also be noted that most of the infrastructure that exists to support the commissary and exchange benefits was paid by military families. Through profits generated by the exchanges and surcharges paid at commissaries, military families have invested over \$10 billion into building and maintaining their benefits around the world. Attempts to shutter stores, reduce store hours and diminish the value and access to commissaries and exchanges takes from military families the equity they have put into their own benefit and diverts those assets for other purposes.

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## LOSS OF MILITARY FAMILY JOBS

According to the military resale exchange and commissary systems, nearly 60% of their employees are military related and 30% are military spouses. These jobs are flexible to allow dependents, in particular, to keep their jobs when their military spouse/family member receives permanent change of station orders. This allows them to establish a career where they build seniority and pay equal to experience. One of the second and third-order effects of budget cuts and consolidations will be the loss of pay or jobs for military family members, affecting the financial readiness of military families.

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