

Statement of

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before the

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Introduction

Good afternoon, Madam Chair, and distinguished members of the Subcommittee on Military Personnel:

My name is Jed Becker; I am Vice Chairman of the Armed Forces Marketing Council (AFMC). Thank you for inviting me here today to offer comments regarding the military resale services, and the vital role they play in the quality of life our troops and their families.

The Council was incorporated on April 25, 1969 as a non-profit business league. It is comprised of firms representing manufacturers who supply consumer products to military resale activities worldwide. A list of firms serving on the Council is at Exhibit 1.

Madam Chair, before I address issues related to the resale system, I will briefly outline the purpose and objectives of the AFMC.

The purpose is to:

- Promote unity of effort through a cooperative working relationship among the Congress, the military, and industry.
- Provide a forum for addressing industry issues.
- Encourage worldwide availability of quality consumer products at the best possible prices and value.
- Encourage continued congressional support and funding of the resale system.
- Assist in maintaining the resale system as an integral part of military life.
- Promote awareness of sales and marketing agency services to the military resale system.

Council firms also subscribe to a code of ethics requiring that each member firm maintain the highest level of integrity and professional conduct and consider this to be critical to its credibility.

Some firms serving on the Council have been providing service to the resale system for over sixty years. Member firms are small, privately held businesses formed in response to the need for quality, specialized sales representation to the unique worldwide military resale market. These firms have developed marketing and merchandising programs tailored specifically to deliver efficient support to military resale operations. Through the link they form between the resale services and the manufacturers, these firms assure continuous availability of the complete array of consumer products normally found in the civilian marketplace. They offer services in a more efficient manner than all but the very largest manufacturers can provide using their own resources. If that were not the case, the firms belonging to the AFMC would not exist.

AFMC firms represent several hundred manufacturers, both large and small. (A representative sampling is at Exhibit 2). Our firms have a total of over 2,800 people working directly in the stores, with the various resale services headquarters, and with the manufacturers to assure that the right products are on the shelf at the right time, in the right quantities and at the best prices and value. By so doing, they have played a significant role in maintaining the resale system as a vital part of the fabric of military life.

It is important to note that AFMC members see themselves as:

- “Stakeholders” in the military resale system.
- Interested in contributing to the continued viability and health of the resale system.
- Having expert perspective based on many decades of experience in servicing the military resale system.

Importance of the Military Resale System

Madam Chair, the AFMC strives to do its part to assure the continuation of the military resale system and the value it provides to our service members and their families. We hope the

information and perspectives presented here will be useful in your review of military resale activities.

The resale system is an extremely valuable benefit for the total force, including active duty, Guard and reserve, and retirees, and for the central role it plays in recruitment, retention, and morale. Sometimes overlooked is its success in supplying everyday personal needs to deployed forces, including those in hostile fire zones.

Our Armed Forces have been on a war footing, not just since September 11 of 2001, but more accurately since 1990. This lengthy period of high operations tempo and its resultant personnel turbulence from repeated deployments is unprecedented in our history and has resulted in intensely stressful working and living conditions for service members and their families. With this in mind, any attempt to diminish the value of this benefit should be rejected.

In addition to being an efficient benefit and contributor to quality of life, the military resale system works well! It's honest, efficient and responsive. Taxpayers, legislators, and leaders throughout government can share in the pride of this success story. This success comes as a result of the dedication exchange and commissary operators have made to customer service, patron savings and an unfailing commitment to continued process improvement.

These are not loose judgments. Instead, they are based on scientific surveys of pricing and patron satisfaction and on largely favorable comparisons with outside-the-gate retailers on sales trends, business systems, and asset management.

While the success of commissary and exchange operations is in many ways self-generated, it is also a result of steady non-partisan oversight and support from numerous well-informed members of Congress. The members of the Armed Forces Marketing Council thank you for that, as would other segments of the supplier community. But more importantly, given the chance, military members and their families who fully understood your role, would also offer their gratitude.

Having said that, we have some observations and suggestions.

CBO Proposal to Consolidate Resale Activities

The Congressional Budget Office repeatedly recommends that (i) military commissaries and exchanges be consolidated, (ii) prices in commissaries be raised to generate operating funds, or (iii) that a yearly grocery allowance be provided to active duty personnel. We continue to point out that there are several significant fallacies in these ideas:

- No compelling evidence has ever been developed that demonstrates that consolidating the exchanges and commissaries will achieve significant savings, either in operating costs or prices to service men and women.
- Increasing the cost of products in commissaries would clearly reduce overall military compensation, particularly for those who would not qualify for any allowance (including retirees and most National Guard and reservists), and for those families whose current savings exceed such an allowance.
- The current billion-dollar commissary subsidy equates to a fraction of the dollar value of the savings that are generated when authorized patrons shop in military stores. Looked at another way, total purchases by commissary patrons of over \$5 billion would cost well over \$7 billion at private sector commercial prices.
- Active duty service members are astute in assessing the "value" of the benefits they are afforded. While several initiatives driven by the CBO may meet short-term fiscal objectives, it is the continuity of your vigilance that must serve to recognize the complexity of the perceived value these benefits hold and the impact they have on recruitment and retention.

The Exchange Services and the Defense Commissary Agency continue to develop promising collaborative initiatives.

Second Destination Transportation (SDT) Funds

The Congress passed legislation that clearly mandates the funding of this function, to assure that American products get shipped to foreign-based exchanges and commissaries at taxpayer expense. In the absence of SDT funding, prices would be unfairly raised to overseas-based troops and families, in order to absorb the freight costs associated with getting these goods to these service members and their families. Alternatively, the services would be forced to reduce MWR earnings by an unacceptable amount, or to shift all their overseas procurement to offshore sources. Simply stated, none of these consequences are acceptable. SDT must continue to be fully funded – it's the right thing to do for our forces.

Relief from ASER Merchandise Restrictions

The AFMC is most appreciative of the past actions by Congress to alleviate many item and cost restrictions imposed upon the military exchanges. These actions produced significant increases in exchange sales and earnings, and in customer satisfaction. We are convinced that further lifting of restrictions will yield similar positive results.

Existing policy, established by Congress and promulgated in DoD Instruction 1330.21 "Armed Services Exchange Regulations" (ASER) prohibits the military exchange services from initiating capital construction, renovating existing facilities for the purpose of providing additional space in which to sell furniture, and places a procurement cap of \$900 per unit on the wholesale cost of furniture. Furthermore, this policy prohibits the sale of diamond settings with individual stones exceeding one carat.

The original intent of these restrictions was to protect small, "outside-the-gate" stores from undue competition by military exchanges. Consolidation in the retail industry (e.g., discounters, department stores, category killers, and specialty stores) has rendered these restrictions outdated, thereby placing the exchanges at a competitive disadvantage, and in turn denying military patrons the opportunity to purchase these items at the best value and savings.

It does not appear feasible for either the Armed Forces Marketing Council (AFMC) or its member firms to undertake protecting the interests of small local retailers in the vicinity of exchange stores. Other than to encourage the exchange services to limit their sales of these items to authorized patrons only, there is little else the AFMC can do. Our primary mission is to ensure that we supply consumer products to the military resale systems at the best possible prices and value. The primary mission of the resale systems is to have those products available and to offer a non-pay compensation benefit to military members and their families.

It is the AFMC's contention that further lifting of the restrictions on furniture and jewelry is both necessary and prudent, and would yield very positive results both for the patrons and the exchange services. While local retailers may lose some sales, the impact has been determined to be negligible and is far outweighed by the benefits to be gained.

Furthermore, if the exchange services are to be held to operating by business standards and required to produce profits to subsidize MWR programs, they should be allowed to compete, as would any normal private sector business enterprise. It should be noted that over the years, ASER restrictions have been selectively relaxed without the predicted adverse economic impact and furor from the private sector.

The construction and renovation restrictions preclude many exchange stores from stocking furniture; in those stores that can stock it the selection is severely limited. Furthermore, the wholesale cost limitation of \$900 per unit, imposed eleven years ago, precludes the sale of many quality brands, and within some brands, full suites (e.g., bedroom or dining room) cannot be made available, because one item within the suite may exceed the

wholesale cost limitation. This restriction on furniture sales is of particular concern in view of BRAC 2005 and force realignments that will accelerate the relocation tempo for families and trigger an increase in the need for furniture purchases, particularly for those returning from overseas locations.

The prohibition on the sale of larger stones exceeding one carat precludes the sale of the fastest growing segment of the jewelry business.

Given these restrictions, military families are forced to shop “outside the gate” where they encounter significantly higher prices, and of particular concern, much higher interest rates which are often presented deceptively.

By lifting the ASER restrictions placed on these product categories, military families will be able to purchase these items in the exchanges and where they would qualify for the unique set of terms available to support the exceptional conditions of military service:

- Patron savings are consistently twenty percent or higher
- For those who pay the ultimate sacrifice, *Star Card* account balances are written-off
- *Star Card* interest rates are significantly lower than private sector
- Deferral of *Star Card* payments and interest is available to all Service members during deployment (significantly lightening the stressful financial burden faced by families, as well as giving peace of mind to the deployed member)
- Worldwide availability of warranty service, repairs, and returns
- Affordable delivery service
- Worldwide availability of trade-up policy, repairs, and returns

Ultimately, the real issue is whether Service members and their families deserve to have these products available. If so, their interests must take precedence over the interests of businesses outside the gate.

Extension of Commissary and Exchange Privileges to Disable Vets

H. R. 4071, entitled, “Disabled Veterans Right to Commissaries and Space Available Travel Act,” has been introduced by Representative Bob Filner to extend commissary and exchange privileges to veterans with a service-connected disability rated at thirty percent or more. It has been referred to the Committee on Armed Services. Chairwoman Davis, the Armed Forces Marketing Council strongly supports this legislation as a means of repaying those men and women who have become disabled as a result of service to our nation. It is in no way meant to minimize the service of those who have spent full careers in military service. Our disabled veterans, regardless of length of service, are nonetheless members of the greater military family and should be treated as such. Granting this small token of recognition, at virtually no cost to the government, would demonstrate appreciation and respect to those who have sacrificed their well-being to protect the freedom enjoyed by all Americans. It is the right thing to do.

Base Closures

The AFMC continues to recognize that retention of military resale facilities at all closed bases may not be feasible. Nevertheless, we urge Congress to consider retention of those facilities wherever possible, particularly at those locations where there is a sizeable population of reserve, National Guard, and retired service members, and especially at a time when so many Guard and reserve members have been called up to active duty, some for very lengthy and repetitive tours.

It must be remembered that the purpose of the resale system is to enhance the quality of life of all members of the uniformed services, including retirees, and their families. There is often a tendency to overlook those career service members who are no longer on active duty.

Summary

Madam Chair, the Armed Forces Marketing Council recognizes that there can be no let-up in seeking operational improvements and cost savings in all elements of the military resale system, particularly given the current strain on the Defense budget. Nevertheless, those efforts should never serve to degrade the quality of life of the people who make up our armed forces.

As for the ASER restrictions, the AFMC respectfully requests that the restrictions on furniture and diamonds be lifted to permit increased availability of these items for our military people. Why not do this and allow them the opportunity to receive the best possible value in these items and provide a truly complete compensation benefit? It will require **no** appropriated funds!

Lastly, we respectfully implore you to grant our disabled veterans the privilege of patronizing the military resale system as recognition and appreciation for their sacrifices in protecting our nation.

Thank you, Madam Chair and members of the Subcommittee on Military Personnel for the opportunity to appear before you and for your attention and consideration of the AFMC viewpoints. We appreciate your interest in assuring the best for our troops. I stand ready to receive your questions.