

Statement of

F. Jed Becker

Armed Forces Marketing Council

before the

Subcommittee on Military Personnel

Committee on Armed Services

United States House of Representatives

March 1, 2007

**Submitted for the record.
Not for publication until
released by the House
Armed Services Committee.**

Introduction

Good afternoon, Mr. Chairman, and distinguished members of the Subcommittee on Military Personnel:

My name is Jed Becker; I am a member of the Armed Forces Marketing Council (AFMC). I appreciate the opportunity to be here today to offer comments concerning the military resale system, and the vital role it plays in supporting 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.

Mr. Chairman, 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 efficient, 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 system and the manufacturers, these firms assure the continuous availability of the complete array of consumer products normally found in the civilian marketplace. These firms offer services in a more effective manner, or at a lower cost, or both, 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 system 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 the military lifestyle.

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

Mr. Chairman, 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 the military resale system.

The resale system is an extremely valuable benefit for the total force, including active duty, reserve and Guard, 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, the case for continuing, and striving to improve the resale system is of vital importance. Any attempt to diminish the value of this benefit should be rejected.

To the benefit of military patrons across the world, the military resale market is elegant in the simplicity of its design. Competitive forces meet in a marketplace that forms a cornerstone in a suite of benefits committed to supporting military families.

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.

Proposal to Consolidate Resale Activities

Over the past several years, the Congressional Budget Office has repeatedly recommended 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. As we have stated in past hearings, 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.

That said, it is important to recognize that the Exchange Services and the Defense Commissary Agency have promising collaborative initiatives underway. We encourage them to continue these efforts believing that these experts are best suited to seize these opportunities.

Second Destination Transportation (SDT) Funds

The Congress passed legislation that clearly mandated the funding of this function, which assures 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. Past relief from restrictions on TV's has had an impressive impact on exchange sales and customer satisfaction. We believe that further lifting of restrictions will yield similar positive results. Lifting these restrictions is both necessary and prudent.

Existing policy, established by Congress and promulgated in DoD Instruction 1330.21 "Armed Services Exchange Regulations" (ASER) prohibits the military exchange services from (i) initiating capital construction, (ii) renovating existing facilities, for the purpose of providing additional space in which to sell furniture, and (iii) places a procurement cap of \$900 per unit on the wholesale cost of furniture. In addition, this

policy (iv) 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.

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 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. They also encounter 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 these purchases would qualify for the unique set of terms that are maintained to support the exceptional conditions of military service:

- For those who pay the ultimate sacrifice, *Star Card* account balances are written-off. The Exchange Services have written-off well over one million dollars since September 11, 2001.
- *Star Card* interest rates of about 12% are significantly lower than private sector rates of as much as 20% or higher
- Suspension of *Star Card* payments is available to the more than 300,000 Service members during deployment (significantly lightens the stressful financial burden often 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
- Exchanges offer worldwide availability of trade-up policy, repairs, and returns

While it may be possible that lifting these restrictions could take some sales away from commercial retailers, the impact has proven to be negligible.

The AFMC respectfully requests that the restrictions on furniture and diamonds be lifted to permit increased availability of the 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!

The Principle of Primacy: A Vital Concept in Maintaining the Balance in Delivery of the Resale Benefit

Resale operators deliver quality goods and services to military families. In effect, these resale operators serve where the military patron serves around the world. In order to meet this commitment, resale leadership faces difficult decisions in allocating scarce resources for the capitalization of its operating infrastructure. History shows that resale leadership has done an outstanding job in managing this critical dimension of their resale benefit delivery strategy. In many cases, the commitment to delivering the benefit requires that military resale operators support facilities that would not be practical and would never be proposed by a civilian business operator. These operations might be referred to as “least favorable financial operating environments.”

At the other end of this spectrum are the “most favorable financial operating environments.” Let’s face it; continuity in delivering the global resale benefit requires that this balance is not broken. We believe that current legal framework regarding this issue is fitting. I have made these comments only to request your vigilance in protecting this fragile balance from the threat presented by short-sighted opportunities dressed up as “innovation.”

Reimbursement to Exchange Operators for Operations in OEF and OIF

The efforts by exchanges in support of the deployed troops have been exemplary and outstanding and have been lauded by all who have benefited from it as a true “Touch of Home.” This support has been provided at a substantial operational cost to the exchange operations and is thereby a cost actually borne by the troops themselves. Why is this so? All exchange earnings are generated from dollars spent by the troops.

If left to fund OEF and OIF operations directly, the exchange operations are forced to reduce their contributions to MWR operations. This, in turn, reduces the MWR support to the troops. Ultimately, this negatively impacts retention.

The exchanges, most significantly AAFES, are authorized to receive reimbursement for these costs, but as yet have not received any. The AFMC urges both the Department of Defense and Congress to provide this reimbursement.

Military Resale Transition Benefits for Global War on Terrorism (GWOT) Veterans

As if there were any doubt, the GWOT has proven that this generation – like its predecessors – has its share of true patriots, genuine heroes and heroines who are willing to sacrifice all to protect our nation’s values and freedom. It has also reminded our citizens just how much we owe to the members of our Armed Forces – active, reserve and Guard – and the families they leave behind. They and they alone bear the burden of this cosmic struggle in ways both obvious and subtle that most of us on the home front cannot begin to appreciate fully.

Rhetorical support for our troops is fine but as this Committee well knows, conversation needs to be matched with real deeds. It goes without saying that our wounded and disabled deserve whatever it takes to make them and keep them as whole as possible for the rest of their lives. The AFMC also supports the initiative that has started to gain attention in Congress, which would provide medical benefits for a period of time for all GWOT veterans.

AFMC would like to propose yet another way to demonstrate our nation’s gratitude to GWOT veterans. We believe that it would be most fitting to reward their devoted service with transitional Commissary and Exchange privileges. These

privileges could be implemented simply and speedily and, best of all, would not impose any additional cost on the taxpayer! Such a gesture would send a very meaningful and timely message to the proposed recipients. In our opinion, it is the least our country can do for this special class of veterans. We respectfully urge this Committee to consider our proposal favorably.

Base Closures

The AFMC continues to recognize that retention of military resale facilities at all closed bases is not 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 reserves and Guard 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

Mr. Chairman, 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, we ask that you reconsider lessening the restrictions on furniture and diamonds in the exchanges, a move that would add value to Service members' compensation with absolutely *no* adverse impact on the budget.

Lastly, we respectfully implore you to grant our GWOT veterans the privilege of continuing to patronize the military resale system to provide them a manageable and unburdened readjustment to civilian life and career.

Thank you, Mr. Chairman 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.

Member Firms



C. LLOYD JOHNSON COMPANY, INC.

8031 Hampton Boulevard
Norfolk, VA 23505

Lloyd Johnson, Chairman & CEO

(757) 423-2832
(757) 451-1085 FAX



MOHAWK MARKETING CORPORATION

2873 Crusader Circle
Virginia Beach, VA 23453-3133

John P. Madden, Chairman & CEO

(757) 499-8901
(757) 497-6690 FAX



DIXON MARKETING, INC.

301 Darby Avenue
P.O. Box 1618
Kinston, NC 28503-1618

Laura E. Dixon, CEO

(252) 522-2022
(252) 527-3967 FAX



OVERSEAS SERVICE CORPORATION

1100 Northpoint Parkway
West Palm Beach, FL 33407

Frank J. Hogan, CEO

(561) 683-4090
(561) 683-4031 FAX



DUNHAM & SMITH AGENCIES

800 St. Louis Union Station, #400
St. Louis, MO 63103

Frank J. Makely, Jr., President

(314) 436-2155
(314) 436-4535 FAX



S & K SALES CO.

2500 Hawkeye Court
Virginia Beach, VA 23452

Richard T. Ray, President & CEO

(757) 460-8888
(757) 468-1672 FAX



EURPAC SERVICE INC.

101 Merritt 7 Corporate Park
Norwalk, CT 06851

F. Jed Becker, CEO

(203) 847-0800
(203) 840-8978 FAX

**Major Companies Represented by Member Firms of the
Armed Forces Marketing Council
To One or More Segments of the Military Resale System**

Acclaim Entertainment
Alberto Culver
Alcoa
Allergan
American Italian Pasta
Anheuser-Busch
Arizona Beverage
Atari
Audiovox
B&G Foods
Banfi Vintners
Bausch & Lomb
Bayer
Bic-Sheaffer
Blue Bunny Ice Cream
Bonne Bell
Brachs Confections
Bridgestone/Firestone
Bush Beans
Cadbury Adams
Campbell
Canon
Carl Buddig
Challenge Butter
Chattem, Inc.
Chef America
Chicken of the Sea Seafoods
Coca-Cola
Colgate Palmolive
Columbia Sportswear
ConAgra
Contico
Conwood Tobacco
Coty
Dannon
DeLonghi
Del Monte
Del Pharmaceuticals
Diageo
Dial
Dr. Pepper/Seven Up
Dreyers Edy's Grand Ice Cream
Dunlop Golf
Durex Products
EAS
Eastman Kodak
Euro-American Foods
Eveready
Ferrero USA
Fleishmann's Yeast
Florida Natural
Focus Golf
Frito Lay
Future Brands
General Mills/Pillsbury
Georgia Pacific

Glaxo SmithKline
Godiva Chocolatier
Guess Watches
Haagen-Dazs
Hamilton Beach/Proctor Silex
Hanes
Hartz Mountain
Hawaiian Isles Coffee
Hawaiian Tropics
Heineken
Heinz
Hershey
Hills Pet Nutrition
Hormel Foods
Hostess-Wonder
JVC
Johnson & Johnson
Kikkoman
Kiwi Brands
Konami of America
Konica Minolta
Kraft-Nabisco
Land O' Lakes
Lea & Perrins
L'eggs
Lego
Leiner Health
L'Oreal
Luxottica Group
Marcal Paper Mills
Mars
Maybelline
Maytag
McIlhenny
Melitta, North America
Midway Home Entertainment
Miller Brewing
Morton Salt
Motts
Multifoods
Musco Foods
Nestle
Neutrogena
Newman's Own
Nike Golf
Norvartis
Osram Sylvania
Panasonic
Pentax
Pentel
Pennzoil Quaker State
Pepperidge Farm
Pepsi Cola
Perdue Poultry
Pfizer
Philip Morris

Pictsweet
Pinnacle Foods
Playtex
Procter & Gamble/Gillette
Quaker Oats
R.J. Reynolds
Reckitt Benckiser
Reebok
Reilly Foods
Riviana Foods
Ross Labs
S. C. Johnson & Son
Samsonite
Sara Lee
Sargento Cheese
Schering-Plough
Sealy
Seiko/Pulsar
Seneca Foods
Shasta
Shop Vac
Shultze and Burch
Sioux Honey
Smucker's
Snapple Beverage
Snyder's Pretzels
Solo Cup
Sony
Stockmeyer
The Wine Group
Schick
3DO
3M
Timex
Tony's Pizza Service
Tootsie Roll
United States Tobacco
U.S. Nutrition
Vanity Fair Mills
Veryfine
VIP Frozen Vegetables
Vivendi
Voquestrap
Waterpik
Welch's
Wieder's Nutritional
Wilson Sports
Wrigley
Yankee Candle