

AAFES Sales Directorate (SD)

Reported by Sales Directorate Senior VP Maggie Burgess



See the interview with Maggie Burgess in the January 2010 E and C News.

Recent Key SD Milestones

FY 2007 Major Milestones

PACE Merchandise Planning Solution from Palladium

Prior to using the PACE planning tool, AAFES did not have a standard merchandise planning process. The PACE application tool, designed to effectively manage inventory planning, open-to-buy management, and link those plans to the Finance and Accounting's corporate targets, now provides a critical link between Hyperion's Financial Planning and Business Intelligence tools as well as Oracle Retail Retek's item management and execution tools. One of PACE's benefits is an ability to point out opportunities within a commodity business by increasing sales and profit while lowering inventory. The teams are using the PACE tool in their Sales and Operations Planning meetings to drive better business decisions and the results are showing. To date, AAFES has realized a 7% decrease in inventory year over year.

Energy Star Partner

AAFES was recognized by the Department of Energy (DOE) as a certified Energy Star (ES) retailer. The certification requires professional verification to meet pre-established environmental standards. As a result of the certification, we created an ES certification training program which provides associates with the knowledge and skills to answer customer's energy-related questions. AAFES has more than 500 Stock Keeping Units (SKU's) that are ES rated, representing more than 12 different departments. The big three categories however, are TVs, computer hardware and major appliances. The combined "green" items, which include ES products, products made with recycled materials, waste reduction products, green packaging and green products, accounted for \$228M in FY 2009 sales, up 12% from FY 2008 sales of \$204M.

FY 2008 Major Milestones

Work Load Planning – Main Store

Work Load Planning (WLP) is a process improvement model that helps organize store processes to ensure timely and efficient execution. These processes include Plan-o-grams (POGs), price changes, promotions, inventory scans, product return to vendors, quality assurance (risk recall), door-to-floor and recovery. By implementing these processes, we are increasing in-stock position, sales potential and store efficiencies. On 28 September, we implemented WLP worldwide to all AAFES Specialty Stores.

Environment

SD has gone “green” through various initiatives and programs. Two of these high level programs include:

- **Vending Machines:** We have reduced energy consumption through the introduction of delamped vending machines in certain locations. This process saves energy consumption by “turning on” the machine during customer transactions only.
- **Recycling:** Main Stores are recycling used corrugated cardboard, plastic, Polyethylene Terephthalate (PET) bottles, hangers, aluminum cans, newspapers and magazines. The two-fold benefits include turning “trash for cash” (total income received February-September FY 09 \$71,645) and reducing cash payout for dumpster service. This effort collected a total of 2,300 tons during the February 2009 – September 2009 period.

Additionally, restaurants have partnered with companies throughout the U.S. to recycle the 2 million pounds of vegetable cooking oil AAFES uses annually. We are purchasing new ES equipment as replacement units for refrigerators, freezers, dishwashers, fryers and ice machines. We are also focusing on the cleaning supplies we use in order to reduce indoor contaminants by implementing a standardized program for all chemicals which meet Green Seal standards.

Partnership with Martha Stewart

AAFES partnered with Martha Stewart national brands and launched worldwide in 59 doors, including a combination of basics in bed and bath linens, crafts and seasonal one-time holiday buys. These items are priced below the competition and provide a true value proposition for military shoppers. Our customers are embracing this new “concept shop line.” On average, shoppers save approximately 25% to 35% when they purchase these items from AAFES. Year-to-date sales are \$4.6M. As a result of the tremendous success story in our main stores, for 2009 we’ve expanded our merchandise offerings to 'mini-branded' housewares which are featured in mid-tier stores. This initiative was created so that we could maintain a presence in smaller locations that can’t support a larger Store-In-Store footprint.

PowerZone

Even before receiving Retail Forward findings, SD started focusing on the PowerZone environment to draw female shoppers into the area by creating a new sales counter known as the “ARK.” This layout captures customers’ attention by using interactive

merchandise features (which includes laptops, GPS units, MP3/iPods, cameras, and camcorders). The whole merchandising strategy is about enriching the consumer experience. Complementing this strategy are specialty endcaps and music download kiosks that further enhance the shopping experience. Point of Sale (POS) signage provides new product information and communicates the “endless aisle” availability of products through aafes.com. Cash registers are positioned on the counter to help ease the main checkout counter traffic. All of these enhancements are designed to encourage add on sales. September 2009 sales with the new PowerZone fixtures were up 3% vs. stores without the new fixtures.

Scan-Based Trading

American Greetings (AG) agreed to be responsible for owning and managing their in-store inventory. As a result, we were able to reduce AAFES inventory by \$13M (retail value). The AG implementation was a scan-based trading (SBT) pilot initiative. Initial results showed an increase of 5.28% in sales increase. We are currently designing a scalable implementation of SBT that should be live and ready for the next vendor (yet to be identified) in early FY 2010.

Launch of Premium Java Coffee Program

AAFES rolled the Premium Java program out to 380 stores worldwide. This program represents a proprietary blend designed to enhance Snack Avenue beverage offerings by rivaling competitors’ hot beverage selections and providing an alternative for price-sensitive shoppers. In 2009, we added many new product offerings, including a loyalty program, seasonal flavor profiles and various combination promotions; all designed to strengthen the emotional connection with our customers. To date, we have sold more than 1.1 million more cups of hot beverages than we did last year during the same period, a 32% sales increase. Additionally, the Premium Java program provides a platform for launching new Snack Avenue offerings based on the hot beverage program’s success.

Operation Be Fit

Operation Be Fit is designed to reduce healthcare costs by incorporating the “5 Fs” (Family, Fitness, Food, Fun and Financial) into an overall fitness campaign. We’ve done this by providing quality products, services and solutions that meet customer demand. Healthy alternative snacks, such as popcorn and raisins, are merchandised/displayed together for convenience. We also feature single-serve fresh fruit (e.g. bananas, apples, oranges) in Shoppettes as a healthy choice alternative. Additionally, we’re featuring more top-of-the line exercise equipment, including elliptical machines, tread mills and home gym options.

FY 2009 Major Milestones

Markdown Optimization

Markdown Optimization (MDO) analyzes SKU performance by store cluster (location groupings based on similar sales patterns), optimizes sell-through percentages by a defined exit date while minimizing overall markdowns over the item lifecycle. The initial

program rollout addressed the Easter seasonal and candy merchandise and realized a net sell-through improvement of 6%. We are using MDO for all seasonal buys and Men's branded clothing for fashion markdown rollouts.

Home Décor

Ashley furniture shops were created in 2008, with accessories added in 2009. Furniture line accessories include linens, rugs and lamps to add a comfortable store ambience. New furniture walls and signage have been strategically placed throughout the area to complete the feel. Plan-o-grams have been published and store resets began last October, with plans to expand this program to all furniture stores beginning the first quarter of 2010. Detailed merchandise directions are being included in the plan-o-grams to simplify execution and enhance customer convenience.

Roll out Bose Home Theater Concepts in selected PowerZone locations

The military market has always been a strong outlet for Bose speakers and we are cranking up the volume with a new concept shop. The first Bose shops, located in KMCC and Kadena, have realized a 30% / 120% sales lift over previous years. More concept shops are under consideration.

GameStop

The GameStop concession concept has been a huge success for AAFES within CONUS locations. Additionally, we are working with the GameStop Corporate Office to discuss expanding the concept into select Europe and Pacific locations. YTD 2009 closed out with 47 stores and we're projecting an additional eight store opening during the first quarter of 2010, for projected annual sales of \$100M.

Beauty Bar

As strong as AAFES is in Prestige cosmetics, our Retail Forward Survey indicated an additional growth opportunity that will help us maintain our leadership position. To date, we have rolled out five Beauty Bar locations; three in CONUS and two overseas. Beauty Bars provide the opportunity to target the 18-28 year old female shopper, including women with darker skin tones. What's unique about this concept is their shared space and, in some cases, their shared advisors. Each separate concept targets a unique demographic segment and brings a fresh perspective to prestige cosmetics department. With year to date sales of \$321,000, we are looking at opening an additional 5 locations in 2010, which still have to be determined.

Snack Avenue

We're enhancing our product selections by introducing complementary menu selections such as fresh fruit, Icee Program, F'Real shakes and smoothies as well as multi-brand fountain beverages. Very soon, we will introduce value meal deals that will help anchor this program as a destination draw. The value meals will feature a variety of breakfast, lunch and dinner combinations which are currently under development. We see tremendous potential here and are excited with what the future holds.

Budgets and Plan Goals for 2010

-Hardlines, Softlines and Consumables-

Based on cautious optimism for the future, the retail commodity teams have submitted aggressive 2010 strategies designed to capture additional customer market share, enhance customers' quality of living and generate additional dividends in support of MWR programs.

"Big Rock" strategies include:

Hardlines

- Drive home décor sales/margin and value perception through coordinated 'packaged room' sales opportunities that are similar to the competition.
- Take our Martha Stewart /Macy's partnership to the next level by creating 'Branded' Martha Stewart statements to leverage brand equity through Store-In-Store and branded concept shops
- Continue the PowerZone revitalization/image upgrades in the remaining Main Store locations worldwide to ensure all customers enjoy the enhanced shopping experience that drives solution sales.
- Roll out photo finishing kiosks and media download kiosks to more Main Stores to provide customers with a 'value-added' experience.
- Actively pursue additional store-in-store concept shop opportunities with branded partners (Bose, Apple, HP, and Nintendo) to enhance the shopping experience and deliver an unrivalled value proposition through unbeatable prices.
- Build upon success of the joint 'brick/click' Toybook publication and expand this joint tabloid initiative to Outdoor Living (ODL) and sporting goods; solidifying the perception of one delivery channel.

Softlines

- Grow the Footwear program through increased collaboration with vendor partners.
- Grow Young Men's merchandise selection with mainstream assortments.
- Realign handbag assortment based on Retail Forward's analysis and industry trends in an effort to place greater emphasis on good/better price points.
- Grow the Juniors Daywear, Young Levi's and clothing business programs.

Consumables

- Expand Exchange Select Private Label lines.
- Emphasize first-to-market and best seller categories.
- Expand Prestige Cosmetics through the use of concept shops.
- Expand and enhance Snack Avenue menu selections.

Hot Categories

The hottest categories or departments currently in AAFES:

While the economy and customer caution have negatively impacted electronics growth during 2009, certain product lines will definitely help lead the recovery.

Flat panel TVs are an anchor of home entertainment and showing signs of coming back. Interest is high in improved features, high-definition picture quality and newer, thinner LED models. Flat-panel pricing has never been more affordable and we anticipate that unit sales will significantly grow through 2010. We expect unit sales to grow 5-8% as the average sales price for each unit drops.

One pleasant surprise has been the continued growth of **gift cards**. Military shoppers love the convenience that these cards provide. Our assortment offers a tremendous variety of options, ranging from restaurants, retailers, phone cards, gaming and financial cards. Demand for these cards will remain strong during 2010, with an anticipated sales lift of 3-5% over 2009.

Notebook computers continue to be hot. With falling prices and improved features, the new “mini” netbooks are really taking off with an anticipated sales lift of 4-5%. **Portable hard drives** also are continuing to show a solid growth as consumers are looking for more electronic storage space to store their digital content, such as music, videos and pictures. It's no surprise that **wireless networking** is also a winning category with consumers upgrading to an “N” router for faster speeds.

The **AAFES Motorcycle Personal Protection Equipment (PPE) program** was launched in May 2009 and the speed at which our customers embraced this program has surprised us. The program comprises Akuma Custom Helmets and approximately 260 additional PPE items consisting of helmets, gloves, jackets, vests, backpacks and pants; all meeting recommended/required safety regulations for use on and off military installations. The motorcycle PPE program is currently offered in 77 CONUS facilities, including AAFES Main Stores, Shoppettes and Military Clothing Sales Stores, and will roll out to overseas installations beginning in 2010.

The Young Men and Junior departments are projecting aggressive sales growth through 2010 with an increase of \$1.1M in sales, representing a 3.7% sales lift over 2009. **Accessories and Mixed Martial Arts** will continue to represent key growth areas in Young Men's. We also foresee the juniors' **daywear, denim bottoms and novelty tee lines** continuing to grow with a projected sales increase of \$2.7M, 7.8% over 2009.

Progress ...

• *On increasing Customer Satisfaction Index and Associate Satisfaction Index scores:*
Our overall CSI and ASI scores are up for 2009. The CSI rolling average is currently tracking at 74 points, which is our 2009 goal. This score is also up two points over the same period last year. The ASI rolling average currently stands at 70 points, which is one point below our 2009 goal, and is up one point over the same period in 2008. We are currently in the middle of our Q4 ASI/CSI survey and we have high hopes that we see

more positive movement as we close out the 2009 retail year.

- *On improving average tickets (without gas):*

When we compare Main Store average ticket sales for the period September 2009 vs. September 2008, average ticket sales remained constant, however the average ticket count for the same time frame increased .96%.

Direct Import Initiatives

Much work still needs to be done when determining assortments, packaging, branding, supply chain and potential cost savings. There is also the opportunity of ‘converting’ current suppliers to Direct Import suppliers by accepting deliveries of our merchandise in China or at various manufacturers’ factory sites. The Hardlines team continues to work with the Import and Logistics teams to identify the best manner in which to proceed.

Many Outdoor Living products are imported to include patio sets, outdoor fountains, planters and lawn décor. These items are historically destination-driven categories and are purchased as one-time buys, which allows us to make major seasonal program shifts as necessary and to remain competitive with ‘Big Box’ competitors. The majority of our seasonal products include Christmas, Easter and Halloween items.

This year’s import fan program was very successful. We purchased a total of six SKU’s from the Holmes/Sunbeam manufacturer and exceeded projected sales by 30%.

We did not enjoy the same success with our Back-To-School import program; with less than an ideal sell-throughs, our customers communicated with their wallets that they preferred the branded product. Much of this is attributed to product specific ‘school supply lists,’ which leave little leeway for parents to purchase non-branded products.

And More ...

In addition to all of the above, our Sales Directorate is positioned to achieve future breakthrough performance as we continue to build a culture of loyalty, sustainability, ownership, and continuous improvement. All of these strategies communicate the benefit, value and capabilities of AAFES.