As Sales Slide, DeCA Fast Tracks ‘Wave Two’ of Category Negotiations

BY PHIL GRAY
MANAGING EDITOR

The next set of product categories the Defense Commissary Agency (DeCA) aims to negotiate with industry will impact about 20 percent of the DeCA assortment. The items range from coffee, tea and frozen fruit to canned foods, household cleaning and packaged meats. And the agency is trying to get through it in a big hurry.

“Wave Two” of what DeCA calls its “Category Performance Improvement” (CPI) initiative is slated to encompass about 60 subcategories. “It’s going to encompass about $1.1 billion of our at-cost sales — a lot of items — and we’re going to get through it very quickly,” DeCA Executive Director of Transformation Chris Burns told members of industry at a roundtable meeting here in April.

The kickoff of a second wave of merchandise assortment negotiations came as commissary sales continued to slide, down 7.14 percent year-to-date through March, according to DeCA, with transactions down about 5 percent. With that, commissaries were on track to generate around $4.9 billion in fiscal 2017, a low-water mark not seen since 1998. “The waters are rough right now, and they’re not going to smooth anytime soon, Burns said, are:

- Frozen Fruit, Vegetables, Potatoes
- Cheese, Butter and Margarine, Cultured Dairy
- Packaged Meats
- Fruit – Canned, Cups, Dried
- Canned: Vegetables, Tomatoes, Beans, Pasta, Soup, Meat
- Condiments and Toppings
- Baking and Cooking
- Semi-Perishable Breakfast Foods
- Coffee, Tea, Hot Chocolate, Syrup, Filters, Creamers, Milk
- Household Cleaning
- Storage Bags, Wraps

Burns said reviewing data earlier rather than later was among the “learnings” from the first wave of negotiations. “What I would ask you, is when we start negotiating with you; please bring your data to us up front.” The Sales Directorate (SD), he said, wants “to hear from you, we want you to be able to dispute our data. That’s fine, we welcome that; bring your data in so that we can look at it as well.”

DELETES QUESTIONED

Asserting that commissaries are over-assorted, Burns said, “We’ve got about 38,000 items in our stockage file ... we’ve got to reduce the number of line items and number of SKUs that are in our stores.” The stockage file referenced by Burns, meanwhile, represents the number of items on which DeCA compares prices that are eligible for stocking, with different classes of store carrying varying amounts of SKUs. Among commissaries that have opened recently, those at Fort Campbell, Ky., NNSY Portsmouth, Va., and NSA Annapolis, Md., might carry as many as 18,000 items upon opening, and the system’s largest store, Fort Belvoir, Va., offered about 21,000 items when it opened. The number of items carried by the average commissary, however, is far lower. A 2002 Government Accountability Office (GAO) report put the average at “11,500 items — as much as 40 percent fewer grocery items than large supermarkets.” A typical civilian grocery store, however, carried a much larger number of items, around 39,500 items, according to Food Marketing Institute (FMI) data from 2015.

In response to what he suggested were industry concerns that DeCA was intentionally removing some of its highest sales volume items, Burns said, “We’re not trying to remove products with heavy loyalty.”

In pricing negotiations with manufacturers, he said, “We’re looking at the base linear feet for that category, and we’re trying to determine what’s the best return on investment for that 4 feet.” This, he explained, included how suppliers were doing in terms of sales, savings, versus outside, versus inside, and patron loyalty — DeCAs own ID scanning — where the category was going, the composition of the category, the number of SKUs, national brands, value brands and potential private label product introductions.

Burns said the SKU reductions were to make more room for faster-selling items and to keep those better in stock, and to “make it more efficient logistically for our store people, for our distribution, for our pricing, for our maintenance, but also make it more efficient for our patrons as they come into our stores. It’s not our intent to reduce sales ... just the opposite ... so we can start normalizing and growing sales again.”

Logistically speaking, Burns said, “when we’re talking about adding and deleting items ... getting those items into the distributor, the new items, and then when we’re deleting items, there’s a window there that’s been a challenge for the stores to order on time because the pricing, and also for the deletes maybe the items are deleted too fast ... we’re working through that ... hopefully the hiccup will only happen in the April time frame. I think we’re going to be good going forward from May on.”

With other initiatives like private label and variable pricing and a new Enterprise Business Solution (EBS) also rolling out at the same time, Burns said that during any given week, there are 30-to-40 meetings. “The coordination, the collaboration, what’s going on with the transformation, what’s going on with the EBS,” he described as “huge.”

“We’ve had multiple people tell us ‘what you’re doing when you’re trying to change your business model as well as change your business system; we’ve never worked with any retailer that’s done that before’ ... It has challenges,” Burns acknowledged.
White House Calls for Workforce Reduction, Reform Plans as Hiring Freeze Ends

WASHINGTON

Just as the federal hiring freeze that hit the commissary system staffing levels at store level ended, the White House's Office of Management and Budget (OMB) Executive Office issued a memorandum calling for agencies to “begin taking immediate actions to achieve near-term workforce reductions and cost savings, including planning for funding levels in the President’s Fiscal Year (FY) 2018 Budget Blueprint; Develop a plan to maximize employee performance by June 30, 2017; and Submit an Agency Reform Plan to OMB in September 2017 as part of the agency's FY 2019 Budget submission ... that includes long-term workforce reductions.”

With the commissary system already deeply engaged in congressionally mandated transformative reforms, it was unclear to what extent the April 12 Memorandum could add any new workforce actions to those already being carried out in the system. The mandate, however, could give momentum to the Defense Commissary Agency’s (DeCA) aspirations to begin partially converting some employees to nonappropriated fund (NAF) hires, based in part on the ability of commercial-style reforms to generate profits that could offset appropriations.

As this issue went to press, the Office of Personnel Management (OPM) reportedly had not yet received any requests to process buyout or early retirement authority.

DRAFT PLAN

As part of this, all agencies including the commissary system were directed, in consultation with OMB, to “identify and begin taking actions, including developing a plan to maximize employee performance,” and an “Agency Reform Plan.”

In response to the OMB memo, DeCA would have to develop an initial, high-level draft of its Reform Plan that is due to OMB by June 30, 2017.

The White House said all agencies, boards, and commissions must submit Agency Reform Plans in September 2017, “unless OMB has granted an exception.” Limited exceptions, it said, will be granted “on a case-by-case basis.” Toward that end, OMB said it will meet in July with “CFO Act agencies and a limited number of other agencies.”

Asked how this would be handled in DeCA’s case, the spokesman said that DoD “is expected to submit a consolidated response to OMB. It would be improper for us to comment before the Department's positions are confirmed.”

In their June 30 packages, agencies were told to include a high-level draft of their Agency Reform Plan, including the areas the agency is developing for its reforms; progress on near-term workforce reduction actions; and a plan to maximize employee performance.

SHORT STAFFED

The recent hiring freeze, a DeCA official told industry members during a recent roundtable meeting in Richmond, Va., had left its Sales Directorate short 14 or 15 staff members during critical transformation efforts as the commissary tries to roll out several new initiatives simultaneously.
Arlington, Va.

As the new Congress likely tackles financial and regulatory reforms with its markup of the Financial CHOICE Act of 2017, questions about the current level of “swipe fees” that were capped by the Durbin Amendment in the Dodd-Frank Act are emerging that could have revenue and cost implications for military resale organizations, and in turn, on dividends to morale, welfare and recreation (MWR).

Caps on interchange fees (a.k.a. “swipe fees”), paid by merchants to banks and credit card companies for processing credit and debit card transactions, were set by the Consumer Financial Protection Act (CFPA) of 2010. They are expected to be lifted if a provision in section 735 of the Financial CHOICE Act currently before Congress is ultimately passed and signed by the President.

The bill, as it stood as this issue went to press, called for the “Prohibition of Government price controls for payment card transactions” through the “repeal of Section 1075 of the Consumer Financial Protection Act of 2010.”

The transaction fees are an expense for nonappropriated fund (NAF) military resale organizations, while appropriated fund activities such as the Defense Commissary Agency (DeCA) have historically had these fees backstopped by the Treasury.

An Army & Air Force Exchange Service (AAFES) spokesman told E and C News that it “is still premature to estimate what and/or how” any changes to the Durbin Amendment would impact the Exchange. The spokesman added that its credit/debit card processor, First Data Merchant Services Corporation (FDMS), stated “we should expect to see a net savings or reduction in interchange fees.”

Before the caps went into effect, AAFES credit card fees for Exchange fiscal year 2010 were $89.87 million on sales of $8.24 billion, or credit card expenses of 1.09 percent. In fiscal year 2016, its credit card fees were $78.15 million on sales of $6.46 billion, or a credit card expense of 1.21 percent. “The difference of before and after shows an increase of 12 basis points as a percentage of sales,” the Exchange said.

Since the caps were implemented, other exchanges have been able to save on the fees, despite a recent environment of declining retail sales that has depressed the total dollar volume of transactions subject to fees. A Navy Exchange Service Command (NEXCOM) spokesman told E and C News that since the caps were put in place, “Historically, we have saved about $7.2 million per year. Moving forward, based on today’s business, we expect to save about $6.5 million.” A Marine Corps Business Support Services Division (BSSD) spokesman confirmed that the Marine Corps Exchange (MCX) also benefited from the caps, although absolute dollar amounts taken in isolation might not reflect that as clearly, since sales had declined because of troop reductions since 2012.

Commissaries could also eventually be affected if they transition to become a NAF entity, as plastic card transactions have historically represented more than 70 percent of all of the Defense Commissary Agency’s (DeCA) transactions.

Commissary swipe fees — last estimated at more than $40 million — are backstopped by the U.S. Treasury, but some of that financial assurance could be lost or proportionally eroded if parts of DeCA’s operations are converted to NAF, as provided for in the 2016 and 2017 National Defense Authorization Acts (NDAA). Asked about the impact on commissaries of lifting swipe fees, a commissary official declined to comment on what he described as “pending legislation.”

**FEE LEVELS**

In its final ruling, the Federal Reserve established the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction as of Oct. 1, 2011, at “21 cents per transaction and 5 basis points multiplied by the value of the transaction.”

Before the caps, according to the National Association of Chain Drug Stores (NACS), swipe fees had more than tripled during the last decade, costing retailers about $50 billion per year and increasing consumer prices by nearly $500 per household. Lowered transaction costs save military resale organizations money that they could pass back to patrons in the form of greater dividends to MWR, store recapitalization or lower prices at the register. In early May, the Retail Industry Leaders Association (RILA), whose members include more than 200 retailers, product manufacturers, and service suppliers, said, “Congress must act to uphold debit swipe fee reform or it will give Wall Street and card companies license to raise costs on America’s retailers and our consumers.”
Commissary ‘Customer Appreciation’ Case-Lot Sales Focus on Name Brands

Patrons of most Stateside commissaries stocked up on products offered at case-lot discounts during the Defense Commissary Agency’s (DeCA) spring “Customer Appreciation Case-Lot Sale” event, which took place from mid-to-late April through this month.

“Many of our military members and their families relish the opportunity to buy cases of items similar to what they’d see in commercial club stores,” said Tracie Russ, DeCA’s director of sales. “On top of shopping in bulk, our patrons realize huge savings — that’s a deal they can’t afford to miss,” she said.

EVENT OPTIONS

In addition to the case-lot events found in commercial club stores, commissary case-lot events were slated to offer additional “mix and match” packages of similar name-brand items in bulk-size cases.

With few exceptions, each Stateside store — as well as commissaries in Alaska, Hawaii and Puerto Rico — hosted its own two- or three-day case-lot sale. According to the published schedule, as of May 3, Stateside commissaries listed as “not participating” included Columbus AFB, Miss.; Davis-Monthan AFB, Fort Huachuca and Luke AFB, Ariz.; Fort Gordon and Robins AFB, Ga.; Hurlburt Field, Fla., and Los Angeles AFB, Calif.

Commissaries in Europe (with the exception of Patch Barracks, Germany) and the Pacific, while not officially participating, were permitted to hold substitute events, such as sidewalk sales.

Sale items typically include name-brand items in the following categories:

- Fruit snacks, crackers, cereals, pastries, popcorn and potato chips, barbecue sauces and certain pasta meals
- Canned fruit and vegetables
- Water and flavored water, tea, juices, juice mixes, sodas, sports drinks and milk
- Frozen family meals
- International foods including Italian, Asian and Hispanic items
- Cookies, brownies, pancakes and muffin mixes
- Sandwich, storage and freezer bags and paper products and cleaning supplies such as bathroom tissue, fabric sheets and laundry detergent
- Health and beauty care items including diapers, wipes, soaps, shampoos and body lotions
- Pet supplies to include bagged and canned food, treats and cat litter

AAFES Execs’ New Roles, Promotions

The Army & Air Force Exchange Service (AAFES) announced several personnel changes and promotions effective during the April 2017 through July 2017 time frame. Among these, Paul Olney — who is responsible for Snack Avenue in the Exchange’s Merchandising Directorate (MD) — was promoted to buyer IV, effective in July. According to an AAFES spokesman, Olney will be reporting to the Pacific Buying Office in the summer of 2017, and his successor as Snack Avenue buyer had not yet been announced as this issue went to press.

Also in the MD, Jennifer Stinson became the Customer Experience (CE) senior marketing manager, effective in April. Stinson previously was Europe Region divisional merchandise manager (DMM).

In a related personnel change effective in April, Europe Region Buyer Christopher Tyler was promoted to buyer IV. Currently, the DMM position in Europe is not being backfilled, and Tyler is slated to oversee operations in the Europe Region Buying Office.
Navy Vendor Base Access Transition in Flux

HILLSBORO, Ore.

According to SureID, the company behind the RAPIDGate credentialing system used at many armed services installations around the country, the “program has resumed operations at all participating Navy bases,” but advised its users accessing Navy installations to “please contact the Navy” for “questions regarding [Defense Biometrics Identification Systems] DBIDS.”

As this issue went to press, CNIC’s Operations and Management site still reflected the update, “Effective 14 August, 2017, [Navy Commercial Access Control System] NCACS credentials will no longer be accepted for base access for contractors, vendors, and suppliers.” CNIC stated, “Any new contractor, vendor or supplier requesting base access AFTER 31 May will be required to obtain a DBIDS credential. NCACS credentials will no longer be issued.”

SureID said it filed a bid protest, April 18, with the Government Accountability Office (GAO) “challenging the U.S. Government’s decision to ‘in-source’ vendor credentialing and access control services to the Navy.” This came shortly after Commander, Navy Installations Command (CNIC) Navy District Washington, D.C., ordered Navy installation commanders to begin transitioning to DBIDS effective immediately on April 17, and to go into full effect by Aug. 17.

Related to the protest, SureID said that an automatic stay went into effect “at approximately 4:30 p.m. EST on April 18, 2017.” Through April 12, 2017, SureID said it was managing “more than 170,000 active RAPIDGate credential holders at 66 Navy bases” across CONUS, Hawaii and Guam. The company added that per an April 28 communication it received from CNIC, SureID may accept new applications for the Navy Commercial Access Control System (NCACS) until 11:59 p.m. local, May 31, 2017.

According to the Navy, “Defense Biometric Identification System (DBIDS) increases installation security and communications by receiving frequent database updates on changes to personnel/credential status, law enforcement warrants, lost/stolen cards, and force protection conditions.” The system, the Navy said, “provides a continuous vetting anytime the DBIDS card is scanned at an installation entry point.”

To get a DBIDS credential, CNIC advised those interested holding NCACS credentials to present their “NCACS Card and a completed copy of the SECNAV FORM 5512/1 to the base Visitor Control Center representative.” Vendors without credentials were advised to present the following to the local base Visitor Control Center: a letter or official document from their government sponsoring organization that provides the purpose for their access; a passport or Real ID Act-compliant state driver’s license; and a completed copy of the SECNAV 5512/1 form to obtain a background check.

POLICY CONFLICT

The shift in Navy policy is thought by some to stem from a Sept. 16, 2013, Department of Defense (DoD) Inspector General (IG) report that said, “We recommend CNIC replace RAPIDGate with a system that uses the mandatory databases and revise CNIC policy and guidance to align with Federal and DoD credentialing requirements. Furthermore, we recommend CNIC establish a process to identify and provide commanders with resources and capabilities to access required authoritative databases.”

According to SureID, its protest was based on the grounds that “the Government’s decision to in-source services violates applicable procurement statutes and regulations that require the Government to promote competition.” The GAO, SureID said, “typically resolves protests within one hundred days.”

In the interim, the American Logistics Association (ALA) said if a RAPIDGate credential user encounters “scanning denied,” he or she is advised to “contact RAPIDGate customer support to verify the status of their credential.” CNIC provides updates to the situation on its www.cnic.navy.mil website.

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