As commissaries celebrated their 150th anniversary, Michael J. Dowling, acting director and chief executive officer (CEO) and deputy director and chief operating officer (COO) of the Defense Commissary Agency (DeCA), spoke with E and C News about the course Congress has set for the commissary system, and how DeCA is navigating its most challenging series of transformations to-date.

Michael Dowling: In line with our new business model, we are committed to the following priorities:

- **Maintain the Patron Benefit:** With our enhanced savings methodology, we are now better equipped to protect patron savings.

- **Reduce Our Operating Costs:** By improving the savings offered throughout our store categories and introducing high-quality, low-cost private label alternatives, we will optimize our stock assortment and deliver a more efficient, cost-effective business model.

- **Improve Our Patrons’ Shopping Experience:** With better pricing on the items our patrons normally shop and distributing those savings across the store.

- **Modernize Our Business Systems:** With the help of our industry partners, we have improved our ordering process by eliminating a limited number of overlapping contracts and reducing initial rejection rates to below 1.75 percent that were subsequently resubmitted by the vendor.

To be successful in meeting these priorities, Congress has given us the authority to begin operating more like a business. Our past model of selling items at cost worked well for us almost 150 years. However, DeCA cannot maintain the status quo and still comply with Congress’ most recent direction. We must evolve and adapt to changes that have taken and are taking place in demographics, buying patterns and competition.

Transformation isn’t an option for us. Unless we change, we will become irrelevant and die slowly. That’s why this opportunity to transform our business model is so crucial to maintaining our ability to deliver a commissary benefit well into the 21st century.

Our sense of urgency is made even more vital because everyone in the Department of Defense (DoD) is either facing constraints or significant budget scrutiny — commissaries are no different. We need to operate like a business, offering the products people want and options to purchase lower-cost alternatives and reduce our operating costs.

Of course, the ultimate challenge in our transformation is to ensure we don’t diminish or damage the commissary benefit. Congress has mandated safeguards to ensure the current value of the benefit is maintained.

At the end of the day, though, the patron’s savings on their basket of goods is mandated to be the same. So even with all the transformation efforts, customers will be saving the same amount on the purchase of their items that they were saving prior to March 1, 2017, when transformation efforts began.

With that said, we’ve made significant progress in a short period of time. In recent months, we completed the first phase of our Category Performance Improvement (CPI) negotiations with suppliers, and we’re generating margin for the first time in DeCA history; that margin will go toward offsetting our operating costs, again reducing our burden on taxpayers and helping to ensure the long-term solvency of this benefit.

The second phase of CPI started in April and includes another 20 percent of DeCA’s line items. And, as I’ve said before and will emphasize throughout this process, we remain mindful of the requirement to monitor and maintain the patron savings and not degrade the benefit.

Our commissary brands are making their way onto our store shelves, with patrons now seeing, for the first time in our history, private label offerings in bottled water, trash bags, and health and beauty care (HBC) items. This is just the start, as we make our way to an inventory of about 4,000 commissary brand products.

All this said, our business transformation doesn’t mean we will cut corners or compromise quality; it just means we’ll improve our efficiency using proven commercial practices. As Chris Burns, our director of Business Transformation, always says: “Every change we make has to be good for our patrons and good for the taxpayer. Either/or isn’t good enough. It has to be both.”

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**E and C News: What are your priorities for DeCA as you help navigate the agency through the current challenging times?**

**Michael Dowling:** I wouldn’t characterize the deployment of EBS as “hit some serious speed bumps.” Far from it! This was a successful launch of the initial phase of our incremental deployment of EBS capabilities over the next three years.

With the rollout of each EBS increment, DeCA nears its goal to completely replace its 35-year-old legacy business systems with a fully integrated system built for commercial grocery operations. The challenge, as with any major deployment, is overcoming the initial learning curve and ensuring the system is operating properly especially in regards to interfacing with legacy systems and government-mandated security applications.

With the introduction of any new system, there are tweaks that need to be made to become fully functional, but our team aggressively addresses these tweaks to continue our efforts to full implementation.

I applaud our DeCA and industry team members for meeting this challenge. They successfully engineered this deployment thanks to months of meticulous preparation that included industry day sessions, end-user training, multiple vendor outreach sessions and dedicated DeCA points of contact (POC) to answer industry questions.

As a result, we have achieved over 99-percent pricing accuracy and have successfully processed over $7.195 electronic data interchange (EDI) transactions after three months under EBS, reducing initial rejection rates to below 1.75 percent that were subsequently resubmitted by the vendor.

With the help of our industry partners, we have improved our ordering process by eliminating a limited number of overlapping contracts and duplicate-case Universal Price Codes (UPC/GTIN) that occurred in the migration from the DeCA Interactive Business System (DIBS) to EBS.

Most importantly, the DeCA team was able to process vendor payments in a timely manner, and successfully kept payment discrepancies to a minimum.

As we move forward, our operational efficiencies will only improve. We are excited about the upcoming deployments of our computer-assisted
order the development of the Vendor Portal, and the rollout of our plan software. Vendor Portal will provide a more responsive and collaborative environment for inputting, viewing and accepting vendor costs and promotions while eliminating the existing web pricing environment.

E and C News: What do you foresee for the next fiscal year for DeCA, as it finishes out what appears to be a rough fiscal 2017?

Dowling: Well, without the use of a crystal ball, one thing I can say for certain: we will do our best to deliver the best commissary benefit possible. And, with our ongoing business transformation, I strongly feel we’re on the right track at improving this benefit and ensuring its solvency for the future.

Instead of focusing on what-if's, I can tell you for sure that we will continue to work with our suppliers to ensure we’re getting competitive low costs on the products our patrons want. Through the use of sophisticated data analysis, we’re also optimizing shelf space to reduce out of stocks and prioritize the products our patrons have said, through past sales performance, are important to them.

E and C News: With all the new competition coming in from stores like Aldi and Lidl, what is DeCA's plan to hold on to the patrons it still has, and woo back any patrons it has lost?

Dowling: Our long-term goal is to emulate the standard variable pricing strategy used by grocery retailers. Through variable pricing, we now have the opportunity to ensure our pricing is responsive to market price, cost of acquiring the product and importance to the customer. We can do this while continuing to offer the same overall savings levels for our patrons.

With our commissary brands, we are finally entering into a market segment commercial grocers have been in for years. More importantly, our patrons have overwhelmingly said they would buy private label if we offered it.

Private label’s presence in the marketplace is growing as evidenced by the emergence and expansion of grocers such as Lidl and Aldi. You are also seeing traditional grocers expand their private label offering – Kroger just announced the week of June 19 that it was adding more items to its stock assortment. So, it’s past time for us to enter into this market.

In other areas, we are constantly looking at ways to increase patron transactions by executing the following:

• **Provide Outstanding Customer Service:** Our customer service ambassador program is helping us spearhead the agency’s goal of delivering better service at store-level.

• **Focus on Pricing and Savings:** Maintain the commissary’s price advantage with exciting promotional packages and store displays.

• **Improve In-Stock Status:** The agency’s goals are to maintain 98-percent stock availability, 1-percent to 2-percent manufacturer cut rates and 95-percent-or-better distributor rates. Ultimately, if we don’t have products in the store, then obviously we cannot sell them, and that impacts our customer satisfaction and our sales.

DeCAs’ shelves are stocked by commissary employees, contract workers and vendor stockers, so it’s paramount that we work together with our industry partners to identify any problems along the supply chain and lower our not-in-stock (NIS) rate at those outliers.

Another major issue of industry support relates to reduced product in the supply chain, known in retail as “vendor cuts.” The industry standard and our goal, as well, for these reductions is 1 percent to 2 percent. For commissaries, we are at a rate of about 3 percent or less, which means we have room for improvement.

• **Provide Patrons with a Clean Store:** Stores will be clean and uncluttered with functional signage; displays will be well placed to attract patrons, but help to maintain a pleasant shopping environment.

• **Provide a More Comprehensive Assortment** of natural and organic products that mirrors retail grocery, provides increased overall levels of savings greater than 20 percent, and increases patron awareness and education throughout the store through strategic placement of signage and information materials.

Our approach to merchandising natural and organic will continue to be integrating products in their traditional categories, much the same as the retail grocery industry is moving towards. Right now, we are testing a totally segregated set — or store-within-a-store concept — at our two newest stores — NAS Jacksonville, Fla., and Fort Belvoir, Va. — to see whether this approach is prudent for larger commissaries with similar space.

• **Continue Promoting Our Nutrition Guide Program** that uses color-coded shelf labels to highlight key nutrient attributes such as low sodium, whole grain, no sugar added, low fat and good source of fiber.

E and C News: Would DeCA consider running cross promotions with the exchange services?

Dowling: We already engage in partnership activities with the exchanges. In fact, commissaries and exchanges have a long history of partnering to give our patrons the very best of military resale.

Most recently, from May 26 to June 25, we hosted the annual worldwide “Your Healthy Lifestyle Festival,” that offered special savings on commissary and exchange products along with the opportunity to participate in fitness-related events. The festival included discounted prices on produce at commissary farmers markets and workout equipment and apparel at exchange sidewalk sales. This event has traditionally been a spectacular example of what our installations have to offer through our military resale partnership.

We are also a fully engaged member of the Defense Resale Business Optimization Board (DRBOB) meetings, which bring the leaders of military resale together to discuss ways to optimize areas where we can partner.

E and C News: How is DeCA approaching the possible introduction of non-appropriated fund (NAF) personnel to its workforce?

Dowling: As you well know, the Defense Department continues to review all programs to identify cost-cutting and money-saving opportunities as the department faces an increasingly constrained budget environment. The commissary has not been exempt from that examination.

Through the 2017 National Defense Authorization Act (NDAA), the Secretary of Defense now has available to him the authority to convert DeCA to NAF status. But at the moment, there is no immediate plan to convert DeCA to a NAF organization. Despite media reports and rumors which may allude that certain measures are a done deal, they remain recommended changes.

E and C News: What kind of promotional and shelf-stocking assistance is being provided by the private label manufacturer and its partners, for example SpartanNash and/or Daymon/Topco?

Dowling: We have been engaged with our SpartanNash partners regarding marketing and promotional strategy that leverages best practices from manufacturers and commercial grocers. Our patrons will begin seeing commissary brand promotional signage in the stores in the early part of August. As for shelf-stocking, DeCA is stocking the product.

~E and C News