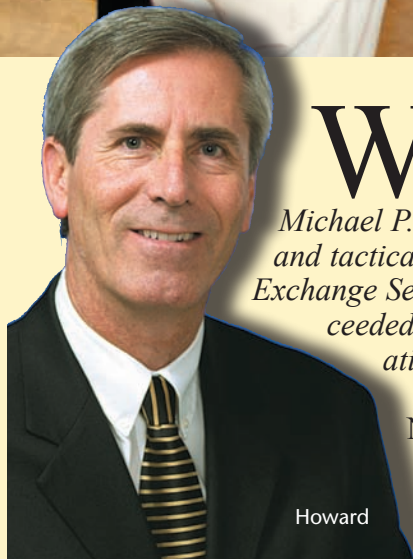


# EXCEEDING CUSTOMERS' EXPECTATIONS

# TO BUILD LOYALTY



**W**ith a wealth of area and store-level experience to draw upon and seven years of headquarters-based service, Michael P. "Mike" Howard has been the strategic and tactical mastermind behind Army & Air Force Exchange Service (AAFES) operations since he succeeded Marilyn Iverson in 2006 as chief operating officer (COO).

In this exclusive interview with E and C News, Howard highlights the exchange service's new "X" branding initiatives, the introduction of concept stores, the expansion of mobile marketing programs, and a full gamut of challenges and programs that keep the military's largest business

and exchange benefit ticking at an "up-to-the-minute" pace.

At Fort Bliss, Texas, where the exchange service is developing its extensive new Freedom Crossing Lifestyle Center, AAFES Chief Operating Officer (COO) Mike Howard (center) visits with (from left), Fort Bliss General Manager Paula Gundersen; Western Region Vice President Karen Stack; then Project Manager Debbie Peterson; and Fort Bliss Exchange Business Manager Mark Boyer.

'We realize that retailers are more focused on profitability and consumer wallet share than ever before, and we're up for the challenge.'

— AAFES Chief Operating Officer (COO) Mike Howard

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On AAFES customer satisfaction and patron savings ...

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**Howard:** AAFES conducts a Customer Satisfaction Survey for each of our main stores every year to ensure we strive to continually satisfy our customers. Our data shows a connection in increased customer satisfaction with increased sales. Analysis over time consistently shows that AAFES is working toward delivering higher satisfaction levels to our customers.

In fact, our Customer Satisfaction Index (CSI) continues to trend upward. Our CSI index is up significantly from last year and is at the highest level ever since the beginning of our survey process 12 years ago! In our current down economy, that is a huge win for AAFES, our associates and our customers.

Our goal is to increase customer satisfaction again in 2010 by two points.



Howard (right) is shown here with Hunter Cole, AAFES vice president of Planning, Allocation and Replenishment (PAR).

Additionally, as part of the Exchange Services, including the Marine Corps Exchange (MCX) and the Navy Exchange Service Command (NEXCOM), AAFES conducts a Market Basket Survey (MBS) in April and October each year, utilizing the same survey collection methodology and contractor (RetailData). All three exchange services have been working with RetailData for the last few years to ensure that they continue to remain competitive within the retail industry.

The primary goal of the MBS is to validate the exceptional prices at AAFES and ensure that customers can count on the shopping value.

We provide value to the customer by offering significant savings on many of the most popular national name brand items sold within our major retail departments. When patrons shop AAFES, they are saving an average of 20 percent on brand name products over other retailers.

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## On the Tinker AFB, Okla., prototype store rebranding ...

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**Howard:** The major lesson learned surrounding the Tinker AFB, Okla., prototype store is that the corporate branding project should be implemented holistically throughout the organization to enhance the emotional connection with our customers. In order to achieve the maximum impact from the rebranding initiative, the exchange must execute the brand redesign with the new name and logo for exterior and interior signing as well as incorporate the concept with all in-store and mall graphic marketing components, and improved store layout, adjacencies and merchandising techniques which will enhance the overall



One of AAFES' many goals, explains AAFES Chief Operating Officer (COO) Mike Howard, is to find solutions for customers that will stretch their buying power, such as with its price cut program in health and beauty care (HBC) and cleaning categories. This is an ongoing collaborative initiative with the exchange service's vendor partners.



Sharing a light moment with Howard at the 2009 convention of the American Logistics Association (ALA) in Baltimore, Md., between sessions are (from left) AAFES Chief Marketing Officer (CMO) Mat Dromey and Michael Gerth, then-vice president (VP) of direct marketing at AAFES and now Vice President Europe/Southwest Asia Region.

shopping experience. We will also introduce new fixtures as well as improved marketing and advertising technologies (digital signing) throughout the store.

In efforts to successfully reach all customer touch points, the new corporate branding initiative will include a Web redesign, an enhanced expert customer service experience, a redesign of our exclusive brands, and a translation of the corporate master brand across all retail businesses, the services mall and food court environments. All business materials will be re-branded to include shopping bags, gift cards, our truck fleet, and store associate uniforms.

After introducing the new corporate brand at Tinker AFB on Sept. 17, 2010, we have embarked on a worldwide roll-out of corporate rebranding components such as marketing, graphics and merchandising materials and select exclusive brands in 2010. In addition, we will implement the new logo for all exterior signs worldwide in late 2010 through 2011.

Utilization of lessons learned, including financial measures and customer-based acceptance surveys from the Tinker AFB prototype store, will serve as project metrics. The information gathered will be incorporated into the branding components for the next scheduled branded image upgrade projects at Fort Bragg, N.C., and Travis AFB, Calif., in 2011. This will further refine the new branding initiatives at our new construction store at Kirtland AFB, N.M., in 2012.

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## On AAFES's sales growth ...

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**Howard:** The Sales Directorate's (SD) strategy focuses on being a world-class retailer by developing a lifelong emotional connection with customers through a commitment to innovation, customer service and quality. By exceeding customers' shopping expectations around the world, AAFES continues to

build an organizational culture of loyalty and continuous improvement by providing the right product, at the right place, at the right time and at the right price. Here are a few examples of those strategies.

The Softlines team continues to focus on new, trendy and updated styles, as well as name brands recognizable to our customers. Strategic placement of key brands in our Juniors and Young Men's departments has helped drive sales growth. The roll-out of the Store In Store (SIS) concept brands, like Vera Bradley, Coach and Victoria's Secret Pink, also support our sales drive. AAFES continues to open more of these SIS concepts in the men's and women's departments including, Izod, and Brina & Em, as we provide our customers more shopping quality options. Fashion boots and the emerging new toning category in athletic shoes will also lead the sales trend in our footwear department. AAFES will continue to offer the best brands and assortment at the best price, period!

Similar to the Softlines team, Hardlines is expanding its SIS concept shops in response to meeting the customer's targeted shopping needs. Building on the strength of the Kaiserslautern Military Community Center (KMCC), Germany, and Kadena AB, Okinawa, Japan, grand openings last fall, these SIS concept shops include Hewlett-Packard, Apple, Nintendo, Bose, Ashley's Furniture and Martha Stewart, and represent a growing segment of new business sales and expansion opportunities.

AAFES has also renewed its focus on solution selling to ensure that customers are fully satisfied with their purchase. For example, when a customer purchases a Blu-ray player, we make sure they can also purchase accessories, including a choice of cables, DVDs and high-speed modems, to complete that purchase.

As AAFES enters the fourth quarter, we expect to see increased competition and price-point wars

as big-box retailers drive foot traffic into their locations. We realize that retailers are more focused on profitability and consumer wallet share than ever before, and we're up for the challenge.

Additionally, the Consumables team continues to provide support to Contingency Operations, from snacks to military uniforms. AAFES is extending the Beauty Bar concept with fashionable prestige cosmetics that target younger female shoppers. The initial roll-outs were exceptional. Solution selling is spreading throughout the enterprise, including Shoppettes.

AAFES Snack Avenues offer an array of different fast and fresh offerings of different types of quick snacks and sandwiches in a combo deal with a drink. This includes our Premium Java proprietary blend beverages.

One of our goals is to find solutions for customers that will stretch their buying power. For example, our price cut program in our health and beauty care (HBC) and cleaning categories continues to be successful. The program offers everyday consumable items at a lower price than our regular price for a limited time. We have, on average, over 200 items on this program per month, which is an ongoing collaborative initiative with our vendor partners, allowing AAFES to pass additional savings to the customers.

AAFES is gearing up for another great fourth quarter.

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## On outreach to Guard and reserve ...

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**Howard:** Engaging the National Guard and reserve and their families is a key goal for 2010 and beyond. Our desire is to fully understand what value means to the National Guard and reserve and anticipate their wants and needs. Personal engagement is critical to success!

More than half of the National Guard members, Army and Air Force Reservists and their families do not live near a traditional exchange, and their presence on a military installation is limited.

The National Guard and reserve eligible sponsors represent approximately 22 percent of AAFES's authorized patrons; moreover, they constitute 26 percent of total ecommerce/catalog customers.

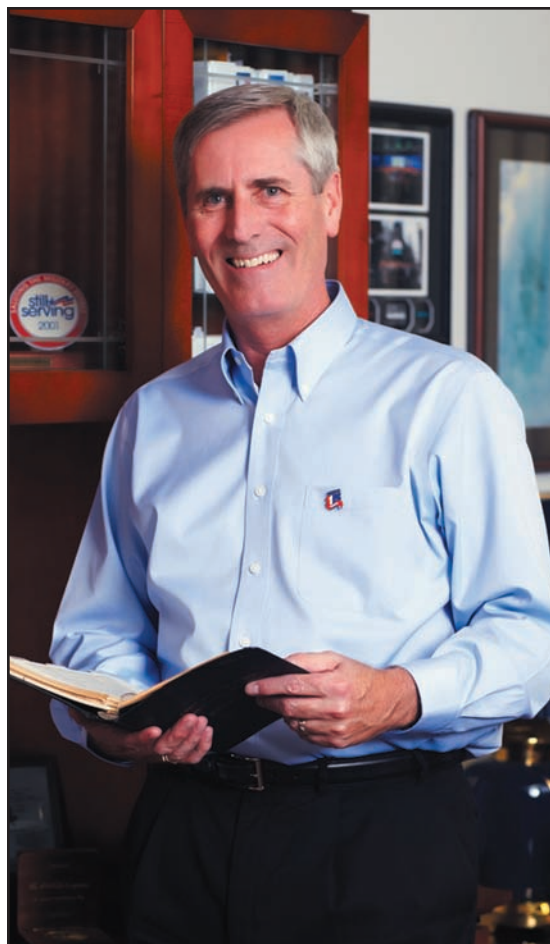
AAFES is increasing its efforts to target this underdeveloped customer segment. Focused strategies include direct mail and initiatives designed to increase Guard and reserve members' awareness of their multi-channel (i.e., distance retailing) AAFES benefits.

In an effort to create an expanded sense of community and increase the value benefit to our customers, both in close proximity to an exchange and those National Guard and reserve components farther away, we have launched value-added coupons available on our AAFES Facebook page.

This allows our customers to print coupons and redeem them at AAFES facilities or take advantage of specific aafes.com savings offers.

We have expanded the mobile marketing text offerings CONUS-wide in April. This gives our customers the opportunity to opt-in to receive money-saving offers straight to their cell phones.

We have had great success with this program so far, with over 9,300 opt-ins now, and we expect the program to grow as our opt-in base increases.



AAFES is also working on a Customer Relationship Management (CRM) initiative that combines business processes, people, and technology to get and keep satisfied customers. It's an overall strategy to learn more about AAFES customers and their behavior in order to develop stronger, lasting relationships.

'Our Customer Satisfaction Index (CSI) is up significantly from last year and is at the highest level ever since the beginning of our survey process 12 years ago.'

— AAFES Chief Operating Officer (COO)  
Mike Howard

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## On other business initiatives ...

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**Howard:** Our logistics team is collaborating on transportation opportunities with our two key shareholders: Family and Morale, Welfare and Recreation Command (FMWRC) and Air Force Services. They are moving FMWRC purchase orders through the AAFES network, reducing their landed costs significantly. The Logistics Directorate (LD) is also looking at the added volumes possibly lowering

our commercial rates even further, and the agencies benefiting by even lower AAFES rates compared to what they are paying now; truly a win-win opportunity, and another form of the dividend.

The Marketing Directorate (MD) has several initiatives worth highlighting as well.

The remaining Supplemental All-Exchange Catalogs this year will be distributed in 30 major United Service Organizations (USO) centers. The home décor and electronics were the first catalogs to ship.

In efforts to remind customers to put themselves first, AAFES has developed a website that will help consumers look and feel great. By clicking on [www.operationbenefit.com](http://www.operationbenefit.com), viewers have an opportunity to review fitness, wellness and nutrition information for the mind, body and soul.

AAFES is working on a Customer Relationship Management (CRM) initiative. CRM is all about managing the relationships we have with our customers, those who shop us regularly and those authorized but not taking full advantage of their exchange benefit. CRM combines business processes, people, and technology to achieve this single goal: getting and keeping satisfied customers. It's an overall strategy to learn more about our customers and their behavior so we can develop stronger, lasting relationships.

The AAFES Food Division has completed three franchise contracts, with Arby's, Del Taco and Wing-Zone. Locations are being identified to complement our current brand offerings at the installation level. AAFES' first Arby's grand opening is scheduled this November at the Fort Bliss, Texas, Lifestyle Center.

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## On downrange challenges ...

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**Howard:** Providing goods and services downrange is, in fact, the most important job we have. We are accomplishing the support through our great associates, commercial partnerships, and the military. There is no feeling of greater pride than sitting next to a servicemember with an M-16 slung over a shoulder in the DFAC (dining facility) and hearing his or her story. When you say you are an AAFES associate, servicemembers readily display their deep appreciation for our being there and the taste of home we provide.

Afghanistan is challenging to consistently supply. With our extended capabilities, we are capable of supporting even the most remote locations.

But at the end of the day, the opportunity to serve more than outweighs these inconveniences. AAFES has set up shop at every major global hot spot and staffed the stores with employee volunteers. From our fleet of trucks arriving in Bosnia with soda and candy for the troops, to standing up the first Burger King in Baghdad, our troops have come to expect the value and quality when they see the AAFES logo, knowing they are a few clicks away from receiving a taste of home.

The Direct Marketing team is committed to providing valued military shoppers with the ultimate multi-channel shopping experience. The website also has a brand new look and feel with a complete redesign, making shopping fast and easy. Military shoppers at [aafes.com](http://aafes.com) can take advantage of free standard shipping on all orders of more than \$49 or completed with a Military Star card.

*In addition to his interview published in the October issue of E and C News, Mike Howard, chief operating officer (COO) of the Army & Air Force Exchange Service (AAFES), had more to share about the exchange service's supply chain, customer relationship management and online initiatives...*

## More on the new AAFES website and marketing ...

As a complement to the brick and mortar sites, military shoppers at aafes.com can access online services with hundreds of thousands of items available to ship to servicemembers deployed downrange or in remote and austere locations.

The website features tips on exercises, recipes, facts on wellness, and fun activities servicemembers can do at home and with their children. Getting into shape can be fun and an easy way to get you closer to a new healthier you.

The Sales Directorate (SD) manages the contingency assortment with input from the Europe Region and internal sales analysis reports. New items and one-time-buys are constantly being added to the assortment. AAFES' basic items consist of food, beverage, tobacco plus health and beauty merchandise. Additionally, AAFES features a quality selection of both household and PowerZone items, besides a full range of items available through the AAFES Catalog and www.aafes.com. Servicemembers are never far from an AAFES facility.

AAFES installed its radio network (EXRN) in over 90 Army and Air Force installation commissaries. Presently, more than 70 are complete and working so Morale, Welfare and Recreation (MWR), Defense Commissary Agency (DeCA) and AAFES radio announcements play in both the commissary and the exchange to give customers more opportunities to stay informed.



Optimizing the available technology solutions is a key theme going forward for the Army & Air Force Exchange Service (AAFES). Mike Howard, AAFES chief operating officer (COO), said the exchange service continues to drive toward technology solutions that enable its associates to be more efficient and proactive in managing the supply chain and inventory investments as well as to enhance customer service.

The AAFES Advertising Plan with FMWRC promoted Army Family Covenants. There are 100 AAFES trailers with a wrap of a real Army family on them traveling the interstate highways between installations. AAFES also produced and is broadcasting six Army Family Covenant video spots to be aired on EXT V and in commercial theaters.

AAFES is working on a Customer Relationship Management (CRM) initiative. CRM is all about managing the relationships we have with our customers, those who shop us regularly now and those authorized who are not taking full advantage of their Exchange benefit.

Additionally, the Services Division is currently working with the Surgeons General of the Army and Air Force to develop a pilot program to test Convenient Care at three CONUS installations (Fort Stewart, Ga.; Little Rock AFB, Ark.; and Fort Riley, Kan.). In accordance with DODI 1330.21, Armed Services Exchange Regulations, AAFES is in the

process of informing Office of the Secretary of Defense (OSD) of our plans to move this program forward. We are excited about this new opportunity.

## On AAFES supply chain technologies and warehouse management ...

We are excited with the roll-out of the new Red Prairie Warehouse Management System (WMS) that will replace the existing systems, which are at, or past, end of life. This project will incorporate state-of-the-art add-on modules for labor management, slotting, and yard management.

The centralized control of all warehouse operations in a centralized database at the headquarters (HQ) level will allow unprecedented integration with all AAFES systems. The system will integrate with current and planned Material Handling Systems, and reduce inventory-carrying cost and cycle times, and increase efficiencies in the distribution centers.

We are rolling out trailer tracking to our private fleet, which reports position and telemetry of monitored units hourly via GPS, and terrestrial cellular links. This technology will improve asset management and lower operational cost by providing management real time visibility of fleet assets and cargo, reduce losses due to theft, potential misrouting, inactivity and temperature control, and improve our overall supply chain management through reduced stock levels by better management of the overall resupply times.

AAFES continues to drive toward technology solutions that enable its associates to be more efficient and proactive towards managing the supply chain and the company's inventory investment. Technology products, such as Retail Demand Forecasting (RDF), Supply Chain Optimization (SCO) and Advanced Inventory Planning (AIP), are being utilized for Distribution Center (DC) replenishment and are providing added visibility to the supply chain. This added visibility is helping to drive optimization of inventory and better service levels in AAFES stores. AAFES also continues toward leveraging these same technologies to propel store replenishment improvements as well. These improvements will drive increased service levels and will allow AAFES to proactively manage the supply chain to ensure the investment in inventory is properly managed.

From the Information Technology (IT) side, as we roll out the functionality available in the Oracle Retail Suite of applications, we continue to see improvements in inventory optimization, out-of-stock conditions, and markdowns. The auto-replenishment function, in conjunction with data from Supply Chain Optimization (SCO) and Retail Data Forecast (RDF), enables us to achieve more accurate inventory levels, which in many cases has led to reduced inventory at store level.

Markdown Optimization (MDO) has enabled us to make smarter decisions regarding markdown timing and amounts, which has resulted in an overall decrease in markdown dollars spent.

—E and C NEWS