

AAFES President and Chief Merchandising Officer Ana Middleton

'Turning That Want into a Need'



Middleton

Ana Middleton, president and chief merchandising officer (CMO) of the Army & Air Force Exchange Service (AAFES), is no stranger to the rigors of the highly competitive retail environment. With major focuses on popular national brands and the Exchange's own Be Fit line, Middleton looks to fiscal 2019 as a pivotal year, with the military resale community joining together in a new buying alliance. In this exclusive interview, Middleton discusses the new year, going over strategies and techniques that will help make the year a memorable one for the Exchange.

E and C News: As you open fiscal 2019, what are some of the challenges that you face as you strive to generate solid sales during the new fiscal year?

Ana Middleton: A highly competitive retail environment, full of innovation, technology and diversification, requires a sustained focus on efficiencies and prioritization of programs truly capable of growing sales, earnings and dividends critical to military recruiting, retention, readiness and resiliency.

One of our greatest challenges remains driving traffic back to the installation on weekends and evenings, and we are aggressively working collaborative marketing efforts with the Defense Commissary Agency (DeCA), our sister exchanges, the Army Installation Management Command (IMCOM) and services to entice Soldiers, Airmen and military families back to the military installation.

We are committed to demonstrating the relevancy and value of the hard-earned military

exchange benefit — it has been a part of military life for nearly 124 years (and my life for 56 years) — and remains a force multiplier to our nation's fighting force.

Roughly 60 percent of AAFES earnings support quality-of-life programs on military installations worldwide, including Army Child Development Centers and fitness centers, Air Force Outdoor Recreation programs and more. I personally benefitted from these great programs as a military brat, and fully appreciate the value these hold for military families.

The Exchange and the vendors who support the organization's mission also give back to the military communities we serve through extraordinary customer experiences. Military-exclusive pricing, for categories such as cosmetics, home goods and clothing, is key to bringing authorized shoppers into our stores. In-store events and appearances by celebrities, recording artists and professional athletes also differentiate the Exchange benefit from

the competition while enabling us to create a sense of community and belonging for our nation's heroes and their families.

From headquarters to the field, the Exchange team is truly honored to give back to those who put their lives on the line for us. We are "all in" to preserve and protect the military resale benefit we are so privileged to provide. It is the team's passion and sense of purpose that enables the Exchange to do things no other retailer can or will do. I am consistently in awe of my teammates and the passion and commitment of the Exchange team!

E and C News: What are the strategies and techniques that you will employ in reaching sales goals throughout the new fiscal year?

Middleton: In 2019, the Exchange will continue to intensify its selection of national brands while revitalizing the customer experience in core categories and formats including cosmetics, fine jewelry, electronics, Be Fit, sports nutrition and Express offerings.

But the experience goes well beyond the product selection; customers today are so much more engaged with the story behind the brand and the social engagement of the company.

We are very fortunate to have great brand partners who bring so much value to the military market, not only through military-exclusive pricing but also through their corporate commitment to the military market in the form of giveaways, sweepstakes and exclusive product offerings.

Together with our sister exchanges and DeCA, we are harnessing our collective buying power through a buying alliance and marketing collaboration to drive customer traffic back to the installation through shared events and fully jointly leveraging Customer Relationship Management (CRM) tools like geo-fencing, targeted marketing, personalization, etc.

The Exchange is proud of our Consumer Reports ranking for both in-store and online experience, but we aren't resting on our laurels; we are exploring how to make the PowerZone more relevant. The PowerZone must be interactive and engaging; we want military shoppers to trust us and our expertise.

As the "connected home" category continues to grow, now is the time to look at how we merchandise electronics to include showcasing



In 2019, updated concept shops — such as this one at the Randolph Exchange, JB San Antonio, Texas — additional brands and an expanded assortment on ShopMyExchange.com will keep the Be Fit program strong.
AAFES PHOTOS

smart home products. We're also introducing electronic shelf labels into our PowerZones to make sure our customers get the benefit of price drops immediately when they happen in the industry. These labels will also be leveraged to provide links to product demos to help "turn that want into a need."

The Exchange's Be Fit program continues to thrive. During 2019, updated concept shops, new brands and an expanded online assortment will keep the program strong and our national brand presence top of mind. Touchscreens with product information and scalable versions of the concept for smaller stores are being introduced as well.

Our in-store sports nutrition shops debuted last year, fueling military shoppers' active lifestyles. Smaller versions have rolled out to four Express stores, and we plan to extend the concept to additional locations throughout the year.

In Express locations, the Be Fit program is flourishing. The buying team made a conscious effort to shift the assortment to better-for-you options. Express stores highlight Be Fit-approved items with special shelf tags to make it easier for Soldiers, Airmen and their families to spot healthy options. All Be Fit items meet nutritional standards set by our staff dietitian.

to add Be Fit options to the menu.

In main stores, we are reimagining our baby sections. We are in the baby business — we want military families to know we provide value during all stages of their lives. Our updated baby sections will house all baby-related products in one convenient location, near baby clothing. Shoppers can enter the section from three points, giving greater exposure to diapers and baby essentials to drive a bigger shopping basket and repeat business.

National brand intensification continues on ShopMyExchange.com. We are partnering with The Avenue, which specializes in women's plus-size clothing and accessories, to add the brand's entire assortment to our website. We have also included the entire 5.11 apparel and gear catalog online.

Leveraging these brand partners and their expertise in their specialty market is essential to delivering our customers with the broadest, most relevant, value-driven assortment possible.



AAFES's in-store sports nutrition shops — like this one at Fort Hood, Texas — debuted last year, fueling military shoppers' active lifestyles.

vendors recognize that changes lead to optimized operations. We have found that marketing and sales decisions made jointly with supply chain operations provide better outcomes than ones made in isolation.

Supply chain collaborative practices using electronic communication channels reduce ordering and fulfillment time, allowing inventories held in the supply chain to be optimized and lowered. Collaborating also allows for increased transparency. Increasing the visibility of sales, inventory and forecast information between the exchange and suppliers leads to improved supply chain performance, sell-through and efficiency of inventories.

The Exchange initiates combined planning, forecasting and replenishment based on a three-tier system. Standards for engagement, information sharing and collaborative planning progressively grow as foundational elements are added at each stage. This helps us gauge a vendor's abilities — as well as our own — to commit to, and engage in, the collaborative process.

We are so proud of our latest collaborative effort between the Exchange, Navy Exchange Service Command (NEXCOM), Marine Corps Community Services (MCCS), Coast Guard Exchange (CGX) and DeCA. We recently signed a memorandum of understanding (MOU) to establish a joint buying alliance. This alliance is expected to provide greater efficiencies for our collective businesses and added value for authorized exchange and commissary shoppers by allowing military resale to organize, coordinate and facilitate planning, forecasting and replenishment with key vendors; work with allocation and replenishment teams on receipt flow, markdowns and in-stocks; and analyze vendor performance to improve targeted metrics.

E and C News: *What must the stores themselves do to work in synergy with headquarters and generate excitement on a local level?*

Middleton: Every member of the team plays a critical role in event planning, execution and

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— AAFES President and Chief Merchandising Officer **Ana Middleton**

Be Fit food and beverage sales topped \$68.4 million in 2018. Today, there are now 480 items in the assortment. More than 320 stores participate in a monthly endcap program to highlight Be Fit-approved choices.

At Fort Sill, Okla., the Exchange's first Chopz quick-serve restaurant (QSR) opened at the Sheridan Road Express. Chopz features dozens of fewer-than-500-calories options including wraps, salads and sandwiches. Diners can also fuel up on prebaked subs and grab-and-go salads. The team will monitor this location closely to gauge opportunities for future expansion.

Express locations worldwide have nearly 50 QSRs generating more than \$11.5 million in sales. Besides Chopz, our Expresses are home to Hunt Brothers Pizza, J. Walken Chicken and Austin Blues BBQ, with 20 additional restaurant locations planned for 2019. We are working with vendor partners to expand offerings, and where possible,

E and C News: *Programs based on collaborating with current partners on planning, forecasting and replenishment, aimed at streamlining the supply chain to provide maximum benefit to your customers, are recently much in the news. Does AAFES focus on or find special value in such programs? If so, how do they work for you?*

Middleton: Combined planning, forecasting and replenishment is at the core of our partnerships with our vendors and suppliers. We have a number of outstanding suppliers in these efforts. Procter & Gamble (P&G), Apple, Jim Beam, Diageo and Samsung are just a few who regularly go above and beyond to ensure we are properly supporting the best customers in the world.

We find tremendous value in collaborating on planning, forecasting, and replenishment. This has improved supplier partners' understanding, resulting in agreements to relax constraints when

creating excitement for our customers. Collaboration between headquarters and the store teams in the field is integral to mission success.

I have countless examples of store associates going above and beyond to make sure a local event delivers the excitement and value promised to our customers. These associates are the foundation of our success. Corporate strategies are important, but without flawless execution, they are just words on a document.

With more than 85 percent of our associates having some connection to the military, as a spouse, dependent, retiree, uncle, aunt, etc., the commitment to our customers is real.

The role of the store associates and field management is simple: “Be customer-ready every day!”

What does that mean? It means highlighting the great prices we have and the value of the military-exclusive pricing. It means having associates who understand the breadth of assortment is not confined to the four walls of the store, but goes well beyond, as they direct customers to ShopMyExchange.com to find that “hard-to-find” item. It means pick, pack, ship same day for our 99 ship-from-store facilities. And it means putting the customer at the center of every action we take.

E and C News: *What has been the impact of eCommerce on your sales projections? Has it thus far lived up to all the expectations?*

Middleton: ShopMyExchange.com continues to grow. 2019 is expected to be a strong year, with sales increases projected at 14 percent above 2018.

On Veterans Day 2017, we welcomed home all honorably discharged Veterans with a lifelong online shopping benefit. They can shop with us tax-free for life. Fifteen months after the official launch of the Veterans online shopping benefit, more than 80,000 Veterans have shopped through ShopMyExchange.com, producing nearly \$70 million in sales. This expanded benefit has been a win for Veterans and the broader military community.

Name-brand products and an expanded product assortment continue to be a focus for ShopMyExchange.com. We want to offer as much as possible to the widest set of customers possible.

Last year, we launched the “buy online, pick up in store” (BOPiS) program worldwide. Customers can now order a variety of products and pick them up at their local exchange for free. We now update order status via text, and shoppers can even receive news about deals by text. (Shoppers can opt in by updating their account

preferences online.)

In 2019, we will roll out additional ShopMyExchange.com updates to enhance the customer experience so shoppers can find what they need quickly, and reduce the number of clicks needed to place an order.

E and C News: *You’ve just completed fiscal 2018. Setting aside the possibility of military resale consolidation (which of course could easily be a game-changer), taking into account exchange and commercial market forces in general, where do you hope to be sales-wise a year from now?*

Middleton: The future is bright at the Exchange! We fully expect to improve on the projected sales increases we booked in 2018 to further grow earnings and dividends while making life better for all who serve. We expect 1 percent to 1.5 percent sales growth over 2018.

The team is excited about our strategies to make sure the hard-earned Exchange benefit is preserved and protected for our warfighters, past, present and future. The Exchange is “all in” to serve.

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