

Rear Adm. Robert Bianchi, SC, USN (Ret.),  
DeCA Interim Director and  
Chief Executive Officer

## Reach Out, Communicate, Improve, Rebuild: Foot Traffic, Sales, and the Shopping Experience

After assessing the status of the commissary system and communicating with its employees, Defense Commissary Agency (DeCA) Interim Director and Chief Executive Officer (CEO) Rear Adm. Robert Bianchi, SC, USN (Ret.), immediately turned his attention to his first priorities for improvements — the patron shopping experience, in-stocks, and personnel expenses. Next up for DeCA — collaboration and stronger relations with installation and industry partners, logistics and market opportunities, and the never-ending quest of establishing and reestablishing the sense of the commissary value proposition in patrons' minds. Bianchi explained to E and C News his commitment to keeping DeCA relevant to its patrons' lifestyles and to their changing priorities and needs ...

**E and C News:** Is there a plan to increase sales? If so, what is it?

**Rear Adm. Robert Bianchi, SC, USN (Ret.):** We are executing several significant initiatives to help increase foot traffic in commissaries and subsequently improve sales. However, first it's important to understand the military resale environment commissaries find themselves in at the moment.

Over the past few years, we've experienced a significant decline and shift in our customer base. The Army and others were losing end-strength throughout the years; fewer servicemembers are living on the installation; and we've seen some reduction in the number of married servicemembers.

We're also dealing with increased competition outside the gate from hard discounters that are laser-focused on low-priced goods. You also had the advent of Whole Foods and Trader Joe's and Fresh Markets advancing a growth in more of the "lifestyle shopping experience" sort of grocery markets where you can go in and get meal kits or pre-prepared foods or fresh and organics. You go into some of these stores and you see millennials eating dinner there. At some of the Whole Foods stores, you could actually sit and get a glass of wine there in the grocery store area.

Of course, you've had the online retailers, too, such as Blue Apron, Hello Fresh and Amazon with its acquisition of Whole Foods. So, the grocery industry itself is changing, and frankly, some of the

traditional grocers are having to sit up and take notice of these relative newcomers to the grocery business.

Throughout all of this, I think commissaries were leaning forward with new initiatives, but maybe not to the same degree and aggressiveness with which their external competitors were. As a result of all these factors, we lost some customers.

The good news is from October 2017 through December of 2017 versus the same period in 2016, the pace of our sales decrease has been slowing. So, for example, in October we were down about 6 percent from October 2016. In November we were down 4 percent from November 2016, and in December we were only down about 3.8 percent from December 2016. January was starting on a positive trend, but then Mother Nature came in with all the storms and we had to shut down a few stores due to bad weather.

So, I'm optimistic that some of the initiatives and programs that were put in place and some of the things that I've initiated since I came onboard may be starting to take effect. And as you can imagine, it takes a little bit of time; this sales decline happened over a five-year period, so we're not necessarily going to see immediate, stellar results.

At the end of the day, the value proposition of the commissary is still there. Based on the armed forces surveys and others the Department of Defense (DoD) does, it's still a highly valued benefit for many members of the armed forces, so we'd surely like to sustain it.

One of our top priorities is to communicate to all our authorized patrons that the value of their benefit is better than ever, and worth passing up all the commercial retailers to get to it. This means we have to do a better job of reaching out to patrons who aren't acquainted with their benefit; of earning back the confidence of some of the customers who may have decided to walk away from us — and find out why they left; and of reaffirming our commitment to those who have been our loyal shoppers — and ask them how we



Bianchi

**Editor's Note:** This interview took place in early March, before a Department of Defense draft memorandum began to circulate, which advocated shared services, a phased approach to combining the exchange services into one organization, and to eventually consolidate the commissary system with the exchange systems, pending a business case and financial due diligence. See story on page 3 for further details.

can do better.

So, what's our plan for improving sales? Well, improving the customer shopping experience is a big part of the mix. We want to help make the shopping experience more positive and convenient for our patrons, and discover ways to motivate our patrons to shop before they leave the installation, and come back on the weekends.

I came in very much focused on customer experience, on stock availability, on labor expense, on all the kinds of things I look at running the Navy Exchange system [as CEO of the Navy Exchange Service Command]. And I believe there are certain friction points in the customer's journey to the commissary that we must improve. For example, we're losing sales when product isn't available on the shelves, and some people would actually prefer to bag their own groceries.

I firmly believe commissaries have true savings over the outside competitors. Commercial grocers outside the gate cannot deliver 23 percent or 24 percent on-average savings to our military members and their families. But, again, it's important for us to message that value to our patrons, so that they aren't dissuaded if they see a loss leader item downtown that makes them think they aren't getting that value.

The value proposition has to be real and it has to be clear to our patrons. Once



According to DeCA Interim Director/CEO Rear Adm. Robert Bianchi, SC, USN (Ret.), making the patron shopping experience more positive and convenient is an important part of DeCA's plan for improving sales. FILE PHOTO

**'The value proposition of the commissary is still there. ... it's still a highly valued benefit.'**

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they are in the store, I have to be able to provide them the products that they're asking for. So, it's vital that we have the products on the shelf; the selections and assortment. I believe we can and will continue to provide that value to our patrons and provide purchase points that meet their particular needs — whether it's name brands or commissary store brands.

We also now offer the Military Star card at the commissary, so our patrons can use the Star card for their purchases. Obviously, the Star card has a lower interest rate for our military members than commercial cards out there.

We want our authorized patrons to see their commissary as their neighborhood store; they get to know the commissary employees, and shopping there becomes part of that whole base engagement process.

As we move forward, we are in the process of upgrading our business systems to allow us to expand our CLICK2GO program. Right now, we are prototyping our online ordering/store pickup program in three locations.

As we bring our Enterprise Business Solution (EBS) into place over the next several months, we will have the capability to expand CLICK2GO. That's something our customers have told us they want.

We want to stay relevant to our patrons' lifestyle, to their changing priorities and needs. And I'm committed to doing that.

We are also moving forward with some of the following initiatives:

- Increased commissary/exchange partnerships: We have begun working closely with the exchanges to leverage their outreach tools and access to authorized patrons in order to grow our visibility and reach. Recently, we have partnered with the exchanges to use their social media accounts to increase awareness of joint promotions and sales.

For example, on Dec. 18 to Dec. 24, we held a DeCA/NEXCOM pilot promotion at eight locations, offering patrons who spent \$50 or more at the commissary a coupon for \$5 off their purchase of \$25 or more at the selected Navy Exchange site. Of the 54,827 potential coupons, 5,739 — or 10.5 percent — were redeemed at the Navy Exchange locations. Average redemption rate is 1 percent, so a 10.5 rate is an overwhelming success. Navy Exchange transactions grew by 14 percent versus the same period last year.

During December, we used social media on both the DeCA and the exchanges sites to highlight a Military Star card sweepstakes that involved paying off winning patrons' Military Star card bills up to \$8,200. A radio "jingle" also was used at

select installations announcing the sweepstakes.

In late February, DeCA hosted a meeting of all of the exchange sales and merchandising senior leaders to collaborate on promotions for the

remainder of the calendar year. DeCA and the exchanges also hold a weekly meeting to discuss marketing/promotional opportunities.

We have a DeCA/Exchange April sale planned highlighting health and wellness items to support the "Month of the Military Child."

There's a huge symbiotic relationship with the exchanges and the commissary. People who make those shopping trips tend to shop both locations. And the advantage coming into this job and having Director/CEO Tom Shull, of the Army & Air Force Exchange Service (AAFES), and Cindy Whitman Lacy, Director, Marine Corps Business and Support Services Division (BSSD) at the Marine Corps Exchange (MCX), as colleagues means we are in this together with this whole ecosystem. So they're on board, and as a result, we are going to pursue plenty of joint marketing opportunities.

- Military Service Organizations (MSO)/Veterans' Service Organizations (VSO) outreach: We are engaging more with the MSO/VSOs to enlist these important organizations' help in promoting the importance of using the commissary benefit.

- Industry collaboration: We are continuously working with our industry partners on ideas to grow sales. In addition to continuous discussion on assortment and promotions, we are increasingly focusing on additional logistical and market opportunities.

Working with industry to improve our fill rates so that we are in stock when a customer wants to buy something, as well as pursuing some additional marketing activities (e.g., billboards at various locations throughout the U.S.) has been

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our major focus.

- More commissary store brand products: These are high-quality, low-cost equivalents to national brand products that offer commissary customers additional savings.

We have released over 400 commissary store brand products and, through Jan. 16, sales have totaled more than \$20 million. The initial results are strong.

In many areas, commissary brand products have already reached industry penetration (greater than 50-percent penetration in some categories) in only a matter of weeks and are outselling the products they replaced.

In total, we are aiming to release 3,000 to 4,000 items, which will reduce our patrons' overall basket cost and make us more competitive with retailers outside the gate.

- Optimized product assortment: We are continuously listening to customers and working with manufacturers to refine and deliver the products our patrons care about. These actions will ensure we can offer our patrons well-stocked stores with sufficient holding power to make products available throughout the business day.

**E and C News:** To bring back patrons, is eliminating the surcharge being considered?

**Bianchi:** No, there is no consideration being discussed at this time to eliminate the surcharge.

**E and C News:** Is thought being given to store-level initiatives? For instance, could local store directors contact patrons/shoppers in their vicinity by email, alerting them to sales and special promotions, and asking non-shoppers what can be done to bring them back?

**Bianchi:** We are looking at plenty of store-level initiatives. Upon arriving at DeCA, I initiated an installation engagement program. Through our store directors, we sent out hundreds of emails to installation commanders to discuss the commissary benefit on their installations and open the dialogue that will allow us to partner in community-building initiatives in the future. We are encouraged by the overwhelmingly positive response and the enthusiasm we heard about working together.

We already have our corporate patron newsletter, Commissary Connection, produced by our Marketing Directorate (MD), which allows our patrons to sign up for email updates for the latest commissary news, promotions and events, including updates for their local commissary, on a regular basis.

In addition, our store directors send out Express Line, a customized electronic newsletter that gives their patrons even more information about what's going on at their store.

Our marketing folks are also working on a localized email for all our stores that would originate from headquarters and further promote local promotions and special sales. We expect this capability to be ready in late spring or early summer.

Also we are now using our social media to target messages to our patrons online in specific areas around commissaries. We did this with the bounce-back coupon with NEXCOM in December.

We know that the benefit clearly provides savings for our servicemembers and their families. However, it's important that we communicate and connect that value to our patrons.

Perception is everything, and we have to eliminate the perception that commercial retailers offer better savings.

Say, for example, you're walking into the commissary and the first thing you see is that we're selling our bananas at 52 cents a pound. Well, a retail grocer outside the gate may be using bananas as a loss leader and selling them for 39 cents a pound. So immediately, when you see a higher price for bananas in the commissary, your first impression, even though the benefit is saving lots of dollars on plenty of other items within the store, is perhaps, "Hmmm, am I really saving money or not?" And again, you know that we do.

So part of what I have our team looking at are "image items." As we continue to roll out variable pricing, it will give us the capability now to compete with those other retailers and manage pricing in the market.

We are also looking at fresh and organics — the market for those items is growing tremendously. That's another area we can win. Our commissaries can offer a lot of that stuff cheaper than commercial retailers. We have a decent selection of it, but we have to do better at promoting these items and increasing the awareness of these savings to our patrons.

I've already started looking at store hours, looking at creating some bagger-less lines in the stores to see what the patron reaction is. We're focusing on improving stock availability on the shelves, outreach to the installation commanders and building that connection so that the commissary store director is talking to the spouses' groups, and the town halls and the indoctrination sessions, and are able to explain all the things that we can do.

**E and C News:** How much in earnings has the private label program generated? How much has it cost to generate these earnings?

**Bianchi:** While private label is still in its early stages, demand for the products has been quite strong and sales are ahead of expectations. And, we are seeing category penetration levels at or above industry penetration in many parts of the assortment, such as bottled water or health and beauty care (HBC). This is often with a more limited assortment than other grocers have, and is earlier than we expected.

The economics are also quite positive for DeCA and for our patrons. These products reduce the out-of-pocket costs for patrons. As we lower our appropriation, we are giving our patrons a choice, and I think they're responding favorably, so far.

We are going to continue that process, as these are high-quality items that are equivalent to national brands. We currently have over 400 items and plan to have close to 600 by the May 2018 timeframe.



Speaking to Armed Forces Korea Network in early February, Bianchi described the benefits the newly opened replacement Camp Humphreys Commissary provides patrons in the store's vicinity. PHOTO: RICK BRINK, DeCA

**E and C News:** When will sales data and other performance metrics on variable pricing and private label initiatives be released?

**Bianchi:** Like all other retailers, we consider the communication of sales data for specific items to be sensitive business information. At a high level, however, variable pricing and private label are showing positive results for our customers and our business.

We are encouraged by customers' rapid adoption of our private label products across many categories ranging from water to cheese to health care and paper towels. They provide customers with a high-quality, low-cost equivalent to national brands and also generate additional margin to offset our operating costs.

We will continue to monitor these metrics closely as we continue to roll out variable pricing and private label to more of the assortment.

**E and C News:** Are there meetings with industry, commissary vendors, on your schedule? If so, what is on the meeting agenda?

**Bianchi:** This month, I'm planning to have a session with some members of industry. Frankly, I want to talk first to my employees; I'm getting ready to publish my director's guidance for the year, so I wanted to get all that laid out and then sit down with our industry partners.

Our industry partners are key to our success in delivering the commissary benefit. In the past, I've had good relationships with many of them through my job as the CEO of the Navy Exchange. A lot of these folks are similar vendors who are also servicing the commissary side. My folks on the third floor [of NEXCOM headquarters] have the same sorts of negotiations with vendors such as Procter & Gamble and others that you'd expect to happen in any commercial environment.

The message to our industry partners is that our business model does have to change as we

move to a profit-and-loss environment, and as we do this, we want to create win/win situations with them.

I will tell you right now, from my walking the floors of the commissary, we are over-assorted. And there needs to be assortment rationalization. I want to create a situation where we — DeCA and its industry partners — are both driving sales.

So when I meet with industry, our agenda is simple: come to the table and bring us your top-selling products, and we'll put together game plans for driving and increasing sales through foot traffic, etc.

There may be some winners and losers, but that's not any different than what the private sector goes through every day. My vow to industry is that we will be aboveboard on all this.

**E and C News:** What is the current target date for all DeCA Enterprise Business Solution (EBS) systems to be up and running?

**Bianchi:** As you know, EBS was planned to be a multi-year incremental implementation, given the number of legacy business systems in place at the agency and the complex, interconnected nature of many of those systems.

For EBS Increment 1, Category Analyzer, Power HQ, Vendor Portal, and RELEX (Galleria) Planogramming have been successfully deployed; the remaining component of Increment 1, Billback Manager, will be completed in April.

EBS Increment 2 is in the final stages of testing and will begin rollout at the end of April. This will include Power DAX for store replenishment and computer-assisted ordering (CAO), and Power Inventory for perpetual inventory management. The Increment 2 rollout will continue through 2019.

EBS Increment 3, which includes all of the store touch-points (POS, Self-Checkout, etc.), eCommerce, and Signage and Labels, is undergoing interface development, and should begin rolling out this summer in conjunction with new store hardware.

This rollout will take place over several years and should be completed in fiscal 2020.

EBS Increment 4 will begin deployment in fiscal 2020, and is anticipated to take several years to implement across all of DeCA's OCONUS central distribution centers (CDC).

**E and C News:** Does DeCA plan to take over and own its shelf-stocking process (except for direct store delivery items), either in-house or by a hired third party, instead of relying on manufacturers, brokers and distributors? If so, how soon? If not, why not?

**Bianchi:** Right now, we are looking at various options for in-house shelf stocking. Until we have the opportunity to test potential options and evaluate the results, it would be premature and speculative to discuss any details about any plans regarding shelf-stocking.

We've had some issues at some stores with stocking of the shelves. In some locations, vendor stocking works fine, and in other locations, it doesn't. It's not widespread, but it's all these pieces when you start putting this mosaic together that might lead a customer to say, "Hmmm, should I drive past the commercial retailers in my vicinity and go to the base? Is the value there for me?" And I do believe it is.

However, once they are in the store, I have to be able to provide them the products that they're asking for, and so they need to have products on the shelf, the selections and assortment.

**E and C News:** Is DeCA tracking sales of the agency's private label items versus commissary sales of comparable brand name items? Are any such comparisons, for instance broken down by unit, available for release? How do sales of private label items compare to previous sales of the deleted brand name items they replaced? Are private label items selling at the levels projected before the program was instituted? Will sales data generated by the first wave of private label items stocked be taken into account before adding more private label items to the assortment?

**Bianchi:** Yes, we closely monitor the performance of all new private label items introduced. Performance has been very positive. In many parts of the assortment, the commissary store brand products are already at or above private label category penetration levels in industry.

In the majority of situations, our new commissary store brand items are selling more units than the items they replaced, and in some categories they are selling significantly more.

None of the items introduced to date give us any concern for the acceptance of our brands, and we will continue to roll out these products aggressively given the very positive response from our patrons.

—E and C News



DeCA aims to discover new ways to motivate patrons to shop before they leave the installation and to come back on the weekends to do their pantry-loading. DeCA FILE PHOTO

## DeCA, Exchanges Promote 'Your Healthy Lifestyle Festival'

• FORT LEE

Commissaries and exchanges are teaming up even more closely this year for the installation Healthy Lifestyle Festival event, focused on the theme, "Healthy Families! Healthy Pets!"

According to Michael Pulley, the Defense Commissary Agency's (DeCA) supervisor for Marketing and Promotions, this year's Healthy Lifestyle Festival will be a joint promotion held, depending on the installation, on specific dates in May and June.

The Defense Commissary Agency (DeCA) will join with each of the exchange services, including the Army & Air Force Exchange Service (AAFES); Navy Exchange Service Command (NEXCOM); Marine Corps Exchange (MCX), and the Coast Guard Exchange (CGX), in the promotion of this event.

"By combining resources, ideas, and marketing efforts, the entire resale system can better serve the men and women of the armed forces and their families," Pulley said. "As a resale system, we will be conveying a unified message that not only are we interested in the health and well-being of each of our servicemembers and their families, but also recognize that each of us play an integral role in maintaining the benefits provided by each entity."

Interested parties were provided with a "suggestion guide," which Pulley said, "will assist local industry representatives, along with store management, in the planning of the festival. Please share any of your ideas that may be used to enhance the quality of this event."

The point of contact for this event is Sallie Cauthers, DeCA Marketing and Mass Communication Specialist at [sallie.cauthers@deca.mil](mailto:sallie.cauthers@deca.mil) or (804) 734-8000, extension 48769.

This year's Healthy Lifestyle Festival will feature an ever closer cooperation between commissaries and exchanges. DeCA IMAGE