DOD STUDY OF THE MILITARY EXCHANGE SYSTEM

Volume II * Appendices
September 7, 1990

Office of the Assistant Secretary of Defense
(Force Management and Personnel)
Washington, DC

#304

APPENDIX A

BASIS OF STUDY

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-4000

E MANAGEMENT
D PERSONNEL

7 JUN 1990

MEMORANDUM FOR STAFF DIRECTOR, ARMED SERVICES EXCHANGE STUDY

SUBJECT: Statement of Work and Study Procedures

As the Staff Director for the Armed Services Exchange Study, you are responsible for the conduct of this important review.

Individuals identified by the Military Services (Tab A) will assist in the study. You may obtain other expertise you deem necessary, on a temporary basis, to assist in the development and coordination of the report.

The study's "Mission and Objectives" are at Tab B. Additionally, to help focus the study effort, a detailed "Statement of Work" is provided at Tab C. At Tab D is a copy of the Assistant Secretary of Defense for Force Management and Personnel memorandum to the Services concerning the DoD review of the military exchange systems, a milestone schedule and a summary of personnel resources tasked to the Military Exchange Commission.

My point of contact is Captain Frank Jepson, telephone AV 227-9525/4054 or (202) 697-9525/4954.

Donald W. Jones
Lieutenant General, USA
Deputy Assistant Secretary
(Military Manpower & Personnel Policy)

Attachments:
As stated

ARMED SERVICES EXCHANGE STUDY
COMMITTEE MEMBERS

(May 7 - October 1990)

ARMY:

Colonel Al Finch
Charles Wiesneth (UA15)
William Baucum (UA14)
William Barnes (UA14)

NAVY:

Commander Roger J. Blood (Captain Select)
Lieutenant Commander Bruce G. LeLonde

MARINE COPRS:

Colonel Thomas E. Loughlin
Private First Class Diana LeGer

AIR FORCE:

Lieutenant Colonel William B. Bowlin
Samuel Lankford (UA15)
William M. Moreland (UA15)

COAST GUARD:

Jack Adams (UA13)

STUDY OF THE ARMED SERVICES EXCHANGE SYSTEM

MISSION AND OBJECTIVES

A. MISSION:

1. The mission of the study group is to provide an unconstrained baseline assessment of the Department of Defense Armed Forces exchange systems.

2. The objective is to identify increased efficiencies, reduce overhead costs, and increase savings in nonappropriated fund and appropriated fund resources. Policies and initiatives will be recommended that provide for an orderly implementation of any identified efficiencies.

3. The recommended changes should maintain the same or higher level of brand selection and service to the customer with no increase in cost.

4. The study will review all functional areas of the armed services exchanges, identify efficiencies and include but not be limited to the feasibility of consolidating some or all functional areas.

B. OBJECTIVES:

1. The study will address each military exchange functional area and determine:

a. Current status and level of resource;

b. Potential resource efficiencies, practices, and procedures;

c. Expected impact on customer service, brand availability, and cost to the authorized customer;

d. Expected resource impact among armed services exchanges.

2. The study group will define relationship of the current military exchange systems with other MWR programs.

3. The study will analyze and compare the military exchange functional areas with private sector practices. (The study group may request or accept voluntary information or opinions from individuals and entities in the private sector on issues involved in the exchange study.)

STUDY OF THE ARMED SERVICES EXCHANGE SYSTEM

STATEMENT OF WORK

A. BACKGROUND:

1. The Department of Defense (DoD) will conduct a review of the armed services exchanges (ASEs) to identify potential costs and savings in appropriated fund and nonappropriated fund resources, to streamline military exchange operations where feasible and to eliminate duplication of effort among the ASEs.

2. The ASE systems, the primary source of nonsubsistence resale merchandise and services for military personnel on DoD installations, face many challenges with the reality of military force reductions, base realignment and closure initiatives and other strategic considerations. The demographic shift resulting from these challenges may seriously affect the ASEs market base and purchasing power and their current ability to support other DoD morale, welfare, and recreation (MWR) programs.

3. With current communications, distribution, and management system technology, the commercial retail industry is continually being reshaped and the military exchanges are benefiting from these technological advances. The military exchanges are investing in modern distribution centers, employing advanced communications technology and other modernization efforts to individually consolidate and improve their operations. These individual developments further raise the issue of the need to have separate agencies offering the same products and services, and, many times in the same geographic area to the same authorized patrons.

4. The military community's morale, welfare, and recreation programs rely heavily on the success and earnings of the ASEs to support vital community programs. Additionally, in an era of constrained resources, the need to review ASEs' current operations, organization, management, and resource allocation is obvious, prudent, and timely.

B. STUDY ASSUMPTIONS/LIMITATIONS:

1. Appropriated fund support for morale, welfare, and recreation programs may decline significantly.

2. The application of sound business principles will apply in all phases of this study.

3. Competition for appropriated fund and nonappropriated fund resources will continue to place increased demands for efficient, self-sustaining operations of the ASE programs.

C. MISSION:

1. The mission of the study group is to provide an unconstrained baseline assessment of the DoD ASE systems.

2. The objective is to identify increased efficiencies, reduce overhead costs, and increase savings in nonappropriated fund and appropriated fund resources. Policies and initiatives will be recommended that provide for an orderly implementation of any identified efficiencies.

3. The recommended changes should maintain the same or higher level of brand selection and service to the customer with no increase in cost.

4. The study will review all functional areas of the ASEs, identify efficiencies and include but not be limited to the feasibility of consolidating some or all functional areas.

D. OBJECTIVES:

1. The study is to address each military exchange functional area and determine:

a. current status and level of resource;

b. potential resource efficiencies, practices and procedures;

c. expected impact on customer service, brand availability, and cost to the authorized customer;

d. expected resource impact among armed services exchanges.

2. The study group will define and evaluate the relationship of the current military exchange systems with other MWR programs.

3. The study will analyze and compare the military exchange functional areas with private sector practices. (Study group members may freely request or accept voluntary information and opinions from individuals and entities in the private sector on issues involved in the exchange study.)

4. This analysis will review at a minimum the functional areas shown on the attachment.

5. The study group will identify all resources (facilities, personnel, equipment, inventories, etc.) by location (installation, area, region) in each of the individual ASE systems.

E. SCOPE OF WORK:

Specifically, the study group will review and consider the functional areas identified on attachment; however, work effort concentrate primarily on the following areas:

a. Organizational Structure.

b. Financial and Business Strategy.

c. Distribution and Transportation Systems.

d. Operations Management.

e. Facilities and Construction Systems.

f. Personnel.

g. Inventory Management.

h. Other functional areas.

F. REPORTS:

1. Progress Reports: Weekly.

2. Entrance Conference: May 30 - Prepare for In Process Review for General Officer Steering Group.

3. Trip Reports: Summaries included in report documentation.

4. In Process Review Reports: Approximately every three weeks and as outlined on milestone schedule.

5. Draft Report: August 24 - General Officer Steering Committee.

6. Final Report: October 1

G. TRAVEL REQUIREMENTS:

As determined by the Staff Director in coordination with the Chairman.

H. ADMINISTRATIVE SUPPORT:

1. Office, Equipment and Supplies - OSD funded.

2. Communications - OSD funded.

3. Word Processing, Personal Computer, Software - OSD funded.

4. Manpower - Permanent resources as outlined in ASD(FM&P) memorandum dated April 27; temporary as required.

5. Reproduction Costs - OSD funded.

6. Travel and Per Diem - Service funded.

7. Indirect Costs - OSD funded.

I. KEY PERSONNEL:

Key individuals will be selected by the Services and approved by the Chairman.

J. CONSULTANT SUPPORT:

Any additional consultant support will be funded jointly by the Services with appropriated or nonappropriated funds.

Attachment:
As stated

Functional Areas

a. Management systems

b. Organizational structure

c. Comptroller functions

d. Finance and accounting systems

e. Management information systems

f. Financial and business strategies

g. Communication systems

h. Distribution and transportation systems

i. Procurement and contracting systems

j. Facilities and construction systems

k. Equipment and vehicle capitalization planning

l. Personnel systems

m. Inspection procedures

n. Testing marketing procedures

o. Sales and merchandising practices

p. Customer service operation

q. Operations management procedures

r. Trade-industry relations

s. Inventory management systems

t. Private sector financing initiatives

u. Ship store operations

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-4000

21 APR 1990

:E MANAGEMENT
:D PERSONNEL

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (MRA)
ASSISTANT SECRETARY OF THE NAVY (M&RA)
ASSISTANT SECRETARY OF THE AIR FORCE (MRAI&E)

SUBJECT: DoD Review of the Military Exchange Systems

In the letter at Attachment 1, the Chairman, Morale, Welfare, and Recreation Panel of the House Armed Services Committee, has directed that the Department conduct a review of the military exchange systems. Proper consideration will address many multifaceted and complex issues. It is a major undertaking that cannot be viewed lightly. It is anticipated the Deputy Secretary of Defense will direct the establishment of a DoD commission to conduct the study and appoint Lieutenant General Donald W. Jones as the chair. At Attachment 2 is an organization chart for the commission and at Attachment 3 a detailed listing of the resources required to staff and guide the effort. At Attachment 4 is a brief milestone chart listing key events. I ask that you take the necessary actions to provide the resources tasked to your Department. The full-time staff must be available by May 7 for a 180-day commitment. Each tasked Department must fund the resources required. Please report the names of the personnel who will represent your Department to Lieutenant Colonel Jim Sass, telephone 697-9525, by May 4.

Christopher Jehn

Attachments:
As stated

U.S. House of Representatives
COMMITTEE ON ARMED SERVICES
Washington, DC 20515
ONE HUNDRED FIRST CONGRESS
LES ASPIN, WISCONSIN, CHAIRMAN

January 22, 1990

Lt. Gen. Donald W. Jones
Deputy Assistant Secretary of Defense
(Military Manpower & Personnel Policy)
Department of Defense
Room 3C963, The Pentagon
Washington, D.C. 20301

Dear General Jones:

The Armed Services Committee has made acquisition reform a major agenda item this year and is closely tracking the progress of the Defense Management Report. This exercise promises to reap great dividends in efficiency and effectiveness of the entire military supply system.

We share the DOD's emphasis on reduced overhead and savings in dollars and manpower along with the initiatives to streamline, eliminate duplication of effort and ensure timely decision-making.

The committee is further encouraged by the preliminary results of your ongoing review of the military commissary program and we anxiously await this report. Initiatives being considered are most promising and will set the stage for stabilization and continuation of this important benefit in the tumultuous years ahead.

Budget considerations were the driving force when the committee asked the DOD to undertake this baseline reassessment of the commissary program. Since that time, global developments have converged with our budget concerns, making change more immediate and important. These global and budget developments further coincide with major developments in the marketplace, prompting our interest in exploring the alternatives to posture the exchange operations of the armed services to continue their reputation of providing a high level of service to our dedicated military men and women.

The military exchange systems and the military resale system at large is facing major challenges. Military forces are about to undergo major reductions and shifts due to strategic considerations and base realignment and closure. This demographic shift will have a tremendous effect upon the market base and purchasing power of these systems.

Armed with more sophisticated communications, distribution, and management technology, the commercial retail industry is being reshaped with some experts predicting that each retail category will have no more than six, and perhaps as few as two merchants accounting for as much as 60 percent of retail sales. This mass merchant reconfiguration will inevitably find its way to the military market.

Military exchanges also are benefiting from these technological advances. The Army and Air Force Exchange Service is in the midst of a consolidation that will save millions and empower this system to generate more funds for essential military community programs. Military exchanges are investing heavily in modern distribution centers and are employing advanced communications technology to further consolidate their operations. These developments are fast making area and regional offices obsolete and cause us to seriously question the need for separate agencies that offer the same products and services, often in the same geographic area.

Further, the military community's morale, welfare and recreation program relies heavily upon the earnings of military exchanges to support vital community programs. This source of funding has and will become more important as Congress and leaders in the Department of Defense make the hard choices on the defense budget.

The confluence of these developments has led the committee to conclude it is prudent and reasonable to undertake a consolidation of military exchanges and creation of an organization that can best meet the future requirements of our military personnel, especially those serving in remote and overseas areas. Here again, our objective is stabilization and continuation of an important non-pay compensation benefit for our military personnel and their families.

According, we request that DOD immediately undertake a feasibility review of military exchange consolidation and by October 1, 1990 provide the committee with a plan to implement this consolidation by the beginning of fiscal year 1992. We look forward to working with you in this regard.

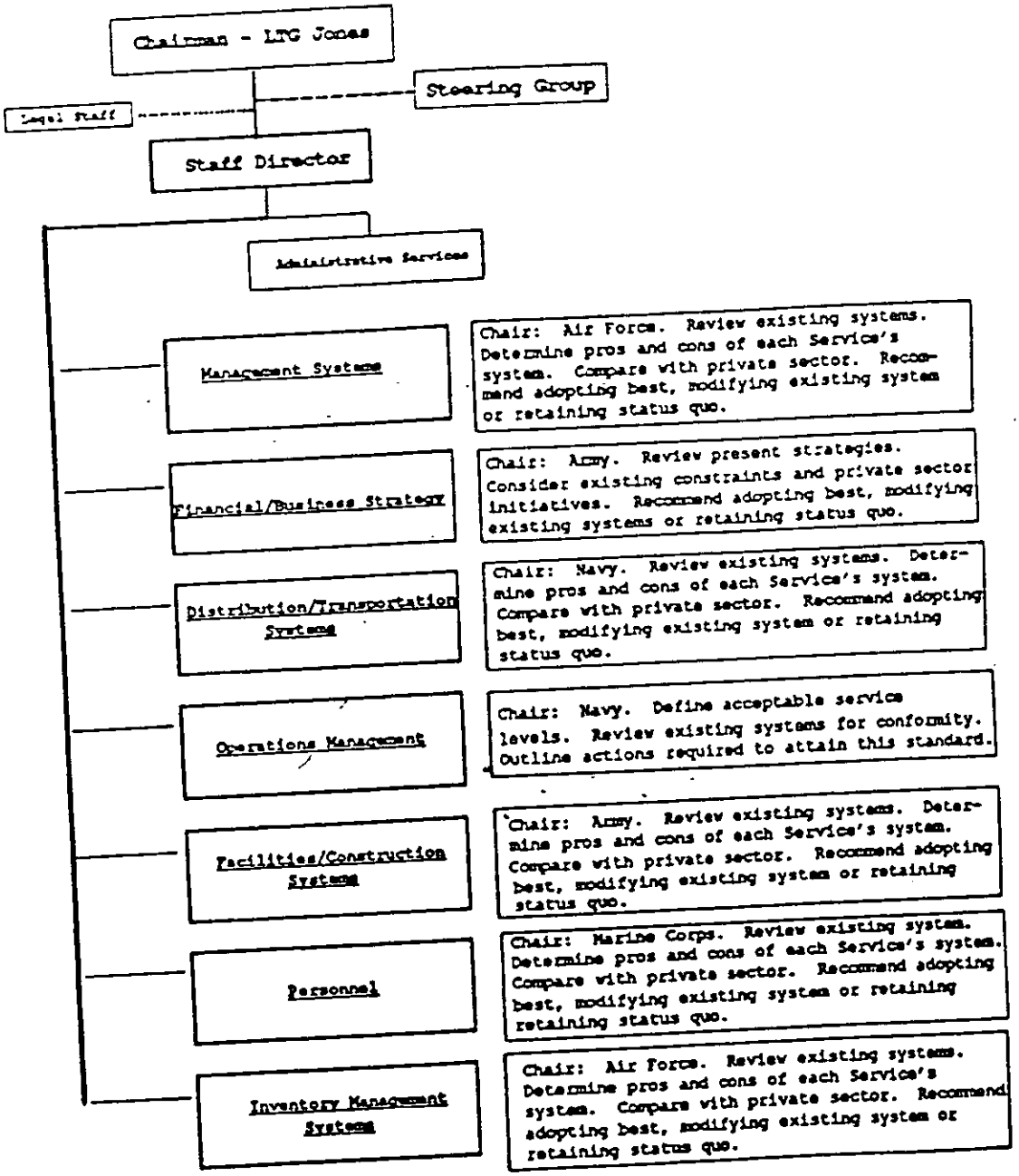
Sincerely,

Marvin Leath

Marvin Leath
Chairman
Morale, Welfare and Recreation Panel
Subcommittee on Readiness

ML:sr

Military Exchange Study



April 23, 1990

Committee Members	O-4 to O-6 or equivalent graded civilian

Army - 3 members as follows:

1. A business/financial management expert.
2. An engineering/construction expert.
3. A distribution system expert.

Navy - 3 members as follows:

1. An exchange operations expert.
2. A distribution system expert.
3. An MWR/APF financial analyst.

Marine Corps - 1 member as follows:

1. A NAF personnel expert.

Air Force - 3 members as follows:

1. An MWR/NAF financial analyst.
2. A data automation systems expert.
3. An inventory management expert.

Coast Guard - 1 member as follows:

1. An exchange operations expert.

Army and Air Force Exchange Service:

1. An exchange operations expert.

Office of the Secretary of Defense:

1. One attorney as appointed by the chairman in a part-time advisory capacity.
2. One civilian personnel policy expert as appointed by ASD(FM&P) in a part-time advisory capacity.
3. One nonappropriated fund budget expert in a part-time advisory capacity.

Summary of Personnel Resources Tasked to the Military Exchange Commission

DoD Review of Military Exchanges

Function	Requirement
Chairman	LTG Donald W. Jones, DASD(MM&PP)
Steering Group	Attend meetings of the Steering Group to be held monthly.
	Deputy Chief of Staff, Personnel, Navy
	Deputy Chief of Staff, Personnel, Army
	Deputy Chief of Staff, Personnel, AF
	Deputy Chief of Staff, M&RA, Marine Corps
	Chief, Office of Personnel and Training, U.S. Coast Guard
	Deputy Assistant Secretary of Defense (Management Systems), OASD(C)
Technical Advisors:	Commander, AAFES
	Commander, NAVRESSO
	Director, MWR Operations, Marine Corps
	Chief, Morale and Exchange Division, USCG

Consultants to the Staff Director

From within DoD or private sector on a temporary basis as deemed appropriate by the Commission Chairman/Staff Director.

Full Time Commission Staff

Staff Director	0-6	As appointed by the Chairman.
Administrative Staff	Army Admin Specialist Air Force Typist	E-7 or E-8 E-4 or equivalent civilian grade
	Navy Typist	E-4 or equivalent civilian grade
	Marine Corps Typist	E-4 or equivalent civilian grade

Milestones for Completing the DoD Study of Military Exchanges
(the Jones Commission II)

	Action	Milestone Completion	OPR
1.	Determine composition of the study group or commission and organizational structure.	March 23	Commission Chairman
2.	Arrange for office space and equipment for Commission for 16 members and 4 administrative staff.	April 2	Commission Chairman
3.	Write letter to General Officer Steering Group outlining major objectives of their involvement and advising of first meeting to be hosted by the Commission Chairman.	May 7	Commission Chairman
4.	Each member of commission will be assigned Committee Chairmanship responsibilities.	May 9	Staff Director
5.	Arrange to receive Commission staff and prepare inbriefings, billeting, etc.	May 14	Commission Chairman
6.	Chairman prepare In Process Review for General Officer Steering Group approximately every 3 weeks.	May 25	Commission Chairman
7.	Host initial meeting of General Officer Steering Group in Pentagon.	May 30	Commission Chairman
8.	Brief ASD(FM&P) and Assistant Secretaries on status of study.	July 16-27	Staff Director
9.	Present draft report and brief to Steering Group.	August 24	Commission Chairman
10.	Final draft report submitted to Military Departments for comment.	August 28	Commission Chairman
11.	Comments included as appendix to report and final report submitted to ASD(FM&P) for signature.	September 14	Commission Chairman
12.	Report submitted to Congress	October 1	TBD

THE DEPUTY SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

30 MAY 1990

MEMORANDUM FOR: SECRETARIES OF THE MILITARY DEPARTMENTS
UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ASSISTANT SECRETARY OF DEFENSE FOR FORCE MANAGEMENT AND PERSONNEL
COMPTROLLER OF THE DEPARTMENT OF DEFENSE

SUBJECT: Review of Exchange Systems in the Department of Defense

The missions of the military exchanges of the Department of Defense are (1) to provide authorized patrons with articles and services necessary for their health, comfort, and convenience, and (2) to provide a supplemental source of funding for the Department's morale, welfare and recreation programs.

There is hereby established a Review Group on Exchanges of the Assistant Secretary of Defense for Force Management and Personnel, the Assistant Secretary of Defense for Production and Logistics, the Comptroller of the Department of Defense, and senior representatives designated by the Secretaries of the Military Departments and the Chairman of the Joint Chiefs of Staff. The Assistant Secretary of Defense for Force Management and Personnel shall chair the Review Group. The Review Group shall review the organization and operation of exchanges in the Department of Defense and shall report to me by August 15, 1990 its findings and recommendations for strengthening them. The Review Group's recommendations shall include a recommendation on whether the exchange systems in the Department of Defense should be integrated into a single Defense exchange system.

The objectives of improving the Department's ability to carry out the missions of the military exchanges and of implementing the principles of the July 1989 Defense Management Report to the President shall guide the Review Group in its proceedings.

D J Atwood

05035

Appendix B

Purchasing and Inventory Control

Attachment 1	NAVRESSO Comments	B-1
Attachment 2	MWRSPTACT Comments	B-8
Attachment 3	AAFES Comments	B-13
Attachment 4	Sales Loss Rationale	B-14
Attachment 5	Inventory Quotes	B-21

7/13/90

From: NAVRESSO Attendees
To: Chairman, Jones II Study Group

Subj: INVENTORY MANAGEMENT FOCUS GROUP MEETING; DISSENTING OPINION

Encl: J.M. Marecki Memo for the Record

1. After 4 days of deliberation, the group could not agree on a recommendation to consolidate. The chairman of the Focus Group, M. Moreland, stated that he would proceed with a recommendation to consolidate based on the following assumptions:

   A. Satisfactory customer service, prices, item brand availability would be maintained

   B. AAFES level of buyer productivity could be maintained

   C. AAFES, MIS, Distribution/Transportation system can support the additional functions estimated at $2 billion in additional purchase

   D. Based on a rough estimate he stated that approximately 300 to 600 purchasing positions could be eliminated and the cost to implement would be approximately $15 million with a recurring cost of $3 million a year. It would take 3 to 5 years to implement

2. Both the Navy and Marine Corps disagreed with his position. Mr. Moreland advised both to write their dissenting opinions which he would make part of the record. The Navy dissenting opinion is reflected in Encl (1).

J.M. MARECKI A.J. RUGIERO R.E. MCGINTY

Copy to: NAVRESSO (00)
NAVRESSO Attendees to Other Focus Groups

Attachment 1

MEMORANDUM FOR THE RECORD

Subj: DOD Exchange Study Group - Exchange Procurement Study Group

1. The purpose of this memorandum is to state the position of the NAVRESSO attendees at subject meeting. The mission of the study group is to provide an unconstrained baseline assessment of the Department of Defense Armed Forces exchange systems; identify increased efficiencies, reduce overhead costs and increase savings in nonappropriated and appropriated fund resources. Policies and initiatives will be recommended that provide for an orderly implementation of any identified effeciencies; the changes should have no negative impact on customer service or savings; and review all functional areas of the armed services exchanges, identify efficiencies and include but not be limited to the feasibility of consolidating some or all functional areas.

2. The specific purpose of subject focus group was to examine the procurement/contracting function of the three exchange systems for improvement and/or possible consolidation. The following represents the main areas of agreement from the perspective of the NAVRESSO attendees:

- o If a consolidation were to be undertaken, the only infrastructure which may have the capacity to absorb the combined operation is AAFES.
- o The elimination of the Navy procurement/contracting function would result in the elimination of buyers at NAVRESSO, Navy Field Support Offices, Navy Resale Activities and Marine Corps exchanges. These reductions

would be offset by an increase in the AAFES regional [illegible] at each Navy and Marine Corps Exchange to accomplish the merchandising function required by the AAFES exchange system. The net impact on total staffing as a result of this consolidation could not be determined. NAVRESSO considers that the savings resulting from the consolidation of procurement/contracting functions would be largely offset due to decentralization of the merchandising functions which NAVRESSO has successfully consolidated at Field Support Offices and the addition of buying staff at AAFES Headquarters. The failure to come to grips with this issue severely limited the results of this focus group.

- It was concluded unanimously that each service is accomplishing its mission admirably in the face of unprecedented competition from commercial retailers.
- There are risks associated with merger of the merchandise procurement function on real or customer percieved service levels. Navy and Marine Corps customers may be disenfranchized due to a change in the buying structure, which would distance the buyer from the customer. Although these risks are real and customer loyalty is a fragile commodity, as evidenced by the recent unsuccessful merger of two retail giants, Ames and Zayre, these concerns were largely dismissed or given footnote consideration. For every one customer in a hundred who is disfranchised, the loss in Navy exchange profits would be at least $2.0 million per year. If the risk of a 20% sales

loss resulting from consolidation was given only a 10% probability factor, it would offset $4 million of annual savings achieved through consolidation.

The fact that the mission of the study group was to only recommend changes that maintain the same or higher levels of brand selection and service to the customer was generally given little or no consideration in the conclusion of this focus group.

- It was the general perception of the group that consolidation of the procurement function may result in some cost price reductions. There was no factual data presented which supported this critical consideration. It was agreed that if there were any cost price reductions that they would at least be partially offset by increased distribution and operational costs. There was no clear benefit in term of lower cost prices established by the focus group.
- There were repeated references by members of the permanent study team that it would be better for the group to recommend some form of consolidation than to have a more honerous form of consolidation edicted by higher authority. This seemed to be the single most pervasive argument for consolidation. This is not a logical approach to issue at hand. As a consequence, no attempt was made to assess cost impacts or to identify the potential risks associated with the consolidation of the procurement function.

3. In the final analysis, the only areas of consensus achieved

during the focus group meetings were that the services were performing their procurement functions well, customers were well served, net cost prices would not be reduced because of consolidating the procurement function to any appreciable extent, if at all, and that there might be some personnel savings that would result from consolidation but these were not quanitified. It was the opinion of the NAVRESSO attendees that the issue of consolidating some or all of the procurement function was the presumed recommendation of the study group at the start of our discussions and that concerns with the negative results of consolidation were given little if any serious consideration in the formulation of recommendations.

4. Although the charter of the study group was to examine alternative ways to save resources, only the issue of consolidation was given any serious consideration. The NAVRESSO attendees consider that there is no justification that supports any form of consolidation of the procurement function. The reasons for recommending the current status quo are attached.

J. M. MARECKI

- All the exchange services are effectively performing their mission - providing goods and services to military personnel and their families at a savings and are generating profits for MWR programs - "If it ain't broke - don't fix it."
- This performance has been achieved in a period of unprecedented turmoil in retailing. A period where major retailers have merged and gone bankrupt "Bigger is not necessarily Better."
- Individual exchange services can react faster to changes which will result from base closures and troop reductions based on current dramatic global changes. The individual exchange services are closer to their customer base than a consolidated system would be and can better relate to their needs during this period of unprecedented change. "Timing is Poor."
- Stagnancy due to lack of inter - service competition diminished esprit de corps within the Military Departments - Loss of "Pride of ownership." "Taking Care of our own."
- Status quo for the Navy is a very favorable position from the point that the Navy Resale System presently provides excellent goods and service to their Navy community. It provide savings on quality merchandise to its patrons. It is very responsive to local commands and customers, while contributing the highest dollar amount per capita to its MWR program. NAVRESSC has the best return on cost and best net worth of the three

military exchange services. NAVRESSO is poised to initiate evolutionary organizational and operational enhancements that are designed to ensure continued success in a increasingly sophisticated and aggressive retailing industry. Any merger would carry with it a degree of risk that is not justified by the minimal savings that may or may not be achieved.

FROM: Marine Corps Attendees

TO: Chairman, Jones II Study Group

SUBJ: Inventory Management Focus Group Meeting

Encl: (1) Mission and Objectives
(2) Exchange Service Purchasing Productivity
(3) Draft Report

1. Regardless of whatever decision is reached as it relates to consolidation, the Marine Corps Exchanges should be allowed to continue to operate as a division under the Marine Corps Consolidated MWR system. Consolidation of MWR businesses should be considered in the future due to the increased efficiencies, cost savings and loss of appropriated funds to support MWR activities. The Marine Corps' testing of a consolidated system will prove invaluable when this issue is addressed for all services.

2. Based upon the mission statement (encl 1) the following is submitted.

o Is consolidation feasible - Probable.

The Exchange systems carry approximately 80% of the same type of items. They may vary in depth, vendor or pricing but the assortments are similar. The different merchandise that makes the exchanges unique and different (20%) would have to be considered and a way found to maintain that uniqueness.

o Is consolidation cost effective -- Not Probable.

The exchange systems all vary in the way merchandise is procured. At any given time merchandise can be purchased with terms, dating, freight, rebates and allowances negotiated to reflect different cost prices. The Exchanges are probably purchasing merchandise that would preclude any major savings, taking into consideration

any hidden labor costs. Cost savings might be realized at the buying level however some of the savings would be offset by adding additional functions at store level encl 2 .

c Does consolidation increase efficiencies - Probable.

It is probable that efficiencies could be realized in areas of purchasing (encl 3) based upon duplication of efforts by the different exchange systems. There could also be efficiencies realized in MIS, transportation and distribution, personnel, accounting and other areas related to retail sales.

3. Without the proper systems (MIS, Warehouse, Transportation, Accounting, etc.) in place, the Marine Corps cannot recommend consolidated buying. However, with the support systems in place and substantial savings and efficiencies identified, the Marine Corps could recommend partial consolidated buying of selected classifications of merchandise.

Alternatives

a. Status Quo: In remaining status quo the Marine Corps Exchange System would realize no efficiencies in practices and procedures. The patron would continue to enjoy a high level of customer service with the availability of personal contact with the patron by merchandise personnel (buyers). The patron may pay a higher price for some items if the exchange does not buy in quanties that are large enough to receive lower cost prices. The patron would continue to benefit from the assortment of merchandise that local level buying ensures. The ability to react to everyday pricing and promotions from competition would remain as a strong advantage. By ulitzation of distributors the Marine Corps exchange not only takes advantage of the vendors expertise, but reduces cost of labor, transportation and warehouse/distribution cost. The inability of headquarters to ensure proper stock levels, assortments and pricing of certain items or classifications is a concern.

b. Partial Consolidation: With partial consolidation, the Exchanges may reduce payroll expenses. Additionally procedures for some functional areas such as security and personnel training could be standardized. Systems such as MIS could be upgraded resulting in better management control. Customer service could be improved because of a better in stock position for some basic merchandise. The patron should also benefit with uniform pricing by all exchanges within a specific shopping area.

c. Full Consolidation: Full consolidation would probably allow the exchanges to realize savings on personnel costs. There would also be a standardization of all policies and procedures directed from a Headquarters level. However the patron could receive a lower level of customer service because of standardization of stores and the lack of flexibility that now allows the exchanges to quickly react to the specific needs and wants of the local population. In addition, the merchandise staff would be removed at the local level making communication with the local patron virtually impossible. The stores would lose the identity they now have based on an focused stock assortment. However, Full consolidation should provide for more systematic catalogs and promotional events and better utilization of availible co-op participation from vendors. There could be savings in the area of private label/house brand merchandise. There could be savings in the area of transportation and distribution. MIS systems would have to be consolidated/upgraded without duplication of efforts. There should be savings generated he at buying level because of quanity discounts, allowances and terms. There could be possible savings in existing areas that have different exchanges competing for the same customer. The ability to negotiate local direct delivery contracts becomes more difficult and time consuming.

d. Separate Systems with Specific Recommendations: As a separate decentralized system, the Marine Corps Exchange System would continue to service the patron well and provide adequate funds to support the MWR programs. However, a standardized grading

system for personnel should be developed. Additionally other programs that would benefit all employees such as training and loss prevention programs should be developed and managed at a Headquarters level.

CONSOLIDATED EXCHANGE SERVICE CONCERNS

ɔ strictly a statistical viewpoint, a complete consolidation of the ɜe exchange services may appear to be cost effective and desirable; ɜever, the projected savings can be greatly affected by the following ɜngible issues:

A. Each exchange service has significant philosophic variations within their area of operation. For example, AAFES has a vertical management structure, the Marines are integrated with the MWR, and the Navy has direct distribution of dividends. The projected savings does not address the tremendous impact to the operating environment and corporate culture. These changes effect the retail operation and assume the consolidated Exchange System would operate in a smooth "AAFES-like" environment.

B. Exchange management reporting to a Board of Directors comprised of military representation is needed to assure response to the military customer.

C. Consolidation requires compromise, cooperation and a willingness to make changes. Each of the three Exchange services are justifiably proud of their operations. A consolidation will require significant changes to the way business is conducted. As part of human nature, we are all generally resistant to change. A hostile consolidation will surely fail and the customer will suffer.

D. While there are obvious efficiencies in centralization; experience tells us there is a "point of diminishing return", e.g., at some point in centralization, we cease realizing efficiencies and become inefficient in attaining desired goals/efficiencies.

With regards to consolidation, no one knows where that point is, but it is possible that AAFES is approaching that point, or may already have reached it in some areas. This could significantly distort projected savings.

E. All savings assume a mobile work force and a possible RIF action. This will probably not be the case. Projected savings cannot be realized in less than five years.

F. A consolidated exchange would be one of the largest retail organizations in the world. This requires highly skilled management equal to, or better than our competitors Wal-Mart, K-Mart, Sears, etc. A consolidated exchange system would have to be competitive with regards to hiring and retaining this kind of managerial talent, i.e., pay scale, fringe benefits, perks.

G. Much of the projected savings can be achieved with a partial consolidation of the three services.

H. A bigger organization is more visible and bears the risks of increased political and bureaucratic influences.

Question: Provide full details and rationale for your estimates of a 15% sales loss and of a $25 million profit reduction..."

Answer:

Henderson Hall MCX and Fort Myer AAFES exchange are within close proximity such that patrons at either installation may conveniently shop at either facility.

Henderson Hall retail sales are $21 million, Fort Myer is $11 million - a difference of $10 million or 47%. We assumed that each buying group could have merchandised its store in whatever manner it wanted to.

About one-half of all military patrons have a choice of exchanges in which to shop. 47% times one-half equals roughly 23%.

We conservatively used 15% to include a factor for those patrons who would buy something even if what they really wanted was not available. As validation, we looked at the impact at Zayre stores of the change to Ames' merchandise assortment. Zayre stores suffered 16% sales loss from the change made by Ames.

NEX retail sales equals $1.4 billion, MCX retail sales equal about $0.3 billion. Total of $1.7 billion times 15% equals lost sales of about $255 million.

We assumed that gross profit lost would be partially offset by managing store expenses down with perfect linearity (reality is that it would be somewhat less than linear, linear is more conservative assumption). Therefore, "retail net contribution" as we use the term is the appropriate profitability factor to use.

Retail net contribution approximates 10%. $255 million times 10% equals $25.5 million, we used $25 million.

Our analysis assumed that Navy/MarCorps personnel who would buy an item in a present AAFES exchange would buy the same item in any exchange, possibly shifting sales from one store to another but with no net change in total.

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON DC 20301-4000

CE MANAGEMENT
ND PERSONNEL

14 AUG 1990

Ms Jill Manning
KPMG Peat Marwick
1601 Elm Street, Suite 1400
Thanksgiving Tower
Dallas, Texas 75201

Dear Ms Manning:

A Department of Defense study group is now reviewing the feasibility of consolidating the military exchange systems.

One of the exchange services has projected a 15% loss in sales volume and a $25 million decrease in profit, if the exchange operations are consolidated. Inclosure 1 details the questions asked upon receipt of these projections and inclosure 2 is the rationale provided to support those projections.

I would appreciate receiving your opinion of the appropriateness of the rationale used in making the projections. While the two stores are closely sited, they are distinctly different in size, merchandise assortments and price lines. Specifically, is the comparison of two stores sufficient to project trends for the entire system?

Thank you in advance for your assistance.

Sincerely,

W. Michael Moreland, C.P.M.
Chairman, Inventory Management Focus Group
DoD Armed Services Exchange Study Group

2 Incl
as

8 August 1990

Dave Binder, NAVRESSO

re: Meeting on 7 August and page 7 of Navy/Marine Assessment of study

1. Please provide full details and rationale for your estimates of a 15% sales loss and of a $25 million profit reduction, to include:

    a. Specifics on merchandise variety reductions, i.e., what merchandise is now being bought by Navy and Marine buyers that could not be purchased by a central buyer, and why; show the dollar sales and profits by each category that can not be bought centrally.

    b. What changes in pricing policies were assumed, and why? What are the impacts of each?

    c. What stock assortment changes were assumed, and why? What are the impacts of each?

    d. What more expensive purchases were assumed, and why? What are the impacts of each?

    e. What mark down changes were assumed, and why? What are the impacts of each?

    f. Detail any other assumptions and the rationale and impact for each.

2. Show your assessment on the impact on small businesses. How many vendors now supply NAVRESSO and what are the net dollar purchases? How many of these vendors meet the standard Federal definition of small businesses and what are the net dollar purchases from them? How many small vendors supplying what merchandise categories valued at what dollar amounts of purchases would not be or could not be continued under a centralized alignment, and why?

3. When a competitive environment exists, suppliers compete with other suppliers for business. Detail your rationale and list specific examples and the impacts of each instance where the existence or absence of AAFES contracts influenced the outcome of NAVRESSO solicitations/contracts.

Since these points were briefed by NAVRESSO on 7 August, it is assumed the information requested is readily available. Please forward it to arrive here this week.

Thanks.

Mike Moreland

Question: Provide full details and rationale for your estimates of a 15% sales loss and of a $25 million profit reduction..."

Answer:

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Henderson Hall retail sales are $21 million, Fort Myer is $11 million - a difference of $10 million or 47%. We assumed that each buying group could have merchandised its store in whatever manner it wanted to.

About one-half of all military patrons have a choice of exchanges in which to shop. 47% times one-half equals roughly 23%.

We conservatively used 15% to include a factor for those patrons who would buy something even if what they really wanted was not available. As validation, we looked at the impact at Zayre stores of the change to Ames' merchandise assortment. Zayre stores suffered 16% sales loss from the change made by Ames.

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KPMG Peat Marwick

Certified Public Accountants

Suite 1400
Thanksgiving Tower
1601 Elm Street
Dallas, TX 75201

Telephone 214 754 2000

August 17, 1990

Mr. W. Michael Moreland, C.P.M.
Chairman, Inventory Management Focus Group
DOD Armed Services Exchange Study Group
Building 3087, Navphibase Little Creek
Norfolk, Virginia 23521

Dear Mr. Moreland:

As discussed in our phone conversation on August 14, 1990, we have reviewed the NAVY/USMC assessments of anticipated sales losses and profit reductions in connection with the feasibility study of consolidating the military exchange system. Based on our understanding, these estimated losses are projected from the comparison of only two stores within close proximity. The NAVY/USMC exchanges may differ greatly from the AAFES exchanges in size, merchandise assortments, price lines and geographic locations, and it would be difficult, based on the limited information, to project anticipated losses due to a consolidation. Based on these facts, there appears to be insufficient data to project anticipated losses in the event of the consolidation of the military exchange systems.

If I can be of further assistance in this feasibility study, please feel free to give me a call at (214) 754-2379. Thank you.

Very truly yours,

KPMG PEAT MARWICK

Phil Marshall, Partner

PM:DH

Member Firm of

CONCERN: The study group proposes that a consolidated military exchange system would employ current AAFES operating systems (procurement, MIS, distribution). These operating systems are structured to accommodate a set of desired merchandising and marketing strategies. Merchandising and marketing strategies are designed to the needs of individual retailers based on their customer profile and competitive market structure.

There are significant differences in the merchandising and marketing strategies of AAFES exchanges and those of Navy and Marine Corps exchanges. The major differences are:

	AAFES	NEX/MCX
STOCK ASSORTMENTS	Controlled centrally	Controlled regionally/ locally
PRICING	Common Systemwide Pricing	Common systemwide policy but individual pricing established regionally/locally based on competitive environment
MERCHANDISE FOCUS	Primary hardlines/ consumables oriented	More heavily softlines oriented

These differences in merchandising and marketing strategies have evolved to serve the differing competitive market structures of the services. The Navy and Marine Corps realize a much greater proportion of their exchange retail sales in the United States than does AAFES. Overseas accounts for more than 40% of AAFES total retail sales, whereas Navy and Marine Corps exchanges only achieve 19.5% of worldwide sales at overseas locations. This means that the NEX and MCX are dramatically more dependent on stateside sales and a more competitive retailing environment than is AAFES. Also, AAFES exchanges within the U.S. are generally located in less urbanized places than NEX and MCX exchanges. 75% of the U.S. markets in which NEX/MCX exchanges operate are in the top 100 markets as ranked in the S&MM (Sales & Marketing Management) market rankings, whereas only 53% of the U.S. markets in which AAFES operates are in the top 100 S&MM market rankings. These more urbanized areas in which NEX/MCX operate are characterized by a more intense retail competitive environment. NEX/MCX generate 60% of their total retail sales in these highly competitive markets, while only 30% of AAFES sales are concentrated in these markets.

The more competitive retail environment in which the NEX/MCX operate, requires merchandising and marketing structures which are more flexible than a highly centralized organization such as the AAFES structure can provide. Merchandise assortments must be adjusted based on the strengths and weaknesses of the local commercial competitors and exchanges must be empowered to react quickly to competitive pricing in these markets.

The NEX/MCX customer is more likely to live on the private economy than the AAFES customer. A greater proportion of Army and Air Force active duty personnel live in base housing than Navy active duty personnel. The NEX/MCX has fewer "captive" customers than AAFES. The NEX/MCX must have merchandising and marketing programs designed to attract customers back to the military base. Therefore, the NEX relies on direct mail advertising to a greater extent than AAFES while the MCX applies specialty retailing techniques to differentiate itself from its competition. These marketing techniques require a decentralized management approach to be effective.

There is no simple quantitative model available that would provide an estimate of the sales loss that would be incurred at the NEX/MCX retail outlets resulting from the change of merchandising and marketing strategies. There is one recent example of a merger in the retail industry that is similar to the proposed merger of the military exchanges. Ames, a northeast discount chain, acquired Zayre discount stores in October 1988. Ames stores operated primarily in less urbanized areas, while Zayre stores generally operated in urban areas. The marketing and merchandising strategies of the Ames stores were applied to the Zayre operation. As reported in a New York Times article of 11 April 1990, sales at Zayre stores declined 16%. The article stated in part: "As it turns out, Ames has failed miserably, providing a near-textbook lesson of how not to merge two seemingly well-suited companies. Not only has it been unable to revitalize the Zayre stores, since renamed Ames, sales at those stores have declined about 16% after a series of strategic blunders. Those included changing the name of the Zayre stores, as well as their pricing and advertising policies."

Today, AAFES, NEX and MCX are well-suited to serve their customers. Their merchandising and marketing practices have evolved over a period of 40 years based on their customer profile and competitive market environment. Each of the exchange programs has continued to be successful despite unprecedented competition from commercial retailers. The exchange systems are positioned to implement further evolutionary improvements that will enhance their performance. Under these conditions, few prudent businessmen would risk the potential losses that are likely to be incurred as a result of the proposed merger.

Industry Quotes

Centralized support functions, decentralized management

"By the end of 1990, as much as 70-75% of our merchandise will be centrally merchandised. We've found centralized merchandising is more efficient so we can pass price savings on to customers." From K Mart's 1989 Annual Report.

High performance retailers "...tend to be the 'captains of their distribution channels'. These companies have become powerful players in the distribution channel because of an ability to deliver market share and/or through ownership of the source of supply. technology represents a major commitment and continuing investment." Management Horizons, Spring 1989 Management Conference.

Federated Stores, Inc. is developing a new, more centralized buying strategy that could save it millions of dollars and enable it to lower its prices.
Reported by The Dallas Morning News, July 8, 1990.

"Our distribution centers process 80% of everything we sell in a Wal-Mart. Due to technology and new equipment in DCs, they routinely process 200,000 cases a day. We have lowered our costs and dramatically added to our overall capacity. With technology 'regional merchandising can be done today'." From David Glass, CEO, Wal-Mart, in January 1990 issue of Discount Merchandiser.

"The retail organization will be flat, lean and very decentralized as information technology increases senior management's span of control. Middle management will all be disappear as information flows directly up to higher management or further down into the organization for analysis and decisions." From Dan Sweeney, Chairman, Management Horizons, in The Dallas Morning News, June 12, 1990.

"Decentralized management had been a difficult way to run a business due to the need to coordinate buying, marketing, advertising. But technology (worldwide satellite communications, distributed information systems, expert systems) and intensified local market competition will transform decentralization into the preferred organizational option. Decentralization will represent the business response to greater diversity and greater democracy in the marketplace." From Management Horizons' Retailing 2000, as reported by Inside Retailing, June 18, 1990.

"The Limited stores use store profile clustering to tailor their merchandise mix to local trading, resulting in a maximized sales opportunity at a reduced inventory investment." Management Horizons, Spring 1990 Management Conference

Appendix C

Management Information System Attachments

HARDWARE

I. DESCRIPTION: Computer processing is centralized on IBM 3090 class computers manufactured by Amdahl Inc. In Europe, a few online applications run on an IBM 4381 computer. Processing at the automated distribution centers is accomplished on state of the art DEC mainframes. Decision support systems are on an IBM 4341 in Dallas.

II. ASSESSMENT: Mainframes are upgradeable and positioned well for growth; there are no foreseeable restraints.

III. FUTURE SYSTEMS: Several projects are underway to upgrade and improve capabilities. Processing power and memory on one of the IBM 3090s is set for September 1990. Contract was awarded to double disk capacity over the next two years as growth is required. Decision support processing will move to the mainframes to provide more processing flexibility as well as growth capacity.

Mid-range computers will be installed in all CONUS main stores after a contract is awarded in late 1990.

OPERATING SYSTEMS

I. DESCRIPTION: Operating software is IBM MVS/XA using IBM VTAM as communications interface. The data base management system is IBM IMS. Systems development interface is IBM TSO. IBM VM will be used for the decision support system once migrated to the mainframes.

II. ASSESSMENT: MVS/XA and IMS fully satisfies the production processing needs of AAFES. Oracle is being tested on the mainframe; it has been selected as the relational data base management system for the future store level midsize computers.

III. FUTURE: Consideration is being given to using a state of the art relational data base management system at the corporate level. Data could be passed from and refreshed by the production IMS data base management system. Many companies have both relational and non-relational data bases. The non-relational data base managment systems support the company's investment in their particular program code and application systems investment.

DATA TELECOMMUNICATIONS

I. DESCRIPTION: A leased line network, using NCR Comten front end and remote communications processors with IBM SDLC protocol, extends throughout CONUS and the Pacific and to portions of Europe. Europe is primarily served by a public packet switched network, interconnected to the private leased line network. In CONUS a separate network, reaching to virtually every facility, is used for check cashing approval and credit authorization. This network is also used by Coast Guard/Navy clubs, commissaries and other non-AAFES activities on a pay as you go basis.

II. ASSESSMENT: Hardware and Comten controlled telecommunications are state of the art technology and positioned well for growth. There are no foreseeable restraints for either of these areas. The check cashing/credit authorization network has far outlived its life cycle expectancy. Its technology prevents badly needed expansion.

III. FUTURE: Seven of the 11 Comten processors in CONUS are being replaced by a satellite network. One hundred and thirty leased lines are also being eliminated. This project is over half completed and will be completed by September 1990. An RFP is nearly complete for replacement of equipment on the check/credit authorization network. Complete replacement is expected to take two years thus eliminating present technology constraints.

MAINFRAMES: Amdahl 5880MP, 23 MIPS, 96 MB, 48 channels
Amdahl 5890/400E, 55 MIPS, 256 MB, 96 channels

OPERATING SYSTEM SOFTWARE: IBM's MVS/XA with JES2, Release 2.2.
IBM's VTAM, Release 2; will upgrade to Release 3 in April.
IBM's IMS DB/DC, Release 1.3; upgrade to Release 2.2 in 2Q90.

DASD:

IBM	3380 Single Density:	55 GB,	88 actuators
IBM	3380 Double Density:	30 GB,	24 actuators
Amdahl	6380 Double Density:	120 GB,	96 actuators
Amdahl	6380 Single Density:	10 GB,	16 actuators
	Total :	215 GB,	224 actuators

EDAS: Amdahl 6680; 256 MB of high-speed, solid-state storage with battery back-up; used for small, very high activity files.

MAGNETIC TAPE: IBM 3480: 24 drives, 19,600 cartridges
STC 3670: 3 drives, 3,500 10.5 inch reels

TERMINALS:	Local	Remote	Total
MAINFRAME ATTACHED:			
VDTs (327X, 3180, 319X, 347X)	1163	1775	2938
Printers (Dot Matrix & Laser)	132	616	748
PCs (Coax attached as a VDT)	432	142	574
Total	1727	2533	4260
STAND-ALONE (not MF attached):			
PCs (Dell, Epson)	466	774	1240
Laptop PCs	29	28	57
Special Purpose PCs	10	32	42

COMMUNICATION PROCESSORS: 19 NCR Comtens at 6 locations in CONUS and 8 locations overseas; all COS capable.

CONUS SATELLITE NETWORK:
Contractor: Hughes Network Systems
Master Earth Station: El Segundo, California
Number VSATs installed: 1718 (this total is changing almost daily)
Number VSATs planned by September, 1990: approximately 130

-RJE SITES: 15 major sites attached to Dallas (ERs, OES, DCs);
335 facility level sites attached to Dallas;
445 dial-up sites (mainly FPOS/RPOS) attached to Dallas;
serviced by 70 dial-up incoming lines.
404 sites (mainly X.25) attached to Munich.

FAULT TOLERANT TRANSACTION PROCESSORS: Three IBM System/88, Model 082, each with 48 MB of memory, 448 MB DASD (Atlanta & Oakland) or 768 MB DASD (Dallas).
Attached Terminals: approximately 1222 micros, 4500 keypads.
Total Transactions: 323,000 per day; peak of 5 per second each; average response time of 6 seconds.
By Application: Credit - 27,000 CVS - 213,000 Other - 83,000
Highest single day (8 Dec 89): processed 452,000 transactions;
(Credit - 46,000 CVS - 215,000 Other - 191,000).

EIS PROCESSOR: IBM 4361/5 (1.2 MIPS, 8 MB); with 5 GB of DASD; approximately 40 attached terminals (VDTs and printers).

EUROPE MAINFRAME: IBM 4381/R14 (5 MIPS, 32 MB, 16 channels) with IBM 3380 DASD (25 GB, 24 actuators); IBM 3480 Tape (8 drives).

AUTOMATED DISTRIBUTION CENTERS:

GIESSEN: One DEC 8650 (48 MB) and one DEC 6320 (64MB); with 7 GB of DASD approximately 240 attached VDTs.

NEWPORT NEWS: Two DEC 8530 (48 MB each); with 10 GB of DASD; approximately 190 attached VDTs.

WACO: Two DEC 8530 (32 MB each); with 7 GB of DASD; approximately 150 attached VDTs.

ATLANTA (for Re-Buyers): One MicroVax (16 MB); with 1 GB of DASD; approximately 10 attached VDTs.

DALLAS (TEST SYSTEM): One DEC 8530 (32 MB); with 5 GB of DASD; approximately 40 attached VDTs.

APPLICATION/USER SOFTWARE (Dallas Mainframe Only):

	Total IDs	Concurrent Avg. Users	Concurrent Peak Users	Transactions Avg. Per Day
IMS	7,031	625	674	212,323
TSO	2,594	105	142	148,342
EMC2	5,381	300	550	
RMDS	6,484	35	60	
NOMAD	2,700	6	13	42,342
FALCON	1,577	20	30	
	25,767	1,091	1,469	

DATA BASES: 120

APPLICATION PROGRAMS: 6,000

VOICE COMMUNICATIONS, Commercial (CONUS only): $533,000 per year for 58,200 hours (Down from 75,000 hours in December) @ 15 cents per minute. Carriers are AT&T, MCI and Sprint.

DATA COMMUNICATIONS:

	No.	Annual Cost
Dedicated Point-to-Point Circuits	25	$3.2M
TRW Multipoint Circuits (1,244 drops)	169	1.3M
VDT & Printer Circuits (CONUS only)	28	1.0M
Backbone Trunk Circuits (Comten to Comten)	---	-----
Total Dedicated Circuits/Cost	222	$5.5M

Geographical Mileage (dedicated circuits only)	
Domestic (includes Oakland-Hawaii and Oakland-Alaska)	77,381
USA to Europe	17,943
Hawaii to Pacific Areas	8,916
Total	104,240

Dial-Up Communications (RPOS, FPOS, RJE)	Cost Annually
CONUS	$ 65,551
Pacific	76,550
Europe	144,144
Total Dial-Up Cost	$ 286,245

DISTRIBUTED PROCESSORS: (OVERSEAS)	In Europe, 22 TI990's most with 100 MB of DASD; 19 TI300's with one 17MB or one 40 MB drive. In the Pacific, seven TI990's. Also, systems in Alaska, Panama, Puerto Rico and the Azores.
DISTRIBUTED PROCESSORS: (CONUS)	Three TI990's, one each in EN, IS-D and FDC; all with from 100 to 500MB of DASD. 13 TI300's used for MCSS, all with 40MB of storage.

LOCAL AREA NETWORKS (LANs): Ten departmental LANs in Dallas supporting approximately 250 workstations and 40 printers. Three LANs in AAFES-Pac supporting 26 workstations and 11 printers.

DATA PROCESSING AT WACO DISTRIBUTION CENTER

Our computer center was installed in August 1988. Our computer and local area network hardware cost more than $1,500,000 which includes our central processing units (CPUs), disk drives (DASD), tape drive, printers, visual display terminals (VSTs), terminal servers, network repeaters and IBM to DEC and DEC to DEC communication devices.

Our hardware consists of:

1. 2 VAX 8530 Central Processing Units (CPUs) clustered together. Each CPU runs at 4 million instructions per second (MIPS) for a total processing power of 8 MIPS. Each CPU has 32 megabytes (MB) of internal memory. CPUs can run clustered or separately. An SC008 Star Coupler couples the two CPUs.

2. 2 HSC50 high speed controllers for our disk and tape drives. Each of our disk and tape drives are dual ported to give us redundancy. Our I/O devices will automatically switch over to the good controller should one of our HSC50s fail.

3. 15 RA81 disk drives each holding 456 megabytes (MB) of data storage. Our system, programs and application files are shadowed to a second disk to provide data redundancy. If a disk drive fails, the system will continue to process (read and write) from the shadow set.

4. One TA81 tape drive which can record at 6250 bits per inch (BPI). The tape drive is used primarily to back up our data files once a day, and to load new programs.

5. One DECSA SNA gateway which communicates with our IBM mainframe in Dallas. A dedicated telephone line between Waco and Dallas connects us to the AAFES worldwide network over which data is sent to us and we send back files every day also. However, we rely mostly on this connection for our electronic mail system which we use to correspond with AAFES people and units all over the world.

6. One DECRouter 200 which connects us to AAFES' other DEC computers at Newport News, VA, Atlanta, Dallas and Giessen, Germany. This DECNET connection is used for software maintenance and some file transferring as back up to our SNA gateway connection.

7. Approximately 130 DEC VT320 VDTs are scattered throughout the warehouse to be used as work stations at all levels of the warehouse. We do not use any graphics or colors in our system.

8. 3 LG01 and LG02 printers from DEC comprise the core of our print capability. Either model runs at 600 lines per minute (LPM), but the LG02 is capable of graphics (barcodes, big letters, etc.). These printers are located strategically around the warehouse to print our documents at the spot where there are used.

9. Several LA-210 and LA-75 desk top printers complement our print capability and also are scattered around the warehouse to be used where they are needed.

10. 2 Litton LIS-1520 high speed laser printers ($75,000 each) provide special print capability to give us high quality, highly readable

bar codes for carton labels. They print 20 pages per minute and are a bit unique because they will feed continuous form paper. (Most laser printers are sheet feeders.)

We have an Ethernet local area network in the warehouse which is used to connect all our peripherals (VDTs, printers, scanner, sortation controller, and communication devices such as the SNA gateway and DEC Router) to the computers. The network reaches from our computer room and administration building to every nook and cranny of the warehouse and through fiber optic cable and fiber optic repeaters under tarmac to our vehicle maintenance/transportation building.

Our local area network consists of:

1. Ethernet coaxial cable, transceiver cable, and RS-232 cable are installed in the ceiling and at 4 network stations. Several thousands of feet of cable and hundreds of connections comprise the network which was installed by WADC's own personnel.

2. 25 DEC200 Terminal Servers provide full modem connections to all the peripherals. Each DEC200 has 8 ports. A port can be used for a printer, or a VDT, or a scanner, or any RS-232 type device.

3. 6 DELNIs connect the terminal servers at our network stations. 8 terminal servers can be connected to one DELNI.

4. H4000 transceivers are little black boxes that bite into the Ethernet coaxial cable and provide network connection to DELNIs, computers, and repeaters.

5. Fiber optic cable and fiber optic repeaters (one pair).

Between our local area network and computer, our system communicates with our conveyor system and the high speed scanner. From the scanner the DEC computer finds out which box just passed. The DEC computer then decides to which truck door (sort lane) the box goes. It then tells the conveyor system microprocessor the sort lane for the box. From the time the box passes under the scanner till the sort message is given to the conveyor microprocessor, no more than 250 milliseconds can elapse. The DEC system and network must be very fast.

We use the VAX/VMS operating system and we are currently running VMS Version 5.1. We use several of DEC's layered software products for our system. These include the following:

1. VAX Volume Shadowing
2. RMS, Records Management System
3. CDD, Common Data Dictionary
4. FMS, Forms Management System
5. SNA Gateway Management
   a. Remote Job Entry
   b. Terminal Emulation (lets our VDT connect to IBM)
   c. Printer Emulation (lets the IBM print to our printers)
6. TSM, Terminal Server Manager
7. VAX System Perfomance Monitor
8. DECNet End Node.

Two DEC engineers from Waco are on call 24 hours a day, Monday thru Friday to maintain all pieces of equipment, including our local area network. Our computer system runs around the clock 5 days a week. On the weekend we back up and reorganize our files, do any program or system maintenance from our Dallas office, and install any new equipment. Our current configuration will maintain our operation for the next two years, but we constantly watch computer performance, load, and growth and will upgrade to newer and faster VAXes if needed.

AAFES
Accounting/Fiscal Systems

Description

Most of the financial and accounting functions have been mechanized. Major subsystems include: Accounts Payable, Accounts Receivable, General Ledger, Operating Statements, Fixed Assets, Cash Management, Capital Expenditure Program, Budgets, and Insurance.

Assessment

These systems suffer the same problems as the merchandising systems. The facility number coding structure has significant meaning which is used to report financial transactions. The structure severely hinders expansion into new business and reporting operating results. Capturing financial transaction data is batch oriented, costly and error-prone. The systems are supported by flat files, some of which were designed in the early 70s, which preclude online maintenance and inquiry capability and inhibit report generation.

Future

A consultant firm has been hired to develop a new General Ledger System. The system has been defined and designed. Construction is underway and implementation scheduled for FY 1992. The new system will provide complete reporting flexibility to develop operating statements and statistical analysis for any segment of the company. A new Facility Master File will be developed to provide flexibility in addition to supporting unlimited business expansion, reorganization, and additional facility information. A new simplified chart of accounts is also included.

Personnel/Payroll Systems

Description

The personnel system includes all job status and personnel information necessary for payment of payroll checks, benefits, as well as performance evaluation history, job history, training and awards data, and disciplinary information. Most of the information is maintained on data bases and is available for online inquiry and updating. The payroll system collects bi-weekly time and attendance data which is combined with selected personnel data from the personnel data bases to produce bi-weekly check for all dollar paid employees. Check information processed at the headquarters is routed to the paying facilities and printed locally, including Europe and Pacific remote sites. Separate systems have been developed to support foreign country payrolls for Japan, Philippines, Korea, and are processed locally; Germany is processed on the Dallas mainframe.

Assessment

The current systems are relatively state-of-the-art. Data bases provide the underlying support for online maintenance and inquiry. The capability to match personnel with positions and organizations is missing and needed. Additional personnel have recently been assigned to develop this capability and other subsystems which will further automate the personnel/payroll processes.

Future

No new further projects are currently envisioned. Numerous personnel projects which will automate manual functions have been identified for development over the next 2-3 years. These include:

- o Online Data Base Update
- o Organization Master File
- o Elimination of Discrepancy Notices
- o Elimination of Rejected Personnel Actions
- o Electronic Routing of Personnel Actions
- o Revise Separation Action Codes
- o Mechanize Job Administration
- o Service Awards: Eligibility and Ordering System
- o Automation of Personnel Separation Information

Distribution/Warehouse Systems

Description

The Warehouse Inventory Control and Replenishment system provides a set of integrated data bases that provide item, price, history, and distribution data to support the major merchandising systems and the warehousing and distribution functions. The Warehouse Control System, which provides support for non-mechanized distribution centers, produces 15,000 requisitions, 200,000 labels, and over 100 management reports daily. The Warehouse Management System is a stand-alone system which provides total operations support for the three mechanized distribution centers located in Giessen, West Germany; Newport News, Virginia; and Waco, Texas.

Assessment

The systems to support the non-mechanized warehouses have been kept up to date and provide full functionality in support of warehouse operations. The stand - alone system supporting the mechanized Distribution Center is a purchased package. It is extremely complex. Until very recently, maintenance and modifications to the system were made by the vendor at considerable expense and time. Late 1989, relations with the vendor were severed, additional staff allocated and all changes to the system are now accomplished internally.

There are few systems to support the transportation function. There are many processes which need to be automated. Requirements for these processes must be defined and personnel assigned to develop the systems.

Store Systems

Description

The store systems provide support for a wide variety of store - related processes. These include: check verification, credit, installment purchases, retail and food point of sale processing, inventory control, requirements forecasting, and physical inventories.

Assessment

Despite the numerous systems supporting the stores, most of the store operations are performed manually at considerable expense in personnel. These operations need to be automated. In addition to the millions of dollars in personnel savings, automating these functions will greatly improve operating efficiency, employee productivity and inventory control.

Future

The AAFES Store Automation Project (ASAP) is being developed by the same consulting firm which is developing the IGLAS project. This project is well underway and will be developed in a series of planned applications in three phases. The applications will focus on inventory management, fiscal transaction systems and key customer service areas. The applications identified for

development are:

PHASE 1:

- o Inventory Control
- o Automated Replenishment
- o Receiving
- o Price Changes
- o Merchandise/Expense Transfers
- o Shelf Label Production

PHASE 2:

- o Accounts Receivable

PHASE 3:

- o Layaway
- o Refund
- o Cash & Sales
- o Bank Reconciliation
- o Open to Buy/Planning
- o Sales Commission
- o Store/Exchange Manager Workbench
- o Sales Analysis/Merchandise Reporting
- o Cashier Cage
- o Contract/Concessionaire
- o LMS Enhancements

Technology

Employing new technologies in the 1990s will allow our stores to focus on customer service and making the sale. Technology will help us better meet our customers' needs in terms of in-stock position, competitive pricing and improved customer service. To effectively use these new systems, we must increase the use of the Universal Product Code throughout our merchandise cycle. The AAFES strategic systems vision commits us to automating our stores with improved business systems support. These systems will integrate accounting, cash management, purchasing, and other functions and will provide managers the necessary information to quickly meet administrative responsibilities.

Technology Strategies:

1. Install installation-level computers with an expanded telecommunications network to link them with both central mainframes and warehouse computers. Telecommunications support for installation-level computers will be via AAFES satellite network. Installation-level computers are initially planned for CONUS; we will confirm their effectiveness for overseas. **ECD: JUL 93 OPR: IS OCR:** MK; PD; CM;PE;PL; ERs; DH; EN

2. Automate store operating functions with emphasis on tasks requiring extensive manual effort, while insuring integration in the areas of accounting, inventory management, marketing and people resources. The AAFES Store Automation Project (ASAP) will develop those applications which will be supported by the planned installation-level computers and telecommunications network. The development of supporting central data bases will remain a top priority. ASAP will progress in phases which address the business priorities of the applications being developed. Estimated completion dates will be amended as each phase progresses.

Phases	Initial Installation Date
0 - Applications not requiring installation processors (shelf label audit, sign making)	Jan 90
1 - Inventory management	Jan 91
2 - Store accounting and cash management	Jan 92
3 - Other strategic and management systems	Aug 92

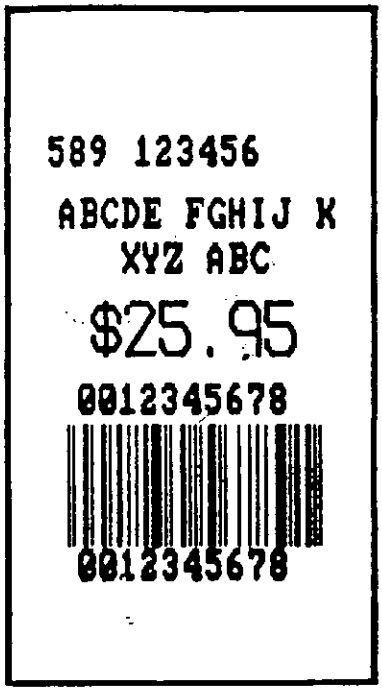
OPR: MK OCR: CM; IS; DH;PE;ERs; EN

3. **Support store automation with full integration of systems required to meet the needs of all echelons of AAFES. The Integrated General Ledger Accounting System (IGLAS) will provide the framework to route data from installation processors to financial and other central applications. ECD: DEC 91 OPR: CM OCR:** IS; PD; MK; PE

4. Continue to refine the Warehouse Management System (WMS) under the Realignment of AAFES Logistics (REAL) project. The WMS is now operational at Giessen, Dan Daniel and Waco Distribution Centers. ECD: DEC 90 OPR: DH OCR: IS

5. Improve Retail Point of Sale (RPOS) in-store computer systems to enhance store support and extend the effective life of our RPOS cash register investment. The new RPOS platform will focus on flexibility, commonality and vendor independence to support the expansion of RPOS as the price performance of the technology improves. ECD: DEC 93 OPR: IS; MK OCR: CM; PL; DH; PD; SD; AU

6. Explore the use of voice and image transmission for conferences, workshops, training and introduction of product lines. As technology improves and costs decrease, AAFES must consider expanding its capability to disseminate information using the telecommunications network. ECD: JAN 91 OPR: PE OCR: IS; PA; PD; MK



AAFES
Modernization Plan

($ 000)

	Element	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
	One-Time Costs:								
A	SNIP	2,000	2,500	2,500					7,000
	ASAP:								
B	Software	2,100							2,100
C	Hardware	633	11,340	11,340					23,313
D	IGLAS	1,800	1,800						3,600
	Recurring Costs:								
E	Personnel – HQs	18,200	17,600	16,500	16,500	16,500	16,500	16,500	118,300
F	Personnel – Field	5,300	5,300	5,300	5,300	5,300	5,300	5,300	37,100
G	ASAP Computer Oper. – Store	186	2,457	4,915	4,915	4,915	4,915	4,915	27,218
H	ASAP Offsets – Store		(10,320)	(20,640)	(20,640)	(20,640)	(20,640)	(20,640)	(113,520)
I	Hardware/Software	15,422	15,422	15,422	15,422	15,422	15,422	15,422	107,954
J	Telecommunications	4,900	4,900	3,900	2,900	2,900	2,900	2,900	25,300
K	Operations/Ops Maint (Other)	5,700	3,600	1,800	1,800	1,800	1,800	1,800	18,300
L	Subtotal - One-Time Costs	6,533	15,640	13,840	0	0	0	0	36,013
M	Subtotal - Recurring Costs	49,708	38,959	27,197	26,197	26,197	26,197	26,197	220,652
N	Total	56,241	54,599	41,037	26,197	26,197	26,197	26,197	256,665

ARMY & AIR FORCE EXCHANGE SERVICE

AAFES STORE AUTOMATION PROJECT

HARDWARE COSTING DETAIL DESCRIPTION	* PER EXCHANGE SMALL	MEDIUM	LARGE	ONE-TIME COSTS PURCHASE PRICE	EXCHANGE LEVEL COSTS SMALL	MEDIUM	LARGE	TOTAL*
EXCHANGE TOTAL					$126,705	$168,785	$235,310	
TIMES THE NUMBER OF EXCHANGES					26	74	32	
TOTAL ESTIMATED COST					$3,294,330	$12,490,090	$7,529,920	$23,314,340
DEVELOPMENT HARDWARE REQUIREMENTS								400,000
NUMBER OF MSI-88's CURRENTLY IN FIELD**	→	→	1,000	$750				(750,000)
NET COSTING TOTALS								$22,964,340
POS SCANNING EQUIPMENT***								$4,308,000

NOTE - Hardware costs do not take into consideration that 1,000 ECR/Scanners currently in use will become available for other locations

* Original estimates based on 27 small exchanges
Actual estimates based on 26 small exchanges

** Based on all exchange levels (small, medium and large) for previously unidentified equipment currently in field

*** POS Scanning equipment cost
Total from PC/SCANNING (POS) - SLAVE and MASTER

**** Cost of Terminal Controllers/MUXES in TELECOM estimates

ARMY & AIR FORCE EXCHANGE SERVICE

AAFES STORE AUTOMATION PROJECT

APPLICATION DESCRIPTION

APPLICATION NAME: Replenishment (Cont'd)

TANGIBLE BENEFITS: Anticipated personnel savings due to automated support of re-ordering would be $3,800,000 annually.

1.0 Full Time Equivalent HPP per small mainstore
1.5 Full Time Equivalent HPP per medium mainstore
2.0 Full Time Equivalent HPP per large mainstore

Savings due to:

- Eliminate keypunching (TRW/MSI) of store requirements for AAFES warehoused and STOVES merchandise assortments
- Reduce requirement for dedicated reorder associate staffs in store
- Eliminate manual dollar extensions of reorder transactions (whse/open orders)
- Eliminate manual store Open-To-Buy control logs
- Greatly reduce the need for manual counts and/or shelf allocation review in support of the reorder function
- Eliminate detailed SKU level review of replenishment reorders by store management
- Eliminate manual record keeping currently associated with open order contract vendor replenishment
- Significant potential for meaningful reduction to average inventory investment

ARMY & AIR FORCE EXCHANGE SERVICE

AAFES STORE AUTOMATION PROJECT

APPLICATION DESCRIPTION

APPLICATION NAME: Receiving (Cont'd)

TANGIBLE BENEFITS: Anticipated personnel savings due to automated support of Receiving would be $8,000,000 annually.

2 Full Time Equivalent HPP per small mainstore
3 Full Time Equivalent HPP per medium mainstore
4 Full Time Equivalent HPP per large mainstore
24 Full Time Equivalent HPP in all regions

Savings due to:

- Eliminate "counting" of cartons
- Eliminate the "caller of the CRC number"
- Eliminate the need for "lining up invoices"
- Eliminate the need for extension at Sell (cost) of open order
- Eliminate the need to key into TRW
- Eliminate the need to create "transmittal"
- Eliminate the need for reconciling "D" batch/transmittal for matched receipts
- Eliminate the need for reconciling warehouse requisitions to MSI
- Eliminate the need for reconciling warehouse requisitions to "weekly extension listings"

C_18

ARMY & AIR FORCE EXCHANGE SERVICE

AAFES STORE AUTOMATION PROJECT

APPLICATION DESCRIPTION

APPLICATION NAME: Price Changes (Cont'd)

TANGIBLE BENEFITS: Anticipated personnel savings due to automated support of Price Changes would be $1,800,000 annually.

0.5 Full Time Equivalent HPP Exchange for price change accounting
1.0 Full Time Equivalent HPP per large store for markdown request processing

Savings due to:

- Eliminate the manhours required to enter SKU and dollar data and mathematically extend price change worksheets in support of completing manual price change documentation (i.e. seasonal clearance, spoiled/damaged, manager's specials, promotions, etc.)
- Eliminate physical distribution and manual reconciliation of price change vouchers and the host generated summary extensions
- Eliminate preparation and maintenance of local number control logs associated with local price change transactions
- Reduce manual efforts required to update local markdown budget allocations
- Elimination of current facility unique price change suspense files from host processors
- Eliminate need to double count and remove fashion merchandise from sales floor to process and markdown.

ARMY & AIR FORCE EXCHANGE SERVICE

AAFES STORE AUTOMATION PROJECT

APPLICATION DESCRIPTION

APPLICATION NAME: -Price Changes (Cont'd)

Soft dollar savings of $950,000 due to:

- Reduce manhours of SAMS and Sales Associates required to physically remove seasonal softline merchandise off the sales floor in support of preparing price change worksheets and PLU price maintenance
- Reduce manhours required for RPOS computer operator to key enter PLU price maintenance input in support of all locally administered price changes

INTANG. BENEFITS: Intangible benefits associated with implementing the Price Change system would be to:

- Preclude possibility of lost documents being a cause of stores missing a price change since all facilities maintaining an item master for SKU will receive electronic notification
- Because of electronic transmission directly to the stores, automatic suspenses will be maintained within the system
- Reasonableness checks (tolerances) will be built into the system to preclude major pricing errors due to typographical errors as price changes are generated
- Price change turnaround time will be eliminated to allow for immediate or flash reaction to special offers from vendors or discovered pricing errors
- Accurate price change information and promotional information will be available for buyers to aid in purchasing decisions
- Price changes at RPOS stores will be fully automated to include capture of item sales counts during promotions

ARMY & AIR FORCE EXCHANGE SERVICE

AAFES STORE AUTOMATION PROJECT

APPLICATION DESCRIPTION

APPLICATION NAME: Accounts Receivable (Cont'd)

TANGIBLE BENEFITS: Anticipated personnel savings due to the automated support of the Accounts Receivable system would be $1,800,000 annually.

0.5 Full Time Equivalent HPP per mainstore
25 Full Time Equivalent HPP personnel at the regions

Savings due to:

- Elimination of manual preparation of documents

- Elimination of manual preparation of trial balances

Soft dollar savings due to:

- Providing additional collection tools and more timely information. It is assumed that annual write-offs could be reduced by at least five percent. This reduction would result in a saving of $125,000.

ARMY & AIR FORCE EXCHANGE SERVICE

AAFES STORE AUTOMATION PROJECT

APPLICATION DESCRIPTION

APPLICATION NAME: Layaway (Cont'd)

TANGIBLE BENEFITS: Anticipated personnel savings due to automated support of the Layaway system would be $5,100,000 annually.

1.0 Full Time Equivalent HPP per small mainstore
2.0 Full Time Equivalent HPP per medium mainstore
3.0 Full Time Equivalent HPP per large mainstore

Savings due to:

- Substantially reduce customer waiting time during the initiation and completion phases of layaway transactions
- Substantially reduce the manhours currently required to perform the daily audit of the layaway files for identification of delinquent accounts and/or accounts requiring cancellation
- Eliminate manual preparation of layaway forms and dollar/fee/down payment calculation entries
- Eliminate manual preparation of customer follow-up correspondence for delinquent and/or cancelled account transactions
- Eliminate manhours required to locate customer layaway records when the customer cannot produce contract
- Eliminate daily maintenance of layaway contract files
- Eliminate daily maintenance of manual number control logs relating to layaway contracts

ARMY & AIR FORCE EXCHANGE SERVICE

AAFES STORE AUTOMATION PROJECT

APPLICATION DESCRIPTION

PLICATION NAME: Sales Commission (Cont'd)

NGIBLE BENEFITS: Anticipated personnel savings due to the automated support of the Sales Commission system would be $1,100,000 annually.

8 hours/week at small exchange (.2 FTE)
16 hours/week at medium exchange (.4 FTE)
32 hours/week at large exchange (.6 FTE)
2 Full Time Equivalent HPP at HQ to process payroll adjustments

- These savings assume a full rollout of commision pay plan program (currently only 4 exchanges testing)

Savings due to:

- Automation of manual reconciliation/audit of sales/refunds
- Elimination of working fund reimbursement checks authorized by EM
- Automation of manual preparation of reimbursement request
- Minimize errors in computation of commissions
- Minimize loss/tracking of refunds

CLASSIFICATION OF CONUS EXCHANGES
BY SALES VOLUME

CLASSIFICATION	NUMBER OF EXCHANGES	AVERAGE NUMBER OF FACILITIES >$750k	>$1.5m	>$5.0m	TOTAL
Large Exchanges Sales volume >$30m (sample size-15)	32	4	5	2	11
Medium Exchanges Sales volume >$8m but less than $30m (sample size-22)	74	2-3	2	1	5-6
Small Exchanges Sales volume <$8m (sample size-19)	26	1-2	1	0-1	2-4

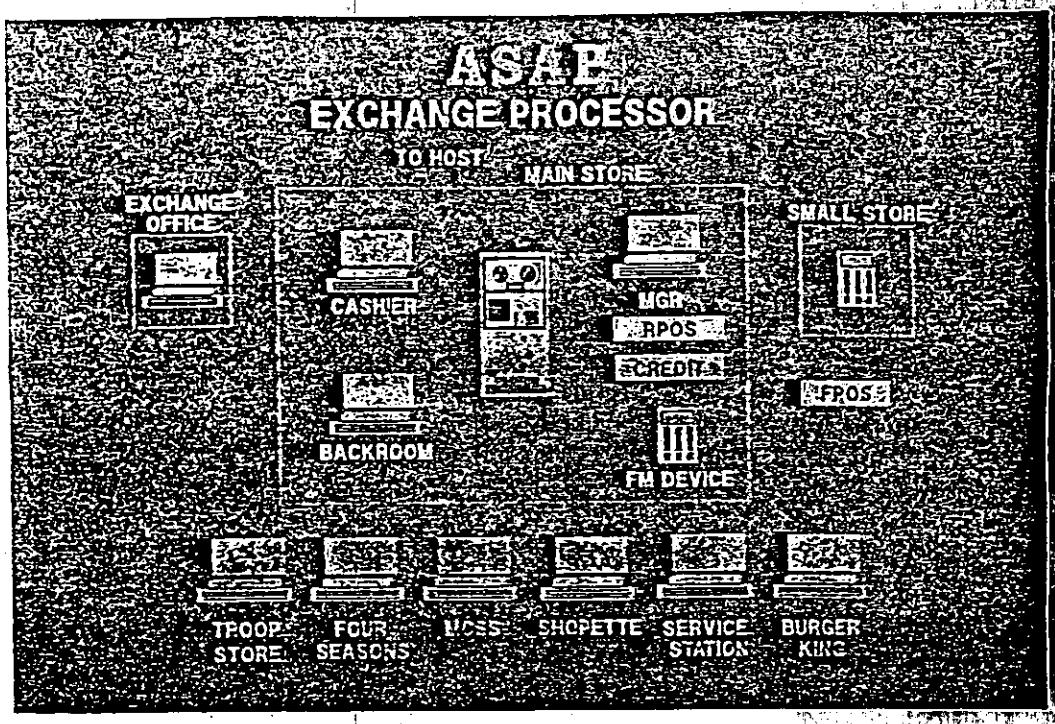
NOTE: Stores with less than $750,000 in sales will continue using paper documents which would be entered into the ASAP processing environment manually. We determined it is not economically justified to automate these smaller stores at this time.

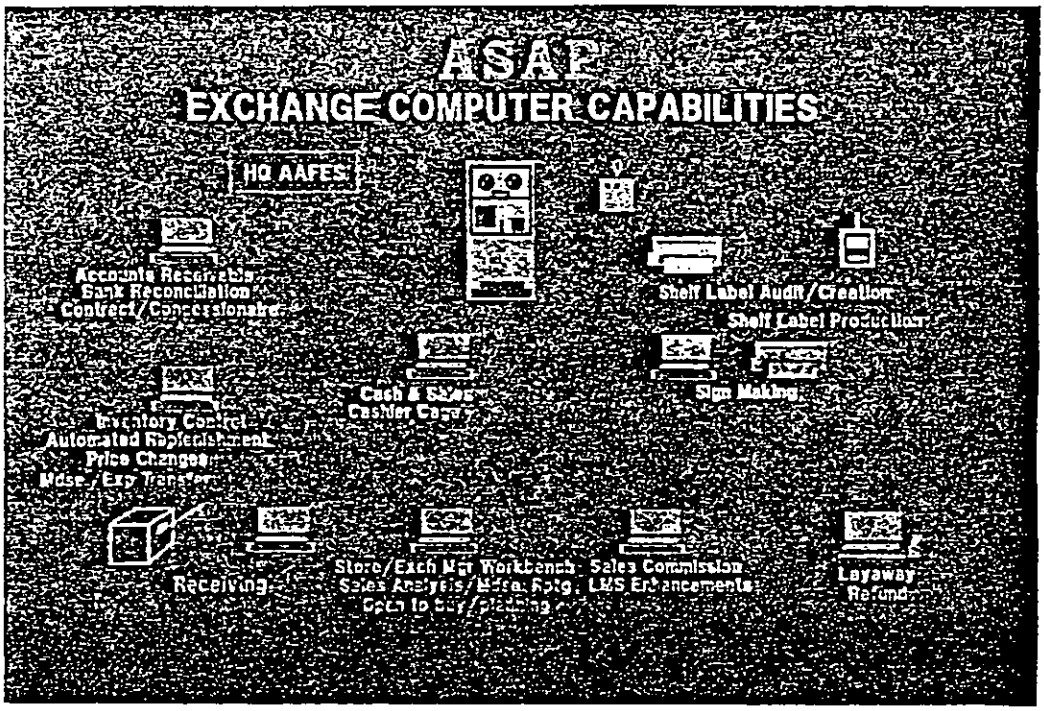
Large exchanges have many more facilities which justify ASAP automation, such as:

- o Main Stores (full line department stores)
- o One or more shoppette convenience stores
- o One or more service stations (fuel, OTC retail, service bays)
- o Burger King (franchise fast food stores)
- o Troop Stores (limited line general merchandise activity)
- o Military Clothing Sales Stores (MCSS)
- o Four Seasons/Toyland Specialty Stores

Large exchanges also have larger facilities to automate, requiring a greater number of peripherals, such as:

- o VDT's
- o PC's
- o Printers
- o Hand-Held devices (FM and non-FM)


ASAE
EXCHANGE PROCESSOR
TO HOST
MAIN STORE
EXCHANGE OFFICE
CASHIER
MGR
RPOS
CREDIT
BACKROOM
FM DEVICE
SMALL STORE
FPOS
TROOP STORE
FOUR SEASONS
MOSS
SHOPETTE
SERVICE STATION
BURGER KING


ASAP
EXCHANGE COMPUTER CAPABILITIES
HQ AAFES
Accounts Receivable
Bank Reconciliation
Contract/Concessionaire
Shelf Label Audit/Creation
Shelf Label Production
Sign Making
Cash & Sales
Cashier Carry
Inventory Control
Automated Replenishment
Price Changes
Misc./Exp Transfer
Receiving
Store/Exch Mgt Workbench
Sales Commission
Layaway
Refunds

IGLAS

INTEGRATED GENERAL LEDGER ACCOUNTING SYSTEM

This new system is a completely new approach to a computerized accounting system for AAFES. It is being custom-designed for us by a contractor in coordination with a dedicated AAFES team.

Although it is a very complex system with numerous sub-systems, we wanted to give you, the PDW attendees, some basic information about IGLAS to take home with you. The diagram included after this narrative shows seven "bubbles" that we want to comment on here.

Starting at the top of the diagram, IGLAS is designing a brand new, corporate Facility Master File or FMF. This new FMF will eventually replace the current FMF. It will contain all the information about a facility in one place. It will be available to anyone with an HQ IMS logon/password for inquiry. It will also be a very flexible FMF which should meet all anticipated AAFES needs for a long way into the future.

Moving clockwise on the diagram, the next "bubble" is for a new, simplified Chart of Accounts. It will have about 300 fewer accounts than the current chart and should be lots easier to use. Mainly we're putting all the income and expense accounts into just two number series (200 for revenue & 300 for expenses). The old series of 200, 300, 400, etc. will go away when we implement the new accounts.

The IGLAS IMS screens will be used for on-line data capture of many accounting documents like TVs, PCVs, and GJVs. Two very important changes will apply to documents and transactions reported via these screens. First, there will be very stringent edits performed on-line. These edits will tell the person capturing the data while they're logged on of data that isn't acceptable. Errors in facility numbers or account numbers will be caught and can be "fixed" right then. The second change is that all acceptable data entered via these screens will be posted to the IGLAS general ledger files by the next day.

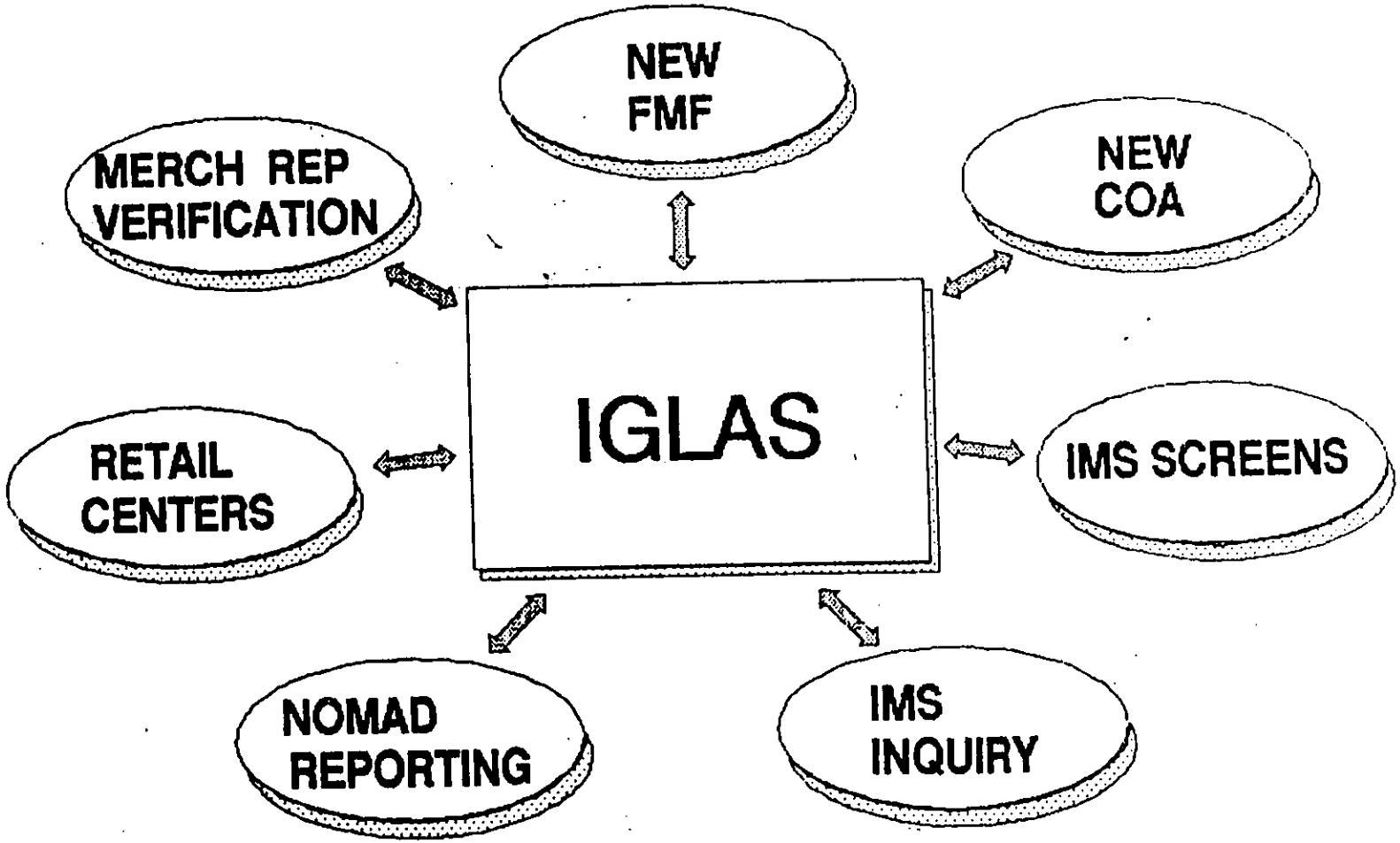
That data will then be available for on-line inquiry via IMS for anyone who needs to look at it.

IGLAS data will also be made available for those NOMAD users of today's combined journal data.

Retail centers is a concept somewhat like today's Sales-Plus. IGLAS will allow any retail manager to sub-divide his/her facility into smaller "pieces" called centers, if he/she chooses to do so. Managers will do this by on-line maintenance in two steps. First, the manager will decide how many centers are needed and then will assign each of the retail departments to a particular center. All of the inventory and cost of goods transactions involving a given department will then available for center operating statements. Secondly, the manager will assign each of his employees to a center so that personnel costs can be charged to the employee's assigned center. Center operating statements will be produced monthly which will show sales, cost of goods and personnel costs for each center. The manager may also group centers into other centers for "rollup" purposes such as Sales Areas.

The changes IGLAS is making will help to simplify merchandise report verification in two ways. First, we'll eliminate four transaction codes (TCs) with some accounts payable changes. Secondly, we'll produce daily reports of all merchandise account transactions which are posted for a given facility.

That's a real "quickie" picture of IGLAS for you. We think all these good changes will be in place by the end of 1991, and we hope you'll share these thoughts with your fellow employees when you return to your duty stations. Be sure you visit the booth for IGLAS & ASAP while you're at the PDW. We sincerely hope your PDW will be enjoyable and informative.


NEW FMF
MERCH REP VERIFICATION
NEW COA
IGLAS
RETAIL CENTERS
IMS SCREENS
NOMAD REPORTING
IMS INQUIRY

AAPES

SYSTEMS DEVELOPMENT

We are currently using the "SDM/STRUCTURED" systems development methodology (AGS Management Systems INC) for major new development projects and one pilot small project.

We will be using "SDM/STRUCTURED" for additional small projects in the future. We are also in the process of implementing the "SDM/STRUCTURED Maintenance Phase" to control all enhancement and maintenance tasks.

We use the following system development aids:

Excelerator
Multi-cam
Panvalet
Telon
Xpeditor
Data-Xpert
Superstructure
Abend-Aid
Easytrieve Plus
Comparex
Syncsort
SortAudit

AAFES USER TOOLS

Buyer Workstation Project

This project will automate many of the tasks performed by the Maintenance and Coding Branch and provide a user friendly environment for buyers to access information and enter file maintenance.

Phase one of this project will concentrate on automating the functions currently performed by the Maintenance and Coding Section. By providing on-line file maintenance entry for buyers and merchandising clerks to the Item Master File (IMF), Vendor Master File (VMF), and AAFES Retail Markup System (ARMS) we can greatly reduce the existing Maintenance and Coding Section staff.

Phase Two will provide for adding on-line file maintenance for Open Order/Direct Delivery and Catalog systems.

Menus will insure all information is entered to support the entry of new items. Buyers and clerks will not have to be concerned with requirements for a specific system or master file. Interface to all systems will be automated and data will be enter once to support all item and vendor master files.

Benefits:

Reduce training for buyers and clerks.

Reduce staff.

Provide faster throughput for file maintenance.

Give buyers more control of file maintenance.

Give buyers more information and status.

Joint Services Collection System
AAFES as an ARMY Finance Office

System Objective: Collection of delinquent debt thru the ARMY payroll deduction. AAFES acting as a Finance Office will establish and adjust DD-139 transactions once required notification has been provided the military customer and his unit commander. Currently this system will interface with the ARMY Pay System (JSS), other branches of service may be added as required.

System Summary:

The automated DD-139 interface will provide for:

1. The establishment, adjustment, cancellation and tracking of DD-139 collection request forwarded to USAFAC.

2. The on-line review accounts in response to customer inquires or complaints.

3. Automatic write-off and journalization of accounts transferred from Automated Delinquent Account Control System or Conus Dishonored Check System.

4. The proper application and journalization of collections made thru this system.

5. The ability to add administration fees to outstanding ADACS debts.

6. On-line addition of, or updating of accounts as necessary.

7. Management and statistical reports.

SUBJECT: Executive Brief; Local Area Networks (LANs)

There are 12 Lans; 9 HQ AAFES and 3 in HQ Pacific.

Sizes run from about 15 workstations up to 120 for Support Procurement Division.

Initially we did do a study for the 1st Lan which was PD in SEER (now in Vantage Bldg). The first rationalization is "is there a need to share information in the work unit."

Once the need to share files is identified the savings start to appear; shared printers, shared communications (1 modem instead of 1 for each) mainframe access one gateway for all rather than coax and ITI boards ($495 each). After you reduce costs by the sharing of hardware then you can begin saving on software. For example Word Perfect is approx $230 for standalone version-for network you pay $230 for the fileserver and each workstation copy is approx $60 the sameholds true for Paradox, Lotus and Crosstalk.

Automated Refund Fraud Indicator System (ARFIS)

As an Exchange Detective, you know how hard it is to detect potential refund fraud -- but no more! Now a computer program called the Automated Refund Fraud Indicator System (ARFIS), harnesses the power and speed of the computer to help you.

All exchanges, connected to the mainframe at Headquarters AAFES can access ARFIS through NOMAD2. This makes ARFIS your computer link to the AAFES wide refund information database. So, when you enter information from a refund voucher into the visual display terminal (VDT) at your facility that information, along with the information entered by the other exchange detectives at their facilities, goes into one large database on the mainframe computer.

Not all refund vouchers are entered into ARFIS. You'll enter vouchers for:

- Customer refunds over $25 without sales receipt.
- All employee refunds.
- Questionable Returned Merchandise Postcards.

Once you enter the information into the computer, you can tell the computer to sort the information in the database in a number of different ways, by: name, social security number (SSN), address, type of merchandise, etc. You can then review the information right at your terminal or print it on paper.

Using ARFIS generated reports you can identify individual refunding patterns or data inconsistencies such as: variations in SSN, different names or addresses for the same SSN, or vice versa, or similarities in types of merchandise repeatedly refunded by the same person.

ARFIS information is for *Official Use Only*. Do NOT release ARFIS data base information outside AAFES channels without Headquarters AAFES-SD approval, except to law enforcement agencies.

CRC No. 1927185
Item No. 744751024
Pub. No. TG 01024

At the end of this training, Exchange Detectives will be able to:

1. Select those refund vouchers, which fall within the ARFIS parameters.

2. Log on the ARFIS computer program using a USERID and special password.

3. View and/or scroll through ARFIS data on the computer screen.

4. Use the function keys on the computer keyboard.

5. Know what to do when an error code appears.

6. Enter data from identified refund vouchers and/or Returned Merchandise Postcards into the ARFIS Database.

7. Enter flag data about shoplifters in the ARFIS Database.

8. Identify the printer number for printing ARFIS generated reports.

9. Print ARFIS reports using different sort sequences.

10. Log off the ARFIS computer program.

11. Use ARFIS reports to identify individual refunding patterns or inconsistencies such as variations in SSN, different names or addresses for the same SSN, or vice versa, or similarities of merchandise repeatedly refunded by the same person, etc.

12. Know when to give customer service personnel and ID checkers the names and SSNs of individuals identified as having the potential for refund fraud.

13. Know what to do when an identified individual enters the store.

14. Know when and how to release ARFIS data outside AAFES channels.

Nomad is a 4th Generation Application Development Tool Purchased for Non-IS personnel to develop their own "end user programs". NOMAD has a built in database,report writer, & programing language that uses P.C. type windows.

IS has trained approx 500 AAFES personnel, both in HQ & at Region level to them to develop their applications. Another 2,500 users have been trained in running Pre-written NOMAD programs. Their are 35 MAIN Calling programs that users can run & these go against 40 shared Databases.

The largest system (1 main calling program) to date has approx 80 programs and a shared Database of 300 cyl of 3880 DASD. The number of potential (authorized) users is 1,500 & the number of concurrent users (those who are logged on at 1 tme=20). This system allows HQ buyers to input items they want to buy, which regions should carry/distibute it, & the quantity each store classification should receive. It then calculates each stores' quantity (BSIU) & produces online reports for the buyer to alter the allocation based on $'s. The store then logs on & looks at his allocation & notifies the buyer of corrections. When complete, the system calculates the purchase orders by vendor & passes this onto the P.O write system.

The next major system being worked on today is the "energy consumption system". This will allow our engineering division to monitor energy used by bldg thru-out CONUS based on the utility bills invoiced to & entered by personnel at store level. It will also pass the data to comptroller for payment& budgeting of next year.

Another important system is the Refund system where stores have a data base of refunds to catch the "crooks" who are refunding merchandise which they didn't purchase.

* 4th GL for non MIS Users
* 500 people trained to write Nomad programs
* 2,500 trained in running pre-written Nomad programs
* 40 shared data bases
* OTB (Open to Buy system) has 80 programs
* Energy Comsumption System - in progress
* Refund System - Detects fraudulent refunds
* Hazardous Materials - Database for stores with treatment information of exposure to hazardous materials

HARDWARE

I. DESCRIPTION

Current major system composition is as follows:

System	Quantity	Location	Function
Burroughs B6900	1	NAVRESSO	Commissary Support
Burroughs B6900	1	NAVRESSO	Accounting/Finance
Honeywell DPS6	1	NAVRESSO	Fashion Distribution Center/PAB/FMIS Support
Honeywell DPS6	1	NAVRESSO	ARMS Software development
Honeywell DPS6	14	NRS FSO	Merchandising/Financial/ Accounting/Store Regional Operations Support

All existing equipment is configured to maximum memory. Burroughs equipment is mid-1980's vintage, while Honeywell equipment ranges in age from mid-1980s through late-1980s. Honeywell equipment is configured by Ultimate Corporation with a backplane different from the original Honeywell DPS6 equipment to accommodate the Ultimate PICK operating system.

II. ASSESSMENT

All existing equipment is antiquated, being operated at maximum capacity, and is not upgradeable for either expanded processing or enhanced software operation. Burroughs equipment has extremely limited memory capacity and proprietary limited processing and telecommunications capability. Honeywell equipment is a modified proprietary version of a capacity-limited minicomputer which cannot be further expanded and, owing to the proprietary limitations, is not readily compatible with other industry standard equipment.

III. FUTURE PLANS

Establishment of a DOD Commissary command will remove responsibility for the existing Automated Commissary System (ACS) from NAVRESSO purview. Intermediate plans call for replacing the existing Burroughs B6900 supporting the Commissary with a Burroughs A10, obtained from excess, which will be sited at the Navy Supply Center, Norfolk, Va. No other plans exist for the Commissary system.

NRS ADP Modernization plans call for wholesale replacement of all existing Navy Exchange processing equipment by acquisition of either new equipment or equipment service.

OPERATING SYSTEMS

I. DESCRIPTION

NRS Burroughs equipment uses Burroughs specific, Unisys brand operating system, which includes a data base system and a variety of proprietary utility software. Honeywell equipment uses the PICK operating system, which is a combination Operating and Data Base system. PICK is required for operation of the Automated

Retail Management System (ARMS) presently used for NRS merchandising/financial/distribution functions.

II. ASSESSMENT

Both the Unisys (Burroughs 69 and A Series specific) and the Ultimate PICK operating systems are proprietary systems which are not mainstream, not retail industry standard, not readily compatible with other systems, and are extremely limited in supporting modern, state-of-the-art application software. These unique operating and development systems limit acquisition of application software since very little retailing software is available which will run on them, and often require sole source acquisition of additional hardware/parts/service. Additionally, programming personnel must be specifically trained on these operating systems at NAVRESSO expense, since these systems are not usually taught in technical schools and colleges.

III. FUTURE PLANS

NRS ADP Modernization plans call for wholesale replacement of both operating systems and application software by acquisition of either new software or system processing service.

DATA TELECOMMUNICATIONS

I. DESCRIPTION

NRS has two separate and distinct telecommunications networks both of which are made up of a combination of dedicated long and short haul, and dial-up commercial data lines and satellite channels. One network supports the Commissary system while the other supports the Exchange system. Both systems consist of a double star design, radiating initially from the Regional Commissary or Exchange Field Support Office to the subordinate stores, and finally from the Regional Commissary or Exchange Field support Offices to the NAVRESSO headquarters in Staten Island. All circuits conform to standard commercial specifications and use common commercial communications protocols.

II. ASSESSMENT

NRS networks have been implemented to accommodate data communications requirements as they have occurred and do not reflect an optimized design from the aspects of cost, efficiency, contingency, or state-of-the-art capability. While effective, stable, and reliable as is, redesign and upgrade of these networks should be accomplished as part off the ADP Modernization plan.

III. FUTURE PLANS

NRS ADP Modernization plans call for upgrade and redesign of all existing data telecommunication networks as an integral part of ADP modernization.

Section II. Applications Software

A. Merchandising Systems

1. Description. The Navy Resale System utilizes the Automated Retail Merchandising System (ARMS), which is an integrated merchandising, financial and distribution application software package. ARMS operates on Honeywell DPS Level 6 minicomputers at NAVRESSO Headquarters, eight Field Support Offices (FSO's), and at Resale Activity Great Lakes. Additionally, selected ARMS modules have been downloaded to operate on microcomputer systems to support smaller, independent Resale Activities.

At NAVRESSO Headquarters, ARMS supports Fashion Distribution Center (FDC) purchase order entry, receiving and distribution. Headquarters ARMS also maintains current Price Agreement Bulletins (PAB's) for weekly downloading to ARMS field sites. At the FSO's, ARMS Merchandising modules provide purchase order management and inventory control functionality, including purchase order entry, pre- and post- distribution, merchandise transfer and retail price change capability, and stock replenishment programs for store level and distribution centers. ARMS merchandising also has an interface with the electronic point-of-sale (EPOS) system for capturing item movement data, and for creating item add, delete and charge records for maintenance of store level PLU files. At the store level, ARMS merchandising provides the capability to replenish stock utilizing either a continuous review module, or a visual rapid reorder module, which uses a hand-held computer.

2. Assessment. ARMS merchandising applications were designed to operate relatively low sales volume retail operations. While ARMS provides a satisfactory level of support for small regions, for large FSO'S, ARMS has reached capacity. Also, ARMS does not easily accommodate the roll-up of management information to the headquarters level.

3. Future Systems. Replace the existing ARMS applications with a merchandising system which is "state of the art", off-the-shelf, and which is proven in the commercial sector. The future merchandising system must have the capacity and capability to support the Navy Resale Systems long range strategic vision.

B. Financial Systems

1. Description. The Headquarters Financial system operates on the Burroughs B6900 mainframe computer. Headquarters financial applications include general ledger, accounts payable, accounts

receivable, a prepaid invoice system, fixed assets, travel and an IRS offset module for the collection of dishonored checks. Financial transaction data is received and summarized from all FSO and independent Resale Activities for the preparation of operating statements. Operating statements are prepared for each Resale Activity and are then rolled up into consolidated operating statements by complex, FSO, CONUS, Overseas and Worldwide. The Honeywell DPS level 6 minicomputer, located at headquarters, interfaces with the field ARMS financial applications. A Financial Management Information System (FMIS) is also maintained on the Honeywell. The FMIS is a data base of all the elements of the operating statement. Users from Headquarters or the field can access this information and run formatted reports, and/or use a simple "english" language to access and sort data.

The ARMS Financial modules at the FSO's include applications for general ledger, accounts payable, accounts receivable, daily cash reporting and for the preparation of "flash" operating statements. ARMS Financial applications are integrated into ARMS Merchandising and EPOS systems. Daily transmissions of accounts payable/general ledger data are made to Headquarters. In addition to the Honeywell ARMS Financial systems, ARMS Financial applications have been downloaded to operate on microcomputer systems. The microcomputer-based Financial ARMS applications have been implemented at all independent Resale Activities.

2. **Assessment.** The Headquarters and field Financial applications operate on different hardware architectures and operating systems software. Accordingly, the systems are not compatible, and data is interchanged only after a conversion process. The average age of Headquarters and field financial applications are well over ten years.

3. **Future Systems.** The future Financial applications will be modern, commercially available programs, which are being utilized by outside retailers. Both Headquarters and field operations will utilize the same application software. Functionality will be complete and will include project tracking, fixed assets, a report generator and all applications available in state of the art financial packages.

C. Personnel/Payroll Systems

1. **Description.** Headquarters personnel, payroll and pension information is maintained on the Burroughs B6900 mainframe on the Human Resources Information System (HRIS). Payroll checks are prepared bi-weekly at Headquarters from time keeping information received from the field. ARMS accommodates the collection of time keeping data for transmission to headquarters. Non-ARMS sites provide data utilizing manually prepared time sheets.

2. **Assessment.** Automated personnel record keeping is only available at Headquarters and at selected FSO's. Most field

personnel data is collected and recorded manually. Payroll and time keeping data is also collected manually, using time cards and time sheets.

3. Future Systems. A fully functional Human Resources application software package will be implemented with functionality to include application tracking, personal information, performance history, pension/benefits data, etc. The Human Resources application will interface directly with Financial applications for preparation of payroll checks.

D. Distribution Systems

1. Description. A key function of ARMS is the operation of a centralized distribution center for the FSO. The ARMS purchase order entry function creates files, which are utilized for the preparation of a report-of-goods received (RGR) document, for the preparation of price tickets, and for the preparation of merchandise transfers and pick tickets. Once an order is processed, the received quantities are input into ARMS during the receiving process. This information is then used during the accounts payable invoice audit process. At the store level, the same automated RGR process can be utilized for the receipt of open order, direct delivery merchandise.

2. Assessment. ARMS Distribution modules do not have the capacity or built-in functionality to support operational requirements of a high volume, high flow-through distribution center. Nor does ARMS have modules to manage traffic, routing, employee productivity, bar-coded receiving/shipping, or automated material/merchandise handling.

3. Future Systems. Existing ARMS Distribution modules will be replaced with existing, off-the-shelf, operational programs with full functionality to support a major, high volume distribution center. The replacement system will be closely coupled to the Financial and Merchandising applications.

E. Store Systems

1. Description. The primary store system at Navy Resale Activities is the "front end", or electronic point-of-sale (EPOS) system. Existing EPOS systems utilize NCR hardware and operating system software at the store level for cash registers, concentrators and in-store EPOS processors, and at the FSO level for data capture, management information reporting and initially processing of dollar/credit sales and item movement data. The EPOS system supports price look-up (PLU) and UPC scanning. Scanning is performed by slot scanners at central checkouts and by hand-held scanners at control counters. The PLU file is maintained on in-store EPOS dual processors (NCR 9150's). Dual processors are utilized to provide backup PLU and in-store EPOS processing

capability in the event of system failure. This level of redundancy will support price removal. The creation and maintenance of PLU files are performed at the FSO level. Any new item addition, deletion, or price change action done on ARMS will create a download record to update the in-store PLU file. PLU downloads from the FSO are done on a daily basis. PLU files range from 75,000 to 150,000 items. EPOS systems also support special transactions such as layaways, special orders, charge sales, coupon recording, fees, percent-off discounts, etc. MIS reports are created for retail department sales, cash due, credit cards, surcharges, coupons, discounts, transactions voids, etc.

2. Assessment. The current EPOS system hardware configuration is not state-of-the art. The NCR 2152 cash registers are no longer manufactured, and the in-store EPOS processor, the NCR 9150, is also no longer in production. EPOS systems are currently operational only at ARMS sites. The existing PLU file is a "flat" file and capability does not exist for the addition of more than approximately 200,000 items.

3. Future Systems. Future EPOS systems will utilize the VICS PLU architecture, which accommodates the addition of several hundred thousand PLU records. This additional capacity will accommodate the tracking of software merchandising down to the size and color level. Future EPOS systems will be implemented overseas and at all independent Resale Activities, where cost effective.

INFORMATION SYSTEMS UPDATE
REVIEW OF ACTIONS INITIATED

The following actions have been initiated to modernize information systems:

o Establishment of a NAVRAM Executive Steering Group (ESG). NAVRESSO has little experience in acquiring and implementing a major ADP System. Accordingly, the ESG was established to review and approve all aspects of the NAVRAM Project, to make implementation policy decisions and to review and approve NAVRAM progress. The ESG will also provide specific guidance in working within the Navy ADP Life Cycle Management (LCM) rules and regulations and in purchasing the system within government ADP acquisition regulations.

o **Establishment of a NAVRAM Project Team.** A Project Team has been chartered to provide dedicated resources and expertise required to implement NAVRAM. The team currently consists of a NAVRESSO Project Manager and a LCM/Business Manager. Additionally, NAVSUP and the Navy ADP Selection Office (ADPSO) has provided resources to assist in determining the most appropriate NAVRAM acquisition strategy. Additional resources will be added to the NAVRAM Project Team, as required.

o **Definition of the NAVRAM Project.** The resystemization of the Navy Resale System is a massive initiative. Accordingly, the information systems modernization plan has been broken down into more manageable sub-projects. The overall NAVRAM Project has been sub-divided into the following four interrelated projects:

1. NAVRAM "Core". The NAVRAM Core Project consists of establishing a centralized Data Processing Service Center, with the appropriate capacity hardware architecture and application software, to support financial, merchandising and distribution functional requirements. Another alternative to acquire processing for core business elements is to outsource NAVRESSO's information systems processing requirements.

2. NAVRAM Store Level Computing. This project involves the establishment of "gateway" processors at major Resale Activities. The gateway processors will perform operational and local store level processing, and will provide the telecommunication communication interface to the NAVRESSO Data Processing Service Center or ADP processing service.

3. NAVRAM Specialty Retail. The Specialty Retail Project involves the review, evaluation, acquisition and implementation of systems to automate portions of our business which are currently manual. Examples include Automotive Service Centers, Beauty Shops, Video Tape Rentals, Flower Shops, Food Service, etc. These systems will be commercially available, off-the-shelf applications which will probably be microcomputer-based. The implementation of Specialty Retail systems can proceed parallel to the other NAVRAM projects and can be initiated by the appropriate NAVRESSO headquarters functional code.

4. NAVRAM Commissary. The Commissary Project includes the implementation of application software to support Commissary operations. Commissary ADP support will be provided from the Data Processing Service Center. Initiation and implementation of the NAVRAM Commissary Project will depend on decisions made regarding Jones Commission recommendations.

o **Initiation of a NAVRAM Request for Information.** The acquisition strategy for purchasing the NAVRAM system is to utilize commercially available, off-the-shelf hardware and application software to the maximum extent possible. In April, to better determine what ADP solutions are available in the commercial marketplace, a Request for Information (RFI) was forwarded to ovewr 100 potential suppliers and was advertised in the Commerce Business Daily (CBD). The responses to the RFI will provide us with a more detailed knowledge of what is commercially available off-the-shelf, what is the potential for outsourcing and what the approximate costs are for the various ADP processing alternatives.

o **Outsourcing Review.** A NAVRESSO Headquarters/Field Review Team has been established to actively evaluate the potential for outsourcing financial, merchandising, distribution and human resources information systems processing. The advantages of outsourcing include an abbreviated accquisition process and the ability to review and evaluate a "live" system currently in use by major retailers. Two potential retail outsourcing resources have been indentified and are being reviewed - the Sabre Group (Federal and Allied stores) and Carter Hawly Hale. Both companies are marketing their ADP processing to other retailers.

o **Army and Air Force Exchange Service (AAFES) Commonality Review.** A third potential supplier of information systems processing services is AAFES. AAFES is being reviewed and evaluated as both an outsourcing "partner" and as a supplier of functional application software.

NAVY SEPARATE MIS BASE, MODERNIZATION, AND OPERATIONS COST
($ 000)

ELEMENT	BASE COST	YEAR 01	YEAR 02	YEAR 03	YEAR 04	YEAR 05	YEAR 06	YEAR 07	TOTAL
NAVY MIS COSTS:									
BASE MIS COSTS:									
PERSONNEL - HQS									
PAYROLL	2,318								
BENEFITS	676								
PERSONNEL - FIELD									
PAYROLL	1,719								
BENEFITS	456								
*SUBTOT - PERS COSTS	5,169								
HARDWARE MAINT:									
BURROUGHS	101								
HONEYWELL	240								
EPOS (NCR EQPT)	25								
UPS MAINT:	17								
*SUBTOT - HW MAINT.	383								
SOFTWARE MAINT:									
BURROUGHS O/S	84								
BURROUGHS UTILITIES	33								
ULTIMATE PICK O/S	0								
NCR O/S	45								
*SUBTOT - SW MAINT.	162								
OPERATIONAL SUPPLIES:									
HEADQUARTERS	75								
FIELD SUPPORT OFFICES	238								
*SUBTOT - OP SUPPLIES	313								
TELECOMMUNICATIONS	1,000								
**TOTAL - NAVY BASE COSTS	7,027								
**********									
MODERNIZATION COSTS:									
(SEPARATE)									
(OUTSOURCING)									
CORE SYSTEM:									
ONE-TIME COSTS:									
TRANSITION COSTS:									
NRS PERSONNEL:									
SYSTEM PROGS		100	100						200
APPL PROGS		240	240						480
SYSTEMS ANALYSTS		350	350						700
DATA BASE ADMINs		80	80						160
*SUBTOTAL-NRS PERS		770	770						1,540

NAVY SEPARATE MIS BASE, MODERNIZATION, AND OPERATIONS COST
($ 000)

ELEMENT	BASE COST	YEAR 01	YEAR 02	YEAR 03	YEAR 04	YEAR 05	YEAR 06	YEAR 07	TOTAL
TRAINING:									
ADP PERSONNEL		63							63
FUNCTIONAL PERS		600							600
*SUBTOT - TRAINING		663							663
EQUIPMENT:									
CRTs, CRT CONVERSION		60							60
EPOS CPUs		84	84						168
HQ PROCESSOR		40							40
*SUBTOTAL - EQPT		184	84						268
**TOTAL:CORE:OT COSTS		1,617	854						2,471
RECURRING COSTS:									
NEW SYS S/W SERVICE		3,150	3,150						6,300
NEW SYS DP SVC.		2,350	2,350						4,700
SOFTWARE MAINT		450	450						900
NETWORK MANAGEMENT		500	500						1,000
**TOT - CORE:REC COSTS		6,450	6,450						12,900
SPECIALTY RETAIL (SR):									
ONE-TIME COSTS:									
OTS PC BASED SYSTS:				100	150	150			400
FOOD SERVICE				150	250	250			650
PACKAGE STORES				200	450	450			1,100
VIDEO RENTAL				100	300	300			700
AUTO SERVICE				115	150	150			415
CONVENIENCE				665	1,300	1,300			3,265
**TOTAL - SR OT COSTS:									
RECURRING COSTS:				7	27	33			67
SW LICENSE FEES				7	27	33			67
**TOT - SR REC COSTS									
MIGRATION - SVC BUREAU:									
ONE-TIME COSTS:					2,625				2,625
SW ACQUISITION						500			500
TELECOMM REFIT					10				10
SW INSTALLATION					10				10
DATA BASE INST									
NRS TRANS LABOR:					80	80			160
DATA BASE ADMINs					100	100			200
SYSTEMS PROGS					120	120			240
TELECOMM SPECS					24				24
ADP TRAINING					2,969	800			3,769
**TOT - OT MIG COSTS									

NAVY SEPARATE MIS BASE, MODERNIZATION, AND OPERATIONS COST
($ ###)

ELEMENT	BASE COST	YEAR #1	YEAR #2	YEAR #3	YEAR #4	YEAR #5	YEAR #6	YEAR #7	TOTAL
RECURRING COSTS:									
SVC BUR BASIC SVC	YR1 = 5#%				1,68#				1,68#
SVC BUR VOL CHARGE	YR1 = 75%				9#				9#
SOFTWARE MAINT					394	394			788
**TOT - REC MIG COSTS	#				2,164	3,#34			5,198
***TOTAL - NAVY MOD COSTS	#	8,#67	7,3#4	672	6,46#	5,167			27,67#
NORMAL OPS COSTS:									
OLD SYSTEM OPS		7,#27	7,#27						14,#54
TELECOMMUNICATIONS				1,###	1,###	1,###	1,###	1,###	5,###
OUTSOURCING SVCS:									
SOFTWARE SVC				6,3##	6,3##	6,3##			18,9##
PROCESSING SVC				4,7##	4,7##	4,7##			14,1##
NETWORK MGT				1,###	1,###	1,###			3,###
SOFTWARE MAINT				9##	9##	9##			2,7##
*SUBTOT - OUTSOURCE SVC.				12,9##	12,9##	12,9##			38,7##
SVC BUREAU SERVICES:									
SVC BUR BASIC SVC							3,36#	3,36#	6,72#
SVC BUR VOL CHG							12#	12#	24#
SOFTWARE MAINT							394	394	788
*SUBTOT - SVC BUR SVC.							3,874	3,874	7,748
NRS MOD ADP OPS:									
MIS PERS - HQS									
APPL PROGS				24#	24#	24#	24#	24#	1,2##
FUNCT ANALYSTS				12#	12#	12#	12#	12#	6##
SYSTEMS ANALYSTS				225	225	225	225	225	1,125
DATA BASE ADMINs				8#	8#	8#	8#	8#	4##
COMPUTER OPERATORS				12#	12#	12#	12#	12#	6##
TELECOMM SPECS						24#	24#	24#	72#
*SUBTOT-MIS PERS-HQS				785	785	1,#25	1,#25	1,#25	4,645
MIS PERS - FIELD				36#	36#	36#	36#	36#	1,8##
HARDWARE MAINT				1#	1#	1#	1#	1#	5#
HQS SOFTWARE MAINT				1#	1#	1#	1#	1#	5#
OPERATING SUPPLIES				1##	1##	1##	1##	1##	5##
*TOTAL - NAVY NORMAL OPS		7,#27	7,#27	15,165	15,165	15,4#5	6,379	6,379	72,547
GRAND TOTAL:	#	15,#94	14,331	15,837	21,625	2#,572	6,379	6,379	1##,217

Marine Corps Systems

1. Hardware

Description: Standard hardware configurations are in place at decentralized support offices at each major Marine Corps Command.

Application Processors are NCR 9300 Classic or NCR 9400. Each system contains 4MB memory and DASD scaled to size of the operation. Each application processor operates under the proprietary NCR ITX Release 5.1 Operating System.

Telecommunications is provided by proprietary NCR ITX Remote Batch System (RBS). 4800 Baud telephone communication lines are in place between field commands and MWR Headquarters for data transmissions and check verification. 4800 Baud lines are established at each command for credit card authorizations utilizing Sears Payment System.

EPOS Hardware consists of 4 to 164 NCR 2152 Registers per command location with associated NCR 751 Concentrators and NCR 8270 or NCR 9020 processors. EPOS System suite is operated under the proprietary NCR TCOS Operating System running NCR Stores Application.

Assessment: All hardware is obsolete and is no longer manufactured by NCR. Maintenance costs are exorbitant and the equipment requires constant upkeep.

Future: Beginning in FY91 and completed in FY92, processors will be replaced with open architecture hardware, scalable, universal operating system, with increased capacities and capabilities. Communications will be upscaled to include wide area networks or satellites and RF transmitters. Current Cash Registers will be upgraded with scanning capabilities. On a command scheduled planned implementation they will be replaced with personal computer technology, scanning and improved in-store processing.

II. Applications

Merchandise System

Description: The MWR Merchandise System is designed for decentralized processing and allows for each MWR Exchange to operate as a retail entity controlling it's own merchandise mix, inventory and accountability. All merchandise processing is handled at the exchange level. The Merchandise System is comprised of the following functions:

- Electronic Point of Sale
- SKU level tracking
- Automated stock replenishment
- Purchasing
- Receiving
- Warehouse/ Distribution
- Inventory Process
- Price changes
- Transfers
- Open to buy
- Document Tracking
- Inquiry functions
- Reporting

Assessment: The current system provides functionality. Efficiencies need to be incorporated into the design, complexity removed, and interfaces established.

Future: Under current operating environment the system will be streamlined to remove complexity. The system will be replaced or developed on new hardware base with similar functionality using case tools and 4GL. Strategic Planning will determine the timing of this project.

Accounting/Fiscal System.

Description: The present MWR Financial System is a standard GAAP batch operated accounting system. The system was the former Marine Corps Exchange Finance System bastardized to accommodate the additional requirements needed for a complete MWR operating environment. It is comprised of the following subsystems:

- General Ledger
- Accounts Payable
- Fixed Assets
- Budgets
- Accounts Receivable
- Check Reconciliation
- Inventory in Transit
- HQ Financial Consolidation
- * Investment Mgmt
- * Construction Financial Mgmt

Check Reconciliation, Inventory in Transit, HQ Financial Consolidation, Investment Mgmt, and Construction Financial Mgmt are Headquarters operations. All other operations are operating at Headquarters and field commands.

Assessment: The present decentralized system is over 15 years old. It has been modified repeatedly, resulting in gross inefficiencies. The system is very labor intensive.

* These applications were developed within the last few years and are currently providing desired results.

Future: The MWR Finance System will be replaced during FY91 by an off-the-shelf package that requires limited ~~modified~~ modifications to effect required functionality.

Personnel/Payroll

Description: The current MWR Payroll/Personnel decentralized system provides practical applications that include:

Personnel forms
Audit tracking
Paychecks
Reporting
Automated interfaces

Assessment: The present system is meeting current needs.

Future: This system will be reengineered using case tools and 4GL. It will be ported to a new operating environment based on the time schedule established in the current Strategic Planning process.

Employee Benefits

Description: The current Employee Benefits System supports the verification of insurance claims, provides for employee's benefit related maintenance and retirement information.

Assessment: The present system is 10 years old. Repeated modifications have reduced the efficiency of the system. Additional efficiencies and attributes must be realized to make this system meet today's needs.

Future: This system will be redesigned or replaced using 4GL technology. The current Strategic Planning will determine the timing.

Distribution/Warehouse Systems

Description: These functions are incorporated in the MWR Merchandise System.

Assessment: Applications are designed to operate in a decentralized environment at the command level.

Future: See Merchandise System

Store EPOS Systems.

Description: The EPOS Register System in place at all major Marine Corps Commands provides:

- Sales collection
- Multiple tender capability
- Check authorization
- Credit card tracking reports
- Cash register balancing reports
- Register daily time/sales
- Data interfaces

Assessment: The present data collection works well. Scanning is needed to increase efficiencies.

Future: Scanning will be added to the existing system within a year. Migration to PC based registers will occur as registers require replacing. The software will include more flexible reporting capabilities. The new technology will allow for easier modification to the register programs to rapidly respond to the changing business environment.

MARINE CORPS

Strategic Information Systems Planning (SISP)

The new MWR Organization required the consolidation of many areas. The greatest impacts were felt in the Financial and Information Systems Branches.

Automated systems were in place that supported (1) the MCX Exchange operation, and (2) the MWR Clubs and Recreation activities and programs. The decision was made to use the MCX Exchange automated system to support the new organization. This required extensive reprogramming to handle the additional requirements of the clubs and recreation. A tight implementation schedule impaired the ability to identify all additional requirements and possible software failures due to unique situations at each commands. The system also had to be reprogrammed to handle different fiscal years.

The software applications are over 10 years old and are running in a batch mode environment versus real-time operations. All software is written in COBOL versus 4GL technology.

All hardware is 10 - 15 years old, even the upgrades recently installed at our commands, as it was refurbished equipment.

Based on input from the Headquarters Operating Branches, the field commands, and the Information Systems Branch, the decision was made in FY89 to replace the hardware and software systems.

A modified version of Strategic Planning is under contract with American Management Systems (AMS) for $34,221. A copy of the draft Statement of Work is enclosed.

We have completed session 1 and AMS is working on the draft plan, version 1.

Extensive research is currently being conducted on the most prominent relational data bases, as well as, hardware configurations. We have several RDBMS installed as evaluation systems. One computer has been installed as a hardware evaluation system and we are negotiating with another vendor.

The SISP for MWR Exchange operations, Club programs, and Recreation activities will be designed to shift and adjust with changes to current organizational or business requirements.

Strategic Planning (AMS)	$34,221.
Plan completion date	31 October 1990
Begin purchasing H/W, S/W	Beginning FY91
Alpha test at HQ	
beta test at 2 field commands	During FY91
Field implementation to begin	FY92

The goal of the ISP and any systems resulting therefrom, must support the business of MWR. Therefore, the ISP has been developed and will continue to be refined to reflect the functional business requirements of the MWR community.

In addition, the ISP is designed to be only the first step in implementing a rigorous systems development life cycle (SDLC) approach to systems development within MWI and within the total MWR information systems environment.

This ISP has been structured so that the functional areas can evolve into a more complete set of system functional requirements later in the SDLC. By organizing the functional areas around the business and business systems of MWR we have initiated an approach that will let us evolve to the new MWR systems on a system-by-system, incremental basis. This evolution will require continued user involvement. Further, the ISP envisions a system implementation approach that will continue to allow user involvement through all phases of the SDLC, including operations.

User involvement will be required in the design and development phase of the SDLC through the user of user reviews and "walk-throughs" of the requirements of the system/subsystem and the logical design of the system/subsystem. Thus, users will have an opportunity and an obligation to assist in the design of the system.

MWI intends to facilitate user requirements walk-throughs with the use of computer aided software engineering (CASE) tools. CASE tools are automated support tools that allow designers (and users) to document functional requirements, associated data, and potential system interfaces. These tools generally provide a synthesis of requirements and design in graphic form, facilitating design review by the user and by the technical staff.

In addition to the overall business primacy of the ISP and the firm commitment to user involvement throughout the SDLC are the following goals and objectives.

The ISP and the resulting systems must support the field as well as Headquarters. We recognize that the MWR and the Marine Corps places great emphasis on local command authority. This plan has been developed in a fashion that will allow field input as well as Headquarters input. The functional and technical capabilities that are sought as a by-product of this plan have been consciously developed to increase the computing power and capabilities of the field. The prominence given to ad hoc reporting and query capability is specifically designed to increase the capabilities of end users making them less dependent on MWRSPTACT.

The ISP, derivative studies, and uses, plans, and systems must be flexible. These plans are being developed in an environment of uncertainty and must be able to accommodate potential MCX consolidation into a DoD-wide exchange system. However, the plan is being developed with a recognition that any events resulting from the DoD Corporate Information Management (CIM) program may be several years from implementation. Therefore, the plan is being developed to accommodate the known functional environment, while moving toward a technical implementation environment founded on the "open systems" or non-proprietary hardware and software environment. This should provide the maximum feasible technical flexibility to accommodate the future.

The ISP should be hardware and software independent. This plan must address the general technical environment and must not seek to identify a specific hardware and software configuration by manufacturer or brand name until a more complete functional and systems requirements analysis has been completed. While a number of known hardware and software environments have been considered by MWI, no aspect of this plan is constrained by vendor-specific hardware or software. Rather, specific Business Area Automation (BAA) initiatives have been developed to highlight the need to identify, evaluate, and select the target hardware and software environment.

The solution to the MWR systems will be oriented toward a COTS and NDI solution to the greatest extent possible. This goal is stated with the intent of reducing the custom programming required by MWRSPTACT. This approach has been selected with the intent of saving time and resources during the development and testing phase of the system life cycle. This approach is also selected as a means of providing continuing access to new vendor software releases with enhanced capabilities.

However, tat the same time, COTS and NDI are sought that will give the functional user in the field the capability to develop a number report and query applications using built-in report generation features of the COTS software.

State of the art database management systems allow on-line real-time additions, changes and deletions to data bases. Database access (input and output) technology allows a single, non-redundant file of data to serve many users and many applications simultaneously. The advantages can be considerable, including the elimination of redundant data storage and all of the corresponding extract, copying, and reconciliation activities that must be managed with redundant or partially redundant master files.

A single, integrated, database contributes significantly to data sharing. However, this assumes that the technical foundation exists to facilitate shared data and system interoperability. The ISP assumes that various BAA initiatives will be developed with both of these goals as prime determinants of requirements and design specifications. However, equally important in an environment of shared data is the assurance that necessary access precautions and related security considerations are addressed. While the target architecture will strive toward data sharing and interoperability, this does not mean that any and all users will have access to all data. Appropriate access restrictions and add/change/delete capabilities will be part of all functional requirements considerations.

Elimination in the errors and incompatibilities in the collection, processing, and dissemination of data is a major by-product to be expected from conversion to the new MWR target architecture. Development of a logical data model prior to physical design is the first defense against data incompatibility. A separate BAA has been defined to address the need for a logical data model.

Implementation of a single physical data structure, whether centralized or decentralized is the second line of defense against data incompatibility.

Data collection errors can be mitigated through migration to state of the art data collection procedures, including bar coding and scanning. These issues have been addressed by corresponding BAA initiatives in Section 4.0 of the ISP.

The ISP seeks to create an environment for improved service delivery (from MWI to its users) and from the MWR system to the customer in the MWR/facility as well as the MWR employee who is serviced by the MWR information resource management (IRM) system. The improvement of service delivery begins with extensive user involvement and review of the ISP and continued involvement throughout the SDLC. MWI has undertaken the ISP with a goal of improving service to users of automated systems by putting state-of-the art productivity tools in the hands of functional users.

3.0 IMPLEMENTATION PLAN

This section presents an estimated schedule for beginning and completing the major tasks that should be initiated as a result of this strategic plan.

Figure 3-1, MWR Implementation Schedule is a Gantt chart depicting the major initiatives that must be undertaken during the current and three following years. The chart has been constructed with three major assumptions, all based on the guidance of the Director, MWRSPTACT. These assumptions are:

- Hardware will be identified and selected by FY91
- Development will occur in FY91
- Installation at commands will occur in FY92

Task lines were posted to the chart in these time frames. From these tasks, we worked backward and forward to fit in other supporting and derivative tasks. In terms of project planning terminology, these three items are critical path nodes. They must happen in the time frame specified. Therefore, all tasks that support achievement of these three must be accomplished in the time allowed. Therefore, we have shown such supporting tasks beginning and ending in the required time frame. What this type of project scheduling chart does not show is the level of resources necessary to adhere to this schedule. That type of resource estimation and allocation model is available in most personal computer project management software packages. The resource demands of this schedule should be loaded into such a tool to determine how the schedule impacts demand on MWI staff resources.

The first set of tasks entails setting up the conversion environment and within that environment, developing a migration plan, technical training plan, and applications training plan. The first two should occur prior to identifying, selecting and installing the hardware, since they provide for training that will be required to make effective use of the hardware and corresponding DBMS and operating system supported by the hardware.

Simultaneous with setting up the conversion environment, we have identified four other key task that should be initiated:

- o Develop DBMS baseline requirements
- o Develop baseline requirements (functional requirements definition) for the initial application (Finance)
- o Select DBMS
- o Prepare conversion test (prepared by the DBMS vendor to demonstrate that the DBMS will in fact accommodate conversion of the existing MWR data files)

These tasks all should be started promptly, and in preparation for eventual input to and reconciliation with hardware requirements.

An important point to note about the series of tasks listed above is that the second item will be repeated several times during MWR conversion, once for each applications system or subsystem converted. To avoid cluttering Figure 3-1, only the first two application baseline requirements analyses are shown.

Procurement of hardware is the first task on the critical time line. As noted above, it has a deterministic effect of forcing all supporting tasks to be at least initiated, if not completed prior to its commencement.

Following the procurement of hardware (shown to begin in the fourth quarter of

1990 and to be completed at the end of the first quarter of 1991), four major tasks are envisioned for 1991:

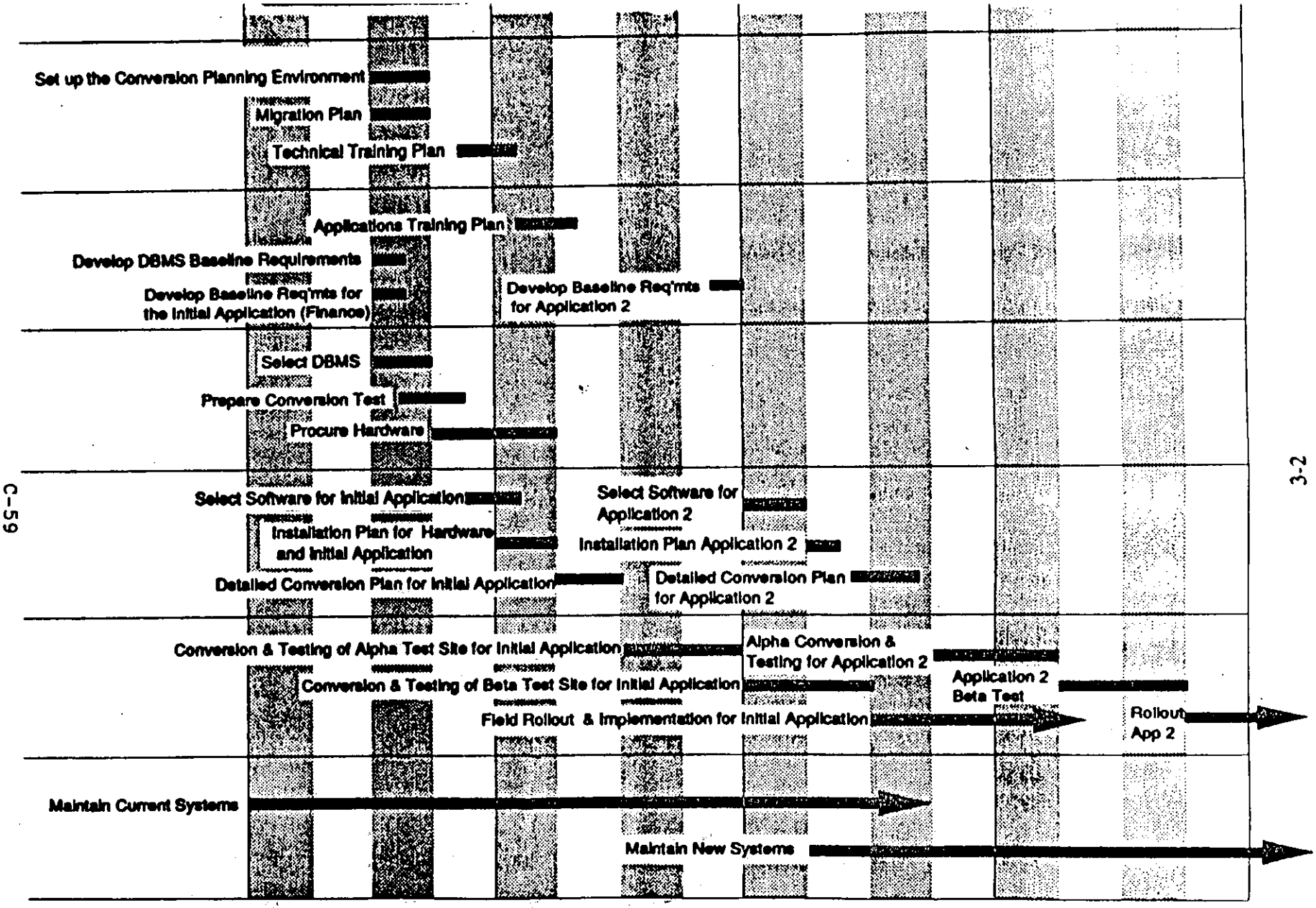
- o Select (COTS) software for initial application (assumed to be finance)
- o Develop installation plan for hardware and initial application
- o Develop detailed conversion plan for initial application
- o Conversion and alpha (MWI) test site for initial application

These tasks must be completed in 1991. They are shown as being followed by rollout to one or more Beta test sites in the first half of 1992 and will be followed by field rollout and implementation in mid-1992. Note that this rollout is shown as continuing into 1993 as well.

A review of Figure 3-1 shows that once initial conversion and preliminary testing is underway at MWI for the first application, software selection, installation planning, and conversion planning for the second application will commence. This is estimated to begin at the beginning of calendar year 1992. This pattern of overlapping development of one application and planning for the subsequent application will continue for several years. The time frame depicted in Figure 3-1 assumes that full and complete conversion of all MWR functional systems will not be complete until after 1995.

Two additional tasks depicted in Figure 3-1 should be noted. At the bottom of the chart we have included a timeline to portray the continuing requirement for maintaining the existing MWR systems. That requirement will remain for several years. It will be a major resource constraint on MWR's ability to compress the development and fielding of new systems.

Finally, the bottom line of Figure 3-1 shows that MWI will experience an additional resource demand in 1992. That demand will be for the maintenance of the new system. Thus, beginning in 1992 MWI will be faced with the need to develop new applications on the new hardware, operating system, and DBMS configuration while at the same time, continuing to maintain existing systems, and support production releases of the new system.



MWR SYSTEMS IMPLEMENTATION SCHEDULE

MARINE CORPS SEPARATE MIS BASE, MODERNIZATION, AND OPERATIONS COST
($ 000)

ELEMENT	BASE COST	YEAR 01	YEAR 02	YEAR 03	YEAR 04	YEAR 05	YEAR 06	YEAR 07	TOTAL
MC MIS COSTS:									
BASE MIS COSTS:									
PERSONNEL - HQS									
PAYROLL	1,100								
BENEFITS									
PERSONNEL - FIELD									
PAYROLL	2,200								
BENEFITS									
*SUBTOT - PERS COSTS	3,300								
HARDWARE MAINT:	800								
TELECOMMUNICATIONS	100								
OPERATIONAL SUPPLIES	600								
**TOTAL - MC BASE COSTS	4,800								
**********									
MODERNIZATION COSTS:									
ONE-TIME COSTS:									
MINIs & "OTS" ACTG		2,200	2,300						4,500
SW WITH UNIX SHELL		900	900	900	900	900	900	900	6,300
SW ENHANCEMENT									
***TOTAL - MC MOD COSTS		3,100	3,200	900	900	900	900	900	10,800
NORMAL OPS COSTS:									
OLD SYSTEM OPS		4,700	4,700	4,700	4,700	4,700	4,700	4,700	32,900
TELECOMMUNICATIONS		100	100	100	100	100	100	100	700
*TOTAL - MC NORMAL OPS		4,800	4,800	4,800	4,800	4,800	4,800	4,800	33,600
GRAND TOTAL:		7,900	8,000	5,700	5,700	5,700	5,700	5,700	44,400

MIS CONSOLIDATION COST STUDY

PURPOSE:

1. The Military exchange Study Group was tasked to determine if partial or full consolidation of the services would result in economies. This study calculates the total MIS costs required to support a consolidation of the three services into a new organizational entity.

COST ASSUMPTIONS FOR THE MIS MIGRATION TO THE NEW ORGANIZATION:

2. The new organization will use the existing AAFES infrastructure including mainframe data center, application software and telecommunications network. All equipment costs for the connection to this network have been included.

3. CONUS stores will be connected to the telecommunications network via satellite. Each store will require a satellite dish (VSAT - Very Small Aperture Terminal) on or near the store. Other network connectivity equipment is also required. See Tab A.

4. Overseas locations will not be on the satellite network so leased circuit costs were used. Recurring satellite/circuit costs were based on current billing costs. See Tab A.

5. At the former Navy/Marine stores, the projected number of store VDTs (visual display terminals), printers, modems and controllers was based on equipment quantities at comparable sized AAFES stores. Estimated maintenance was based on current costs. See Tab B.

6. To accommodate the processing requirements of the consolidated organization, the AAFES data center will require upgrading of the mainframe computer and additional peripheral equipment. A sizing increase of approximately 50% has been costed. See Tab C.

7. The new exchange organization will have one-time conversion costs to move and reformat data files to fit the AAFES infrastructure. Navy and Marine MIS Focus Group members provided the data conversion and HQ MIS technical training costs shown at Tab D.

8. The Marine Corps had previously combined their Exchange and MWR systems. The exchange business segment will be removed and converted to the AAFES systems. Marine MWR will pursue its own modernization plan with appropriate field and headquarters staffing. Hardware/software upgrades to support the separate Marine Corps MWR organizations' modernization requirements (after dismantlement) are shown at Tab E. These costs are not considered part of consolidation as upgrades were required (due to obsolescence) regardless of consolidation.

9. Store electronic point of sale (EPOS) equipment acquisition and upgrades are required by each of the services whether a consolidation occurs or not. Therefore, EPOS costs are excluded from this study.

COST/BENEFIT ASSUMPTIONS FOR STORE AUTOMATION:

10. The AAFES Store Automation Project (ASAP) is assumed to be rolled out to all CONUS main stores in the new exchange service organization. Equipment costs are based upon store size; each store will require a Computer Operator, UA-9. Costs for former AAFES stores are at Tab F; former Navy store costs at Tab G; former Marine store costs are at Tab H.

11. Store personnel savings from ASAP are detailed in this study even though deleted positions are not MIS jobs. Store staffing augmentation of $13.3M (See Figure 1-3 of Executive Summary) was added to make Navy/Marine stores like AAFES. Accordingly, the roll-out of ASAP would allow the stores to benefit from increased efficiency thereby reducing positions. Store personnel reductions for former: AAFES stores at Tab I; Navy stores at Tab J; Marine stores at Tab K.

AAFES MODERNIZATION PLAN:

12. The AAFES Modernization Plan (Tab L) is discussed to provide an understanding of the modernization costs involved; all Line references are to Tab L:

a. The Satellite Network Implementation Plan (SNIP) at Line A reflects those costs necessary to complete the project in CONUS. There were 91 store dishes (VSATs) installed at end of August 1990.

b. Software development for ASAP is being done by an outside contractor with participation of AAFES functional and MIS personnel. Costs remaining in Year 1 are based on the existing contract rate. (Line B).

c. ASAP equipment costs at Line C were projected several years ago during the project approval process. These costs are expected to be lower than estimated due to today's lower technology prices; however, the original project costs are shown. Costs in Year 1 are based on five stores; remaining stores roll-out costs are shown over the next two years.

d. IGLAS software is also being done by an outside contractor; costs remaining are at Line D. IGLAS will reside on the mainframe computer. Additional upgrades, if required, will depend on the efficiency of the contractor's software once tested and accepted.

e. Personnel costs of $18.2M drop $.6M in Year 2 and $1.7M thereafter as non-MIS personnel (who were included in the Information Systems Directorate payroll) return to their directorates at conclusion of the ASAP project (Line E).

f. Personnel Costs - Field should remain unchanged throughout the Modernization Plan as currently envisioned. (Line F).

g. A Computer Operator, UA-9 is required for each ASAP store (Line G).

h. ASAP Offsets - Store (Line H) reflect savings at store level due to automation of manual functions.

i. AAFES satellite project will remove 79,000 miles of leased lines from the network and reduce annual costs by $1.0M in Year 2 and $2.0M thereafter (Line J).

j. AAFES "Other" expenses drop by $2.1M in Years 2 - 7 due to completion of ASAP contractor expenses. IGLAS contract completion reduces expenses by $1.8M in Years 3 - 7 (Line K).

MIS CONSOLIDATION COSTS - NAVY:

13. The one-time costs for the former Navy MIS structure to migrate to the new infrastructure and install store automation is projected for seven years, Lines A through G of Tab M. Origin of these costs were depicted earlier at Tabs A, B, C, D, G.

14. Following comments concern the recurring costs for migration, store modernization, and changes to former Navy MIS operating costs; all references are at Tab M:

a. Personnel - HQ costs (Line H). Personnel would remain constant for the first two years to support data conversion, migration to new application systems and installation of store VDTs, printers, controllers, VSATs, etc. Some phasedown could occur in Year 3. Duty station of former HQ employees would depend on the migration and conversion workload. Once the MIS migration was complete, the remaining employees (Years 3 -7) would be absorbed at the Dallas Data Center or be placed in positions at other locations.

b. Personnel - Field costs (Line I) consists of salaries of Field Support Office (FSO) data processing operations people. These people could be placed in other available operations positions or phased out upon closure of the FSOs. Field costs could continue into Year 3 if migration were delayed.

c. ASAP store automation costs for Computer Operators, UA-9 (Line J) reflect costs of one operator per CONUS store.

d. Store automation benefits (Line K) consist of personnel position reductions resulting from mechanization of manual store functions such as: replenishment, receiving, accounts receivable, layaway, etc. Tab J reflects projected reductions, based on store size, under the ASAP project.

e. In Year 3, the HQ equipment and software (Line L) is no longer required as processing has been converted to the new infrastructure.

f. Previously leased communication lines (Line M) between stores and FSOs should be discontinued by end of Year 3 as migration to the CONUS satellite network would be completed.

g. Old operations equipment should be phased out by Year 3 so maintenance will not be required. (Line N).

h. Satellite rental for CONUS and line cost for overseas (Line O) should stabilize at end of Year 3 if all installations and connections are accomplished. All locations will then be online to the network and data processing migrated to the data center.

i. Equipment maintenance costs, for stores and headquarters, are shown at Line P.

MIS CONSOLIDATION COSTS - MARINES:

15. The one-time costs for the former Marine MIS structure to migrate to the new infrastructure is projected for seven years, Lines A through G of Tab N. Origin of these costs were depicted earlier at Tabs A, B, C, D, H. HQ personnel were to be detailed to dismantle the exchange data files from the formerly combined exchange/MWR application systems, see Line A.

16. Following comments concern the recurring costs for migration, store modernization, and changes to former Marine MIS operating costs; all references are at Tab N.

a. HQ Personnel costs (Line H) would drop off after Year 3 once data conversion, migration to new application systems and installation of store and communications equipment had been accomplished.

b. Personnel - Field costs (Line I) consists of data processing operations personnel at command level. Qualified operators should be considered for ASAP computer operator positions at store level. Field costs could extend into Year 3 if migration to the store were delayed.

c. Line J reflects costs of one Computer Operator, UA-9 position at each CONUS store.

d. Store automation benefits (Line K) consists of personnel reductions due to mechanization of manual store functions such as: merchandise replenishment, receiving, accounts receivable, etc. Tab K reflects estimated reductions at former Marine stores based on store size, under the ASAP project.

e. Equipment and software costs, along with maintenance shown at Lines L and N, would cease after processing had migrated to the Dallas Data Center.

f. Present leased Telecommunications circuits (Line M) would be deleted after migration to the CONUS satellite network.

g. Satellite rental in CONUS and oversea line costs should stabilize in Year 3 if equipment installations and network connections are on schedule (Line O). Both CONUS and oversea locations would then be online to the network with data processing being performed at the Data Center.

h. Equipment maintenance costs at HQ and store level is shown at Line P.

EXCHANGE CONSOLIDATION COMMUNICATIONS COSTS
NAVY AND MARINES

CONUS CONNECTIVITY: Assumes a Very Small Aperture Terminal (VSAT) at all locations. VSAT may not be the final decision but, for costing purposes, probably works out as good or better than leased lines. Cost for VSAT includes surveys, installation and equipment.

		ONE-TIME	RECURRING
NAVY			
95 VSATs @ $17,000		$1,615,000	
95 Comten Equipment @ $770.64		73,211	
95 Hub and Backhaul Equipment @ $2,294		217,890	
	TOTAL	$1,906,101	$ 672,307
MARINES			
14 VSATs @ $17,000		$ 238,000	
14 Comten Equipment @ $770.64		10,789	
14 Hub and Backhaul Equipment @ $2,294		32,116	
	TOTAL	$ 280,905	$ 99,077
	CONUS TOTAL	$2,187,006	$ 771,384

OVERSEAS COMMUNICATIONS: All Marine locations and 31 of 35 Navy locations. Not included are: Adak, Alaska; Exmouth, Australia: Christchurch, New Zealand; Antigua, West Indies.

		ONE-TIME	RECURRING
NAVY			
31 Overseas Locations		$9,400	$757,344
MARINES			
4 Overseas Locations		400	48,768
	OVERSEAS TOTAL	$9,800	$806,112

SUMMARY:

		NAVY	MARINES
One-time Cost			
CONUS		$1,906,101	$280,905
Overseas		9,400	400
	TOTAL COST	$1,915,501	$281,305
Recurring Cost			
CONUS		$ 672,307	$ 99,077
Overseas		757,344	48,768
	TOTAL COST	$1,429,651	$147,845

TAB A

EXCHANGE CONSOLIDATION EQUIPMENT COSTS
STORE VDTs, PRINTERS, PCs, AND CONTROLLERS

STORE	ANNUAL SALES	NAVY		MARINES		
CLASS	(in $ mills)	CONUS	OES	CONUS	OES	TOTAL
A	over $36	12	4	4	1	21
B	$18 - 35.9	13	6	5	1	25
C	$6 - 17.9	25	4	1	0	30
D	under $6	46	21	4	2	73
	TOTAL	96	35	14	4	149

CONFIGURATION SUMMARY FOR EACH EXCHANGE:

CLASS	AAFES EQUIVALENT	#CONTROLLERS	#VDTs	#PCs	#PRINTERS
A	FT BENNING	7	30	7	7
B	SHEPARD AFB	3	10	3	3
C	SMALL	2	6	2	2
D	SMALLER	1	2	1	1

STORE		NAVY		MARINES	
CLASS	COST EACH	#	$ TOTAL	#	$ TOTAL
A	$120,000	16	$1,920,000	5	$600,000
B	45,000	19	855,000	6	270,000
C	29,000	29	841,000	1	29,000
D	11,500	67	770,500	6	69,000
	TOTAL	131	$4,386,500	18	$968,000

NUMBER OF DEVICES:

	NAVY	MARINES	TOTAL
Controllers	294	61	355
VDTs	978	228	1206
PCs	294	61	355
Printers	294	61	355

TAB B

EXCHANGE CONSOLIDATION EQUIPMENT COSTS
DATA CENTER UPGRADES

	NAVY		MARINES	
	ONE-TIME	RECURRING	ONE-TIME	RECURRING
CONTROLLERS,				
VDTs,PRTs,PCs	$4,386,500	$330,450	$968,000	$70,800
MAINFRAME *	4,224,000	226,600	576,000	30,900
DASD *	721,600	0	98,400	0
MAG TAPE *	202,400	17,600	27,600	2,400
TOTAL	$9,534,500	$574,650	$1,670,000	$104,100

* NOTE: Sizing equal to approximately 50% of present AAPES capacity. Includes costs for 45 MIPS mainframe power and 100 gigabytes of DASD (direct access storage devices).

TAB C

MIS Consolidation Costs
One–Time Data Conversion Costs

($ 000)

	Element	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
A	MC HQs Personnel Costs	100	300	300	100				800
B	NAVY NCR SW Conversion	1,000							1,000
C	NAVY Data Conversion	3,150	3,150						6,300
D	MC Data Conversion	1,150	1,150						2,300
E	NAVY Training	1,900	1,000						2,900
F	MC Training	300							300
G	Total	7,600	5,600	300	100	0	0	0	13,600

Marine MWR Data Processing (Separate Organization)

($ 000)

	Element	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
A	Commercial Software & Equip Upgrade	2,200	2,200						4,400
B	Implementation	900	900	900	900	900	900	900	5,300
C	MWR Personnel – HQs			700	700	700	700	700	3,500
D	MWR Personnel – Field			800	600	400	400	400	2,600
E	MWR Hardware/Software			300	200	200	200	200	1,100
F	MWR Telecommunications			100	100	100	100	100	500
G	MWR Operations/Ops Maint/Other)			200	200	200	200	200	1,000
	Total	3,100	3,100	3,000	2,700	2,500	2,500	2,500	19,400

NAVY ASAP COSTS
EQUIPMENT AND PERSONNEL
(Estimated)

STORE SIZE	NUMBER STORES	EQUIPMENT COSTS	TOTAL EQUIP COSTS
Small >$750K	5	$126,705	$ 633,525
Medium >$8M<$30	27	168,785	4,557,195
Large >$30M	14	235,310	3,294,340
	46*	EQUIPMENT TOTAL	$8,485,460

PERSONNEL COSTS:

UA-9 Computer Operator @ $37,232 X 46 = $1,712,672
(Step 4 w/37% fringe benefits)

* ASAP not currently planned for oversea including Hawaii (15 stores)

TAB G

MARINE ASAP COSTS
EQUIPMENT AND PERSONNEL
(Estimated)

STORE SIZE	NUMBER STORES	EQUIPMENT COSTS	TOTAL EQUIP COSTS
Small >$750K	5	$126,705	$ 633,525
Medium >$8M<$30	7	168,785	1,181,495
Large >$30M	2	235,310	470,620
	* 14	EQUIPMENT TOTAL	$2,285,640

PERSONNEL COSTS:

UA-9 Computer Operator @ $37,232 X 14 = $521,248
(Step 4 w/37% fringe benefits)

* ASAP not currently planned for oversea including Hawaii (15 stores)

AAFES ASAP COST
EQUIPMENT AND PERSONNEL
(Estimated)

STORE SIZE	NUMBER STORES	EQUIPMENT COSTS	TOTAL EQUIP COSTS
Small >$750K	26	$126,705	$ 3,294,330
Medium >$8M<$30	74	168,785	12,490,090
Large >$30M	32	295,910	7,529,920
	132*	EQUIPMENT TOTAL	$23,314,340

PERSONNEL COSTS:

GA-9 Computer Operator @ $37,232 X 132 = $4,914,624
(Step 4 w/37% fringe benefits)

* ASAP not currently planned for overseas including Hawaii (15 stores)

AAFES ASAP OFFSETS
STORE PERSONNEL REDUCTIONS
(Estimated)

POSITION REDUCTIONS
BASED ON STORE SIZE

STORE FUNCTION	SMALL	MED	LARGE
Replenishment	1.0	1.5	2.0
Receiving	2.0	3.0	4.0
Price Changes	.5	.5	1.0
Accounts Receivable	.5	.5	.5
Layaway	1.0	2.0	3.0
Sales Commission	.2	.4	.6
	5.2	7.9	11.1

STORE SIZE	NUMBER STORES	STORE POSITION REDUCTIONS	TOTAL POSITION REDUCTIONS
Small	26	5.2	135.2
Medium	74	7.9	584.6
Large	32	11.1	355.2
		TOTAL POSITIONS	1,075.0

Operations Clerk (Composite Salary)

$19,200 X 1,075.0 = $20,640,000 projected Offset Savings.

NOTE: No "soft savings" are included in these offsets. Composite Salary is a computed figure composed of upper level HPP and lower graded UA personnel who perform the various store functions.

NAVY ASAP OFFSETS
STORE PERSONNEL REDUCTIONS
(Estimated)

STORE FUNCTION	POSITION REDUCTIONS BASED ON STORE SIZE SMALL	MED	LARGE
Replenishment	1.0	1.5	2.0
Receiving	2.0	3.0	4.0
Price Changes	.5	.5	1.0
Accounts Receivable	.5	.5	.5
Layaway	1.0	2.0	3.0
Sales Commission	.2	.4	.6
	5.2	7.9	11.1

STORE SIZE	NUMBER STORES	STORE POSITION REDUCTIONS	TOTAL POSITION REDUCTIONS
Small	5	5.2	26.0
Medium	27	7.9	213.3
Large	14	11.1	155.4
		TOTAL POSITIONS	394.7

Operations Clerk (Composite Salary)

$19,200 X 394.7 = $7,578,240 projected Offset Savings.

NOTE: No "soft savings" are included in these offsets. Composite Salary is a computed figure composed of upper level HPP and lower graded UA personnel who perform the various store functions.

MARINE ASAP OFFSETS
STORE PERSONNEL REDUCTIONS
(Estimated)

STORE FUNCTIONS	POSITION REDUCTIONS BASED ON STORE SIZE SMALL	MED	LARGE
Replenishment	1.0	1.5	2.0
Receiving	2.0	3.0	4.0
Price Changes	.5	.5	1.0
Accounts Receivable	.5	.5	.5
Layaway	1.0	2.0	3.0
Sales Commission	.2	.4	.6
	5.2	7.9	11.1

STORE SIZE	NUMBER STORES	STORE POSITION REDUCTIONS	TOTAL POSITION REDUCTIONS
Small	5	5.2	26.0
Medium	7	7.9	55.3
Large	2	11.1	22.2
		TOTAL POSITIONS	103.5

Operations Clerk (Composite Salary)

$19,200 X 103.5 = $1,987,200 projected Offset Savings.

NOTE: No "soft savings" are included in these offsets. Composite Salary is a computed figure composed of upper level HPP and lower graded UA personnel who perform the various store functions.

AAFES
Modernization Plan

($ 000)

	Element	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
	One-Time Costs:								
A	SNIP	2,000	2,500	2,500					7,000
	ASAP:								
B	Software	2,100							2,100
C	Hardware	633	11,340	11,340					23,313
D	IGLAS	1,800	1,800						3,600
	Recurring Costs:								
E	Personnel – HQs	18,200	17,600	16,500	16,500	16,500	16,500	16,500	118,300
F	Personnel – Field	5,300	5,300	5,300	5,300	5,300	5,300	5,300	37,100
G	ASAP Computer Oper – Store	186	2,457	4,915	4,915	4,915	4,915	4,915	27,218
H	ASAP Offsets – Store		(10,320)	(20,640)	(20,640)	(20,640)	(20,640)	(20,640)	(113,520)
I	Hardware/Software	15,422	15,422	15,422	15,422	15,422	15,422	15,422	107,954
J	Telecommunications	4,900	4,900	3,900	2,900	2,900	2,900	2,900	25,300
K	Operations/Ops Maint (Other)	5,700	3,600	1,800	1,800	1,800	1,800	1,800	18,300
L	Subtotal One-Time Costs	6,533	15,640	13,840	0	0	0	0	36,013
M	Subtotal Recurring Costs	49,708	38,959	27,197	26,197	26,197	26,197	26,197	220,652
N	Total	56,241	54,599	41,037	26,197	26,197	26,197	26,197	256,665

MIS Consolidation Costs
Navy

($ 000)

	Element	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
	One-Time Costs:								
A	NCR SW Conversion	1,000							1,000
B	Data Conversion	3,150	3,150						6,300
C	Training	1,900	1,000						2,800
D	Store VDT's, Printers	2,200	2,200						4,400
E	Store VSAT's, Controllers	900	1,100						2,000
F	NAVY/AAFES Data Ctr Upgrade		2,600	2,600					5,200
G	ASAP - Hardware			4,243	4,242				8,485
	Recurring Costs:								
H	Personnel - HQ	3,000	3,000	2,000	1,400	1,400	1,400	1,400	13,600
I	Personnel - Field	2,100	2,100						4,200
J	ASAP Operators			857	1,713	1,713	1,713	1,713	7,709
K	ASAP Offsets - Store			(3,789)	(7,578)	(7,578)	(7,578)	(7,578)	(34,101)
L	Hardware/Software	800	800						1,600
M	Telecommunications	1,000	1,000	1,000					3,000
N	Operations/Ops Maint (Other)	100	100						200
O	Satellite/Line Rental	700	1,400	1,400	1,400	1,400	1,400	1,400	9,100
P	VDT, Printer, Mainframe Maint		300	600	600	600	600	600	3,300
Q	Subtotal - One-Time Costs	9,150	10,050	8,843	8,242	0	0	0	36,285
R	Subtotal - Recurring Costs	7,700	8,200	2,068	(2,465)	(2,465)	(2,465)	(2,465)	8,608
S	Total	16,850	18,250	8,911	5,777	(2,465)	(2,465)	(2,465)	38,893

MIS Consolidation Costs
Marine Corps

($ 000)

	Element	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
	One-Time Costs:								
A	HQ Personnel Costs	100	300	300	100				800
B	Data Conversion	1,150	1,150						2,300
C	Training	300							300
D	Store VDT's, Printers	400	500						900
E	Store VSAT's, Controllers		200	100					300
F	MC/AAFES Data Ctr Upgrade		400	300					700
G	Hardware (ASAP)			1,143	1,143				2,286
	Recurring Costs:								
H	Personnel – HQ	1,000	800						1,800
I	Personnel – Field	2,200	2,200						4,400
J	ASAP Computer Operators			261	521	521	521	521	2,345
K	ASAP Offsets – Store			(994)	(1,987)	(1,987)	(1,987)	(1,987)	(8,942)
L	Hardware/Software	500	500						1,000
M	Telecommunications	100	100						200
N	Operations/Ops Maint (Other)	600	600						1,200
O	Satellite/Line Rental	100	100	200	200	200	200	200	1,200
P	VDT, Printer, Mainframe Maint	200	200	200	200	200	200	200	1,400
Q	Subtotal – One-Time Costs	2,050	2,550	1,543	1,243	0	0	0	7,586
R	Subtotal – Recurring Costs	4,600	4,500	(533)	(1,066)	(1,066)	(1,066)	(1,066)	4,603
S	Total	6,650	7,050	1,010	177	(1,066)	(1,066)	(1,066)	12,189

Summary – Navy and Marines MIS Costs
Consolidated/Separate Exchanges

($ 000)

	Consolidated	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
A	Marine Corps Exchange	6,650	7,050	1,510	177	(1,066)	(1,066)	(1,066)	12,189
B	Navy Exchange	16,850	18,750	8,911	1,777	(2,465)	(2,465)	(2,465)	38,893
C	Total Costs	23,500	25,800	10,421	1,954	(3,531)	(3,531)	(3,531)	51,082

	Separate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
D	Marine Corps Exchange	7,900	8,000	5,700	5,700	5,700	5,700	5,700	44,400
E	Navy Exchange	15,094	14,331	15,837	21,625	20,572	6,379	6,379	100,217
F	Total Costs	22,994	22,331	21,537	27,325	26,272	12,079	12,079	144,617

SEPARATE MIS BASE, MODERNIZATION AND OPERATIONS COST

($ 000)

	BASE COST	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	TOTAL
NAVY	7,027	15,094	14,331	15,837	21,625	20,572	6,379	6,379	100,217

	BASE COST	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	TOTAL
MARINE CORPS	4,800	7,900	8,000	5,700	5,700	5,700	5,700	5,700	44,400

	BASE COST	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	TOTAL
AAFES	49,500	56,241	51,720	35,260	20,420	20,420	20,420	20,420	224,901

Appendix C

Management Information Systems

Attachment 1	AAFES Baseline Posture	C-1
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Appendix D

Senior Noncommmissioned Officers' Focus Group Report

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A: The Moderator Guide
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EXECUTIVE SUMMARY

The Department of Defense review of military exchanges is a baseline assessment of the four services' exchange systems. A focus group of the four services senior noncommissioned officers was held to capture their opinions, attitudes, and beliefs about their respective exchange system.

Key findings of the focus group are:

- All senior noncommissioned officers believe their current exchange system satisfies their services mission needs. They defined the exchange mission as supporting the servicemember and other eligible populations at the military installations around the world. All believe that the exchange system is an integral part of the total mission of each service.

- All participants were satisfied with their current exchange operations. There was a definite sense of ownership of the exchange among enlisted people. The Sergeant Major of the Army stated that "everyone is not satisfied, but the majority are." The Air Force representative stated that, "the product quality over the last 10 years has really increased . . . just to better management due to centralization." The Master Chief Petty Officer of the Navy believed that his exchange system has made great strides in the last two years to meet local market demands.

- There was significant discussion about patron shopping behavior and perceptions. All agreed that patrons shop not only their own exchange system, but also the competition. Choice, variety, and the perception that "it's different on the other side of the fence" appear to be the primary factors influencing this behavior.

- All believe that command and exchange and patron and exchange communication channels are adequate.

- All senior noncommissioned officers understand how the profit is distributed for their service to the MWR activities. Overall, they were generally satisfied with the equity of their profit distribution systems and that it was a negotiable issue which could be changed to meet needs.

- All participants believe that there must be a balance between the exchange savings and the MWR program. The Air Force representative stated that "if we lose the savings, we're going to lose the MWR because people will stop shopping there. Then, we're going to end up losing both. There's got to be a balance."

• All participants were deeply concerned with the possible consolidation of exchange systems. The Army and Air Force representatives endorsed the merger, provided that a thorough cost/benefit analysis was conducted. The Navy and Marine Corps representatives were opposed to the proposed consolidation for a variety of reasons. All agreed that savings must be realized and the end product better than what is currently in place in order to proceed with a consolidation of the systems.

BACKGROUND and PURPOSE

The Department of Defense review of military exchanges is a baseline assessment of the four services' exchange systems. The Armed Forces Military Exchange Consolidation Task Force has been tasked with the objective of identifying increased efficiencies. These efficiencies may include reducing overhead costs and increasing savings to patrons without degradation to customer service. The Task Force reviews all functional areas of the exchanges. The end result of this study could suggest consolidation of all or some of the functional areas.

A focus group of the four services' senior noncommissioned officers was held to capture their opinions, attitudes, and beliefs about their respective exchange system. Specific question areas were:

- What is the mission of the exchange?
- What are the senior noncommissioned officer perceptions regarding the profit distribution system?
- How well does the senior noncommissioned officer believe his exchange serves the different military populations?
- Are the senior noncommissioned officers satisfied with current exchange operations?
- What are the senior noncommissioned officers' opinions on a consolidated exchange system?

METHODS and PROCEDURES

The following section outlines the methods and procedures for the focus group research, to include the Moderator Guide development, sample selection, and group composition.

The Moderator Guide

The Moderator Guide was a combined effort of representatives from the Morale, Welfare and Recreation Support Activity (MWRSPTACT), the Army Air Force Exchange System (AAFES), and the Navy Supply System Command (NAVSUP). The representatives were:

Ms. Tamra Avrit
Head, Marketing Support Branch
MWRSPTACT, Headquarters, U.S. Marine Corps

Mr. Jim Winters
Chief, Operations Division
Army Air Force Exchange System

Commander Tom Kaloupek, USN
Director, Resale and Services Support Programs Assistance Staff
Naval Supply Systems Command

The initial objectives were developed by the Task Force and served as a strawman for question development. Based on these objectives, the MWRSPTACT conducted an in-house focus group with branch managers from the exchange, services, and food and hospitality divisions to further identify question areas. A draft guide was developed and subsequently staffed to the other agencies for their review and comment. Upon final review from the agencies, the guide was approved by the Task Force.

A copy of the moderator guide is at Appendix A.

Sample Selection Procedure

Due to the time constraints for the Task Force and their report, the sample was drawn only from the senior noncommissioned officer from each service. Even though participants were selected from the Washington, D.C. metropolitan area, they brought perspectives with them from other commands and locations where they have served.

The representatives were:

- Sergeant Major of the Army
- Master Chief Petty Officer of the Navy
- Chief Master Sergeant of the Air Force
- Sergeant Major of the Marine Corps

Group Composition

There were four participants in the focus group. Specific demographic characteristics of the group were:

- **All participants were grade E9.**
- **Participants had an average of 28 years of active duty service. The range in years of active duty service was from 19 to 32 years.**
- **100 percent of the group have had other positions, other than their current assignment, which required exchange involvement and interface.**
- **100 percent of the group was male.**
- **The average age was 45, with the age range between 38 and 49 years.**
- **100 percent of the group was married.**
- **Participants had an average of two children, with the age range between 14 and 25 years.**

Group Location and Time

The group was held from 1400 to 1600 at The Pentagon in Washington, D.C. on Thursday, 2 August 1990.

Facility Description

The group was held in room 3E752 of The Pentagon. The participants were seated at a conference table which allowed them to see each other during the discussion. The moderator and the two observers sat at the head of the table.

Taping

The entire session was taped, in addition to transcripted by a shorthand recorder. The tape recorder was placed in the front of the room. A copy of the notes are at Appendix B.

The session was moderated by Ms. Avrit (MWRSPTACT) and observed by Commander Kaloupek (NAVSUP), Mr. Winters (AAFES), and Major Burger (MWRSPTACT). Ms. Kerry Lewis, also from the MWRSPTACT, was the shorthand recorder and assisted in the session.

Predispositions

All group participants were cordial and knew each other through their command positions. While each participant had been thoroughly briefed on their exchange system and service's position regarding the possible consolidation, they spoke candidly about their perceptions and opinions.

The Chief Master Sergeant of the Air Force could not attend, but sent his Staff Assistant, Chief Jim Craig, to represent him.

Summary of Findings

This section lists each question from the Moderator Guide and provides a synopsis of the focus group discussion. The guide had five question sections: framework, exchange operations, profit distribution, policy, and future.

• What do you think is the mission of the exchange? Do you perceive any differences in mission between the services?

The exchange mission is to provide support to the servicemember and the other eligible populations at military installations around the world. Also, the exchanges are to support the needs of the command to lend in the accomplishment of the mission. All of the senior noncommissioned officers believe the exchange system to be an integral part of the total mission of each service. The participants also believe that the exchange is critical to each of the services' morale, welfare, and recreation (MWR) programs in providing necessary funds. The Air Force representative stated, "the exchange is one of our benefits. If we lose it or cut back on it, it's the same thing as taking away pay or something else."

• Does the exchange satisfy the mission needs?

Each participant agreed that their current exchange system satisfied their mission needs. There was significant discussion, however, on the different missions of the four services and the role of the exchange systems. The Sergeant Major of the Army stated that these conceptual differences for exchange operations relate to the services' orientation of land versus sea. For the land-based services (Army and Air Force), the exchange system emphasizes facilities as a mission-essential priority. For the sea-based services (Navy, Marine Corps, and Coast Guard), however, facilities do not rank as important in their overall priority. These exchange systems are service-oriented to support the extended deployments aboard ship.

• How well do you think your exchange serves junior enlisted? Senior enlisted? Officers? Family members? Retirees? Others? (Reservists, Units, MWR activities)

All participants agreed the exchanges do an acceptable job meeting the needs of their different populations. The Navy's senior noncommissioned officer stated, "the exchanges have a wide variety (of populations) which they have to serve . . . ranging from E1 to 010 to retirees. Each of these groups has different wants." The Sergeant Major of the Army stated, "everyone is not satisfied, but the majority are."

• How are the exchange prices? Is there a savings to the customer? Are merchandise selection and availability adequate to customer needs? Are the quality of merchandise and customer service satisfactory? Are the facilities clean and attractive? Are exchange management and employee attitudes customer service oriented?

All of the senior noncommissioned officers of the four services believe the exchange prices are good and represent a savings to the customer. The Air Force representative stated, "the savings have to be there. If not, nobody would shop there." All participants also agreed that pricing between the exchange systems is comparable. The Sergeant Major of the Marine Corps stated that, "patrons shop around and they may find something cheaper in AAFES, but across the board the prices are similar throughout." The Sergeant Major of the Army provided an example of retirees driving 100 to 200 miles to shop at an exchange to receive the savings. He continued by saying that, "the young guys (troops) either don't know (about the savings) or aren't convinced (about the savings)."

Overall, all participants were satisfied with exchange operations. The Air Force representative stated that, "the product quality over the last 10 years has really increased . . . just to better management due to centralization." The Master Chief Petty Officer of the Navy believed that his exchange system has made great strides in the last two years to meet local market demands. He also remarked that while facilities were acceptable, service levels depended upon the store. He cited the Navy's uniform shops as an example where training and service have markedly improved.

There was significant discussion among participants about patron shopping behavior. All agreed that patrons shop not only their respective service exchange system, but also the competition. Three specific examples were provided by the participants which reflected this behavior: Hawaii, Japan, and the Philippines. The Navy, Marine Corps, and Air Force representatives, all, provided

insights as to why sailors, Marines, and airmen will travel from Subic Bay to Clark Air Force Base, and vice versa, to shop at a different exchange. Choice, variety, and the perception that "it's different on the other side of the fence" appear to be the primary factors influencing this behavior.

• Does your exchange system have customer advisory meetings? If not, should the system have these meetings? If yes, how frequently are these meetings scheduled? Are the recommendations of these meetings acted upon?

All of the senior noncommissioned officers of the services stated that their exchange system holds customer advisory meetings. The Navy representative stated that there had been a concerted effort to change the group composition of the Navy advisory boards to reflect more junior grade enlisted personnel.

• Are command and exchange communication channels adequate? Are patron and exchange communication channels adequate?

All participants believe command and exchange, and patron and exchange, communication channels are adequate. The Sergeant Major of the Army stated that the exchange is a part of the chain of command and an integral part of the staff at the installation. The advisory meetings allow patrons to have formalized input into the exchange. The Army representative also stated, "they (patrons) can always go to the local store manager to complain . . . or to ask the manager to get something special." All of the participants felt their current exchange systems were responsive.

Profit Distribution Questions

- Do you know how your service distributes exchange profits?

All of the senior noncommissioned officers were aware of how their service distributes exchange profits. There is a significant difference between the four services' profit distribution methods.

- Can you explain how your morale, welfare and recreation (MWR) program is supported by the exchange? Do you know the amount of money received from the exchange for your services' MWR program?

All participants could explain how the local MWR program is supported by the exchange. Each had been thoroughly briefed on the distribution of exchange profits.

- Recognizing the competing needs for exchange profit dollars, are you satisfied with the equity of the profit distribution system?

The participants were generally satisfied with the equity of their profit distribution systems. The Army representative stated that the Army was currently evaluating their distribution. The Navy representative stated that the Navy changed their distribution last year. The Air Force representative stated that, "we (the Air Force) have put 50 percent in for how many years - we've got our facilities up, now we may be able to change that." The Master Chief Petty Officer of the Navy stated "Navy facilities need a lot of work. The perception is that consolidation better bring equality, and bring our facilities up to AAFES."

All agreed that profit distribution was a negotiable issue and could be changed to meet the needs of each service.

- Do you perceive that the profit distribution system provides incentive at the local level to improve exchange service and efficiency? If not, what do you think does provide for local improvement?

All of the senior noncommissioned officers perceived that their exchange system provided incentive at the local level.

• Which is more important when serving the military member: savings at the exchange (for the individual customer); or a viable and financially healthy on-base morale, welfare and recreation (MWR) program (i.e. child care, base gym, etc.)?

All participants believe that there must be a balance between the exchange savings and the MWR program. The Air Force representative stated, "if we lose the savings, we're going to lose the MWR because people will stop shopping there. Then, we're going to end up losing both. There's got to be a balance."

• What do you think your customers are most interested in from the exchange: savings at the exchange; or funds for a viable morale, welfare and recreation (MWR) program?

All participants agreed that patrons are most interested in the savings at the exchange. However, both the Air Force and Navy representatives expressed their concern that the average service member does not understand that the exchange supports their MWR program.

• Based on your experience with your exchange system and what you have heard today, do you think the exchange systems should be consolidated? If yes, what would be the primary benefits and what should the consolidated management structure and operation look like? If you think the systems should not consolidate, why? Do you perceive any overriding disadvantages?

Throughout the meeting, there was significant discussion on consolidation. Each senior noncommissioned officer presented his perspective on the possible consolidation of the exchange systems. All service representatives were in concurrence, that if there were a consolidated system, it should be responsive to both patrons and commanders, establish similar facility standards and levels of service, and provide a sense of ownership to local patrons in order to generate their continued interest.

The Sergeant Major of the Army restated the Secretary of the Army's position in favor of consolidation. He did, however, caveat the statement with stressing the need for a thorough cost/benefit study of the consolidation. Important issues included current proposals for end strength reductions and the possible closures of profitable overseas bases. He also stressed the continuance of current facility standards if consolidation were to occur.

The Air Force representative voiced support for the Army position and further stated that since consolidation was going to happen anyway, "we might as well get on with solving the details of how to run it."

The Master Chief Petty Officer of the Navy was particularly vocal on the points of ownership and the protection of morale in the face of eroding benefits. He stated, "Our sailors are the shareholders in this company - they own it. Did they ask to change it?" He was also deeply concerned with the cost of consolidation and the return to MWR programs. His baseline position was in opposition to consolidation.

The Sergeant Major of the Marine Corps emphasized the Marine Corps opposition to consolidation. His position is based upon the 1988 reorganization of MWR within the Marine Corps, with the issues of personnel turmoil and comparative profit distribution levels as key.

• How should the profits be distributed to morale, welfare and recreation (MWR)? How much?

The Sergeant Major of the Army stated that flexibility to change the profit distribution rate was required to meet the changing needs of MWR capitalization. The Navy and Marine Corps representatives emphasized that profit distribution must keep the systems working at no less than current standards. They even agreed that pre-consolidation guarantees of current levels should be established.

APPENDIX A

SENIOR NONCOMMISSIONED OFFICERS' FOCUS GROUP REPORT

Armed Forces
Military Exchange Consolidation
Task Force:
Jones Commission II

Verify participants are in the proper group. Distribute name tags/cards for first name only.

Introduction

"Hello. My name is Tamra Avrit and I'm the moderator today. We will be here for about two hours to talk about an aspect of your military benefits."

Self-Disclosure

"I am a marketing specialist with the Marine Corps, however, for the purpose of this session today, I am with the Department of Defense. Please feel free to make any positive or negative comments about anything that comes up in our discussion this morning. My job is not on the line today -- and I don't have anything to sell. Say whatever you like about our topic as long as it's true for you. Today, our topic is military exchanges.

Lieutenant General Donald Jones, the Deputy Assistant Secretary for Military Manpower and Personnel Policy, is chairing a task force which is conducting a baseline assessment of

military exchanges. This task force was directed by the Chairman of the Morale, Welfare and Recreation Panel of the House Armed Services Committee, Congressman Marvin Leath. You were invited to this session to give your opinions, as the senior noncommissioned officer of your service, on your exchange system. Your input is important to this assessment.

We have representatives from the Army/Air Force Exchange System (AAFES), Marine Corps Exchange (MCX), and the Navy Resale and Service Support Office (NAVRESSO) here to hear what you have say.

Ground Rules

"Before we begin, however, we need some ground rules for our meeting.

Please talk one at a time and in a voice as loud as mine. This session is being both taped and recorded by our shorthand secretary -- only to assist in our report writing. Everything you say is confidential.

I need to hear what everyone has to say, but you do not need to answer every question. You do not need to address all your comments to me to get them on the table for discussion. You can respond directly to something else that is said, but

avoid conversations with your neighbor. Say it so we all can hear.

We will observe the no smoking rule during this session.

There are no right or wrong answers in what we are talking about today. I need your different points of view expressed in our session. Have the courage of convictions, even if you are the only one in the group that feels that way. There may be others like you outside of this room.

Most importantly, each here is as important as the other in this DoD study. Similarly, each exchange system is as important as the other.

Finally, rank is to be left at the door."

Self-Introductions

"Please introduce yourself to the group and tell your first name, your job, and how long you have been there.

Frame-work Questions

- To begin, what do you think is the mission of the exchange? Do you perceive any differences in mission between the services?

- Does the exchange satisfy the mission needs?

Exchange Operations Questions

- How well do you think your exchange serves junior enlisted? Senior enlisted? Officers? Family members? Retirees? Others? (Reservists, Units, MWR activities)

- How are the exchange prices? Is there a savings to the customer? Is merchandise selection and availability adequate to customer needs? Is the quality of merchandise and customer service satisfactory? Are the facilities clean and attractive? Is exchange management and employee attitudes customer service oriented?

- Does your exchange system have customer advisory meetings? If not, should the system have these meetings? If yes, how frequently are these meetings scheduled? Are the recommendations of these meetings acted upon?

- Are command and exchange communication channels adequate? Are patron and exchange communication channels adequate?

Profit Distribution Questions

- Do you know how your service distributes exchange profits?

- Can you explain how your morale, welfare and recreation (MWR) program is supported by the exchange? Do you know the amount of money received from the exchange for your services' MWR program?

- Recognizing the competing needs for exchange profit dollars, are you satisfied with the equity of the profit distribution system?

- Do you perceive that the profit distribution system provides incentive at the local level to improve exchange service and efficiency? If not, what do you think does provide for local improvement?

Policy Questions

- Which is more important when serving the military member:
  - Savings at the exchange (for the individual customer)

  OR

  - A viable and financially healthy on-base morale, welfare and recreation (MWR) program (i.e. child care, base gym, etc.)

- What do you think your customers are most interested in from the exchange?
  - Savings at the exchange

  OR

  - Funds for a viable morale, welfare and recreation (MWR) program.

Future Questions

"The future structure of our exchange systems may be dramatically different from what we have been discussing so far this afternoon. One of the alternatives the DoD Task Force is reviewing is the consolidation of all of the exchange systems into one system -- similar to the recently announced consolidation of the four services' commissary systems.

- Based on your experience with your exchange system and what you have heard today, do you think the exchange systems should be consolidated? If yes, what would be the primary benefits and what should the consolidated management structure and operation look like? If you think the systems should not consolidate, why? Do you perceive any overriding disadvantages? I would like to go around the table and have each commander briefly give his perspective.

- How should the profits be distributed to morale, welfare and recreation (MWR)? How much?

Closure

"Is there anything else anyone would like to say?

I appreciate your time and insights. Your opinions are important to this study. Thank you."

APPENDIX B

SENIOR NONCOMMISSIONED OFFICERS' FOCUS GROUP REPORT

Armed Forces
Military Exchange Consolidation
Task Force:
Jones Commission II

Focus Group--2 Aug 90

Framework Questions

Army--Believe very strongly that we have a need for our exchange services. They provide a benefit to ourselves, our family members, reserves, and retired community as well. We have soldiers stationed around the world and at each installation, we have - no matter how small - we have some type of exchange services. The exchange is critical to MWR of our soldiers. The exchange has also taken on the responsibility to do research and development into our uniforms. We have a good system.

Air Force--We have continuity anywhere in the world. Someone there to help you not to take your money. The exchange is not for profit only, they are there to service us - non-confrontational - there to support us.

Navy--Ownership means a lot. Have asked sailors and wives would they continue to shop if they joined with AAFES. There are strong feelings that they would not shop anymore. Sailors are saying that "they" are out to take everything. This is the worse thing people could do for morale right now--would impact negatively. This is the emotion building up--not a business approach. Believe politics strongly involved. Wanted to know "who said to do it?-who wants it?." Who are the strong holds in this? Someone is driving it. Believes dirty politics is involved. Sailors are going to wake up and they won't own their exchange.

The systems are totally different. The services are different. The Navy relies a whole lot more on MWR. The Navy has a very young population that desires MWR activities. Go to many different ports around the world and this takes a lot of money.

As far as the funding of MWR is concerned, does not know who is right or wrong. He sort of likes how the Air Force does it. Views the main difference in funding is the Navy does not hold the funds up. The Navy's important priority is serving the sailors.

Believes consolidation will not reap more for their MWR in these austere times. Where is the money going to come from? It will come from soldiers and airmen.

Looking at facilities, Navy's facilities need a lot of work. The perception is that consolidation better bring equality, bring their facilities up to AAFES.

Army--Explained the differences in the services. Navy is deployed at sea, Air Force and Army are on land. We try to build our

facilities to meet those needs. We have some fine facilities out there, they compare with civilian facilities. We have 40% for capital output. Not only do we have active duty, we have a tremendous retiree and reserve population that need to use these facilities.

Navy--While in Hawaii asked personnel and family members what they thought about combining with AAFES. They said they want the variety. If the systems are combined, they loose the opportunity to shop. When sailors are overseas, visiting and shopping at an exchange is the only way we know we are still American. The sailors and family members polled believe they will lose the flexibility of competitive shopping if the systems are combined.

Overall, view the merchandizing as a hard business to be in -- almost impossible because of different needs of E1-09. They have different worlds.

Marine Corps--Agree with what was said above. For the record, the Marine Corps exchange system is their to serve the Marine. Our system gives the commander flexibility to serve the total community. This system works through the MWR system to support needs and accomplishment of mission. In 1988 the Marine Corps was told to look at their MWR. We have put a lot of work into it. Have modernized and updated facilities and at most exchanges, you will find comparable pricing. What is most important to the Marine Corps is need for flexibility to meet needs of command and the Marine Corps believes they cannot meet those needs without the present system.

Army--With a telephone call, can change the flow of service. Call Dallas and it happens. The exchange services are part of the total system. Adjusts to needs of command. In Panama, they had a few items that were hard to get -- AAFES got it. Priorities can be changed with a telephone call. Would hope bureaucracy would not become such that it would bog down needs of servicemember. Could turn it over to a Walmart but they would not want it. A member of Walmart's Board of Directors sits on AAFES Advisory Board and he said they would not want it because we have to meet too many needs. If we change that system it might not be responsive to the needs of people.

The Secretary of the Army signed a letter that said we need to get on with it. But it sounds like a lot of people have a problem with it. Have talked about it and they are worried that we will lose the system.

Air Force--Rumors are out, but no one tells them about the benefits. The merger between Army and Air Force is going great. We cannot take care of business taking a loss.
Marine Corps--Navy and Marines could not eat the losses. Exchange profits are the monies that keep our MWR programs going.

Navy--We have poor and rich stores. The rich stores support the poor.

Army--We need to be concerned about base closures. We do not know what the cost will be to draw down. No one knows how much. We need to find out what is going on. We need firm decisions on what we are going to have. We do not know. No one can tell me how much its going to cost to clean up an AAFES operation in Europe and who is going to clean it up.

Navy--The word is out that we don't know who the enemy is. Who is trying to screw the sailors. Is it AAFES trying to cover their loss of market in Europe? Is it DOD, are we losing another B-2? Or is someone on the Hill trying to build a big nest egg?

Marine Corps--Are we being told this is happening? Appears they have made up their mind.

Air Force--If you look at every one of the past consolidation concepts, all have been completed, except logistics.

Army--There is something about a PX that you believe you have some ownership. Why are we trying to take ownership away?

Navy--In discussion with a person who sits on the NAVRESSO Advisory Board and attended a military exchange consolidation task force focus group meeting, learned that the Head, Col Loughlin, told the participants that "status quo would not be acceptable."

Air Force--Being taken over by AAFES is not the issue. Army and Air Force said the consolidation is going to take place - need implementation plan.

Army--Why spend money on a study if the decision has been made? We are under the assumption it will happen. Why conduct a $10M study?

Air Force--Leath said implement.

Navy--Leath said look at feasibility--do not implement at this time.

Army--We need to go slow cannot be done by 1992.

<u>Exchange Operations Questions</u>

Navy--The general feeling with the sailor is Navy exchange not focused to needs of junior enlisted, the target is more for senior people. Is probably a fact. However, Admiral Weatherson has taken that on board to change. It used to be that the only person being heard was the Admirals' wives, enlisted not on board. We have

reversed that. Enlisted now serve on the Advisory Board.

We have a done poor job on explaining what we do with the money. Some don't know what the money goes for.

Navy doing an outstanding job, suited to area needs. Need local procurement.

Army--Some of what the Navy says is true. If you have a system available for people to express their concerns they will express them. Few people complain about Sears--they just don't shop there. At AAFES they can complain. They have a policy if more than four people are in a line, they will open another cash register. Although it may not happen everywhere, it happens when I'm in the store.

There would not be many people to shop in AAFES if they did not save money. Believes you can save between 20-25% at AAFES. Have catalogue sales. They have developed their own AAFES brands that have the same ingredients as the name brand item but at half the cost.

**A discussion ensued regarding savings at competitive exchanges.

***The moderator interrupted the discussion to ask, "Do you think servicemembers go back and forth between stores?"

Army--Yes. Prices about the same at exchanges.

Navy--Discussed a recent survey done on San Diego area exchanges and pricing. The survey found comparable pricing. Sometimes we don't provide the product they want so that is one reason to shop around. As far as cleanliness is concerned, believed all stores were clean, however, may be in need of maintenance. Service depended on the store. However, NAVRESSO has instituted a training program to improve customer relations.

Marine Corps--The Marine Corps does a good job with pricing. Believes, however, that AAFES have items that they intentionally price down.

As far as service is concerned, if a jr enlisted person has a problem with the exchange, he can take his SgtMaj with him to the exchange and it will be fairly resolved.

Air Force--Believes the savings have to be there or no one would be shopping at the store. AAFES is one of the largest retailers in the world. Quality of products have increased.

The Air Force representative asked the Navy and Marine reps if they had the understanding that the local manager does not have

the flexibility to change stock.

Marine Corps--The perception is the local commander does not own the stores.

Army & Air Force--That is a misconception; the commander has complete control of the store.

Marine Corps--Asked if the exchange fell under the immediate guidance of the Army and Air Force.

Army & Air Force--No, it is separate.

Marine Corps--Under Marine Corps system, we have a centralized headquarters for MWR. The exchange falls under that which falls under CMC.

Navy--Who ever ordered this to happen doesn't know that first you have to do an education process when you make a statement that will hurt someone. You go to the people and then you go to the drawing board. There could be 5,000 repercussions from this.

Army--In the states when you shop, you don't pay taxes. That is perceived as a real benefit. Another perception is that someone wants to take away AAFES, civilianize it. If they want to do it, tell us so we know what they are trying to do. What are the motivations? If you are going to combine for a benefit, no one would fuss. Why are we doing it? (Went on to discuss a recent purchase of tires that were priced significantly lower than outside retailers.

Relationship of Exchange with Customer

Army--Every year, major command SgtMajs and their wives go to AAFES headquarters in Dallas to discuss their problems with AAFES and to make recommendations.

Navy--Discussed their Advisory Groups who provide insight to exchange management of enlisted needs and others.

Marine Corps--Answered in the affirmative. If a Marine has a problem, he can go to the exchange with his SgtMaj and it will be taken care of.

**A discussion ensued on how profits are distributed to the MWR Programs. All participants had profit distribution percentages available via briefing packages, but agreed that each system was different so there was no way to compare systems. (apples to apples)

Profit Distribution

When the participants were asked if they were satisfied with the equity of the system, the following was recorded:

Army--Satisfied but they are simplifying it. It is flexible, could give 100% to the single fund if desired.

Navy--Satisfied.

Army--In the past, the Army spent money on "I love me" things that may not have made good business sense. But they are taking a different look at it now.

When asked whether profit distribution encourage incentive, the following was recorded:

Navy--Believed their exchanges were highly motivated.

Savings vs Service (which is more important)

Navy--A balance.

Army--Agreed a balance was required. You have to have a profitable system yet also have to offer savings opportunities.

Air Force--If you lose savings, you will lose MWR. Has to be a balance.

Army--Had the following question for the moderator: If we consolidate can we receive more savings? What is the affect on our facilities and maintenance? What is affect on MWR? What are the motivators? Any way you look at it, consolidation will affect capital outlays and MWR revenues.

What about customers: Savings vs MWR Program

Marine Corps--Savings.

Air Force--They want savings, don't know what is pumped into MWR.

Navy--Customers don't understand. If you explain then they want to take care of MWR.

Do you think exchanges should consolidate:

Army--Someone has to determine the improbable, will there be an increase in savings if we consolidate? Will we generate a larger profit to put back into MWR? The more we consolidate the more people with their finger in the pot--more difficult for the system to work. The issues need to be looked at. What is the make up of the Board of Directors? Need enlisted on it. Commissaries are different, they have always belonged to the Federal Government. The PX, however, belongs to the servicemen. The Federal Government

does not build an exchange, we do. There is a difference. The people who own stock in the facility should have say as to the future. If the decision is made, there has to be someone to sit down and decide if it's feasible.

Marine Corps--Do not agree with consolidation. We underwent a complete reorganization in 1988. We are just not seeing the benefits in profit and management. If we combined, we will see the same people problems. A lot of people will get hurt and see less of our profits going into MWR. We are confident with our Board of Directors. Believe it should not be combined.

Air Force--Everything we see confirms consolidation will happen. In that case, what is the Board of Directors going to look like? Believe the four senior enlisted members present today must be on the board. Need flexibility to remain with local commander. What is the correct percentage that meets bottomline, have savings for the customers, and also keep MWR programs going. Need that balance on paper. Consolidation is going to happen, the Secretary of the Air Force signed a letter out.

However, in the participants opinion, does not see a problem with merged backrooms. If the name of the facility is the problem with consolidation, keep the name, we do not have to change the front office. We do not want the flexibility to meet local needs to go away.

Navy--Absolutely not at this time. Appalls him that there are people in key positions that will take a knee jerk reaction. No one in business would do very well if they did this.

What is the cost of the merger? What is the percentage of savings. Mergers cost. What about the employees we would lose? What would headquarters look like? What is the impact to customers? You must study this.

Took exception to the Secretary of the Air Force request to begin implementation. Believes you must study it. Would like to have the facts.

Army--We need to make sure we know what we're doing. Move cautiously.

Navy--Smells like someone struck a deal.

Additional Comments

Navy--Regarding profit distribution of a consolidated system, the Navy needs enough profits to go to them so that it doesn't hurt MWR.
Army--Need flexibility to adjust program. Would hate to see flexibility curtailed. The Commander would stop supporting the

exchange as well as the soldier.

Marine Corps--Could not accept less distribution than what the Marine Corps is pulling now.

Navy--Wants a guarantee that the Navy will get what they are making now. Would like the burden of guarantee put back on the people who want this to happen.

This is the worst timing in the world. Would like the junior enlisted personnel thought more of.

Army--Believes the retiree perceives the exchange as a benefit. Would not want to do anything to curtail their benefits.

Air Force--The exchange is definitely a benefit in everyone's view. The exchange savings are even factored into pay.

Army--This action could hurt retention. People identify with their own exchange.

Appendix E

Installation Commanders' Focus Group Report

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EXECUTIVE SUMMARY

The Department of Defense review of military exchanges is a baseline assessment of the four services' exchange systems. A focus group of installation commanders in the Washington, D.C. metropolitan area was held to capture commanders' opinions, attitudes, and beliefs about their respective exchange system.

Key findings of the focus group are:

- The overall group consensus for consolidation was not favorable. In a vote of the 10 commanders, seven were against the proposed consolidation, one was in favor, one deferred decision, and one did not vote. All commanders viewed each of the services missions as too different to be effectively supported by one agency.

- All commanders believe that exchange satisfies their command's mission needs. They defined the exchange mission as providing quality goods and services at discount prices. Additionally, the commanders believe the exchange operates as a service to the community and is focused on the needs of the patrons.

- The relationship between the commanders and the exchange differs significantly between the Navy and Marine Corps commanders and the Army and Air Force commanders. The Navy and Marine Corps commanders have direct operational control over the exchange. The Army and Air Force commanders do not have operational control, but perceive the exchange manager as an integral part of the command and community. All participants believe that the current command and exchange communication channels are adequate.

- All commanders understand how the profit is distributed systems for their service and the MWR activities. Overall, they were generally satisfied, with the exception of the Air Force commanders. Air Force commanders were dissatisfied with the current profit distribution policy of their service. Both Army and Air Force commanders stated they desire a greater bottomline return to the local level activities. The Navy and Marine Corps commanders have the direct support for MWR based on how well their exchange performed. The Army commanders receive direct dividend payments from their exchange system from phones, Class VI stores, and amusement machines.

- Exchange operations, service to the different populations, and pricing were all satisfactory to the majority of commanders. A Navy commander stated that the exchange "tries to do the most good for the most people and can't make everyone happy."

- All commanders believe that savings at the exchange and a viable and financially healthy on-base MWR program is not mutually exclusive. A Marine Corps commander stated that "service versus making the biggest dollar is a balancing act." Most participants agreed that the military services may be requiring too much from the exchanges to put into MWR funding. Overall, the exchanges are placed in a tenuous position between support and profit.

- While most commanders did believe savings could be realized with consolidation through the reduced duplication of personnel and increased buying power, they did not believe centralization to be answer. The commanders agreed that "bigger is not always better."

BACKGROUND and PURPOSE

The Department of Defense review of military exchanges is a baseline assessment of the four services' exchange systems. The Armed Forces Military Exchange Consolidation Task Force has been tasked with the objective of identifying increased efficiencies. These efficiencies may include reducing overhead costs and increasing savings to patrons without degradation to customer service. The Task Force reviews all functional areas of the exchanges. The end result of this study could suggest consolidation of all or some of the functional areas.

A focus group of installation commanders in the Washington, D.C. metropolitan area was held to capture commander's opinions, attitudes, and beliefs about their respective exchange system. Specific questions areas were:

- What is the relationship between commanders and their exchange?
- What are the command perceptions regarding the profit distribution system?
- How well does the commander believe his exchange serves the base population?
- Is the commander satisfied with current exchange operations?
- What are the commander's opinions on a consolidated exchange system?

METHODS and PROCEDURES

The following section outlines the methods and procedures for the focus group research, to include the Moderator Guide development, sample selection, and group composition.

The Moderator Guide

The Moderator Guide was a combined effort of representatives from the Morale, Welfare and Recreation Support Activity (MWRSPTACT), the Army Air Force Exchange System (AAFES), and the Navy Supply System Command (NAVSUP). The representatives were:

Ms. Tamra Avrit
Head, Marketing Support Branch
MWRSPTACT, Headquarters, U.S. Marine Corps

Mr. Jim Winters
Chief, Operations Division
Army Air Force Exchange System

Commander Tom Kaloupek, USN
Director, Resale and Services Support Programs Assistance Staff
Naval Supply Systems Command

The initial objectives were developed by the Task Force and served as a strawman for question development. Based on these objectives, the MWRSPTACT conducted an in-house focus group with branch managers from the exchange, services, and food and hospitality divisions to further identify question areas. A draft guide was developed and subsequently staffed to the other agencies for their review and comment. Upon final review from the agencies, the guide was approved by the Task Force.

A copy of the moderator guide is in Appendix A.

Sample Selection Procedure

Due to the time constraints for the Task Force and their report, the sample was drawn only from Washington, D.C. metropolitan area commands. Even though participants were selected from the same geographical area, they brought perspectives with them from other commands and locations where they have served.

Commands represented were:

- Army
  - Fort Belvoir
  - Fort Meade
  - Military District of Washington
- Navy
  - Naval District Washington
  - Naval Sea Systems Command
- Air Force
  - Bolling Air Force Base
  - Andrews Air Force Base
- Marine Corps
  - Henderson Hall
  - Marine Corps Combat Development Command, Quantico

Group Composition

There were 10 participants in the focus group. Specific demographic characteristics of the group were:

- All participants were grade 06.
- Participants had an average of 25 years of active duty service. The range in years of active duty service was from 22 to 28 years.
- 80 percent of the group have had other installation command positions, other than their current assignment, which required exchange involvement and interface.
- 100 percent of the group was male.
- The average age was 48, with the age range between 43 and 50 years.
- 90 percent of the group was married.
- Participants had an average of two children, with the age range between 10 and 26 years.

Group Location and Time

The group was held from 1100 to 1315 at the Fort Myer Officers' Club in Arlington, Virginia on Wednesday, 18 July 1990. Lunch was served to the participants during the discussion.

Facility Description

The group was held in the Deavers Room of the Fort Myer Officers' Club. The table was arranged in a horseshoe shape allowing participants to see each other during the discussion. An easel was placed in the center of the horseshoe and was used to capture key phrases and definitions for a number of questions.

Taping

The entire session was taped, in addition to transcripted by a shorthand recorder. The tape recorder was also placed in the center of the horseshoe. A copy of the notes are in Appendix B.

The session was moderated by Ms. Avrit (MWRSPTACT) and observed by Commander Kaloupek (NAVSUP) and Mr. Winters (AAFES). Two representatives from the MWRSPTACT assisted in the session: Ms. Kerry Lewis was the shorthand recorder and Ms. Beth Burris summarized key points for the group on the easel.

Predispositions

All group participants were cordial and several knew each other through their command positions.

It was apparent that all of the Marine Corps and one of the Navy participants had been thoroughly briefed by their staff on the exchange consolidation study and their services' position. Several of the participants had briefing and point papers with them which discussed profit distribution and market basket price savings between the exchange systems. Their preparation for the session indicated their interest in the topic. While contributing positively to the group discussion, their individual opinions as commanders may have been influenced to represent their service's position.

Mr. Bob Cook (General Manager, Washington Area Exchange) and Mr. George Quigley (Chief, Washington Office), both from AAFES, also attended.

Summary of Findings

This section will list each question from the Moderator Guide and provide a synopsis of the focus group discussion. The guide had four question sections: framework, command, policy, and future.

Framework

- **What do you think is the mission of the exchange? Do you perceive any differences in mission between the services?**

The exchange mission is to provide quality goods and services at discount prices. The exchange operates as a service to the community and is focused on the needs of patrons. Most important to the commander was that the exchange should serve the unique requirements of the command and of the service. The exchange is viewed by commanders as the "umbrella of quality of life programs."

- Does the exchange satisfy the mission needs?

All commanders believed the exchange satisfies their mission needs. The Navy and Marine Corps representatives addressed their ability to control exchange operations because of their direct control. A Navy commander stated that "the installation commander is now tailoring services to meet the needs of the local community." An Army commander stated that he was "pleased that the exchange willingly supports and is a positive influence on the community."

- **How would you describe your relationship with your base exchange? Is there a relationship? If there is, what kind of relationship do you have? If you do not have a relationship, should you have one?**

Each commander presented his perspective on the relationship between command and the exchange. The Army and Air Force commanders had a significantly different relationship with their exchange than the Navy and Marine Corps commanders.

One Air Force commander stated that he had "a difficult time differentiating whether the exchange manager works for me or not, however, (he) takes instruction from me and is an integral part of command." Both Army and Air Force commanders perceive the exchange manager working for the installation commander, but also working for AAFES. Although they have no direct operational control over the exchange, they believe AAFES would take corrective action if a problem occurred. All of these commanders believe the exchange manager to be an integral part of the command and the community.

An Air Force commander did express the concern that the exchange manager is placed in a precarious position serving two masters -- the commander and AAFES. While he did receive the level of support he desired, his comment was that "the master that controls the performance ratings gets higher allegiance than the master who doesn't." An Army commander stated that he was happy with the AAFES system for two reasons: first, he received money for capitalization of other MWR activities through the AAFES program; and second, he was willing to give up some local control for professional retail management.

The relationship between Navy and Marine Corps commanders and their exchange is direct. Both the Navy and Marine Corps participants expressed satisfaction with their decentralized structure and their ability to control exchange operations to meet mission requirements.

The Navy commander sets policy and profit goals for the exchange, in addition to writing the performance review of the exchange

manager. One Navy commander discussed his relationship with his exchange officer and stated that he had an "excellent relationship with the exchange officer. If we have a disagreement, he can stand at attention until he comes to an agreement...(I) believe it is a benefit for me to write the fitness report because Headquarters does not always respond fast enough -- I have the resources to provide immediate support."

The Marine Corps participants explained that they have totally consolidated all morale, welfare and recreation (MWR) activities, including the exchange. The commander writes the MWR director's performance review, who, in turn, writes the exchange managers.

Command Questions

- **Please explain the chain of command at your installation regarding the exchange operation. How do you feel about this?**

All commanders viewed the exchange manager as an integral part of the command regarding MWR support and community activities. The Navy and Marine Corps commanders have direct control over the exchange operation, while the Army and Air Force commanders have some control.

- **What kind of requests does the exchange make regarding administrative or logistical support from your command? What do you think about these requests? Do you think these requests are reasonable or unreasonable? Is exchange management generally both receptive and responsive to command recommendations for improving exchange operations?**

For all services, the exchange makes similar requests for installation services as other tenant activities. There was significant discussion regarding the funding of exchange facility repairs. For all commanders, the funding for the exchange repairs is in competition with other maintenance requirements. The Navy and Marine Corps representatives prioritize work requests for the exchange along with all others aboard the installation. The Army and Air Force commanders, similarly, have to prioritize maintenance and funding. Several of these commanders discussed the lack of funds for appropriated fund maintenance and felt AAFES should have funding available to repair facilities.

- How do you interface with exchange management regarding opening and closing of facilities? Hours and days of operation? Merchandise and services offered for resale? Facility access? Dress codes?

For the Navy and Marine Corps commanders, the exchange control is direct. These commanders control the facility operation to meet command and local market needs.

For the Army and Air Force commanders, the control is not direct, with AAFES reacting to command requests. For example, one Air Force commander wanted the exchange closed on Thanksgiving along with other base facilities. The AAFES policy, however, was to remain open. He stated that this dilemma put the exchange manager in the middle of the commander -- AAFES dispute. The end result was that the exchange did not open on Thanksgiving, as per the command direction, and the manager had to explain to AAFES management about the loss of profits. Conversely, an Army commander provided an example of an AAFES snack bar which was selling alcohol to minors. AAFES reacted positively to the commander and improved the carding procedures.

- Are command and exchange communication channels adequate?

All commanders agreed that the current command and exchange communication channels are adequate.

- Do you know how your service distributes exchange profits to you?

All commanders were aware of how their service distributes exchange profits. There is a significant difference between the four services' profit distribution methods.

- Can you explain how your local morale, welfare and recreation (MWR) program is supported by the exchange? Do you know the amount of money received from your base exchange for your MWR program? If not, should you know? If yes, what is the amount?

All commanders could explain how the local MWR program is supported by the exchange.

The Navy and Marine Corps commanders have the direct support for MWR based on how well their exchange performed. A Marine Corps commander stated, "we decided, therefore we know." All commanders reviewed monthly balance sheets and profit and loss statements on their exchange.

The Army commanders receive a prescribed dollar amount per man of exchange profits to support their MWR programs. The Air Force commanders were particularly disenchanted with their Air Force Headquarters profit distribution policy. Both Army and Air Force commanders would like to see a percentage of the bottomline profits contributing to local level activities. These commanders did not see either a balance sheet or profit and loss statement on their exchange. Although these commanders stated they desire greater control over the exchange operation, they believed, however, they did not need to know the financial performance of their exchange because it did not affect their profit distribution.

Subsequently, the group discussed the relationship between facilities and profit distribution. The AAFES representatives, Mr. Winters and Mr. Cook, discussed that capitalization and facility construction amounts were not accounted for in the Navy and Marine Corps profit distribution figures. Also, they explained that capitalization was a significant AAFES policy and should be included when making comparisons. An Army commander stated that "good exchange facilities are across the board because of AAFES." He believed it was important to soldiers to receive like facilities, no matter where they served. Similarly, an Air Force commander believed that AAFES facilities were superb when compared to the other services. A Navy commander echoed these commander's comments regarding AAFES facilities, but felt that AAFES management prohibited incentive to do better.

- Recognizing the competing needs for exchange profit dollars, are you satisfied with the equity of the profit distribution system?

With the exception of the Air Force commanders, the participants were generally satisfied with the equity of their profit distribution systems.

- Do you perceive that the profit distribution system provides incentive at the local level to improve exchange service and efficiency? If not, what do you think does provide for local improvement?

An Air Force commander stated that there may be greater incentive at the local base level if there was some share in profits. Two of the Army commanders expressed their satisfaction with their current system. Of these two commanders, one stated his desire not to "run the PX at the local level" and the other commander felt that he "did not want the hassle of filling billets."

One Navy commander believed it was critical to maximize incentive at the local level. He stated that "if doing well, all share in the gain, and if not doing well, all share in the failure." The Marine Corps commanders believed there was significant incentive at the local level.

- How well do you think your exchange serves junior enlisted? Senior enlisted? Officers? Family members? Retirees? Others? (Reservists, Units, MWR activities)

The Marine Corps commanders believed that their exchange has good rapport with all ranks and other community members. Additionally, they stated that "the local commander has the best feel for the needs of the community."

The Navy commanders believed that their exchange operations have improved significantly in the past two years with the removal of the "stovepipe." Furthermore, a Navy commander stated the exchange "tries to do the most good for the most people and can't make everyone happy."

The Army and Air Force commanders echoed the Navy commander's statement regarding the exchange serving a wide and diverse population. Overall, they were pleased with their exchange operations.

- How are the exchange prices? Is there a savings to the customer? Is merchandise selection and availability adequate to customer needs? Is the quality of merchandise and customer service satisfactory? Are the facilities clean and attractive? Is exchange management and employee attitudes customer service oriented?

There was significant group discussion on exchange pricing. All commanders agreed that exchanges "walk a fine line between support and profit." Additionally, they believed there is a problem with customer perceptions regarding the exchange as a benefit. The group did agree that "perhaps we (command/service) were demanding too much from our exchanges to put into our MWR."

Overall, exchange pricing appeared to be reasonable to the participants. An Air Force commander received the majority of pricing complaints from the higher, rather than the lower grades. An Army commander stated that he perceived that each time the services received a pay raise, AAFES raised the prices. He received many complaints from the community and believed AAFES should investigate this practice. A Marine Corps commander stated that he believes he has "an ethical obligation to the troops and is always doing local market surveys to adjust pricing."

- Does your command have customer advisory meetings? If not, should you have these meetings? If yes, how frequently are these meetings scheduled? Are the recommendations of these meetings acted upon?

All commanders stated they have regularly scheduled customer advisory meetings.

- Do you receive support from the Headquarters, or regional, level of your exchange system? Do you feel you have access to this level?

All commanders stated they receive support from the Headquarters, or regional, level of their exchange system. Additionally, they all felt they have access to this level.

Policy Questions

- Which is more important when serving the military member: savings at the exchange (for the individual customer); or, a viable and financially healthy on-base MWR program (i.e. child care, base gym, etc.)?

All commanders agreed that these were not mutually exclusive, but rather, are complementary. A Marine Corps commander stated that "service versus making the biggest dollar is a balancing act."

- What do you think your customers are most interested in from the exchange: savings at the exchange; or, funds for a viable MWR program?

All commanders stated that they do not believe customers understand the relationship between the exchange and MWR. All Army commanders agreed that customers most likely would rather see a tangible benefit, such as savings at the exchange.

- Is your exchange construction program responsive to command requirements? Do you feel the amount invested in exchange facility construction is adequate and appropriate?

All commanders believed that the exchange construction program was somewhat responsive to command requirements.

- Based on your experience with your exchange system and what you have heard today, do you think the exchange systems should be consolidated? If yes, what would be the primary benefits and what should the consolidated management structure and operation look like? If you think the systems should not consolidate, why? Do you perceive any overriding disadvantages?

Each commander presented his perspective on the possible consolidation of the exchange systems. The overall group consensus for consolidation was not favorable. In a vote of the 10 commanders, seven were against the proposed consolidation, one was in favor, one deferred decision, and one did not vote. Most commanders did believe savings could be realized with consolidation through the reduced duplication of personnel and increased buying power.

Both Navy and Marine Corps commanders addressed the severe financial shortfall to their MWR programs if consolidation were to occur. The predominant feeling among these participants was stated by a Navy commander: "if it's not broke, why fix it?" A Marine Corps commander defined the difference between consolidation and centralization. He supported consolidation as innately good with the elimination of overhead. He viewed the proposed consolidation of the exchange systems as centralization and innately bad because it would remove his decision-making authority. As such, he believed his ethical responsibility as a commander to his troops would be compromised.

An Army commander stated that he could not foresee consolidation of all the services due to the differences in mission. Another Army commander believed their relationship (AAFES and Army) would deteriorate because if all services were consolidated, it (AAFES) would become more centralized. He added that he believed exchanges should not receive any appropriated fund support and that the mission of the military is not to run a business. Another Army commander viewed the consolidation initiative with the quote, "We know the cost of everything, but the value of nothing." He believes that we (the services) have the potential of losing the value of what we are trying to do for the community with consolidation. He did feel that something needs to be done to save money throughout.

While one Air Force commander believed some consolidation could produce savings, he had great "trepidation with what may happen though. He felt that "all super supply organizations have been ineffective." His fear was that AAFES would develop similar to the Government Services Administration, Defense Logistics Agency, and others.

- As a commander, what type of relationship should you have with your exchange if consolidation occurs?

This question was not discussed at length due to time limitations.

- How should the profits be distributed to morale, welfare and recreation (MWR)? How much?

All commanders agreed that profit distribution to MWR had no relation to the consolidation. The commanders viewed this issue as an individual service headquarters decision. An Army commander did state that "a bigger piece of the action needs to go directly back to the installation."

APPENDIX A

INSTALLATION COMMANDERS' FOCUS GROUP REPORT

Verify participants are in the proper group. Distribute name tags/cards for first name only.

Introduction

"Hello. My name is Tamra Avrit and I'm the moderator today. We will be here for lunch, about two hours. The purpose of today's meeting is to talk about an aspect of your military benefits."

Self-Disclosure

"I am a marketing specialist with the Marine Corps, however, for the purpose of this session today, I am with the Department of Defense. Please feel free to make any positive or negative comments about anything that comes up in our discussion this morning. My job is not on the line today -- and I don't have anything to sell. Say whatever you like about our topic as long as it's true for you. Today, our topic is military exchanges.

Lieutenant General Donald Jones, the Deputy Assistant Secretary for Military Manpower and Personnel Policy, is chairing

a task force which is conducting a baseline assessment of military exchanges. This task force was directed by the Chairman of the Morale, Welfare and Recreation Panel of the House Armed Services Committee, Congressman Marvin Leath. You were invited to this session to give your opinions, as an installation commander, on your exchange and exchange system. Your input is important to this assessment.

We have representatives from the Army/Air Force Exchange System (AAFES), Marine Corps Exchange (MCX), and the Navy Resale and Service Support Office (NAVRESSO) here to hear what you have say.

Ground Rules

"Before we begin, however, we need some ground rules for our meeting.

Please talk one at a time and in a voice as loud as mine. This session is being both taped and recorded by our shorthand secretary -- only to assist in our report writing. Everything you say is confidential.

I need to hear what everyone has to say, but you do not need to answer every question. You do not need to address all your comments to me to get them on the table for discussion.

You can respond directly to something else that is said, but avoid conversations with your neighbor. Say it so we all can hear.

We will observe the no smoking rule during this session.

There are no right or wrong answers in what we are talking about today. I need your different points of view expressed in our session. Have the courage of convictions, even if you are the only one in the group that feels that way. There may be other commanders like you outside of this room.

Most importantly, each commander here is as important as the other in this DoD study. Similarly, each exchange system is as important as the other.

Finally, rank is to be left at the door."

Self-Introductions

"Please introduce yourself to the group and tell your first name, your installation, and how long you have been there.

Framework Questions

- To begin, what do you think is the mission of the exchange? Do you perceive any differences in mission between the services?

- Does the exchange satisfy the mission needs?

- How would you describe your relationship with your base exchange? Is there a relationship? If there is, what kind of relationship do you have? If you do not have a relationship, should you have one? I would like to go around the table and have each commander briefly address their relationship.

Command Questions

- Please explain the chain of command at your installation regarding the exchange operation. How do you feel about this?

- What kind of requests does the exchange make regarding administrative or logistical support from your command? What do you think about these requests? Do you think these requests are reasonable or unreasonable? Is exchange management generally both receptive and responsive to command recommendations for improving exchange operations?

- How do you interface with exchange management regarding opening and closing of facilities? Hours and days of operation? Merchandise and services offered for resale? Facility access? Dress codes?

- Are command and exchange communication channels adequate?

- Do you know how your service distributes exchange profits to you?

- Can you explain how your local morale, welfare and recreation (MWR) program is supported by the exchange? Do you know the amount of money received from your base exchange for your MWR program? If not, should you know? If yes, what is the amount?

- Recognizing the competing needs for exchange profit dollars, are you satisfied with the equity of the profit distribution system?

- Do you perceive that the profit distribution system provides incentive at the local level to improve exchange service and efficiency? If not, what do you think does provide for local improvement?

- How well do you think your exchange serves junior enlisted? Senior enlisted? Officers? Family members? Retirees? Others? (Reservists, Units, MWR activities)

- How are the exchange prices? Is there a savings to the customer? Is merchandise selection and availability adequate to customer needs? Is the quality of merchandise and customer service satisfactory? Are the facilities clean and attractive? Is exchange management and employee attitudes customer service oriented?

- Does your command have customer advisory meetings? If not, should you have these meetings/ If yes, how frequently are these meetings scheduled? Are the recommendations of these meetings acted upon?

- Do you receive support from the Headquarters, or regional, level of your exchange system? Do you feel you have access to this level?

Policy Questions

- Which is more important when serving the military member:
  - Savings at the exchange (for the individual customer)

  OR

  - A viable and financially healthy on-base morale, welfare and recreation (MWR) program (i.e. child care, base gym, etc.)

- What do you think your customers are most interested in from the exchange?
  - Savings at the exchange

  OR

  - Funds for a viable morale, welfare and recreation (MWR) program.

- Is your exchange construction program responsive to command requirements? Do you feel the amount invested in exchange facility construction is adequate and appropriate?

Future Questions

"The future structure of our exchange systems may be dramatically different from what we have been discussing so far this afternoon. One of the alternatives the DoD Task Force is reviewing is the consolidation of all of the exchange systems into one system -- similar to the recently announced consolidation of the four services' commissary systems.

- Based on your experience with your exchange system and what you have heard today, do you think the exchange systems should be consolidated? If yes, what would be the primary benefits and what should the consolidated management structure and operation look like? If you think the systems should not consolidate, why? Do you perceive any overriding disadvantages? I would like to go around the table and have each commander briefly give his perspective.

- As a commander, what type of relationship should you have with your exchange if consolidation occurs?

- How should the profits be distributed to morale, welfare and recreation (MWR)? How much?

Closure

"Is there anything else anyone would like to say?

I appreciate your time and insights. Your opinions as commanders are important to this study. Thank you."

APPENDIX B

INSTALLATION COMMANDERS' FOCUS GROUP REPORT

FOCUS GROUP
ARMED FORCES
MILITARY EXCHANGE CONSOLIDATION
TASK FORCE:
JONES COMMISSION II

MISSION OF EXCHANGE

USA 2: Multi-service agency, department store with services. We should have the same privileges and benefits and reap the same rewards

USMC 2: Should serve the unique requirements of their command.

USN 1: Centerpiece of the umbrella quality of life programs. It's the drawing card that brings them all in. Tailored to fit local area.

USA 2: Echoed Navy comment--one stop shopping concept.

USAF 1: Superior service, quality goods, discount prices.

USA 3: Focused on needs of patrons--customer satisfaction--under continuous evaluation.

USA 1: Exchanges also have larger responsibilities like amusement, recreation programs, and food and beverage. Allows the commander to provide a service without the worry of management. Consistent policy all stores run the same at AAFES. AAFES has other initiatives to include theatres and Class VI management.

SATISFY NEEDS

USA 2: Yes.

USN 1: Yes, particularly the last two years, after the stove pipe was removed. The installation commander is now tailoring services to meets needs of local community. Because of this, sales have increased.

USA 3: Exchange manager sits in on staff meetings and believes he receives a gain from this. For example if they want to give something away or want to give something to an activity the exchange willingly supports and is a positive influence on the community. Although we do not have the niceness of control, because he does not work for us, we do have some say on how he performs.

USMC 2: Yes, this is under the commander's control--do not want to change.

RELATIONSHIP WITH BASE EXCHANGE

USN 2: We own the exchange manager, he reports to us. We set policy and profits.

USAF 2: Have a difficult time differentiating whether the exchange manager works for me or not, however, takes instruction from me and is an integral part of command. Anything I need or the community needs, he gets easily. Attends staff meeting and contributes a great deal. Believe there is no difference in whether he works for me or whether I give operational guidance. If I felt he was not doing the job, I believe AAFES HQ would remove him at my request. A benefit of AAFES is that I don't have to be concerned with the management of employees. With regard to community needs, I am amazed at the number of times AAFES passes the decision making to me.

USA 2: Echoes relationship as USAF 2 and added that he use to wish he had the control the USMC and USN had. But on further thought feel it has not been a problem--they take marching orders from us.

USAF 1: Has a positive feeling on AAFES. Has a good relationship with manager, he sits in on staff meetings--and heads an advisory council. However, feels it could be improved to a degree. Do not have operational control, not consulted on everything that effects the community. Sometimes this puts the exchange manager in a precarious position. Sometimes he has to serve two masters. The master that controls the performance ratings gets higher allegiance than the master who doesn't.

USN 1: Excellent relationship with exchange officer--if we have a disagreement, he can stand at attention until he comes to an agreement. However, bottom line profits is not the only criteria. It's the product--if we make the best product, profits go up. If I have a meeting, the exchange officer and the MWR director are in attendance--their role is complementary. The key is to establish a working relationship, that's what makes MWR work. Believe it is a benefit for me to write fitness report. HQ does not always respond fast enough--I have the resources to provide immediate support.

USMC 1: Have the ideal relationship with exchange officer. Works directly for me. The idea of serving two masters is too complicated for the USMC. In the USMC we have the responsibility to support each other. I'm here for him and he's here for me. Have open, direct communication to respond to ethical needs of Marines.

USMC 2: The HASC requested the USMC to consolidate and we did that. MWR comes under an 06 (Col). I write his fitness report and he writes the exchange manager's. If we have unique

USA 3: Happy with the system for two reasons: (1) Benefit from the AAFES program because we get money for capitalization of other MWR activities. (2) Willing to give up some local control for professional management. I do not have to worry what is on the shelves--have a professional manager making that decision. Only thing not on board with AAFES is their contracting. I must go through a middle man to get things done. (Described a situation of wanting to build a Burger King that had been delayed for two years because AAFES had signed a generic contract for fast food operation construction that was not conducive to local building restrictions.) I could do better on fast food outlets if I did not have centralized role of AAFES.

USN 1: Big difference in the Navy. Can get a fast food operation done in 180 day. Don't have to worry with the congressional interference because use local contractors.

USA 1: Dialogue with local management is outstanding. Execution of dialogue runs from poor-fair-to pretty good. Biggest concern is with clothing sales--management from AAFES not to good. Service provided to other services is not good. Also concerned about environmental issues (leaking underground gas tanks) believed AAFES not online with environmental issues. Agreed with USA 3 on contracting and offered an example about the greeting card section of the exchange. Customers complained about it often and was frustrated because he could not do anything about it.

USA 1: Agreed on contracting problem at AAFES. Mentioned greeting cards, dry cleaning, laundry not being responsive to local needs (no unit funds). Would like some immediate return on sales such a video game income to support local requirements such as recognition days, and support of sister services. Has met continual resistance--they have resorted to car washes and bake sales to raise money to support community needs.

USA 2: Countered USA 1 comment saying unit fund not required. If it was done away with it someone made the decision to do it.

USA 3: Have a problem with AAFES on promotional sales. Often items listed in sale pamphlet are not in stock at the time of sale. They are then left to face the customer.

USN 1: Offered a contrasting comment whereby he utilized a vacant building on base and converted it to a furniture store utilizing self-help programs. These kind of instantaneous decisions are made in the Navy.

USMC 1. Sensitive to the word "service." Gave an example of opening activities that did not guarantee a profitable return.

He felt it necessary to open the activity to demonstrate we care and can provide a service to the Marine. They do not have to through higher echelons because they have control of situation. Can be immediately responsive.

USA 1: Had problem with AAFES not being sensitive to all grades in the community. Would desire other than executive level dialogue input to AAFES.

REQUESTS REGARDING SUPPORT TO EXCHANGE

USA 1: Provided an example of dilemma of trying to provide maintenance support to the exchange (i.e., air conditioning repair) but being restricted by lack of funds. Felt AAFES should have a pot he could draw from to repair things with.

USA 2: Reported that installation maintenance staffs were going away to add to the lack of funds issue.

USN 1: Described that he could quickly rearrange priorities to get needed support.

USAF 1: Said it could do it too but did not have the funds to support and also felt AAFES could offer support.

USN 1: Said he owned the APF to make that decision. Installation commander set priorities of mission.

USN 2: May have the money may not have the help to repair item.

USAF 1: Agreed that they also "own" it and can make decision to fix item if there are funds available.

USMC 1: Believed the question was not applicable to USMC. Reviewed the requests for work--mission comes first.

USA 2: Limited in what they can provide. Cannot cut into the mission requirement.

USN 1. Takes on issue by issue.

USMC 2: Have in-house work force under the consolidated MWR system that does not have to wait for contractor--has the resource. If the base decides down the road to take on a project to assist, they do.

USA 2: They do not let us have in-house maintenance work force.

INTERFACE WITH EXCHANGE MANAGEMENT

USMC 1: Has a two-way street with exchange offer. Happy with

the relationship.

USMC 2: Have complete control.

USN 1: No problem with the Navy.

USN 2: Exchange working directly for us we have 51% of the vote on what to do with it.

USAF 1: AAFES has been responsive to commander desires. However, gave an example of wanting to close on Thanksgiving and this put the exchange manager in the middle of commander-AAFES dispute. The manager had to explain to a higher HQ about loss of profits.

USA 3: Although route may not be as direct as USMC and USN, AAFES does react to requests. Gave an example of a snack bar selling alcohol to minors and had to shut them down for failure to improve carding procedures.

USA 1: Again discussed AAFES' lack of environmental concern.

PROFIT DISTRIBUTION

USAF 2: Would like to see a percentage of the bottomline. Higher HQ taking a greater share of profit. Would like a greater share.

USN 1: Our distribution is determined on how well the exchange is doing.

USMC 2: Provided per capita quotes per service.

*Discussion ensued on per capita distribution to the services with all participating.

USN 1: Believed it was critical to maximize incentive at the local level. If doing well all share in gain if not all share in failure.

USMC 1: The local commander sees the balance sheets has much as he wants. Based on this, he becomes involved in determining who gets what. They also pass profits to a central pot to support other installations. It is a credibility issue with the Marines, they don't mind passing money to other Marines but do not want to support others.

**A discussion ensued on profit distribution at the services with conversation focusing on capitalization and construction and how it is factored into financial picture.

HOW IS LOCAL MWR SUPPORTED BY EXCHANGE

USMC 1: We decided, therefore we know.

USA 3: Receive strong support. Have good facilities across the board because of AAFES. It is important for all soldiers to receive like facilities. However, would like to play more in the decision on facilities more.

***The moderator interrupted the group to ask who sees profit and loss statements. Results:

Army: No (see annual report)
Marine Corps: Yes
Navy: Yes
Air Force: No (see annual report)

USAF 2: Policy of profit distribution set by AFHQ. Doesn't feel he needs to know because he will continue to receive the same per capita figure--no changes due to increased sales.

USAF 1: Liked USMC/USN control conversely felt facilities were better on AAFES side.

USN 1: Agreed facilities were better, but felt AAFES management prohibited incentive to do better.

**Discussion ensued on AAFES/USMC/USN incentive programs.

DOES PROFIT DISTRIBUTION PROVIDE INCENTIVE

USMC 1: Yes

USA 2: With manpower being cut, does not want the hassle of filling billets.

USA 1: Does not want to run the PX at local level. Satisfied with equity.

SERVICE TO MILITARY MEMBER

USMC 1&2: They have a good rapport with all ranks and other community members. The local commander has the best feel for needs of community.

USN 1: Could be better but thinks it has improved since the stovepipe was removed.

USN 2: Try to do the most good for the most people--can't make everyone happy.

USN 2: Try to do the most good for the most people--can't make everyone happy.

USA 2: AAFES was not as responsive, however, has improved. Look forward each year to the yearly gripe session AAFES holds. Talked about complaints on how pay raises effect prices at exchange. Received alot of complaints from the community and felt AAFES should look into it.

USN 2: At the USN if prices are too high, they can role them back to serve the people.

USAF 2: Received the most complaints from higher ups in the service on prices than the lower grades.

USN 2: Felt the problem was associated with customers perception that it is a benefit. Exchanges are forced to compete with chain store prices. Exchanges have to walk a fine line of support a profit.

USA 3: Felt perhaps we were demanding too much from our exchanges to put into our MWR. Army needs money from AAFES thereby driving the prices.

USMC 1: Believes he has an ethical obligation to the troops but is always doing market surveys to adjust pricing.

USN 1: Agrees with Army's need for money. Believes, however, that you have to strike a happy medium between price and service.

USAF 1: Believed AAFES pricing was ok but contracting could be improved.

USA 3: Not happy with AAFES contracting.

****Discussion ensued on customer savings realized and return of assets by services.

USMC 2: Quoted AAFES vs MCEX savings based on a recent survey.

SUPPORT FROM HQ

USAF 2: Is good.

WHAT'S MORE IMPORTANT, SAVINGS OR MWR PROGRAM

USN 2: Not mutually exclusive.

USMC 1: Service versus making the biggest dollar is a balancing act.

increases are immediately passed on to customer. When a price increase is received, he does not think it fair to mark goods on the floor - received at a lower price - with the increase.

INTEREST FROM THE CUSTOMER ON SAVINGS VS MWR PROGRAM

USA 3: Customers do not understand relationship.

USN 1&2: Customers do not understand.

USAF 1&2: They do not understand connection.

USA 1,2&3: Only look at what's in hand.

CONSTRUCTION

USAF 1&2: Acceptable.

USA 1: All areas acceptable except contracting.

USN 1: Discussed third party financing.

EXCHANGE CONSOLIDATION

USN 2: Believes savings can be realized with reduced duplication of personnel and increased buying power. However, believes bigger is not better. The loss of local control prohibits consolidation.

USAF 2. With consolidation fear the AFHQ would still control the money. If it meets the needs of everyone then that would be fine. However, believes bigger is not better.

USA 2: Does not have a hang up with consolidation, but would like more local input. (Later USA 2 added that he thought consolidation means to him AAFES (Army and Air Force) staying as it is with USMC and USN staying separate. Believes USMC and USN mission is unique.

USAF 1: Believes consolidation is inevitable and can produce a savings. Has a great trepidation with what may happen though. All "super supply organizations" have been ineffective -- fears AAFES will go the way of GSA, etc.

USN 1: Would like to see list of billets to be deleted due to consolidation before consolidation. Believes it would be disastrous to quality of life programs. Further effects would be felt from the lost manpower. Their programs are built to complement APF and profits received. Believe consolidation would reduce income.

Why are we consolidating? What's wrong? Why fix it?

USMC 1: No consolidation! Why fix it? Navy and Marine Corps ecstatic with operation. Believes there is an inherent difference between consolidation and centralization. Consolidation innately good--elimination of overhead. Centralization innately bad--taking decision making away. Loss of flexibility and control would be less responsive to the troops. This is an ethical situation.

USMC 2: Perceives no benefit from consolidation except that AAFES could continue their operations without reducing staff at the Headquarters because of installation closure in Europe. (Discussed the location of AAFES HQ compared to Congressman Leath's district.) Fears it would result in dictation from the top, killing of incentive causing the organization to become mediocre, staff apprehension due to prior consolidation would be devastating to the morale. If we did consolidate, we would not get more back--instead of increasing our per capita share it would decrease.

USA 3: If the Navy and Marine Corps consolidate with AAFES believes their relationship (AAFES and Army) would deteriorate because it would become more centralized than it already is. However, added (1) believe strongly as a tax payer exchanges should not receive APF. (2) Believes the mission of the military is for "killing" not trained to run a business. Believes military should get out of the business altogether. Exchange system should pay its own way.

USA 1: As a garrison commander, not ready to sign up for consolidation but does not want to close the door. Big fear is that as we continue to lose resources we are beginning to hear the quote from the 60's "We know the cost of everything, but the value of nothing." When we lose value of what we are trying to do for the community then we need to get out of the business. However, we need to do something to save money throughout.

HOW SHOULD PROFITS BE DISTRIBUTED TO MWR

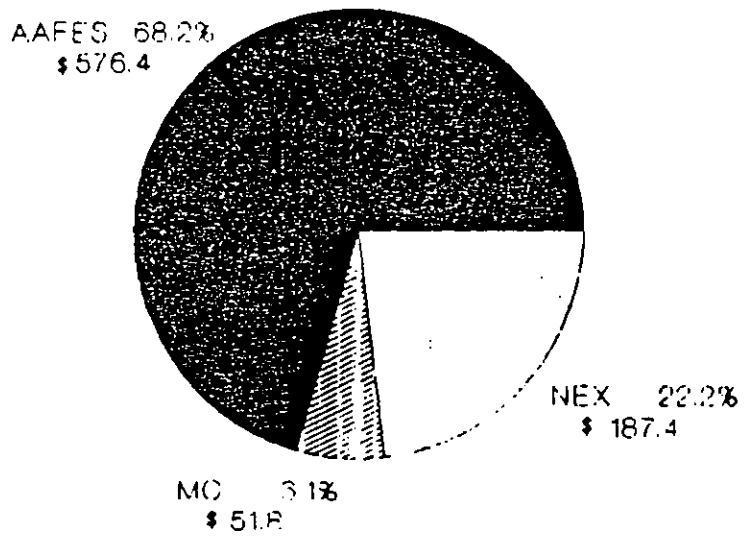
USA 3: Agreement should come before consolidation--what the split is and how far down it goes. Need a bigger piece of the action going directly back to the installation.

Appendix F

Food Operations

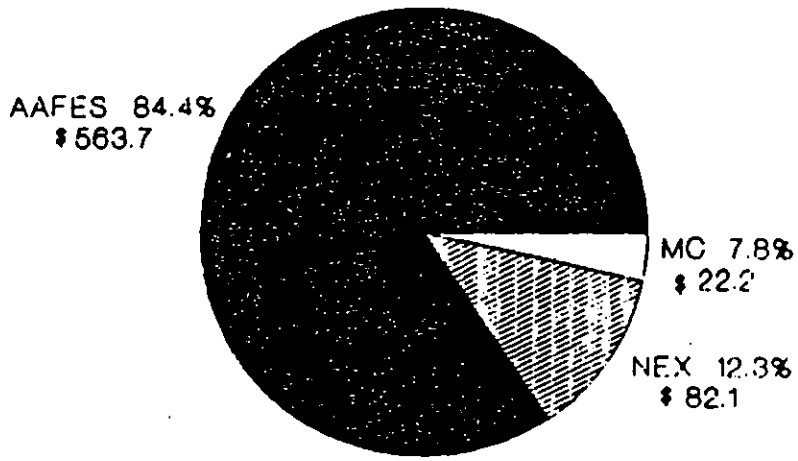
Attachment 1	Financial Charts, Direct, Concession Sales/Profits	F-1
Attachment 2	HASC letter dated December 15, 1987	F-4
Attachment 3	NEX, Food Briefing dated 13 July 1990	F-5
Attachment 4	Food Point of Sales Overview	F-13
Attachment 5	Cost Ayoidance Calculations	F-22

Armed Forces Exchange Services
Sales By System FY 89



Systems Sales $ 815.6 M

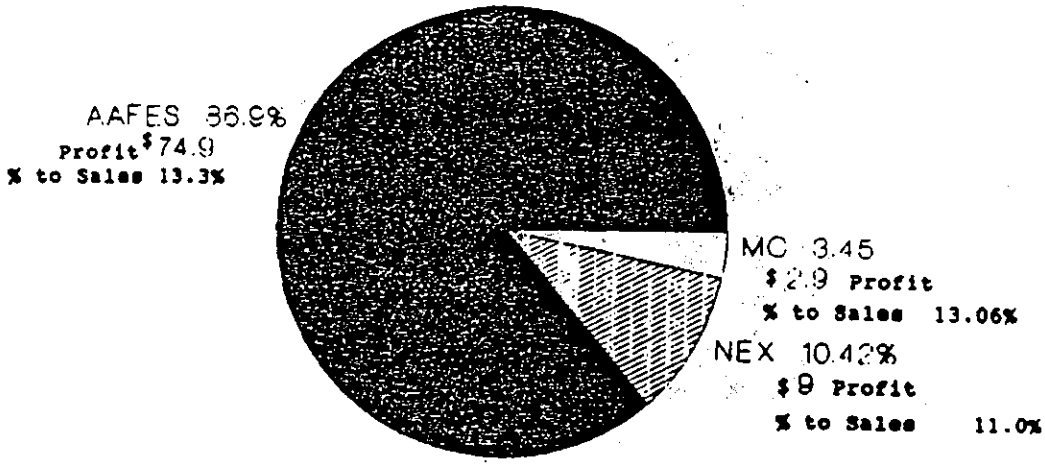
Armed Forces Exchange Services
Direct Operated Food Sales - FY 89



Direct Food Sales $668.0 M

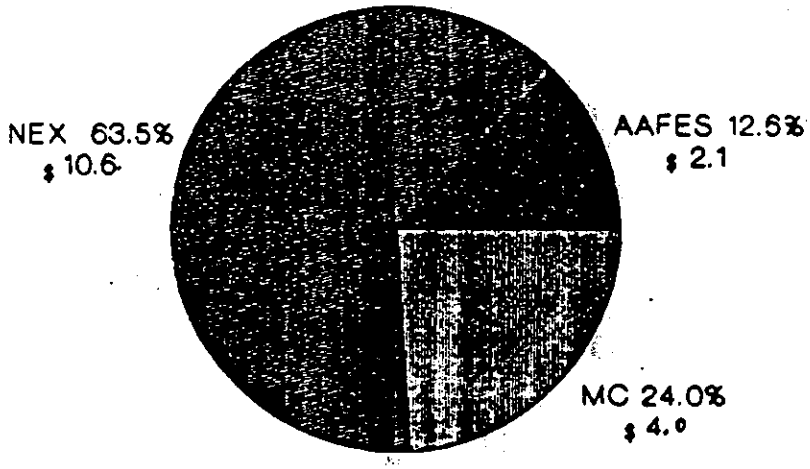
ATTACHMENT I

Direct Operated Food Profits - FY 89



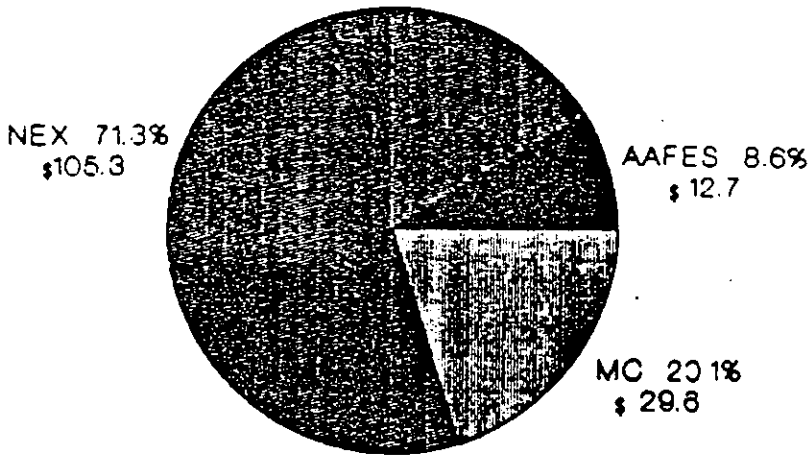
Total Direct Profits $86.8 M

Armed Forces Exchange Services
Concession Food Profits- FY 89



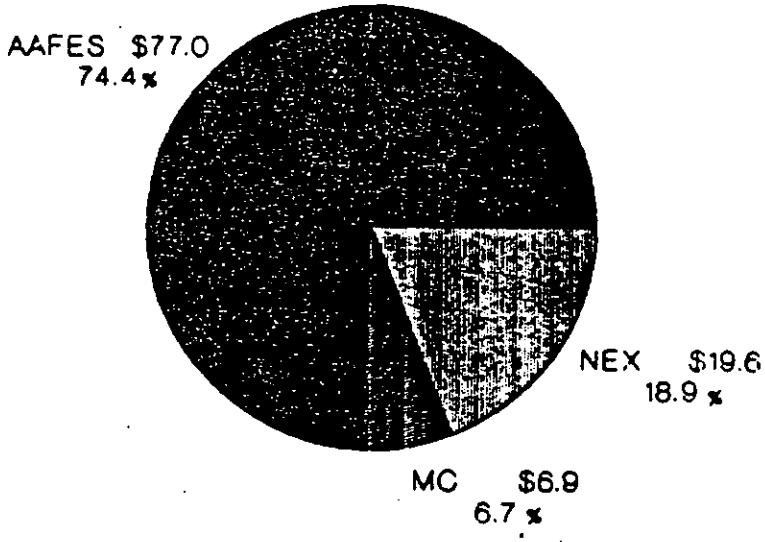
Concession Food Profits $16.7 M

Armed Forces Exchange Services
Concession By System Food Sales FY 89



Concession Food Sales $147.6 M

Armed Forces Exchange Services
Profit By System FY 89



Systems Profits $ 103.5 M

[illegible]

U.S. House of Representatives
COMMITTEE ON ARMED SERVICES
Washington, DC 20515
ONE HUNDREDTH CONGRESS
LES ASPIN, WISCONSIN, CHAIRMAN

[illegible]

G. KIM WARCUP, STAFF DIRECTOR

December 15, 1987

Lt. Gen. Anthony Lukeman
Deputy Assistant Secretary of Defense
Military Personnel and Force Management
Department of Defense
Room 3C963, The Pentagon
Washington, D.C. 20301

Dear General Lukeman:

Thank you for your letter of April 10 wherein you provided the Morale, Welfare and Recreation Panel with an assessment of the operation of fast-food restaurants on military bases and the overall corporate strategy for operating and contracting for these restaurants.

This report and subsequent panel hearings demonstrate that the introduction of fast-food restaurants on military bases has been a clear success. These restaurants are extremely popular with our serviceman and women serving around the world. They operate at virtually no cost to the taxpayer while providing needed employment for thousands of family members. Additionally, the profits from these operations make a major financial contribution to our armed services morale, welfare and recreation (MWR) programs. The panel has been impressed with the speed and low cost involved with the construction of these facilities and the perseverance and innovation exercised by the exchange services in providing these operations to our military personnel serving in remote and overseas locations. While the program has its advantages, it has been subject to criticism and delay due to the impact upon fast-food franchises in communities adjacent to military installations.

Therefore, the panel authorizes most construction of fast-food restaurants on military installations, as outlined on the attached listing, and recommends the following:

1. The Department of Defense is urged to limit and control the proliferation of fast food and other franchises to avoid having the "fast-food strip" effect on military bases. The armed services exchanges will be the contracting authority for fast food. The MWR Panel will continue to review fast-food restaurant construction as part of the annual nonappropriated fund construction review. For installations that can support multiple fast-food restaurants, preference should be given to offering other types of fast food.

ATTACHMENT 2

2. In the future, concession operations are preferred for military bases in the United States. For overseas bases, direct exchange service operation is the preferred method even if this involves having one exchange system directly operate a franchise at a military installation of another armed service. Where this is not attainable, the exchange services should make every effort to award these contracts to American investors. Additionally, the panel prefers that products offered are purchased from U.S. sources.

3. Retail prices for fast-food restaurants on military bases in the United States will be comparable to prices charged at fast-food restaurants operating in communities adjacent to military bases.

The panel appreciates your cooperation and involvement with this important program.

Sincerely,

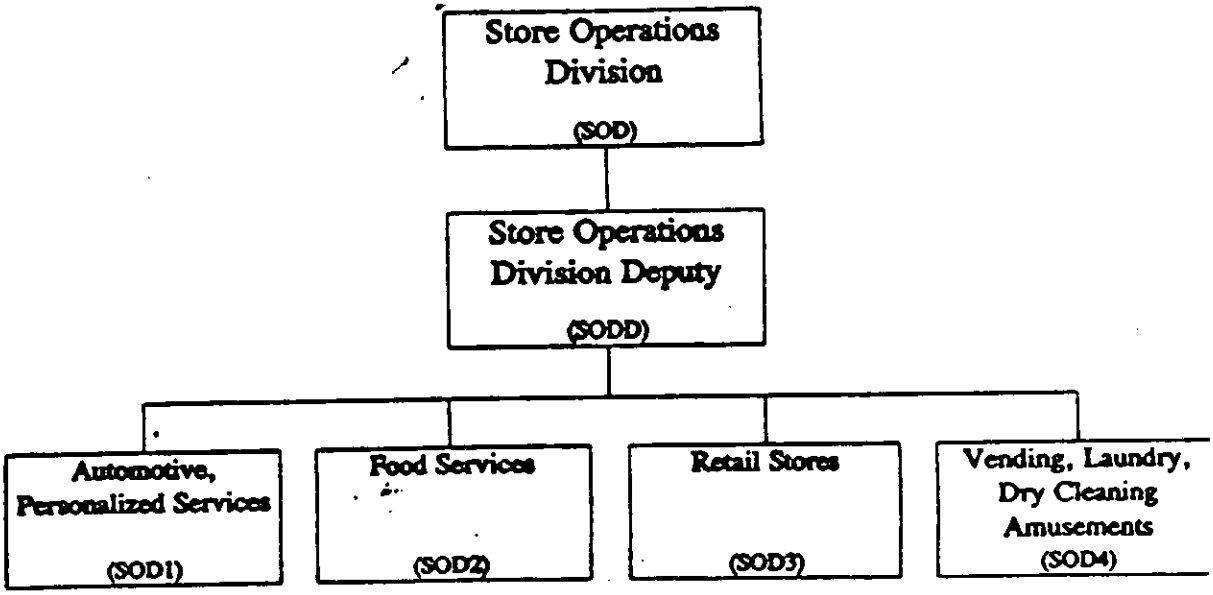
Dan Daniel
Chairman
Subcommittee on Readiness

DD:srkl

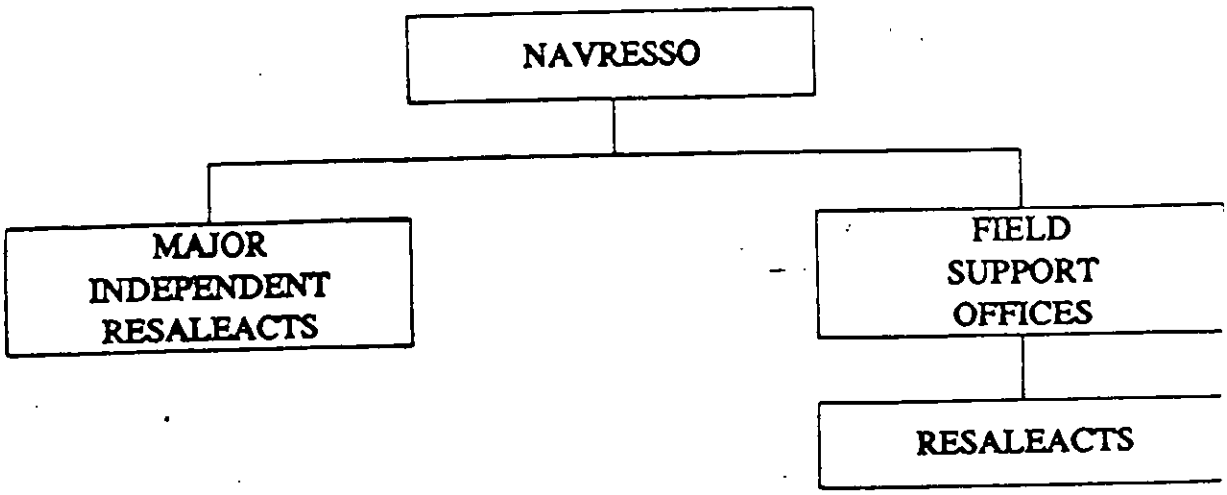
Attachment

NAVY RESALE

FOOD SERVICES



REGIONAL ORGANIZATION CHART



OPERATIONAL FUNCTIONS

POLICY & PROCEDURE	**NAVRESSO** **SOD2** BRANCH MANAGER TRADITIONAL FOOD SPECIALISTS IN-HOUSE FRANCHISE SPECIALISTS
GUIDANCE & SUPPORT	**FIELD SUPPORT OFFICE** EXCH OPER DEPUTY DIRECTOR REGIONAL FOOD MANAGER/ SERVICES OPERATIONS SPECIALIST
IMPLEMENTATION	**RESALE ACTIVITY** FOOD SERVICES MANAGER/ SERVICES OPERATIONS MANAGER FOOD SALES MANAGER

OPERATIONAL FUNCTIONS

POLICY & PROCEDURE	NAVRESSO SOD2 BRANCH MANAGER TRADITIONAL FOOD SPECIALISTS IN-HOUSE FRANCHISE SPECIALISTS
GUIDANCE & SUPPORT	FIELD SUPPORT OFFICE EXCH OPER DEPUTY DIRECTOR REGIONAL FOOD MANAGER/ SERVICES OPERATIONS SPECIALIST
IMPLEMENTATION	RESALE ACTIVITY FOOD SERVICES MANAGER/ SERVICES OPERATIONS MANAGER FOOD SALES MANAGER

STORE OPERATIONS DIVISION

FUNCTIONS:

- DEVELOP SERVICES MERCHANDISING STRATEGIES
- ESTABLISH SERVICES PRICING POLICIES
- ASSIST DEVELOPMENT OF OPERATING GOALS
- ANALYZE OPERATING PERFORMANCE
- PROVIDE ASSIST VISITS TO FSO'S / RESALE ACTIVITIES
- ASSIST "GET WELL" TEAMS TO TURN AROUND AILING STORES
- ASSIST FACILITIES DIVISION WITH INITIAL PLANNING FOR NEW CONSTRUCTION / RENOVATIONS / EQUIPMENT REQUIREMENTS

STORE OPERATIONS DIVISION

SIGNIFICANT RELATIONSHIPS:

- COORDINATE WITH MERCHANDISING, SALES PROMOTION, FINANCIAL MANAGEMENT, CONTRACTING, FACILITIES AND OTHER NAVRESSO DIVISIONS
- MAINTAIN LIAISON WITH NAVAL SUPPLY COMMAND, NAVAL MILITARY PERSONNEL COMMAND AND FIELD SUPPORT OFFICES
- MAINTAIN CONTACT WITH MANUFACTURERS, SUPPLIERS, INDUSTRY AND PROFESSIONAL ASSOCIATIONS

HASC GUIDANCE

CONUS:

ALL NAME BRAND FAST FOOD OPERATIONS MUST BE CONCESSION

OVERSEAS:

NAME BRAND FAST FOOD MAY BE DIRECT-RUN OR CONCESSION

ALL AREAS REQUIRE PRIOR HASC APPROVAL

FOOD SERVICES PROFILE

. DIRECT RUN OPERATIONS: 461 OUTLETS

SNACK BARS	171	VIE DE FRANCE	8
FOOD CARTS	13	SANDWICH DELI'S	31
CAFETERIAS	51	COMSTOR DELI/BAKERIES	12
PIZZA SHOPS	9	ICE CREAM SHOPS	48
MOBILE CANTEENS	46	BAKE SHOPS	2
KIOSKS & CUBES	25	MISC FOOD OUTLETS	37
WENDY'S	1	SCHOOL LUNCH PROGRAMS	7

Note: Catering available at each Resaleact

. CONCESSION OPERATIONS: 72 OUTLETS

PIZZA SHOPS	7	MEXICAN SHOPS	4
WHATTABURGER	1	CHICKEN SHOPS	2
MCDONALD'S	52	SUB SHOPS	1
BURGER KING	4	HOT DOG SHOPS	1

WENDY'S

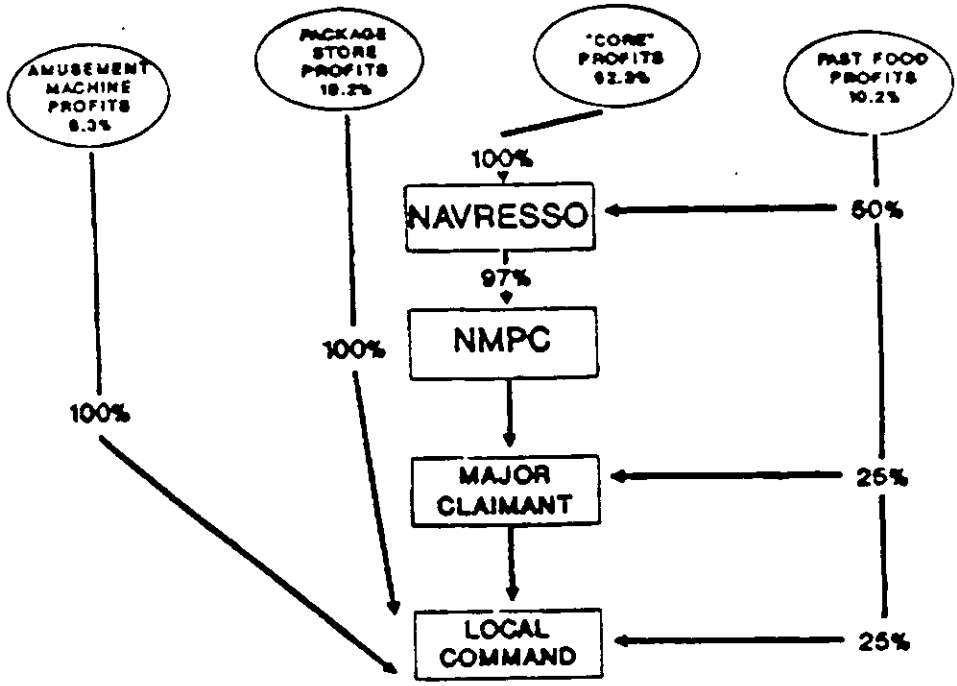
. TEN YEAR CONTRACT

- FRANCHISES OVERSEAS
- INITIAL FEE: $25,000
- ROYALTY FEE: 5%

. STORES

- NAPLES, ITALY
  OPENED: AUGUST 1988
  SALES: $1.8 MILLION
  NET CONTRIBUTION: $300K
- SIGONELLA, SICILY
  SCHEDULED OPENING: NOVEMBER 1990

NEX PROFIT DISTRIBUTION TO MWR



MCDONALD'S SALES HISTORY

	FY 87	FY88	FY89
SALES	80.7	83.6	88.1
COMMISSIONS	8.4 10.4%	8.8 10.5%	10.6 12.0%

Note: Amounts in $Millions

FOOD SERVICES
SALES AND NET

	FY87	FY88	FY89
. SALES			
. DIRECT	85.700	84.300	80.300
. WENDY'S FRANCHISE		1.000	1.800
. CONCESSION	102.000	97.400	105.200
. NET CONTRIBUTION			
. DIRECT	11.000	9.900	8.700
. WENDY'S FRANCHISE		0.158	0.311
. CONCESSION	9.600	10.300	10.600

Amounts in $Millions

RESEARCH AND DEVELOPMENT

. IN-HOUSE FRANCHISING

. HOT DOG CONCEPT

. OUTLETS: CARTS, KIOSKS, FOOD COURTS

. AVERAGE UNIT SALES: $85,000 / ANNUM

. PIZZA CONCEPT

. OUTLETS: EXPRESS MENU (SMALL STORE), FOOD COURT, FULL MENU

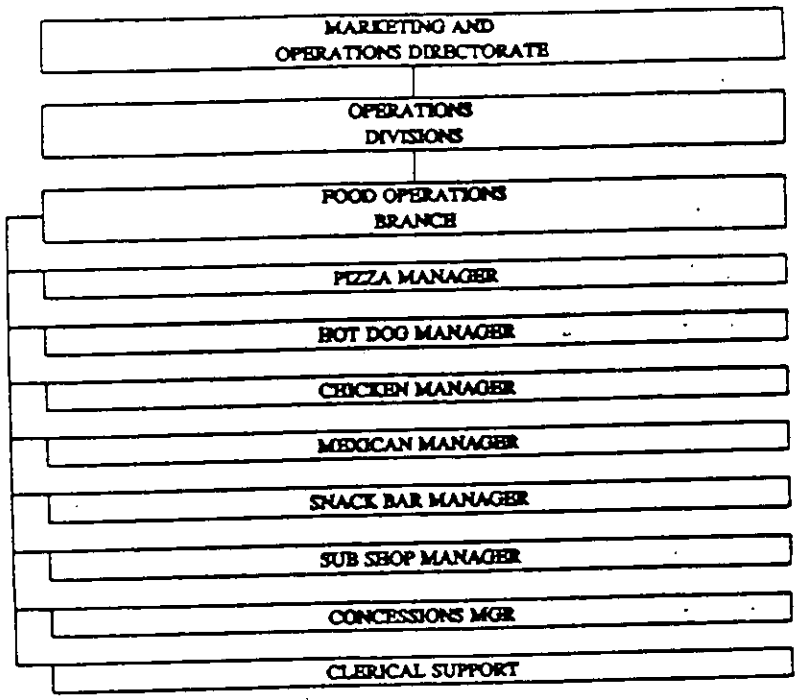
. AVERAGE UNIT SALES: $360,000 / ANNUM

. MENU/RECIPE DEVELOPMENT, EQUIPMENT TESTING

. BY BUSINESS MANAGER ON LOCATION

. NOT CENTRALIZED

BUSINESS MANAGER CONCEPT



(Refer., Jones Commission II Study Group - D, Food Point-of-Sale System

A. Sweda Food Point-of-Sale (FPOS) System

History: In support of the AAFES commitment to Burger King franchise endeavors, a FPOS specification was rapidly pursued in late 1988. A contract was ultimately issued to Hugin Sweda Inc. for the procurement of 350 systems, more or less through 1989. Of the 350 systems, 185 were designated for franchise operations and 165 for regular food operations. Resulting system is referred to as Sweda Business Systems (SBS) and is in use in all Burger King/Popeyes franchise operations opened to date. With hardware/software warranty service through 1994 as contained in the contract.

1. Present FPOS Situation

There are currently 153 active Sweda FPOS systems; 134 located in Burger Kings, 1 in Popeyes franchise operations and 16 training systems. Seventeen (17) Sweda systems are scheduled to be installed during FY 90.

2. System Capabilities

a. Concept:

The manager workstation, referred to as the SBS (Sweda Business System), is a store level computer which provides management

information and reports at store level routinely or on demand. This information is based on sales data polled from the L45 cash register system, manhours entered on the Panaentry time clock, and key entered data. The SBS also acts as a data collector, when so designated, creating transmit files of selected data for transmittal to the HQ Dallas host computer when polled. This transmitted data ranges from need to know menu sales information, to accountable sales, and fiscal inventory.

b. The equipment located in the front of the house, such as cash registers and kitchen VDTs, functions independently from the manager workstation. Data is moved from the cash register system to the SBS through a protocol converter routinely every one-half hour, or on user command. The one-half hour polling routine also polls the Panaentry time clock.

c. The manager workstation (SBS) is a hard disk drive and processor loaded from floppy diskettes. It contains a CIOS (Conversion Technologies Operating System) with individual applications and data bases as follows:

- TRIMS (Total Restaurant Information Management System) — A food cost/sales/inventory module which, based on mechanized ordering, receiving and inventory, provides management with detailed menu costing, and inventory analysis reports on a daily and month-to-date basis. TRIMS is the

vehicle used to enter and transmit PO-21 receiving and fiscal inventory to the HQ Dallas host computer. It interfaces with the L45 application to provide sale/cost mix analysis.

- L45 -- A complete report package interfacing with the TRIMS and Time and Attendance modules to give you a detailed one-half hour activity report. L45 prompts the user to post sales data to the Employee Scheduler Module. All L45 reports are available on an individual or consolidated basis on demand or from historical data files (15 monthly periods). New automatic interface capability obtains cost data from TRIMS and applies it to L45 Full Department and Full PLU (Price Look Up) report giving you a complete, and up-to-date cost/sales mix analysis on a daily, MTD (Month-To Date) and historical basis along with a total store food cost.

- Time and Attendance (LABOR) -- An employee time in/out application interfacing with L45 for store level reports and data transmittal to HQ Dallas. It interfaces with Employee Scheduler for the sole purpose of validating employee existence in the system. In the future, it will be used to capture employee payroll data for transmittal to the HQ Dallas host computer.

- Employee Scheduler (E S) — Module designed to provide daily work schedules, one week in advance, based on one-half hourly sales projections, labor guides and individual

employee proficiencies/availabilities. While based on Burger King scheduling philosophy, the application is generic, and could be used in other ARFFS food operations. It interfaces with L45 and LABOR.

- Equipment Maintenance (E M) -- Application developed to record and transmit vendor response to requests for service.

- Loader Board (SBS) provides cash register memory restoration capability.

- Telecommunications (TC) creates and places data files in transmit queue to await telecommunication to the HQ Dallas host computer. Selected data, including messages and E M records, is transmitted each day. Inventory data is transmitted at the end of each fiscal period and, when ready, payroll data will be transmitted at the end of each pay period.

A. Numerous reports are available at store level to include a wide range of food cost, sales mix, inventory usage/variance, cash, wage costs/productivity reports.

B. Food Operation Control System (FOCIS)

History: Feasibility analysis and design of a mechanized Food Operation

operations began in February 1973. Initial testing of a mechanized system was accomplished during 1976 and 1977 with a single register at the Fort Ord Main Cafeteria. Data from the California test was telecommunicated to Headquarters, AAFES in 1978.

A Project Proposal for the Expansion of the Food Point-of-Sale Cash Register Network was approved by the Commander on 28 August 1978.

1. Present FOCIS Situation.

Today there are approximately 197 Documenter cash registers installed at 117 locations tied to the FOCIS system.

2. System Capabilities.

The purpose of the FOCIS project is to provide directional control information to all levels of management regarding AAFES' food operations. The project proposal listed the following as its objectives: mechanized recipe costing, improved gross profits, increased sales, reduction of cashier errors, control of inventory, establishment of financial and menu standards, providing ongoing managerial performance reports and end-of month financial statistics that project exchange area financial operating statements.

C. Cash Register (Terminal)

Cash Register Concept

1. Each Swada 145 cash register (terminal) is intelligent and retains its own memory.

2. The keyboard concept permits entry of 200 pre set menu keys (four levels of 50 positions: 1-50, 51-100, 101-150, 151-200). The system will automatically go to shift level one (1-50) after each entry. If you need to lock the keyboard into a certain shift to prohibit access call your regional FPOS installer for assistance.

3. Function keys are varied and allow flexibility when entering sales related data. When certain function keys are not needed, they can be blocked out. Store management can identify key functions by a series of commands and change serving concepts easily.

Present FPOS Situation

There are currently 198 Swada 145 cash registers installed worldwide (this does not include FPOS registers).

System Capabilities

Reports will only print the departments and/or menus that contain sales data. Register reports on:

1. Full Menu Report #10

2. Sales Item Menu Report #11

3. Menu Group Report #20

4. H.U Range Report #32

5. Hourly Report #73

6. Period-to-Date Full Department Report #30

Cost Avoidance
Calculation
AAFES In House Programs

I Basis of Data Calculation
- Business Emphasis Group (BEG) activated Jan 86
  Deactivated (Jan 90)

- During period (Jan 86 - Jan 90) developed, six in house concepts, Anthony's Pizza World's Greatest, Frank's Franks, Robin Hood's Sandwich Shoppe, La Casa De Amigos, Chicken Loft, and Sweet Reflections.

- Program development includes decor, image, equipment and layout, menu and recipe development, packaging systems, operating manuals, training package, initial training support for prototype units, follow up changes and advertising/promotion kits.

- Cross section support from engineering, store planning, procurement and training divisions.

- Upon completion of the development cycle, to include activation of initial facilities, the programs were turned over to an operations section to maintain, monitor and update.

II Cost Calculation

		Annual Cost
- Business Emphasis Group Staffing Cost		
C/BEG UA 14 (1)	- $ 75,865	
Program Mgr UA-13 (1)	- 66,940	
Program Specialists UA-12 (2)	- 107,976	
Admin Assistant UA-6 (1)	- 26,937	
Total	$277,718	$277,718
- Cross Support 5,200 Man hours with $26.96 per manhour = $140,192		$140,192
- Consultant Services (Industry) $13,000		$ 15,000
- TDY Implementation Costs, Site Development, Training, Video Training Shoots, Management Evaluation, Etc.		$ 30,000
- Misc Costs, Publication/Printing of Concept Booklets, Admin Kits, Operating Manuals and Training Materials		$ 15,000
	Total Annual Cost	$477,910

Four Year Life Cycle x Annual Costs $477,910 = Total Four Year Costs $1,911,640 Number of Programs Developed (6) = $318,607 Average Program Development Costs.

Cost Avoidance
Calculation
AAFES In - House Programs

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Four Year Life Cycle x Annual Costs $477,910 = Total Four Year Costs $1,911,640 Number of Programs Developed (6) = $318,607 Average Program Development Costs.

Appendix G

Employee Benefit Plan Comparisons

WELFARE BENEFIT PLAN COMPARISONS
BETWEEN EXCHANGE SYSTEMS
MEDICAL

BENEFIT	AAFES	MARINE CORPS: HIGH OPTION	NAVRESSO
1. MAXIMUM LIFETIME BENEFIT	Unlimited.	Unlimited.	Unlimited.
2. DEDUCTIBLE	$50 per person deductible up to $150 per family; then plan pays 80% of eligible charges.	$200 per person $600 per family (Maximum)	$250 per individual $750 per family
3. MAXIMUM OUT-OF-POCKET PER ANNUM	$1,000 Coinsurance Limit	$2,000 Coinsurance limit per person with a family maximum of $6,000 plus deductibles.	$2,000 per individual $4,000 per family
4. PREVENTIVE CARE			
a. Periodic Health Assessments	Not covered.	Covered at 100% with no deductible with a maximum of $150 per person per year. (EE & SPOUSE)	Not covered.
b. Immunizations	Not covered.	Covered at 100% with no deductible for children. Adult immunization are covered but the office visit fee is not.	Not covered.
c. Allergy Serum	Covered with diagnosis.		Covered with diagnosis.
d. Well Child-Care	Not covered.	See 4-b	Not covered.

BENEFIT	AAFES	MARINE CORPS: HIGH OPTION	NAVRESSO
5. HOSPITALIZATION			
a. Semi-Private Room & Meals	Any hospital covered at 100% of first $2,000; 80% thereafter with pre-certification.	Covered at 80% with Pre-hospital Review Program - A $250 penalty is paid without approval.	Covered at 80% with Pre-Admission Certification and Continued Stay Review. Covered at 50% without Pre-Admission Certification.
b. Surgeon Service, Including Specialist	Covered at 100% of first $1,000; 80% thereafter.	Covered at 80% of reasonable and customary expenses after deductible.	Covered at 80% after deductible.
c. Laboratory, X-ray Services, and Diagnostic Test	Included in hospital expenses under 5.a. above.	Covered at 80% of reasonable and customary expenses after deductible.	Covered at 80% after deductible.
6. EMERGENCY SERVICE	Covered as a hospital expense.	Covered as a hospital expense. A separate $25 deductible is charged for non-emergency.	Covered as a hospital expense.
7. PHYSICIAN'S SERVICES			
a. Office Visits	Covered at 80% after $50 deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.
b. Surgery	Covered at 100% of first $1,000; 80% of any additional charges.	Covered at 80% after deductible.	Covered at 80% after deductible.
c. Anesthesiologists	Covered at 80% after deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.
d. Mental Health (Outpatient)	Covered at 50% after deductible.	Covered at 50% after deductible with a plan year maximum of $1,500.	Covered at 80% after deductible.

BENEFIT	AAFES	MARINE CORPS: HIGH OPTION	NAVRESSO
8. DIAGNOSTIC SERVICES			
a. Laboratory	Covered at 80% after deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.
b. X-Rays	Covered at 80% after deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.
c. Pre-Admission Testing	Covered at 100%.	Covered at 100% with no deductible.	Covered at 100% for all test order by the physician.
9. MATERNITY BENEFITS			
a. Delivery	Covered on the same basis as for disease.	Paid as a hospital expense.	Covered on the same basis as for a disease.
b. Pre-Post Delivery Exams	Covered on the same basis as a dis-	Covered on the same basis as for a disease.	Covered on the same basis as for a disease.
10. VOLUNTARY FAMILY PLANNING AND INFERILITY SERVICES			
a. Vasectomy	Covered at 100% of first $1,000 and 80% of any additional charges.	Not covered.	Not covered.
b. Tubal Ligation	Covered at 100% of first $1,000 and 80% of any additional charges.	Not covered.	Not covered.
c. IUD/Diaphragm	Not covered.	Not covered.	Not covered.

BENEFIT	AAFES	MARINE CORPS: HIGH OPTION	NAVRESSO
11. VISION CARE			
a. Examination	Not covered.	$30 per person per year with no deductible.	Not covered.
b. Eye Glasses	Not covered.	Single Vision $30 Bi-focals 40 Contact Lens 40	Not covered.
12. ROUTINE MAMMOGRAMS	Over age 35 years old, covered at 80% for one routine test per annum.	Covered as part of the annual exam.	Not covered.
13. ROUTINE PAP SMEARS	Not covered.	Covered as part of the annual exam.	Not covered.
14. HOME HEALTH SERVICES	Covered at 80% after deductible; limited to 120 visits calendar year.	Covered at $80 after deductible limited to 120 visits per year.	Covered at 80% after deductible; limited to 40 visits calendar year.
15. HOSPICE CARE	Up to 30 days confinement in Hospice facilty - a maximum limit of $3,000 for outpatient care	Maximum benefit of six months - Covered at 80%.	Covered at 100%.
16. PRIVATE DUTY NURSING (In Hospital)	Covered at 80% after deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.

BENEFIT	AAFES	MARINE CORPS: HIGH OPTION	NAVRESBO
17. DRUG ABUSE	Treatment of alcoholism and drug abuse as an inpatient is limited to 45 days per year unless the treatment is for	Treated as any other hospital stay with maximum benefit of $10,000 per year /Life Time $50,000.	Treated as any other illnesses.
18. ALCOHOL ABUSE	Treatment of alcoholism and drug abuse as an inpatient is limited to 45 days	Treated as any other hospital stay with maximum benefit of $10,000 per year /Life Time $50,000.	Treated as any other illnesses.
19. PRESCRIPTION DRUGS	Covered at 80% after deductible. Generics Drugs are covered at 100%.	Covered at 80% after deductible.	Covered at 80% after deductible from any pharmacy.
20. MENTAL HEALTH (Inpatient)	Treated as any other illness. No annual or lifetime limits.	Treated as any other hospital stay with maximum benefit of $10,000 per year.	Treated as any other hospital stay.
PREMIUMS PAID BY PARTICIPANTS			
a. Employee Only	$45.89 per month $550.68 per year	$57.07 per month $684.84 per year	$25.50 per month $306 per year
b. Employee & Spouse	$122.79 per month $1,473.42 per year	$114.12 per month $1,369.44 per year	$51.00 per month $612 per year
c. Employee & Dependent	$122.79 per month $1,473.42 per year	$114.12 per month $1,369.44 per year	$51.00 per month $612 per year
d. Employee & 2 Dependents	$122.79 per month $1,473.42 per year	$199.70 per month $2,396.40 per year	$65.99 per month $791.88 per year
22. COST SHARING GOAL			
a. Employee	50%	50%	35%
b. Employer	50%	60%	65%
23. POST-RETIREMENT	Free to retiree (and dependents) on immediate annuity with 15 years active participation. Coverage for life.	Normal (age 62) retirement free medical and life insurance coverage with 15 years of service- Early retirement must pay group rate with 15 years of service.	If 5 years hired before 1978 or 15 years hired after 1978- free medical until age 65.

BENEFITS	AAFES	MARINE CORPS NAFI	NAVRESSO
1. MAXIMUM LIFETIME BENEFIT	Lifetime Maximum $5,000 Calendar Year Maximum $1,500	Calendar Year Maximum $1,000	Calendar Year Maximum $1,250
2. DEDUCTIBLE	$100 for Single Coverage $300 for Family Coverage	$50 per Insured Member	$50 per Individual $150 per Family
3. MAXIMUM OUT-OF-POCKET PER ANNUM	No Maximum Protection	No Maximum Protection	No Maximum Protection
4. PREMIUMS PAID BY PARTICIPANTS			
a. Employee Only	$3.84 per month $43.68 per year	$8.95 per month $107.40 per year	$4.58 per month $59.80 per year
b. Employee & Spouse	$7.56 per month $90.74 per year	$17.81 per month $213.72 per year	$10.21 per month $122.48 per year
c. Employee & Dependent	$7.56 per month $90.74 per year	$17.81 per month $213.72 per year	$10.21 per month $122.48 per year
d. Employee & 2 Dependents	$7.56 per month $90.74 per year	$26.72 per month $320.64 per year	$12.70 per month $152.36 per year
5. COST SHARING GOAL			
a. Employee	50%	50%	35%
b. Employer	50%	50%	65%
6. PREVENTIVE CARE			
a. Routine Oral Examinations	Covered at 80% with no deductible and are at least six months apart.	Covered at 80% with a deductible.	Covered at 80% with no deductible and are at least six months apart.
b. Cleanings	Covered at 80% with no deductible and are at least six months apart.	Covered at 100% with no deductible and allows two cleanings per year.	Covered at 80% with no deductible and allows 2 cleanings per year.

BENEFITS	AAFES	MARINE CORPS NAFI (HIGH OPTION)	NAVRESSO
7. DENTAL X-RAYS			
a. Bitewing X-Rays	Allows one in any period of 6 consecutive months and is covered at 80% with no deductible.	Allows one in any period of 6 consecutive months and is covered at 80% after deductible.	Allows one in any period of 6 consecutive months and is covered at 80% with no deductible.
b. Full Mouth X-Rays	No more than one in any period of 36 consecutive months and is covered at 80% after deductible.	No more than one in any period of 36 consecutive months and is covered at 80% after deductible.	No more than one in any period of 36 consecutive months and is covered at 80% with no deductible.
8. FLUORIDE APPLICATION	Covered at 80%, no deductible. Only covers family members under age 15.	Covered at 100% with no deductible applied only once every 12 months provided the insured person is under age 18.	Covered at 80% with no deductible. Only covers family members under age 19 and limited one application in any 12 consecutive month period.
9. SPACE MAINTAINERS	Covered at 80% after deductible. Only covers family members up to age 19.	Limited to initial appliance -including installation, fitting and all adjustments within 6 months of installation, and limited to an insured person under age 16. Covered at 100% with no deductible.	Covered at 80% with no deductible.
10. FILLINGS	Covered at 80% after deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.
11. EXTRACTIONS	Covered at 80% after deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.
12. ENDODONTIC	Covered at 80% after deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.

BENEFITS	AAFES	MARINE CORPS NAFI	NAVRESSO
1. LIFE INSURANCE			
a. FACE AMOUNT OF COVERAGE	2 x Annual Rate of Basic Earnings (any fraction is rounded up to next the $1,000)	Basic Annual Salary Rounded to the next higher $1,000 plus an additional $2,000	Basic Annual Salary Rounded to the next higher $1,000 plus an additional $2,000
b. PREMIUM WAIVER COVERAGE	Yes	Yes	Yes
c. DEPENDENT COVERAGE	Spouse Coverage $5,000 Unmarried child $2,000	Spouse Coverage $5,000 Unmarried child $2,500	I / II Spouse Coverage $5,000 / $10,000 Unmarried child $2,500 / $ 5,000 Baby of < 1 year $1,000 / $ 2,000
d. OPTIONAL LIFE AND AD&D	None	Basic Annual Salary Rounded to the next higher $1,000 plus an additional $2,000	Basic Annual Salary Rounded to the next higher $1,000 x 1 or x 2
2. LONG TERM DISABILITY	66 2/3% of monthly rate of basic earnings- Coverage based upon years of participation- 8 month wait period or exhaustion of sick leave	None	60% of monthly rate of basic earnings
3. SHORT TERM DISABILITY	66 2/3% of monthly rate of basic earnings- 13 weeks after 90 days period or exhaustion of sick leave	None	60% of monthly rate of basic earnings up to 4 months following 2-month waiting period or exhaustion of sick leave
4. 401(k) PLAN	Up to 15% of Basic Salary- No Employer Match	None	None
5. 125 SALARY REDIRECTION PLAN	Employee's Medical, Dental and Life Premiums paid with before tax dollars	None	None
6. ADDITIONAL AD&D PROGRAM	Yes (Includes RPT Employees)- Employee pays all.	None	None
7. ELIGIBILITY FOR SUPPLEMENTAL PROGRAMS	Regular Full-Time (RPT) Employees	RFT Employees and Regular Part-Time (RPT) Employees Enrollment in Standard Plan required	RFT Employees Optional Life and AD&D Coverage- RFT & RPT Employees
8. LONG TERM CARE	Provided Coverage. Employee pay all.	None	None

BENEFIT	INSURANCE COMPANY	DALLAS AREA SCHOOL DISTRICT	LARGE ELECTRONIC MANUF.	LARGE NATIONAL RETAILER
1. MAXIMUM LIFETIME BENEFIT	$1,000,000 maximum per person	$1,000,000 maximum per person	$1,000,000 maximum per individual and $250,000 per individual for mental health.	Unlimited.
2. DEDUCTIBLE	100 Plan- $100 per person & $300 per family 300 Plan- $300 per person & $900 per family 700 Plan- $700 per person & $2,100 per family 2000 Plan- $2,000 per person & $4,000 per family	Individual: Specific Deductible- $250 and Aggregate Deductible- $500 Family: Specific Deductible- $750 and Aggregate Deductible- $1,500	$150 per individual $300 per family	Comprehensive Option- $250 per individual and $750 per family Catastrophe Protection Option- $1,750 per individual and $3,500 per family
3. MAXIMUM OUT-OF-POCKET PER ANNUM	$2,000 per individual $4,000 per family	Preferred Care*- $2,000 per individual and $ 4,000 per family Non-Preferred- $4,000 per individual and $12,000 per family	Network Provider- $1,000 co-payment per individual and $2,000 per family Non-Network Provider- $2,750 co-payment per individual and $5,500 per family	Comprehensive Option- $2,500 per individual and $5,000 per family Catastrophe Protection Option- $1,750 per individual and $3,500 per family
4. PREVENTIVE CARE				
a. Periodic Health Assessments	Not covered.	Maximum $200 for every 24 months for employee, spouse and children age 7 and older.	Not covered.	Not covered.
b. Immunizations	Not covered.	Covered at 100% after $15 copayment.	Well Baby-Care Program has an immunization schelude for children under age 2 years old.	Not covered.
c. Allergy Serum	Covered with diagnosis.	Covered with diagnosis.	Covered with diagnosis.	Covered with diagnosis.
d. Well Child-Care	Not covered.	First year, the plan will cover 6 physical examinations and one annual examination up to age 7 years.	Covered at 100% up to age 2 years.	Not covered.

*Preferred Provider Organization(PPO) - Must use contracted physicians and hospitals.

BENEFITS	AAFES	MARINE CORPS MAFI (HIGH OPTION)	NAVRESBO
13. ORAL SURGICAL	Covered under medical plan surgical-100% of first $1,000, 80% thereafter	Covered at 80% after deductible.	Covered at 80% after deductible.
14. GENERAL ANESTHESIA	Covered at 80% after deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.
15. DENTURES(Full or Partial)	Covered at 80% after deductible. Covered initial installation including adjustment for the next 6 months to replace one or more teeth extracted while covered.	Covered at 50% after deductible.	Covered at 50% after deductible.
16. CROWNS	Covered at 50% after deductible.	Covered at 80% after deductible.	Covered at 50% after deductible.
17. GOLD FILLINGS	Covered at 50% after deductible.	Covered at 80% after deductible.	Covered at 80% after deductible.
18. FIXED BRIDGEWORK	Covered at 50% after deductible.	Covered at 50% after deductible.	Covered at 50% after deductible.
19. ORTHODONTIC	Not Covered.	Not Covered.	Dependant children are covered at 100% with a lifetime maximum of $500 without a deductible.

BENEFIT	INSURANCE COMPANY	DALLAS AREA SCHOOL DISTRICT	LARGE ELECTRONIC MANUF.	LARGE NATIONAL RETAILER
5. HOSPITALIZATION				
a. Semi-Private Room & Meals	Covered at 80% after deductible.	Covered at 90% after an $150 deductible using a PPO; otherwise 70% covered after a $300 deductible.	Covered at 80% with PreCert Plus-PPO and Pre-admission Certification; otherwise covered at 50%.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible. Without Pre-Certification, the benefits will be reduced lesser of $250 or 50% of charges/fees.
b. Surgeon Service, Including Specialist	Covered at 80% after deductible.	Covered at 90% after deductible using PPO; otherwise covered at 70% after deductible.	Covered at 80% with Informed Medical Review- 10% penalty for failure to have reviewed.	Included in hospital expenses under 5.a. above.
c. Laboratory, X-ray Services, and Diagnostic Test	Covered at 80% after deductible.	Covered at 90% after deductible using PPO; otherwise covered at 70% after deductible.	Covered at 80% using Preferred Care otherwise covered at 70%.	Included in hospital expenses under 5.a. above.
6. EMERGENCY SERVICE	Covered at 80% after deductible.	Covered at 90% using PPO without a deductible; otherwise covered at 70% unless a real emergency.	Covered at 80% after deductible.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Option- Covered at 100% after deductible.
7. PHYSICIAN'S SERVICES				
a. Office Visits	Covered at 80% after deductible.	Covered at 100% after $15 copayment using a Preferred Provider otherwise covered at 70% after deductible.	Covered at 80% after deductible.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible.
b. Surgery	Covered at 80% after deductible.	Covered at 90% after deductible using PPO; otherwise covered at 70% after deductible.	Covered at 80% after deductible.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible.
c. Anesthesiologists	Covered at 80% after deductible.	Covered at 100% after $15 copayment.	Covered at 80% after deductible.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible.
d. Mental Health (Outpatient)	Covered at 80% after deductible.	Covered at 90% up to $3,000 per calendar year with no deductible.	Covered at 80% after deductible using managed care; otherwise covered at 50%.	Outpatient treatment covered at 50% of the reasonable and customary charge up to $1,500 per year or 50 visits per year, whichever comes first.

BENEFIT	INSURANCE COMPANY	DALLAS AREA SCHOOL DISTRICT	LARGE ELECTRONIC MANUF.	LARGE NATIONAL RETAILER
8. DIAGNOSTIC SERVICES				
a. Laboratory	Covered at 80% after deductible.	Covered at 90% after deductible using a Preferred Care otherwise 70%.	Covered at 80% after deductible.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible.
b. X-Rays	Covered at 80% after deductible.	Covered at 90% after deductible using a Preferred Care otherwise 70%.	Covered at 80% after deductible.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible.
c. Pre-Admission Testing	Covered at 100% after deductible.	Covered at 100%.	Covered at 80% after deductible.	Covered at 100% with no deductible.
9. MATERNITY BENEFITS				
a. Delivery	Covered on the same basis as a disease.	Covered on the same basis as a disease.	Covered on the same basis as a disease.	Covered on the same basis as for disease.
b. Pre-Post Delivery Exams	Covered on the same basis as a disease.	Covered on the same basis as a disease.	Covered on the same basis as a disease.	Covered on the same basis as a disease.
10. VOLUNTARY FAMILY PLANNING AND INFERILITY SERVICES				
a. Vasectomy	Not covered.	Covered on the same basis as a disease.	Not covered.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible.
b. Tubal Ligation	Not covered.	Covered on the same basis as a disease.	Not covered.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible.
c. IUD/Diaphragm	Not covered.	Not covered.	Not covered.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible.

BENEFIT	INSURANCE COMPANY	DALLAS AREA SCHOOL DISTRICT	LARGE ELECTRONIC MANUF.	LARGE NATIONAL RETAILER
11. VISION CARE				
a. Examination	Covered at 80% with a maximum charge of $55 per exam per year per person.	One exam every 2 years, covered at 80% after deductible.	Not covered.	Not covered.
b. Eye Glasses	Not covered.	$50 maximum paid for frames and 2 lens for any 24 month period.	Not covered but offers discount program.	Not covered.
12. ROUTINE MAMMOGRAMS	Not covered.	Copay $15 and 100% thereafter with PPO for one test per annum.	Covered at 100% up to reasonable and customary amount.	Not covered.
13. ROUTINE PAP SMEARS	Not covered.	Copay $15 and 100% thereafter with PPO for one test per annum.	Covered at 100% up to reasonable and customary amount.	Not covered.
14. HOME HEALTH SERVICES	Considered on a case-by-case basis with a maximum benefit of $5,000 per person per year.	Covered at 80% after deductible; limited to 120 visits per calendar year.	Covered at 80% after deductible; limited to 120 visits calendar year.	Limited to 120 visits per year. Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at 100% after deductible.
15. HOSPICE CARE	Not covered. But 60 days skilled nursing care and convalescent facility is covered at 50% of the standard semi-private hospital room rate.	Up to 30 days confinement in Hospice facilty plus a maximum limit of $5,000 for outpatient care.	Up to 30 days confinement in Hospice facilty plus a maximum limit of $3,000 for outpatient care.	Up to 30 days confinement in Hospice facilty - a maximum limit of $3,000 for outpatient care.
16. PRIVATE DUTY NURSING '(In Hospital)	Not covered. Could be case specific.	Covered at 80% with prior approval otherwise nothing will be paid.	Requires prior approval on a case by case basis.	Limited to 60 visits or 240 hours per cal year with advance approval only.

BENEFIT	INSURANCE COMPANY	DALLAS AREA SCHOOL DISTRICT	LARGE ELECTRONIC MANUF.	LARGE NATIONAL RETAILER
17. DRUG ABUSE	Excluded: but some counseling available elsewhere outside of plan.	Treated as any other illnesses with prior appoval through Employee Assistance Program; otherwise covered at 80% after deductible.	Treated as an illness but must be coordinated by the Employee Assistance - Otherwise covered at 50%.	Treated as an illness but limited to two chemical abuse treatment experiences in a lifetime. Inpatient detoxification stays limited to 5 days.
18. ALCOHOL ABUSE	Excluded: but some counseling available elsewhere outside of plan.	Treated as any other illnesses with prior appoval through Employee Assistance Program; otherwise covered at 80% after deductible.	Treated as an illness but must be coordinated by the Employee Assistance - Otherwise covered at 50%.	Treated as an illness but limited to two chemical abuse treatment experiences in a lifetime. Inpatient detoxification stays limited to 5 days.
19. PRESCRIPTION DRUGS	Covered at 80% after the deductible. Generic Drugs are covered at 100%	Covered at 80% after deductible.	Covered at 80% after deductible.	Comprehensive Option- Covered at 80% after deductible. Catastrophe Protection Option- Covered at deductible.
20. MENTAL HEALTH (Inpatient)	Limited to 60 days per calendar year. Covered at 80%.	Treated as any other illness but limited to 30 days in calendar year. Special Lifetime Maximum Benefit- $100,000	Covered at 80% if managed; otherwise covered at 50%.	Treated as any other illness with a Pre-Admission Certification. Without certification benefits will be reduced to 50% of covered expenses with a 30-day time limit for inpatient stay.
21. PREMIUMS PAID BY PARTICIPANTS:		Years of Service:	Years of Service:	
		10 yrs + / 0 - 1 yr	0-5 / Over 5	Comprehensive: / Catastrophe:
a. Employee Only	$75.87 per month $908 per year	$0 per month / $57 per month $0 per year / $684 per year	$0 per month / $0 per month $0 per year / $0 per year	$33 per month / $14 per month $396 per year / $168 per year
b. Employee & Spouse	$241.87 per month $2,900 per year	$182 per month / $245 per month $2,184 per year / $2,940 per year	$56 per month / $18 per month $672 per year / $216 per year	$55 per month / $23 per month $660 per year / $276 per year
c. Employee & Dependent	$241.87 per month $2,900 per year	$115 per month / $178 per month $1,380 per year / $2,136 per year	$56 per month / $18 per month $672 per year / $216 per year	$55 per month / $23 per month $660 per year / $276 per year
d. Employee & 2 Dependents	$241.87 per month $2,900 per year	$299 per month / $362 per month $3,588 per year / $4,344 per year	$82 per month / $56 per month $984 per year / $672 per year	$75 per month / $31 per month $900 per month / $372 per year
22. COST SHARING GOAL	Ranges from:	Overall	Not Available	
a. Employee	20 to 40%	30%		25%
b. Employer	60 to 80% Flex plan provides $1200 credit	70%		75%
23. POST-RETIREMENT	Must pay premiums, but rate subsidized by the company.	$45/mo. rate if Medicare eligible $106/mo. rate if not Medicare eligible Active employees contribute .25% of wages to plan.	If 5 years- copays entire cost- If LT 5 years in plan employee pays entire cost.	Age and service must equal 75. Under age 65 Co. pays 80% Over age 65 Co. pays 80%

BENEFITS	AAFES (BASIC PLAN)	MARINE CORPS NAFI	NAVRESSO
1. PARTICIPATION	Mandatory Regular Full Time (RFT) Employees	Voluntary RFT and Regular Part Time (RPT) Employees	Voluntary RFT and RPT Employees- One year of continuous service is required.
2. EMPLOYEE CONTRIBUTIONS	7.65% for Social Security (SS) and .80% for Retirement Plan- 7% of gross earnings in excess of wages subject to SS Tax- Changes based upon SS rate	1.15% of gross earnings until maximum SS tax has been paid PLUS 7% of your gross earnings after maximum SS tax has been paid.	7.65% for Social Security (SS) and .80% for Retirement Plan- 7% of gross earnings in excess of wages subject to SS Tax
3. FULL VESTING	5 years	5 years	5 years
4. UNREDUCED RETIREMENT ELIGIBILITY	Age 62 With 5 Years Age 55 With 30 Years * Age 60 With 20 Years * * Temporary annuity paid until age 62; then SS commences.	Age 62 With 5 Years Age 55 With 30 Years * Age 60 With 20 Years * * Level annuity paid for life	Age 62 With 5 Years * Age 55 With 30 Years * Age 60 With 20 Years * * Reduced by the estimated SS benefits at age 62 with no temporary annuity.
5. REDUCED RETIREMENT ELIGIBILITY	Age 52 With 5 Years *; Annuity reduced 4% for each year prior to age 62. * Temporary annuity paid until age 62; then SS commences.	Age 52 With 5 Years *; Annuity reduced 4% for each year prior to age 62. * Level annuity paid for life	Age 52 With 5 Years *; Annuity reduced 4% for each year prior to age 62. * Reduced by the estimated SS benefits at age 62.
6. DISABILITY BENEFITS	Greater of: 1. The benefit determined under the formula w/o reduction for age, or 2. The lesser of the following two amounts: a. 40% x Hi-3 b. The benefit determined under formula assuming retirement at age 60 (dollar-for-dollar for SS award).	Greater of: 1. The benefit determined under the formula w/o reduction for age, or 2. The lesser of the following two amounts: a. 40% x Hi-3 b. The benefit determined under formula assuming retirement at age 60 (dollar-for-dollar for SS award).	None
7. SURVIVOR BENEFITS	Yes	Yes	Yes
8. SICK LEAVE	Added to years of service.	Added to years of service.	Added to years of service.

BENEFITS	AAFES (BASIC PLAN)	MARINE CORPS NAFI	NAVRESSO
9. SALARY BASE FOR BENEFIT CALCULATION	High 3-Year Basic Earnings, Exclusive of overtime, bonus, etc.	High 3-Year Actual Earnings	High 3-Year Actual Earnings
10. BENEFIT FORMULA	.015 x Hi-3 x 5 yrs .0175 x Hi-3 x 5 yrs .02 x Hi x service over 10 yrs -OR- .0035 x Hi-3 x yrs of service whichever is higher	Larger of: .015 x Hi-3 x 10 yrs or .01 x Hi-3 x 10 yrs plus $25 Plus larger of: .020 x Hi-3 x 10 yrs or .01 x Hi-3 x 10 yrs plus $25 Service Prior to 1 Jan 1978 has a different formula	.015 x Hi-3 x 5 yrs .0175 x Hi-3 x 5 yrs .02 x Hi-3 x service over 10 yrs Service Prior to 1 Sep 1974 has a different formula
11. SOCIAL SECURITY OFFSET	.025 x SS PIA @ age 62 x yrs of service up to 40 yrs	.025 x SS PIA @ age 62 x yrs of service- Service prior to 1 Jan 1978 has a separate formula	.025 x SS PIA @ age 62 x yrs of service * * Before 1 Sep 1984 a sliding scale of percentages is used
12. MAXIMUM RETIREMENT ANNUITY	Before SS offset- 80% of Hi-3 plus unused sick leave	Before SS offset- 80% of Hi-3 plus unused sick leave	Before SS offset- 80% of Hi-3 plus unused sick leave

Appendix H

Glossary of Abbreviations and Definitions

Glossary

Abbreviations

AAFES - Army Air Force Exchange Service

AB - Army Base

AFER - Armed Forces Exchange Regulations

AFMC - Armed Forces Marketing Council

AFN - Armed Forces Network

AFR - Air Force Regulation

AFP - Annual financial plan (AAFES)

AIFA - AAFES Imprest Fund Activity

ALA - American Logistics Association

AOA - American Optometric Association

APF - Appropriated Fund

AR - Army Regulation

ASER - Armed Services Exchange Regulation, DoD Instruction 1330.9

BSKU - Branch stock keeping unit (AAFES)

CEO - Chief Executive Officer

CONUS - Continential United States

CRR - Continuous Rapid Reorder (NAVRESSO)

DCO - Director for CONUS Operations

DEERS - Defense Eligibility Enrollment Reporting system

DOD - Department of Defense

DPSC - Defense Personnel Support Center

EDI - Electronic Data Interchange

EEO - Equal Employment Opportunity

EOP - Exchange Operating Procedure

EPOS - Electronic point of sale

FDC - Fashion Distribution Center (AAFES and NAVRESSO)

FSO - Field Support Office

HBA - Health and beauty aids

HQ - Headquarters

IGLAS - Interactive general ledge accounting system (AAFES)

ILP - In-Line processing (AAFES)

JAG - Judge Advocate General

KSA - Knowledges, Skills & Abilities

LDU - Lowest distribution unit (AAFES)

LMS - Labor Management System

LTL - Less-than-truckload

MCO - Marine Corps Order

MCSS - Military Clothing Sales Center

MCX - Marine Corps Exchange

MIN - Minimum Order Quantity

MOS - Military Occupational Specialty

MSA - Master stock assortment (NAVRESSO)

MWR - Morale, Welfare and Recreation

MWRSUPACT - Morale, Welfare and Recreation Support Activity (U.S. Marine Corps)

NAF - Non-appropriated funds

NAVRESSO - Navy Resale Services and Support Office

NAVSUP - Navy Support Command

NIS - Not-in-stock

NRA - Navy Resale Activity

NSCS - Navy Supply Corps School

OICs - Officer-In-Charge

OJT - On the job training

OSE - Oversea

OTB - Open-to-buy; one-time-buy

OUTCONUS - Outside continential United States

PAB - Price Agreement Bulletin (NAVRESSO)

PD - Purchasing Directorate (AAFES)

PLU - Price look-up file

PMR - Purchasing Management review (NAVRESSO)

POS - Point-of-sale

PO - Purchase order

PX - Post Exchange (AAFES)

PZ - Purchasing Policy Division (AAFES)

RIF - Reduction-in-force

RPC - Retail Price changes

RPOS - Retail point-of-sale

SECNAV - Secretary of the Navy

SGAIA - Special Group Accomplishment Incentive Awards

SKU - Stock keeping unit

SPO - Standing purchase order (NAVRESSO)

SSR - Stock-to-sales ratio

UA - Universal Annual (AAFES)

UPC - Uniform Product Code

VPR - Vendor price reduction; voluntary price reduction

VRR - Visual Rapid Reorder (AAFES and NAVRESSO)

WICRS - Warehouse Inventory Control and Replenishment System (AAFES)

WSKU - Warehouse stock keeping unit (AAFES)

DEFINITIONS

Deferred Compensation Plan - Any plan where employees can accumulate money on a tax-deferred basis. A qualified plan can have the option of permitting employees to withdraw assets without penalty for certain "emergency" situations specified in the plan. Many also give employees the option of taking the benefit in cash. A deferred compensation plan can be combined with other plans, such as profit-sharing plans.

Defined Contribution Plan - A defined contribution or individual account plan is defined by the Internal Revenue Code and ERISA as a plan which provides for an individual account for each participant and for benefits based solely on (1) the amount contributed to the participant's account plus (2) any income, expenses, gains and losses, and forfeitures of accounts of other participants which may be allocated to the participant's account.

Electronic Data Interchange - Paper-less exchange of purchase orders and invoices between merchants and suppliers. Also includes "quick response" and "just in time" inventory replenishment to minimize warehousing and inventory investment.

Electronic Mail - Transmittal of electronic messages through a telecommunications network providing on-line, real time communications between stores, distribution centers, offices and corporate headquarters.

Guaranteed Benefit Policy - An insurance policy or contract to the extent that such policy or contract provides for benefits the amount of which is guaranteed by the insurer. It also includes any surplus separate account, but excludes any other portion of a separate account.

In-Store Midsize Computers - For store level inventory control, sales trend tracking, support hand-held UPC scanners, payroll/personne, control cash registers, accounting, mainframe update. Purpose is to replace manual work with automation.

Integration With Social Security - A plan wherein the benefits are integrated with the Social Security benefit. Under regular corporate plans, the regulations define the percentages applicable to the various benefits. Under a self-employed program, the only offset permissible is the amount of the Social Security tax paid for the employee. If more than one plan is instituted for the same company, only one program may be integrated. - The basic concept of integration is that the benefits of the employer's plan must be dovetailed with Social Security benefits in such a manner that employees earning more than the taxable wage base will not receive combined benefits under the two programs which are proportionately greater than the benefits for employees earning less than the taxable wage base.

Master Trust - A pooling of directed and/or discretionary trusts (a discretionary trust is one in which the bank is trustee and also has investment responsibility for all or part of the assets). The "pur definition is pooling of one sponsor's assets which include multiple managers and multiple plans under one trust agreement.

On-Line Credit/Check Authorization - Credit charge goes from store directly to bank or authorization location on-line authorization reduces bank charges to the retailer.

Point-of-Sale UPC Scanning - Electronic capture of item sales at the cash register. Provides better; price control, sales data, customer service, improved employee productivity, can provide basis for automatic price look-up to avoid placing prices on individual items.
Qualified Plan - A plan that the Internal Revenue Service approves as meeting the requirements of Section 401 (a) of the 1954 Internal Revenue Code. Such plans receive tax advantages.

Trust - A legal entity that is created when a person or organization transfers assets to a trustee for the benefit of designated persons.

Vest; Vesting - An employee's right to receive a present of future pension benefit vests when it is no longer contingent upon his remaining in the service of the employer. Employee contributions are always fully vested; however, interest upon such contributions may not be vested or may be paid at a specified rate, depending upon plan provisions. A vested benefit may be paid as a lump sum or, frequently, is paid as a deferred annuity upon retirement. See also Vesting Schedules.

Appendix I

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Appendix J

Sites Visited

Sites Visits/Briefings
Armed Services Exchange Study Group

7 May	Little Creek Naval Amphibious Base Norfolk, VA
10 May	Norfolk Field Support Office
10 May	Norfolk Naval Operating Base
10 May	Briefed and visited new Navy Exchange Norfolk, VA
11 May	Visited Ships stores afloat (one large and one medium size ship) USS Puget Sound (AD - 38), USS Stump (DD - 978)
13 May	Navy Lodge, Field Support Officee Norfolk
14 May	Briefed and visited FSO Norfolk and Navy Lodge
16 May	Briefed and visited Dan Daniel Dist. Center, visited AAFES Exchange Langley AFB, VA
22 May	Briefed and visited Headquarters AAFES Dallas, TX
23 May	Briefed and visited AAFES Fashion Dist. Center. Visited Hyper Mart USA, SAM's Warehouse Club, Target Store and Sports Town
24 May	Walmart
25 May	Members of ALA and AFMC talked to the study group
29 May	Quantico Marine Base
30 May	Briefed and visited Headquarters MWRSPTACT
31 May	Briefed and visited Headquarters NAVRESSO
1 June	Visited Bolling AFB BX and Henderson Hall MCX
2 - 13 June	Staff Director and selected study group members visited: - Iceland (Navy Resale Activity (NRA) Keflavik) - England (RAF Feltwell, RAF Lakenheath and RAF Mildenhall; NAVRESSO European Purchasing Office, West Ruislip Exchange/Commissary)

- Germany (Gruenstadt Industrial Activities; Giessen Depot; Ramstein, Rhein Main, Vogelweh, River

Barracks Exchange facilities)

- Italy (NRA Naples)

- Spain (NRA Rota)

5 June	Oceana Naval Air Station
5 - 7 June	Study team members visited Oceana Naval Air Station and Camp Lejeune exchange facilities
25 - 27 June	NAVRESSO Fashion Distribution Center (Bayonne, NJ), (AAFES) Atlanta DC and NAVRESSO FSO San Diego Distribution Center
25 June - 19 July	Engineer visits projected to selected CONUS exchange facilities
29 June	Chase Field, Beeville, Texas
29 June	Corpus Christi Naval Air Station
29 June	Kingville Naval Air Station
1 July	Jacksonville Field Support Office
2 July	Cecil Field Naval Air Station
2 July	Jacksonville Naval Air Station
3 July	Kings Bay Naval Submarine Base
9 July	Mare Island Naval Station
9 July	Oakland Field Support Office
10 July	Alameda Naval Air Station
10 July	Moffett Field
10 July	Treasure Island
11 July	Monterey Naval Postgraduate School

11 July	Oakland Naval Hospital
12 July	Long Beach Naval Station
13 July	El Toro Marine Corps Air Station
13 July	Camp Pendleton
17 July	Miramar Naval Air Station
17 July	San Diego Field Support Office
18 July	Ballast Point Naval Submarine Base
18 July	Coronado Naval Air Base
18 July	Imperial Beach Outlying Field
18 July	North Island Naval Air Station
18 July	San Diego Naval Hospital
18 July	San Diego Naval Station
18 July	San Diego Naval Training Station
25 July	Great Lakes Naval Training Center
29 July	Chase Field, Beeville, Texas

Appendix K

Study Contributors

Mr. Alan Abbott	Armed Forces Marketing Council
Grant Allen	Field Support Office, Norfolk, Distribution
Mr. Jan Araki	AAFES, Chief, Analysis and Support, Purchasing Directorate
Mr. Jim Baker	Headquarters, AAFES Chief, Services Branch
Al Bardo	Navy Exchange Naples, Accounting Manager
Mr. Jerry Baum	NAVRESSO, Senior Buyer, Softlines
Richard Berg	Navy Exchange Naples, Retail Operations Manager
Mr. Paul Bierhaus	American Logistics Association
Mr. Trausti Bjornsson	Keflavik, Store Manager
Evelyn Benitez	Navy Lodge, Lodge Manager
Tony Blackburn	NAVRESSO, FMG
Bill Brochers	AAFES, CM
SHC William Burrell	Keflavik, Maintenance
Mr. William Borrows	Advisor to NAVRESSO
Mr. William G. Butler	NAVRESSO, Manager, Staffing and Career Management Branch
Mr. Robert Byrd	NAVRESSO, Deputy Commander, Distribution Management Division
Ron Carlson	Field Support Office, Norfolk, Acquisitions
Mr. Larry Chapp	NAVRESSO, Merchandise Manager, Hardlines

Mr. Gary Dassevah	Deputy Assistant Chief of Staff, MWR Camp Lejeune, NC, USMC
Mr. Albert Catton	Navy European Bayine Office, Acquisition Manager
Mr. Ron Cooper	Marine Corp MWR Support Activity, Head, Services Operations Branch
Beverly Cullison	Naval Base Store, Personalized Services Manager
Alan H. Czako	Field Support Office, Norfolk, Manager, Office of Personnel
Mr. Ron DeRenzo	NAVRESSO, Labor & Employee Relations & Employee Benefits Specialist
Ms. Pat DiLorenzo	NAVRESSO, Manager, Workforce/Planning & Administrative Support Branch
Mike Dover	Navy Exchange Naples, Services Operations Manager
Ms Susan Dowell	Navy European Bayine Office, Buyer
LTCOL William Dunn	AAFES, Chief, Transportation Division
Mr. Jack Engle	American Logistics Association
Mr. Paul Feuer	NAVRESSO, Deputy Commander, Contracts Group
SHCS Rene Franciso	Keflavik, Deputy Exchange Officer
Juanita Gaglio	Navy European Bayine Office, Buyer
Sal Grasso	Rota Navy Exchange, Food Service Manager

Mrs. Frances L. Gyomory	MWRSPTACT, Quantico, VA., Head, Employee Benefits Support Branch
Richard Hamilton	Navy European Bayine Office, Director
Marge Hardin	Navy Exchange Naples, Personnel Manager
CAPT Ross Hendricks	Field Support Office, Norfolk, Commanding Officer
Sara Herring	Naval Base Store, Food Services Manager
MAJ Mary Hicks	Camp Lejeune, Exchange Officer
Alfred Hughes	Rota Navy Exchange, Security Manager
Mr. Bill Irwin	American Logistics Association
Ms. Lois Joy	Heaquarters, AAFES, Chief, Accounting Branch
Mr. Lloyd Johnson	American Logistics Association
Mr. Robert Kahn	AAFES, Advisor
Mr. Paul Karp	NAVRESSO, Private Label Coordinator
Joseph Kempsey	Rota Navy Exchange, Deputy
CDR T. Lanier	Navy Exchange Naples, Officer-In-Charge
Mr. Richard D. Lee	MWRSPTACT, Quantico, VA., Head, Human Resources Support Branch
Ken MacDonald	Field Support Office, Norfolk, Financial
Mr. Bob G. Maddin	Headquarters, AAFES, Director, People Resources Directorate

CDR Fred Mallard	Rota Navy Exchange, Officer-In-Charge
Mr. Phil Marshall	KPMG Peat Marwick
Mr. John Marecki	NAVRESSO, Director, Merchandising
Mrs. Heidi M. Mauck	MWRSPTACT, Quantico, VA., Assistant Head, Employee Benefits Support Branch
Donald McCarroll	Rota Navy Exchange, Uniform Center Manager
Ms. Donna McCallion	NAVRESSO, Buyer (Consumables) Norfolk, FSO
Mr. Bob McGinty	NAVRESSO, Exchange Operations Division Director (EODD), Jacksonville FSO
Mr. Edward G. McNamara	Headquarters, AAFES, Chief, Policy and Procedures Development Branch
Mr. Carlton Mencer	Supervisory Merchandise Buyer, Camp Lejeune, NC, USMC
Mr. Raj Minocha	AAFES, Chief, Plans & Program Division
Mr. Don Mohlman	Navy Resale and Services Support Office, Personalized Services Branch
Mr. Allan Monet	Armed Forces Marketing Council
Mr. John Moore	NAVRESSO, Consumables Section Manager, Norfolk FSO
Mr. Jim Murphy	NAVRESSO, San Diego, Director Exchange Operations Division
Mr. Marty Murphy	American Logistics Association
Mr. Ron Neitzke	American Logistics Association

Mr. Michael Paolantonio	Navy Resale Activity, Great Lakes, Deputy Exchange Manager
Mr. Robert C. Pardue	Headquarters, AAFES, Chief, Insured Employee Benefits Branch
Mr. Ken Patterson	AAFES, Chief, Policy, Programs and Procedures, Purchasing Directorate
Mr. Conrad F. Pearson	MWRSPTACT, Quantico, VA., Labor & Employee Relations Specialist
Jerry Peterson	AAFES, CM
Debbie Phillips	Field Support Office, Norfolk, Clerical
Arlene Polk	Field Support Office, Norfolk, Clerical
CDR John Pooley	Field Support Office, Norfolk, Executive Officer
Mr. John Price	MWR Support Activity, Quantico, Head, Retail Operations Branch
Tom Quirk	Navy Exchange Naples, Deputy
Eileen Reinhard	Navy Exchange Naples, Merchandising Manager
Francisco Ricote	Rota Navy Exchange, Financial Manager
Mr. Rip Rowen	Armed Forces Marketing Council
Mr. Thomas Rowe	NAVRESSO, Manager, Wage & Classification & Position Management Division

Mr. Vince Ruggiero	NAVRESSO, Assistant Deputy Commander, Contracts Group
Mr. Jackson Schultz	NAVRESSO, Advisor
Ms Mary Ann Scigliano	NAVRESSO, Softlines Section Manager, Norfolk FSO
Howard Segman	Field Support Office, Norfolk, Exchange Operations
Mr. Gary Shirley	Navy European Bayine Office, Deputy
K. Jartan Sigtryggson	Keflavik, Security Manager
Mr. Evan Singer	American Logistics Association
Ms Pamela Singleton	First Vice President, Securities Research and Economics, Merrill Lynch
Mr. William C. Smith	Headquarters, AAFES, Chief, People Policy and Affirmative Action Division
CDR Fred Spetss	Navy European Bayine Office, Officer In Charge
Mr. Charles Stockburger	NAVRESSO, Deputy Director, Store Operations Division, Exchange Operation Group
Mr. G. E. Stoddard	Supervisory Merchandise Buyer, Camp Lejeune, NC, USMC
Rob Stout	Field Support Office, Norfolk, Facilities
M. C. Turley	Naval Base Store, Deputy Exchange Manager
Ms. Peggy Vitola	NAVRESSO, Assistant Deputy Commander, Human Resources Division

Mr. Kenneth C. Weaver	Headquarters, AAFES, Assistant Comptroller-Insurance
Kean Wescott	Field Support Office, Norfolk, Data Processing
Jim Wheeler	Navy Exchange Naples, Distribution Manager
Mr. Charles Wiesneth	Distribution Center Manager, Dan Daniel Distribution Center
Tom Williams	Field Support Office, Norfolk, Hardline Group Buyer
Annie Wilson	Naval Base Store, Retail Operations Manager
Ms. Carol Wilson	Keflavik, Accountant
Mr. Martin A. Zidek	MWRSPTACT, Quantico, VA., Personnel Management Specialist