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American Logistics Association

...dedicated to serving
Industry in the military
resale/distribution/
troop subsistence
marketplace



Introducing ALA

What Is The American Logistics Association?

The American Logistics Association is a voluntary, non-profit trade organization made up of manufacturers, manufacturers' representatives, distributors and other suppliers of products and services to the Government, for resale in the military commissaries, exchanges, clubs, and for troop subsistence.

ALA provides Industry with a forum in which industry executives, marketing products to the military resale marketplace, can get together with others facing the same

day-to-day challenges, *together with* the Government/Military personnel, from the admirals and generals right down through layers of merchandising and marketing people. ALA's publications and seminars educate both sides of the marketplace, and ALA plays a leadership watchdog role for Industry as it interfaces daily with Congress, the Government agencies, the military resale commands, exchanges, and other sources.



Convention/ Conferences

Annual Convention

ALA's Annual Convention is the sole opportunity on a national scale for industry businessmen and government/military representatives to gather together in pursuit of their common objectives. The Annual Convention strives each year:

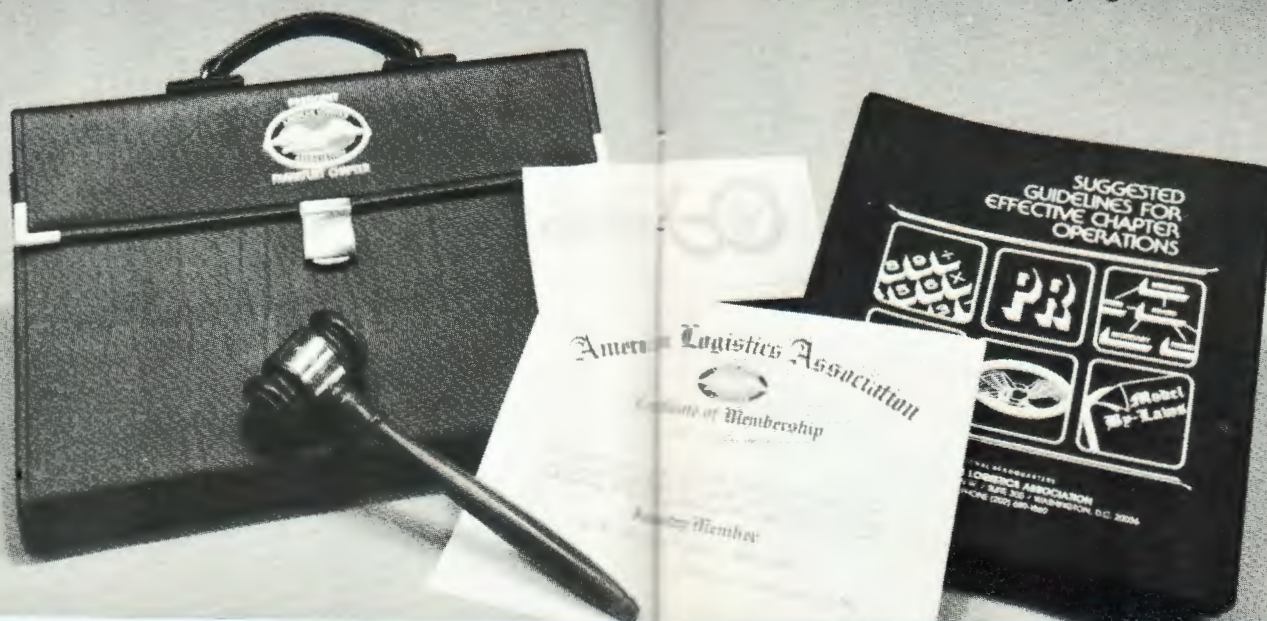
- To provide a forum for the open discussion of ideas;
- To promote the exchange of knowledge and experience among industry and military leaders;
- To develop meaningful and thought-provoking educational programs;
- To identify industry trends; and
- To encourage the development of membership know-how to achieve industry wide goals.

Regional Seminars

ALA's educational program provides the opportunity for company executives, middle-management staff and key supervisory personnel to increase their knowledge and skills through an effective program of ALA training seminars at the regional level.

Held during the year at strategic locations, at home and abroad, ALA's educational programs provide an opportunity for members to meet with military representatives from local commissaries, exchanges and clubs, and other military resale/troop subsistence functions. There they tackle mutual business problems within an atmosphere of learning and cooperation.

The seminars offer insights into the systems and strategies of doing business with government and military agencies.



Military Relations

A spirit of mutual trust and candor has been carefully built over the years between the ALA and the government/military community. Thus, member companies see opportunities to expand their markets, to improve customer services, and to keep abreast of long term trends affecting their business future. By working hand-in-hand with the various military services, ALA members, through committee action, provide information papers based on industry expertise to assist the services in developing future policies and programs.

ALA highly values its growing relations with the military services and federal agencies and will, at all times, continue to offer its assistance and involvement in any areas where it has expertise available on issues of concern.

Government Relations

With the steady escalation of government involvement into the day-to-day activities of private business, ALA's efforts to represent the legitimate interests of the military resale/distribution procurement industry have necessarily become one of its most important membership services.

Effective government liaison is a two-pronged effort: first, to educate those who formulate legislation and regulations, thereby insuring as much as possible fair and equitable consideration of industry needs; and second, to defend the industry against ill-conceived legislation and unreasonable restraints.

This activity is of primary importance to ALA, for building respect, and trust within the Administration, Congress and the Department of Defense.



Committees

ALA has been actively involved in legislative action for years. Its input is a respected and expected part of much of the legislation introduced and studied in the Halls of Congress and, in many cases, eventually made into law.

Commissary and Exchange systems funding is a prime concern of ALA's legislative action program, which reaches right down to the local level via the ALA Chapters.

ALA also organizes task forces of other trade associations from industries affected by certain issues plus the military associations sharing ALA's stand.

Much of ALA's success is dependent upon a strong Committee structure of volunteers who give unselfishly of their time as Committeemen.

Committees generate positive contribution by vigorously striving to accomplish goals which will benefit the entire industry.

In an effort to have as many members involved in the affairs of the Association as is practically possible, more than 100 members sit on ALA's various Committees. Their record of accomplishment is substantial.



Publications

The most vital function of communication with ALA Members and the military resale community is done in great part through ALA publications. ALA is the focal point for military marketing information. ALA is proud of the quality of its educational communications materials, a major role in the continuing flow of information on new government/military policies, exchange and commissary systems funding, new marketing techniques and concepts in military resale/distribution marketing. ALA publications include:

Interservice

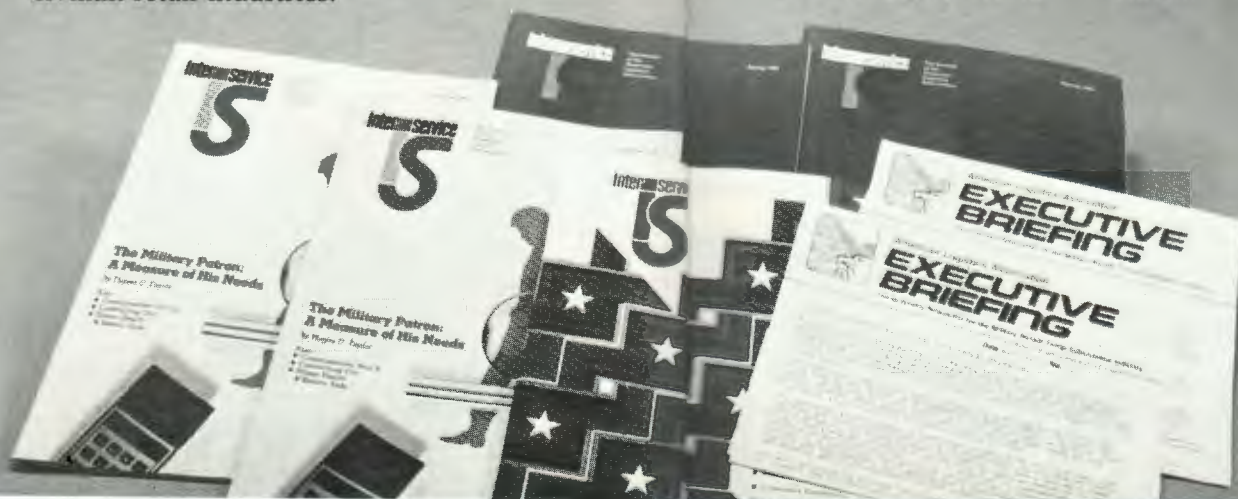
A quarterly magazine structured around in-depth editorial content, *Interservice* educates both sides of the military resale marketplace. As a highly effective advertising medium, *Interservice* reaches more than 8,500 military resale buyers around the world, key Department of Defense personnel, and every member of the Senate and House Armed Services Committees and Appropriations Committees. Each issue contains solid educational material by recognized experts within the military resale and civilian retail industries.

Executive Briefing

Published bi-weekly, the ALA newsletter *Executive Briefing* concisely sums up issues of interest to the membership, presenting the facts in an easy-to-read format. Members look forward to receiving "EB" to start their military marketing week off on the right foot.

Worldwide Directory

Prepared at Annual Convention time, the *Directory* is a recognized year-round document. Highlighting Convention comments by the military resale commanders and key Congressmen, the *Directory* carries the ALA membership roster, Individual as well as Industry Members, followed by over 2,000 names, addresses, and phone numbers of government executives and buyers from the Department of Defense, U.S. Army, Air Force, Navy, Coast Guard, and Marine Corps. Listed are military personnel from commissaries and exchanges worldwide, from Defense Personnel Support Center (DPSC), ships stores and others.



Chapters

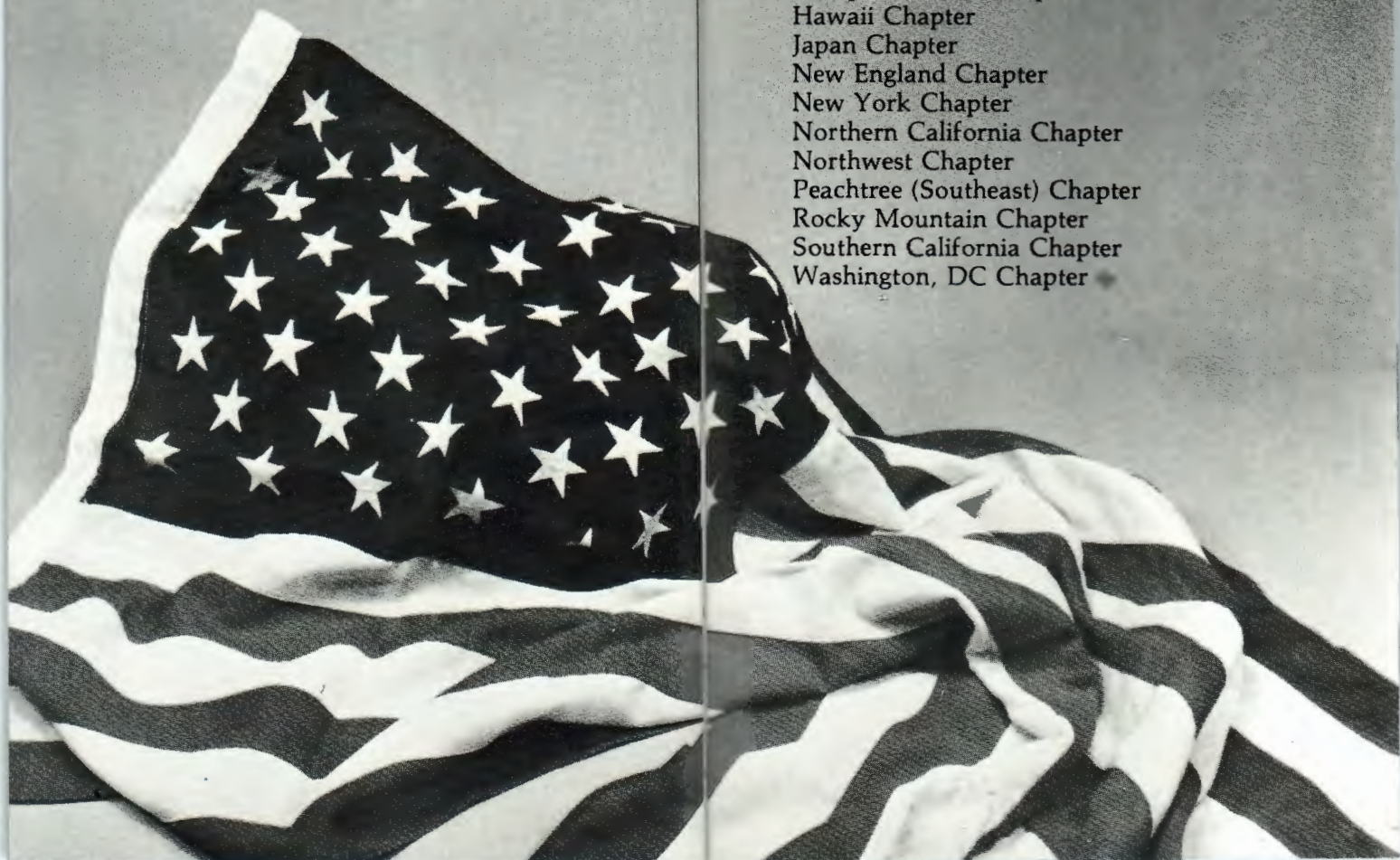
ALA Member volunteers generate strength for their Association by their work at the Chapter level. Strategically located in areas combining Industry as well as Military activity, the ALA Chapters draw Members to local meetings around the country, in Europe and the Pacific.

Chapters provide Members with the means to periodically meet and exchange ideas with their peers on both sides of the military marketplace. Through Chapters, the National ALA organization receives valuable input and guidance.

Recognizing the right of the membership, on the Chapter level, to be heard in the national ALA forum, Chapters annually nominate and elect two Members of the national Board of Directors to serve as representatives from the Chapters.

Chapters

Alamo Chapter (Texas)
Baltimore Chapter
Carolinas Chapter
Central European Chapter
Chicago Chapter
Hampton Roads Chapter
Hawaii Chapter
Japan Chapter
New England Chapter
New York Chapter
Northern California Chapter
Northwest Chapter
Peachtree (Southeast) Chapter
Rocky Mountain Chapter
Southern California Chapter
Washington, DC Chapter



Other Services

Annual Report

Provides a thorough review of the activities, programs and services which ALA conducts for its members and serves to introduce the benefits of membership to non-member companies.

Legislative Reports

Periodically report on the current activities of key government regulatory and military agencies and the impact certain legislation will have on the industry's business interests.

Special Studies

Upon request by the Department of Defense, ALA prepares market research studies and provides input to DoD study group.

Chapter Guidelines

A manual for use in loose-leaf notebook for managing an effective ALA Chapter.

Awards Program

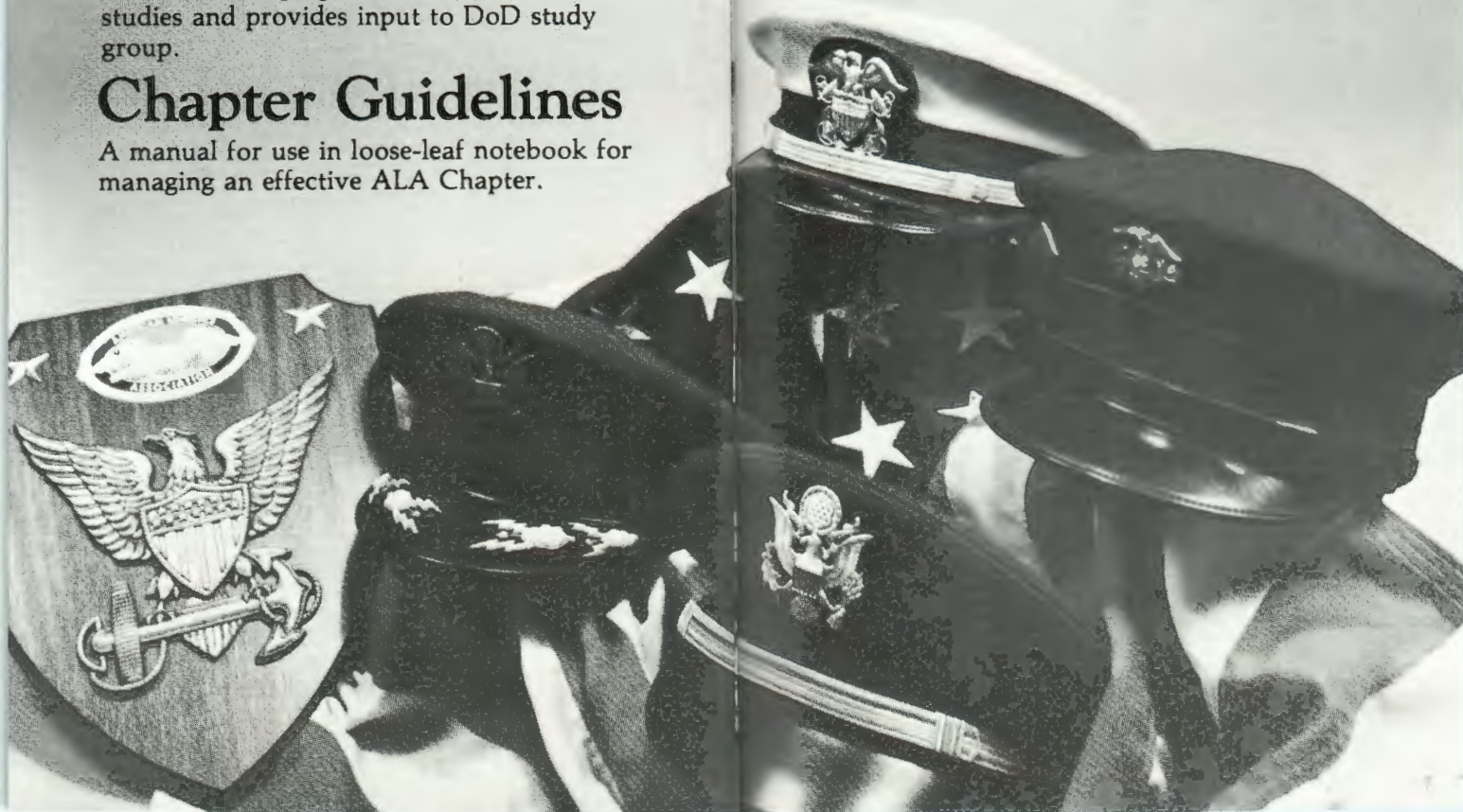
To recognize leadership and to stimulate further interest in the field of military resale marketing, awards go to personnel of the armed forces, students, and industry recipients as well.

Public Relations

ALA builds a strong, favorable public identity via communications with the consumer, military and various trade media.

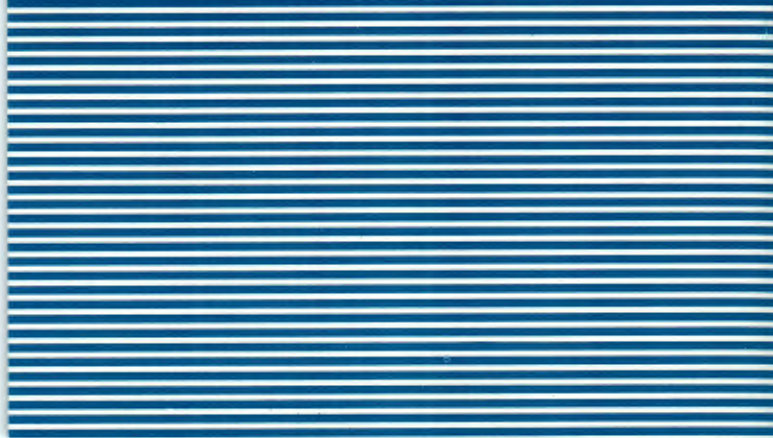
Insurance Plans

Some ALA Members and their families participate in a program to supplement their present health insurance plans at reasonable rates.



American Logistics Association

5205 Leesburg Pike
Suite 1213
Falls Church, Virginia 22041
703/998-5400



American
Logistics
Association

SLOW PAY SURVEY REPORT

FALL 1981



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Single copies—\$2.00 each
Order of 10 or more—\$1.50 each

Executive Summary

This report is based on the slow pay experiences of 91 military resale supplier firms. The key findings of this survey are:

- The average overdue military accounts receivable was \$324,000.
- At 20% interest, carrying past due military accounts costs the average supplier \$64,800 per year.
- Once an account is overdue, it takes an average of 44 days to collect it.
- The average time required to collect an overdue account varies from 22 days with the Marine Corps Exchanges to 52 days with the Army and Air Force Exchange Service.

American Logistics Association Slow Pay Survey

The high cost of overdue accounts with the military resale system is of great concern to members of the American Logistics Association. As a result, the ALA Board of Directors authorized a survey of ALA members to document payment practices by the military commissary and exchange systems.

Survey Methodology

In the Spring of 1981, survey questionnaires were mailed to the ALA membership including manufacturers, manufacturer's representatives and distributors.

Most commercial companies are sensitive about supplying financial data. In order to insure sufficient participation in the survey, ALA took several steps to insure complete confidentiality:

- 1) There was no company identification on the questionnaire.
- 2) Companies did not report total annual military resale volumes.
- 3) Companies did not list total military resale accounts receivable with the military system.
- 4) Participating companies mailed their completed questionnaires to an outside law firm.

One hundred companies participated in the survey. Of the 100 questionnaires received 91 were received in time for inclusion in the survey analysis.

Survey Results

The Cost of Slow Pay

Suppliers to the military offer payment terms that are the same as (sometimes even more liberal than) their payment terms with commercial accounts. Of the companies surveyed, the majority work with payment terms of Net: 30 days. (see Table 1)

TABLE 1: Suppliers' Payment Terms with Military Commissaries and Exchanges
(percent offering each type of payment terms)

	Military Commissary 10%	Military Exchange 15%
Net 10 Days		
Net 15 with Cash Discount 10 Days	2	3
Net 15 Days	4	1
Net 30 with Cash Discount 10 Days	18	26
Net 30 Days	<u>66</u> 100%	<u>55</u> 100%

Normal business payment terms are a cost of doing business and are included in the product cost. However, chronic past due accounts can result in considerable increases in cost to suppliers.

The average company surveyed had a total of \$324,000 in past due military resale accounts. Of course, this is only an average. The range was from \$5,000 to \$2.4 million in past due accounts receivable.

Carrying this much money in overdue accounts is very costly. At an interest rate of 20%, the annual cost per company carrying late military payments is \$64,800. (20% of \$324,000). This figure does not include the expenses involved in collecting late accounts.

This high cost of carrying late military payments is a burden to companies of all sizes. However, it will be the military patron who ultimately pays through increased costs of products sold through the military resale system.

There are always some bills that are late in being paid for a variety of reasons. These include such things as billing errors, lost invoices, slow postal service, understaffed accounts payable office, etc. One of the questions the survey attempted to answer was how quickly an account was paid once it become overdue. The average number of days required to receive payment, once an account was overdue, was calculated for each agency. This average days to collect a past due account varies greatly by agency. (see Figure 1) The range was from a low of 22 days for the Marine Corps Exchanges to a high of 52 days for AAFES.

FIGURE 1: Average Number of Days Required to Collect on Overdue Accounts by Agency, 1980



*Weighted by Agency Sales

The average days for each agency was then weighted by agency resale sales to develop a weighted average for the entire military resale system. The weighted average was 44 days.

In other words, once an account is overdue, the supplier has to wait an average of 44 days before payment is received.

It is apparent from Figure 1 that there is a correlation between the size of the agency (dollar sales) and the amount of time it takes to pay an overdue account. The larger agencies require up to more than twice as much time to pay

overdue accounts than do the smaller agencies.

The averages tell only part of the story. Where the real frustration comes in is collecting overdue accounts when payment time is in terms of months, not days. Table 2 is an analysis of overdue accounts, by agency, by length of time required to collect.

TABLE 2: Age Analysis of Overdue Accounts by Agency, 1980

(percent of companies reporting average days accounts were overdue)

	Less than 30 Days	30-60 Days	60-90 Days	Over 90 Days
Marine Corps Exchanges	79%	17%	4%	0%
Coast Guard Exchanges	72	26	2	0
Coast Guard Commissaries	72	28	0	0
Marine Corps Commissaries	64	36	0	0
AFCOMS	47	47	6	0
USATSA	40	41	17	2
NAVRESSO Commissaries	42	35	13	10
NAVRESSO Exchanges	30	42	18	10
AAFES	28	36	22	14

Of the companies surveyed, none of them reported average overdue accounts of more than 90 days past due with the Marine Corps, Coast Guard or Air Force Commissary Service. In fact, 79% of the companies reported that their average overdue accounts with the Marine Corps Exchanges were less than 30 days old during 1980.

The same is not true for the US Army Troop Support Agency, Navy Resale and Services Support Office and AAFES. For example, 14% of the companies reported that during 1980 their average

overdue account with AAFES was over 90 days old. For these companies, and those reporting similar experiences with NAVRESSO and USATSA, a sense of frustration and ill will towards the military would be understandable. Their typical overdue accounts take more than three months to collect.

In addition to overall late payment experiences with each agency, the survey collected information by region/district of each agency.

The quicker payment experiences with the Marine Corps and Coast Guard did not vary much by region or district for those commissaries and exchanges. Also the experience with the various AFCOMS regions did not vary much, although the Western region was reported as paying overdue accounts in less than 25 days.

The variability in paying overdue accounts by region/district for the other agencies was much greater. For USATSA the average number of days accounts remained overdue ranged from 35 days for European accounts to 60 days for the Northeast region. For NAVRESSO commissaries, the range was from 41 days for European/Caribbean accounts to 58 days for San Diego/Oakland/Seattle FSOs. For NAVRESSO Exchanges, the 14th district reported the best experience with an average of 39 days, while in the Pacific the average overdue account was 64 days. For AAFES the range in the days the accounts remained overdue was from 44 days in the Ohio Valley to 63 days for Alamo.

Within the larger agencies it is apparent that some regions or districts do a better job of paying overdue accounts. It is interesting that there is such a wide range in the payment experience within the agencies.

Early Payment Discounts

A rather interesting finding of the survey related to discounts for early payments. Twenty percent of the companies surveyed offered early payment discount terms to military commissaries. For them, the average number of days required to collect an

overdue account was 27. This compared to 37 days for those firms not offering discount terms. (See Table 3)

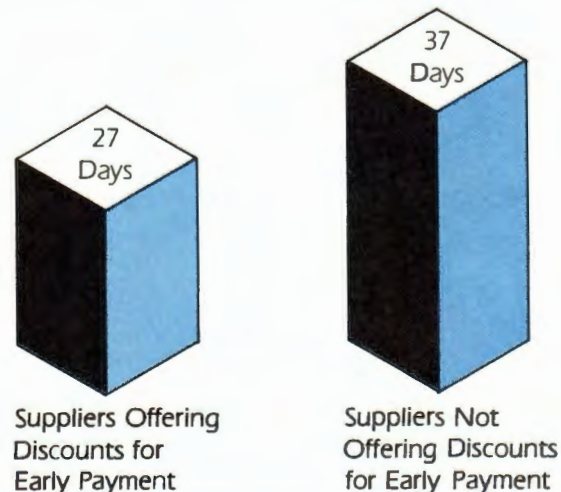
The companies offering discounts were able to get their overdue accounts paid earlier. What is interesting is that, of course after an account is overdue, the military commissary is not eligible for the discount. There could be other reasons for the quicker payment. For example, maybe these companies just do a better job of collecting their past due accounts.

Conclusion

Based on this survey, the average military resale supplier has \$324,000 in overdue accounts receivable and carrying these accounts costs the company almost \$65,000 per year. Also, collecting overdue accounts takes an average of 44 days.

These types of statistics indicate that slow payment is more than just a thorn in the side of the military resale system's suppliers. Slow pay is a major business concern.

TABLE 3: Average Number of Days Required to Collect on Overdue Accounts, All Commissary Systems, 1980



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PUBLIC LIASON WHITE HOUSE

WASHINGTON DC 20500

DEAR MR PRESIDENT ON BEHALF OF OUR NATION'S MILITARY PERSONNEL AND
THEIR FAMILIES, IT IS IMPERATIVE FOR YOU, PERSONALLY TO REFUTE ANY
SUGGESTIONS OF REDUCING OR ELIMINATING THEIR WELL DESERVED AND VITAL
COMMISSARY AND EXCHANGE BENEFITS. SUCH A SUGGESTION WAS CONTAINED IN
A U.S. NEWS AND WORLD REPORT STORY (11-16-81) ON PAGE 50, AND
ATTRIBUTED TO YOUR ADMINISTRATION. CONCERNING THE COMMISSARY BENEF

COUNTRY'S DEFENSE POSTURE AND THE MORALE OF THE MEN AND WOMEN IN
UNIFORM.

I, AND EVEN MORE IMPORTANTLY, ARE MEN AND WOMEN IN THE SERVICE
EAGERLY AWAIT YOUR POSITIVE REPLY

WILLIAM LAZARUS EXECUTIVE VICE PRESIDENT AMERICAN LOGISTICS
ASSOCIATION

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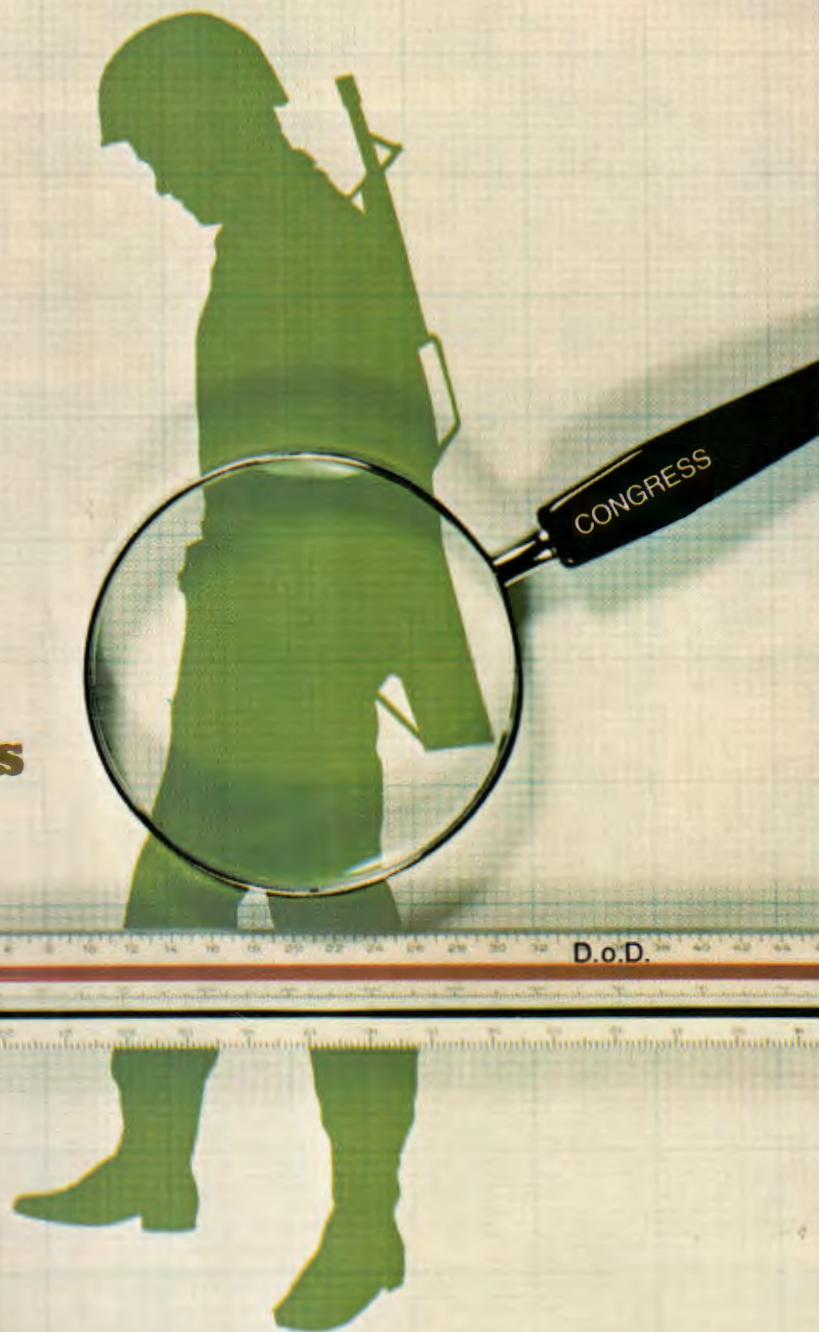
Summer 1981

The Military Patron: A Measure of His Needs

By Thayer C. Taylor

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- Commissaries: Part II
- Contracting Out
- Ethnic Health
& Beauty Aids





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Carolyn A. Page

ALA Viewpoint

Attempts to diminish benefits to the *military patron* are nothing new. In fact these attempts, emanating from whatever sources, are almost as much a part of our landscape as death and taxes. They often come disguised as "cost-effectiveness"—sometimes for the military resale systems, sometimes for the Department of Defense, sometimes for the Congress, and even for the taxpayer. Current examples include the Army's testing of "contracting out" of commissary stores and AAFES' increasingly centralized distribution system.

The simple fact is that *service to the military patron* is not always taken into account in these "cost-effectiveness" initiatives. It's time to remind everyone that there is a truly correct, accurate benchmark for analyzing and changing military resale systems: *Providing the military patron with the finest products at the lowest possible cost.*

One area where ALA has always applied this benchmark is the steadfast commitment to insuring that a wide range of *brand name* products in every commodity group are stocked in military exchanges and commissaries. The rationale that generic, budget line products to replace established brand name products offer greater benefit to the military patron is not necessarily true. This association is *adamantly opposed* to the marketing of non-brand name items to the detriment of patron accepted brand name products.

Nowhere is this long-standing policy more apparent than in our recent correspondence with NAVRESSO Commander Rear Adm. William J. Ryan, when we protested Navy's policy affecting generic vitamin procurement, stating ALA's position and pledging ALA's opposition to introduction of any policy whereby generic or controlled label products would be offered to the military family to the detriment of brand name items. Recently, AFCOMS has departed radically from its long standing brand name



policy by requiring mandatory stockage of generic or budget lines and relegating brand names to less desirable locations and diminished shelf space. This is not judicious merchandising. The Army and Navy commissary systems are undertaking similar programs.

Time and time again, generic or controlled label products have been introduced in the military marketplace. The military patron has demonstrated over and over again *they want and will continue to demand* accepted brand name products. Are we going to lead the horse to water yet one more time?

We see proliferation of these policies by the military resale commands as a very real threat to this Industry . . . and, even more importantly, as a *disservice to the military family, and its right to true customer selection and preference.* **T**

William Lazarus

William Lazarus
Executive Vice President

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This Kraft ad will appear in: Army, Navy/Air Force Times, Ladycom, American Forces TV Guide, Overseas Family, R & R, ALA Interservice. Your Kraft Comstore expert can help put it to work for you.



Feature these along with ingredients for Kraft sauce recipes because they add a zesty touch.

Feature these ingredients for the Kraft recipe for Beef 'N Rice Spirals that rolls-up both of these great favorites.



These two are the perfect touch for ethnic foods like Lasagna or Tacos.



Display plenty of this classic next to tuna so customers can make Tuna Lettuce Crepes.



This one belongs close to the pasta because it sparks up the flavor on so many dishes.



A natural feature to go with desserts or main dishes.

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A hand is shown holding a Budweiser can, which is partially submerged in a sea of crushed and flattened beer cans. The can being held is upright and shows the Budweiser label, including the 'BB' logo and the text '12 FL. OZ. (355 ML.)', 'Budweiser', 'LAGER BEER', and 'Brewed by our original process from the choicest crops of rice and best barley'. The background is a dense, chaotic pile of crushed cans, creating a textured, metallic surface. The lighting is dramatic, highlighting the hand and the can it holds.

**THIS BUD'S
FOR YOU.**

In this issue

Interservice magazine wraps up its first year of publication with five feature articles of interest to the military resale community. As in the three previous issues, this fourth issue of Interservice continues to meet some of the specific needs in that community with timely, definitive articles on issues that determine the direction of the military marketplace. It has been a special source of pride that Interservice has been able to offer writers of distinction in all its past issues. The magazine continues that tradition in this issue.

Debbie Auerbach-Deutsch, a freelance consumer, marketing and retail writer examines the controversial and complex issue of contracting out certain commissary operations to civilians in "Contracting Out: Is It A Foot In The Door?" The article, which begins on page 12, tracks the contracting out issue from the Office of Management and Budget (OMB) where it started with Directive A-76, to the U.S. Army where the first—and only—feasibility studies on contracting out functions (for now) are planned.

In Interservice's cover story, "The Military Patron: A Changing Profile," Thayer C. Taylor, Senior Editor, Management Sciences of Sales & Marketing Magazine provides a detailed, comprehensive look at who the buyer is at commissaries and exchanges and who that buyer is becoming. An impressive array of accompanying charts and graphs enhances and clarifies the story for the reader. The article begins on page 34.

Economist Eugene Gerke returns with the second part of a three-part series begun in the last issue of Interservice on the military commissary system. Mr. Gerke continues to pursue the advantages and disadvantages and the pros and cons of military commissary operations. The series covers organization structure, controls, operations and merchandising and, in general, will concentrate on the CONUS system. "The Military Commissary: A Retail Business (Part II)" begins on page 58.

Health and beauty aids have always been important consumer products—on military bases as well as in civilian life. Beginning on page 72, consumer writer Mollie West examines these products for the military ethnic consumer. "EH&BAs: An Expanding Market," illustrates the importance of providing such products in commissaries and exchanges to the ethnic military man or woman and their families.

Beer is one of the most popular cold drinks in the U.S. Interservice's new assistant editor, Carolyn A. Page takes a look at what marketing beer to the military is like and what the military future holds for the bubbling brew. "The Military Beer Market: Viable, Growing" begins on page 78. **T**

Contracting Out: Is It A Foot In the Door?

by Debbie Auerbach-Deutsch

Economy and efficiency are the key words of the present administration. These days, budget and personnel cuts are a fact of life for most federal agencies. To date, the one agency that seemingly has been exempt is the Department of Defense.

Lately, even DoD's budget has come under scrutiny. Military funding is not being questioned. Rather, it is the funding and operation of DoD's commercial and industrial type activities that is being reviewed. Indeed, DoD management is striving to show that the Department is being run on a lean fiscal input.

The Office of Management and Budget (OMB) has instructed DoD to reduce its civilian work force by 30,000 jobs by fiscal year 1985. And, one area of DoD that specifically has been mentioned is the 22,000 civilians who operate the military commissaries. These slots are funded by Congressionally approved appropriations that come from tax dollars.

OMB has asked the DoD to identify in-house operations that might be more efficiently and economically performed by outside contractors. To implement this program, OMB is turning to its 1979 revised Circular A-76, "Policies for Acquiring Commercial or Industrial Products or Services Needed by Government."

OMB stresses that it is interested exclusively in "commercial and industrial type activities," and has dubbed the program CITA. In the case of the military commissaries, it has asked DoD to study operational and management functions only. Procurement has never been mentioned as one of the functions to be studied for contracting out. All involved parties, including OMB, DoD and all branches of the services are vigorously denying that procurement will be included. But the fear exists that operational and management functions are the "foot in the door." Will the food chains, managerial operations or mom and pop outfits that bid on the contracts be content to stop short of the most prized plum? Or, will one thing lead to another?

For the last few months, rumors, accusations and suspicions have run amuck in the military resale community. One thing is certain—the military commissaries, DoD's last sacred cow, will be required to measure their efficiency against the commercial sector in the years to come.

Debbie Auerbach-Deutsch is a consumer, marketing and retail writer.

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The OMB has instructed DoD to reduce its civilian work force by 30,000 jobs by fiscal 1985.

Circular A-76

OMB, the granddaddy of the idea, is seeking to calm the commotion. The agency states that Circular A-76 has been around for a long time and prior to the 1979 revision, military commissaries were never even mentioned. The 1979 update expanded the scope of activities that could be considered for contracting out to private industry. The implementational part of the program, CITA, is aimed at determining if it is less expensive to contract out commercial type activities presently performed by government employees. Darleen Druyun, Deputy Associate Administrator of the Federal Procurement Division of OMB stresses, "Our intent is just to study the store operation. We don't perceive this study spreading into procurement. That is an inherently governmental area. Procurement is not part of the fiscal definition of A-76."

Pressure to comply with the edicts of A-76 has been exerted, even prior to the change in administration. In December, 1980, the Army commissary functionaries asked to be exempted from A-76. The request was denied by Maj. Gen. Thomas Greer, head of the Management Directorate, Office of the Chief of Staff of the Army.

As early as 1979, AFCONS management began investigating contracting out certain functions. AFCONS chose two in-house services, shelf stocking and custodial services. It gradually began contracting out on a small scale.

NAVRESSO, Navy Resale Systems Office, has done some contracting out in the building maintenance/custodial field in the last year or two. Officials at NAVRESSO say this action was taken to relieve personnel insufficiencies. They deny there is any connection between A-76 and their early efforts at contracting out.

Branch Compliance

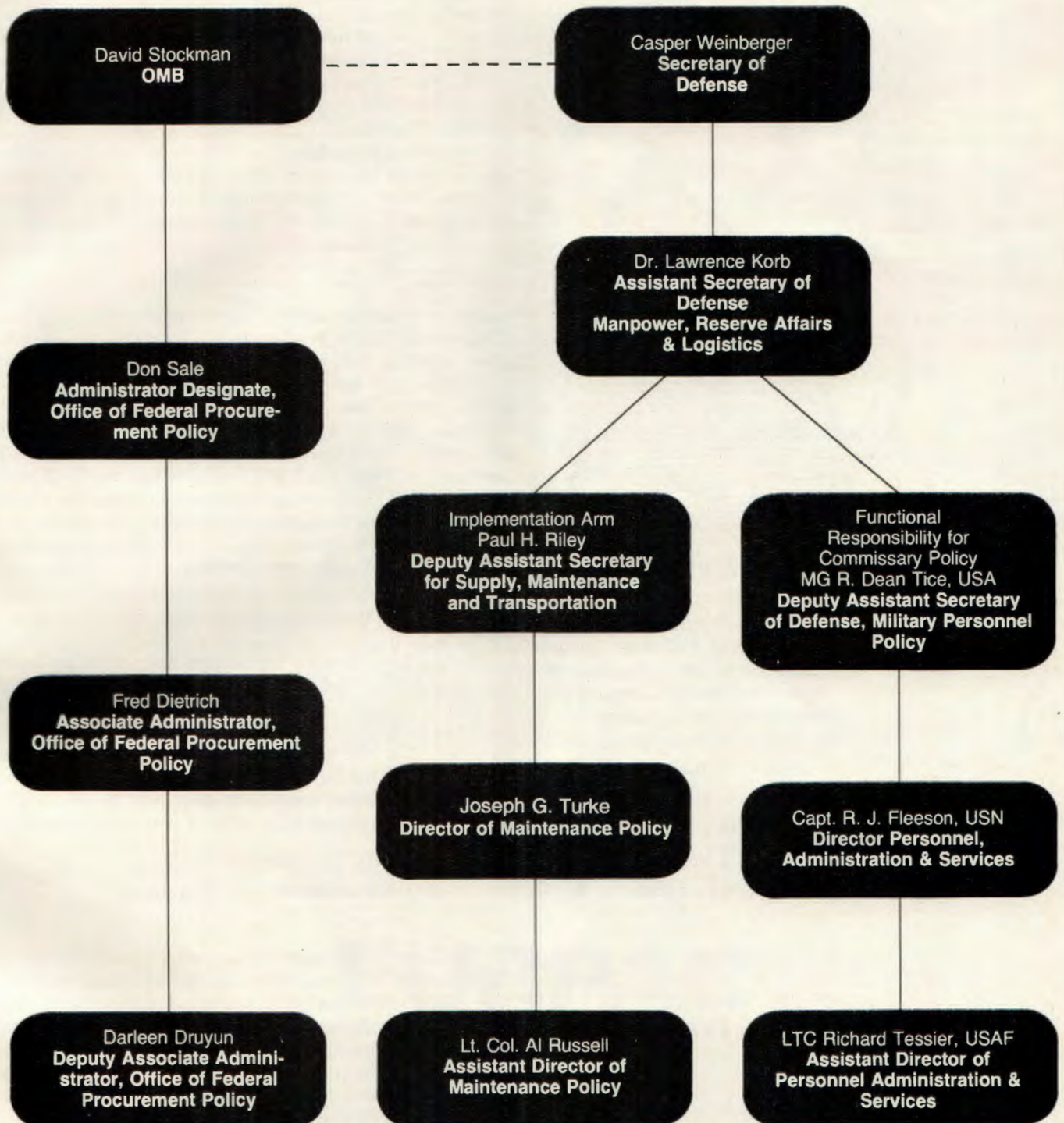
Right now, most discussion of the contracting out controversy is centered on the Army. In mid February, 1981, USATSA, United States Army Troop Support Agency, announced that it would do contracting out feasibility studies for five functions: storage and issue of food items, shelf stocking, meat processing, produce processing and checkout operations.

Later in the month the Army announced that two commissaries, Yuma (Arizona) Proving Grounds and Fort Leonard Wood (Missouri) had been chosen for feasibility studies by fiscal year 1982. The balance of the Army's 72 commissaries similarly will be studied by fiscal year 1985.

The other branches are showing reluctance to follow in the Army's footsteps. Chief Master Sergeant Carl Grubbs, Assistant Director of Public Affairs for AFCONS states, "The Air Force is not currently considering contracting out any commissary functions other than present efforts to contract out some shelf stocking and custodial services." AFCONS operates more than 140 commissaries. Shelf stocking and custodial contracts have been awarded for 42 stores. The goal is to award similar contracts for 14 more stores by the end of fiscal

INTERSERVICE

**Interagency Relationships Involved in
The Implementation of Contracting Out**



Military commissaries will be required to measure their efficiency against the commercial sectors.

year 1981. But, this is as far as AFCOMS intends to go right now.

NAVRESSO considers A-76 as just another standing requirement to reevaluate all functions. John Russas, Director, Office of Public Affairs, states that NAVRESSO is in the process of going through CITA. Two areas have been identified for possible contracting out: shelf stocking and warehousing/receiving. The Navy already has some minor contractual services for janitorial services. But, these services were not paid for out of the appropriated funds. Instead, this contracting out was paid for from the surcharge the commissaries charged for overhead. This was a way for NAVRESSO to stretch its personnel budget.

The Marine Corps has only 15 commissaries. Cecil Saunders, Program Manager, Commissary Stores, states simply, "We have no plans to do any feasibility studies unless ordered to do so. And, thus far, we haven't been told anything."

Official Notification

The signs are that OMB is beginning to exert its muscle. On April 8, 1981, a letter was issued by Edwin Harper, Deputy Director, OMB, to Casper Weinberger, Secretary of Defense.

Harper's letter stated that, "One of the major goals of this Administration centers on maximizing efficient expenditure of funds." He stresses that A-76 "provides you with one of the necessary tools to achieve this goal." The letter suggested four ways A-76 could help. DoD was called upon to determine the least costly method of providing essential services, either by contracting out or keeping services in-house. Existing operations were to be streamlined to insure as efficient operation as possible. Fiscal operations were to be reduced by choosing contractors when a contract operation was found to be more efficient. And, measurable job standards were to be developed.

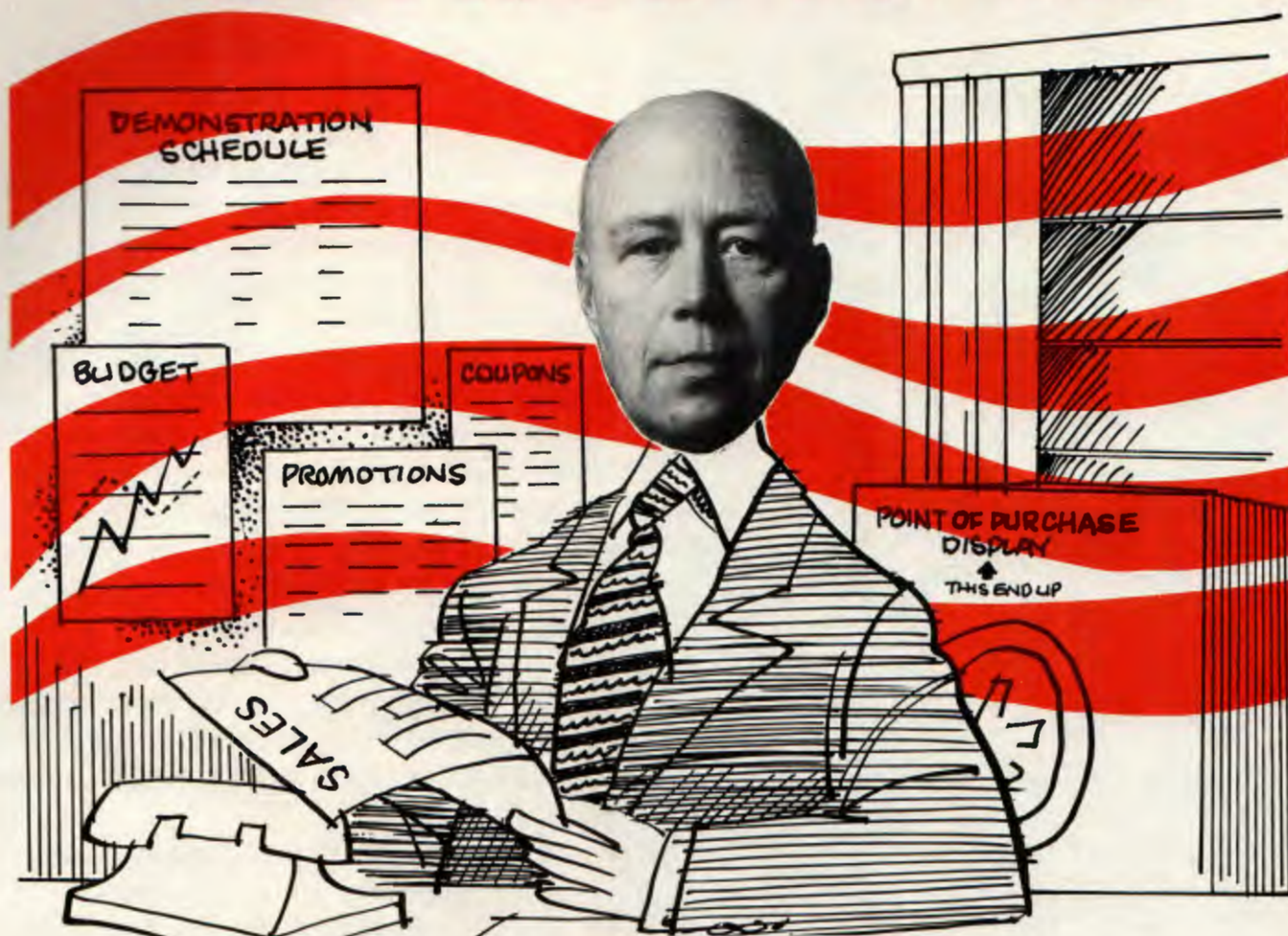
Harper's letter assured Weinberger that provisions were included to protect federal employees, even while attempting to achieve the greatest economics. Existing in-house operations can be maintained in-house unless contracting out can save more than 10%. Contractor and in-house estimates have to be based on the same statement of work and job performance. A formal cost comparison is required to ensure fairness. And, an independent audit of cost study results is required.

Statement of Work (First Step)

Only the Army began to move independently on these recommendations. OMB has pushed for implementation from the other services. It finally took things into its own hands. The agency decided not to wait for each branch of the service to produce its own statement of work for the areas it was studying for contracting out. In early May OMB called on representatives from each of the services to join with OMB to produce a joint performance oriented statement of work (POSOW).

Originally, the statement of work (SOW) OMB was requesting was to be a complex, exact statement of the tasks

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Jim Ford, Our Manager of Commissary Sales Planning

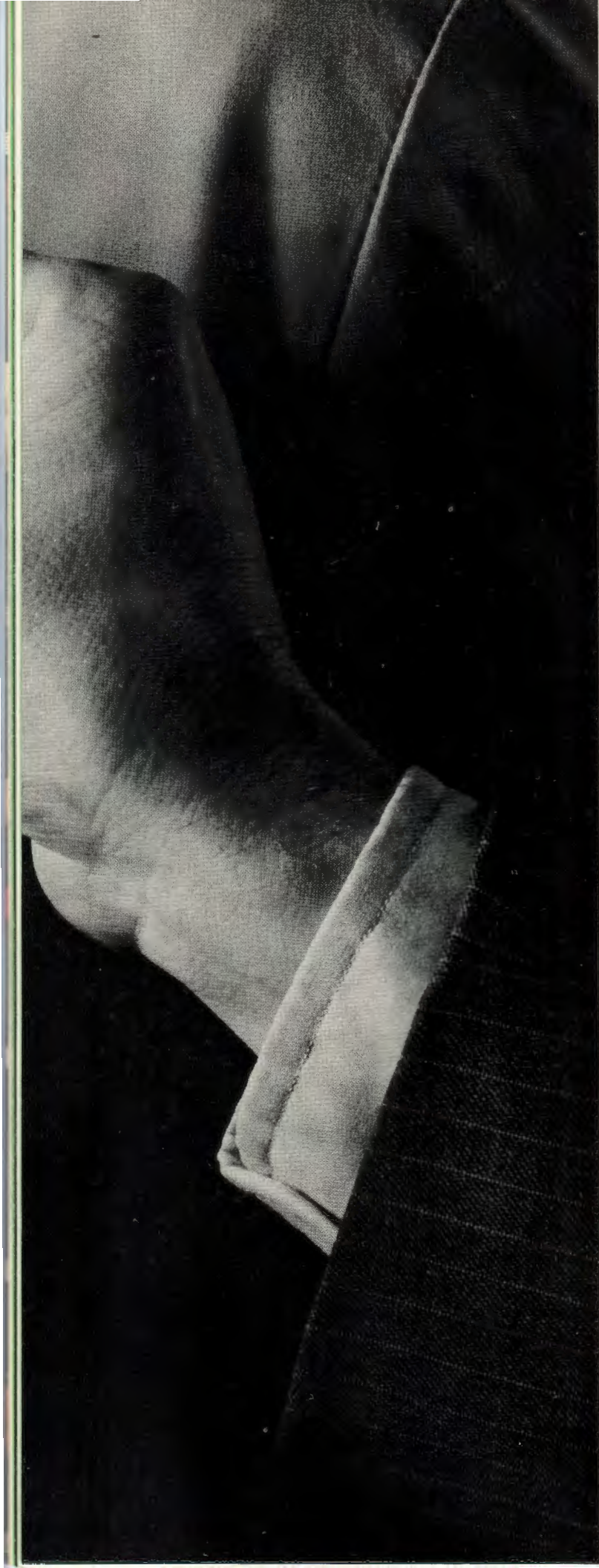
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involved in the function and how they were done—literally, every blink of the eye. Instead the POSOW will focus on the specific job that has to be done, not how to do it.

Colonel Chet Kowalczyk, Chief of Troop Support Division, is heading the Army's efforts to develop a statement of work. Kowalczyk says OMB has called for a "common statement of work to capitalize on the expertise available in all the branches." However, Kowalczyk sees this merely as a guideline. "All of the branches have different needs, different functions, different goals. The Army will fine tune this POSOW to make it what we want it to be."

Officials in other branches see OMB's move as a horse of a different color. The overall impression is that the joint meeting to develop a statement of work is one way to make some very reluctant branches get involved with A-76 right now.

Most discussion of the contracting out controversy is centered on the Army.

Problems

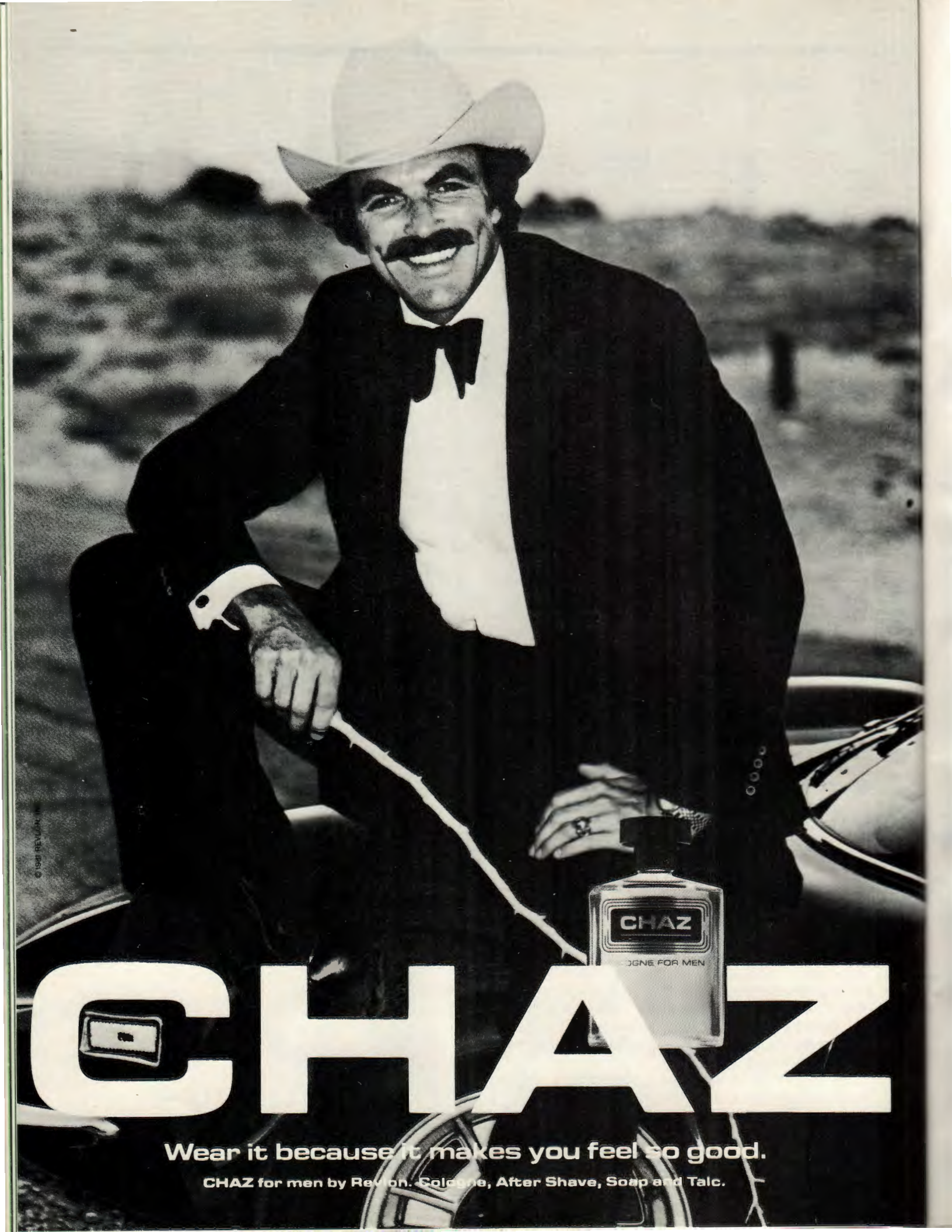
The number one concern of all involved, whether on the periphery or in the thick of it, is how will this affect the military patron? The cons easily come to mind. Higher operation costs, then higher prices. Fluctuating quality and quantity of service. Elimination of commissaries in isolated areas, for who would bid on and run the operation? Elimination of unprofitable commissaries, no matter the numbers and needs of those served.

On a more sophisticated level, more complex questions come to mind. Commissaries are not on the same wave length as other stores. They are not motivated by profit. The commercial sector must make a profit, or go out of business. Locations are not determined by the size of the market, demographics, the trading area, the competition. Commissaries historically stress service over profit—can a business enterprise adjust to this? And finally, finding competent contractors in skilled areas like meat processing may well be difficult. If, as OMB believes, large food chains are not expected to bid, can small businesses provide these specialized skills, competently, economically and in isolated areas, as well?

Proponents

Proponents of contracting out say that the end result will mean only that quality, service and prices will remain the same. The only change foreseen is a cost savings to the government of 10% or more. Darleen Druyun at OMB suggests that, "This will bring competition into the commissary's environment. And, as the whole administration's concerns are economies and efficiencies in government, commissaries will be looked upon in a better light." Col. Chet Kowalczyk of USATSA is optimistic. "Our expectation is that as we prepare ourselves for CITA we will drive ourselves into a higher level of efficiency as well."

One NAVRESSO official cautiously states, "If you do things in the spirit laid out in A-76, since it states that things are to be done in the government's interest, it would be a positive change if contracting out is the final decision." For others



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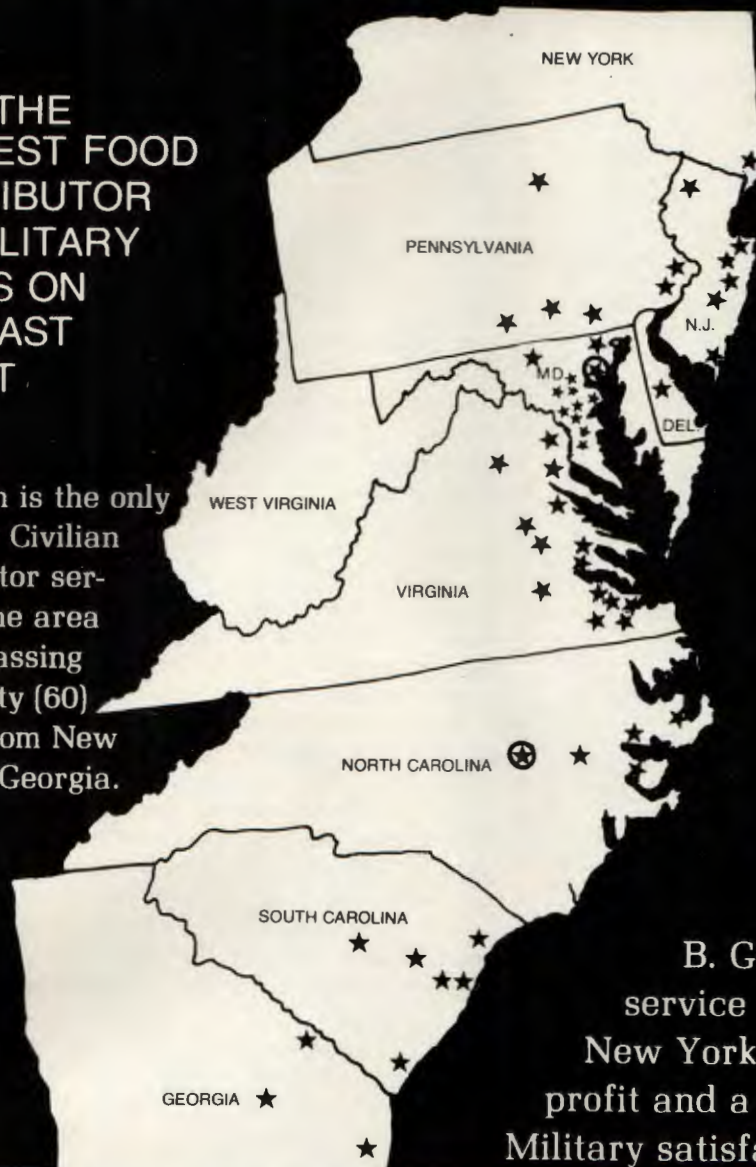


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*USATSA will do contracting out studies
for five functions in two commissaries.*

involved in the commissaries, blind faith, or even cautious optimism is too much to expect. Most just shy away from these questions because of the politics swirling around their heads.

Opponents

Opponents are more vocal. William Lazarus, Executive Vice President of the American Logistics Association is concerned with present and future ramifications of contracting out commissary services. Says Lazarus, "You must accept the fact that DoD must comply with A-76 by basic law." The results of the study are what count.

"Our concerns are very basic," states Lazarus. ALA's first concern lies with the military patron. "In developing a study, the military patron's level of service and savings must not be diminished whatsoever. In fact, DoD should continue efforts to improve both." ALA's second concern deals with the federally appropriated funds that support the commissaries. "By contracting out any functions, is DoD, in fact, placing in jeopardy these Congressionally appropriated funds? Can Congress allocate funds to the private sector? For, in fact, wouldn't that be the case if these functions are contracted out?" asks Lazarus. And, he states, "The joint consensus is that the commissaries can't operate without these funds."

The ALA's last concern is based on the future of contracting out just operational and management functions. Says Lazarus, "At this time there are no overt efforts to seek the demise of the commissary system; covert efforts are another story. The resources of a large food chain make many things conceivable. We can foresee a food chain making a low initial bid and operating on a loss for the period of the contract while it is getting firmly entrenched in the store's operation. When the contract is up, the chain raises prices and/or demands to do the procurement. You've got the whole system over a barrel."

Lazarus says, "The key to the whole issue is to face the realities of these problems and make sure the statement of work the contractors will bid on includes safeguards." ALA is taking an active role in developing the statement of work. The association staff has outlined in great detail the concerns that must be considered and incorporated in the statement of work.

ALA members share similar concerns. Most fear that sooner or later procurement will be dragged in by a firmly entrenched contractor, or a large food chain offering an attractive initial package. Says Jack Keane of Trinity Marketing, "The study itself does no harm. But, the services have done such an outstanding job of making the commissaries self-sufficient, I'd hate to see them lose it. The patron would be hurt down the road."

Within the branches of the service, unofficial grumblings are the norm. An official involved in the Marine Corps commissary system states a chief military concern with contracting out. "Ultimately, we feel it will be an infringement upon the benefits." An AFCOMS official states another concern. "You can't have an effective military force unless the people are happy." All military officials pointed out that commis-



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The other military branches are showing reluctance to follow in the Army's footsteps.

saries are considered a fringe benefit, part of the compensation package. The 20% savings a military customer expects at the commissary is something he has become dependent upon to stretch an income that has not kept pace with inflation and the cost of living.

Colonel Leland E. Maines, Vice Commander of AFSCMS has had prior experience contracting out shelf stocking and custodial services. His concerns with contracting out are three-fold. Maines is fearful that outside contractors may experience labor problems. "We can't allow the condition of our stores to deteriorate in the event of a strike or sick out." And, the switch in control troubles him. "We have no clout with the contractor's employees. If we are dissatisfied with their service, we must go to a second party to negotiate the problem. The problem becomes the direct versus indirect remedy."

Maines's greatest concern is the military patron. "When you begin to toy with something as close to their hearts as their commissaries, they will perceive any changes as just another attempt to take away what they are entitled to. This has a negative impact on retention and readiness, two of the biggest problems facing the services today. If the military perceives that their benefits are being cut, they will leave the services. And the retraining of new recruits is expensive, time consuming and leaves the services vulnerable."

On the DoD side, Lt. Col. Richard Tessier, Office, Secretary of Defense, Military Personnel Policy, sees practical and philosophical problems arising from the contracting out of commissary services. On the practical side, although the study of contracting out is limited to CONUS, continental United States commissaries, Tessier feels that overseas operations might be affected. "If you operate overseas in-house, but you contract out CONUS operations, where will you train overseas commissary management? You will be creating a foreign service. How can you justify that?"

On the philosophical side, Tessier repeats the statement that commissaries are institutional benefits. They extend the military patron's food buying an average of 25% a year, or \$800, at much less than that cost per patron. And, he fears that contracting out will pose serious problems to the Congressional appropriation. He also points out that the commissary represents a separate line item in the DoD budget. The dollars to operate a commissary are there for all the world to see. With the historical abuse of contracts, a low bid that becomes a higher cost item when the contract is already in force will be there for all the world to see.

Tessier does pose one solution to the problems he foresees. He believes that if the statement of work includes only labor, not store level management, contract abuses can be avoided and military control of the commissaries will be insured. In this way, if contracting out does prove to be more economical, the benefits can be incorporated without threatening the present system.

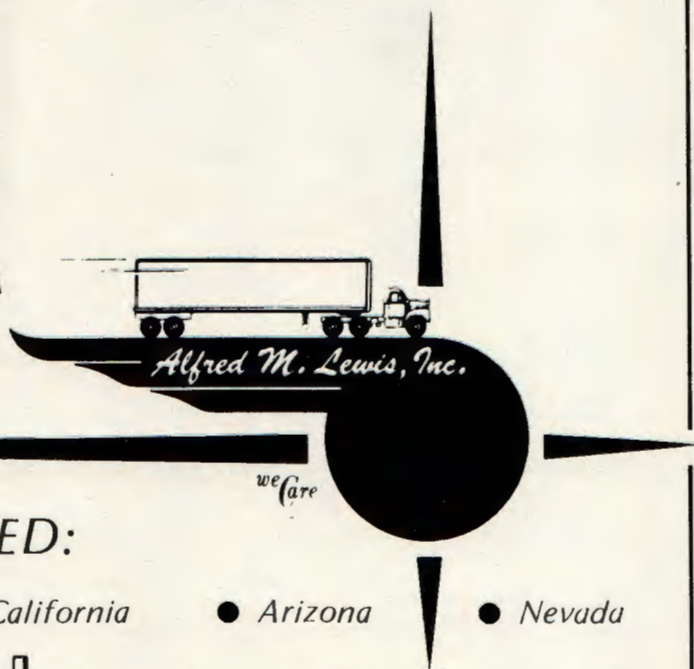
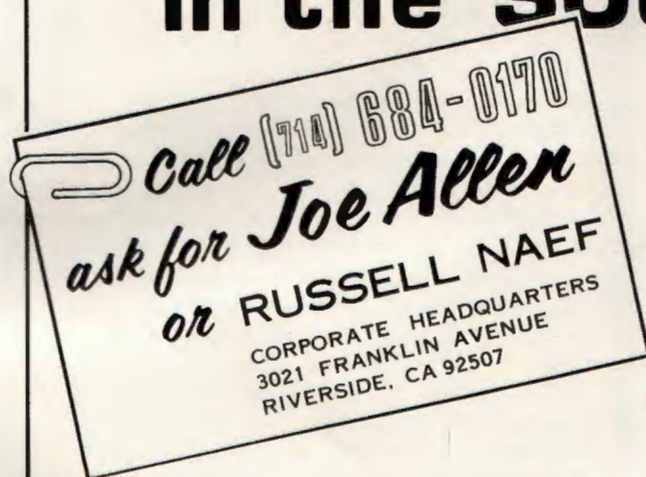
Congressional Outlook

Much of the concern with the very idea of contracting out commissary services to private industry lies with the fate of the Congressionally appropriated funds that keep

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• Arizona

• Nevada

**WHOLESALE FOOD
DISTRIBUTORS**

**GROCERIES * FROZEN FOOD * DELI
GENERAL MERCHANDISE**

In May, OMB called on the services to join with it to produce a joint performance oriented statement of work.

commissaries running. The main question is, can, and will, Congress fund private, profit-oriented organizations, even if they are running organizations that don't make money?

Hill interest centers on the House Armed Services Committee, and specifically, the Subcommittee on Readiness. There are indications that the House Armed Services Committee will express concern in its committee report that is included in Congress's annual authorization. Will Cofer, a committee staff member, suggests that the committee wanted to see certain things laid out in detail in the near future. "Before we decide on any expenditures, we are interested in the legal issues, patron issues and pricing issues involved."

Rep. Dan Daniel (D.-Va.), is chairman of the Subcommittee on Readiness.

On the Senate side, the contracting out issue has not been brought up in business meetings. It was not part of the annual authorization report of the Senate Armed Services Committee. Rick Finn, a committee staff member indicates that, "Historically commissary issues have been the province of the House. None of the members have indicated interest in the matter. Right now they just want to see what turns out to be the most cost effective."

Costs

Dollars and cents involved in the whole contracting out issue is a murky area. OMB A-76 clearly states that contracting out is required only if the government can save at least 10% of what it has been spending to perform the service in-house. But, what about the costs involved in preparing a statement of work, developing a feasibility study and bidding out these functions for contract?

Sources at the Army state that at this time, they have no idea what the costs of the two initial feasibility studies will be. They are in the process of evaluating a variety of procedures they will follow. Only when this is nailed down can they estimate costs. But, an Army official points out that the costs for the last 70 studies will be far less than those of the initial two.

Even the cost savings of contracting out may be hard to evaluate. Col. Leland E. Maines of AFCOMS points out that there are eventual cost savings to be had. Contracted services have no personnel that will get sick, vacation or retire on your budget. But, on the other hand, if a contractor quits midstream or the employees strike, the commissary may be in for expensive troubles.

Prior Experience

In general, the food industry does not contract out. Doyle Eiler, Director of Research for the Food Marketing Institute remarks that, "Supermarkets came about bringing specialty stores together. They are not easily dissectible into chunks."

Two kinds of contracting out do place. On a limited scale, some supermarkets contract out specialty departments.

INTERSERVICE

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STORE COUPON



109298

The number one concern of all involved is how this will affect the military patron.

Examples include bakeries, floral departments and specialty foods. The reasons for this usually are not economy, but quality and a competitive edge. More common is the contracting out of general merchandise and dry goods. Service merchandisers stock, shelf, plan, and price soft goods, hardware, automotives, health and beauty aids and other non-food items for supermarkets. It saves the supermarket the investment in inventory, frees inventory space and reduces the supermarket's costs of buying and receiving these small quantity items. But, in general, it is not comparable to operational and managerial contracting out.

The only military basis of comparison are the three commissary stores the Air Force contracts out in Turkey. The operations are fraught with problems. The costs of operation are 100% more than other European stores that sell the same volume of goods. They are poorly run and require double work for the same results. But, since they are European stores, the experiences here may not be comparable to contracting out of services in the U.S. Much more control can be exerted stateside to keep things on track.

Issue Outlook

It will be years before any firm decisions are made concerning the contracting out of any U.S. commissary services. The final statements of work to be issued by each branch are still months away. And, the SOW is the first step in the process to study the feasibility of the idea.

Many issues have not been decided. Will each branch be required to parrot the Army's two store study? At one time a memo was prepared asking for just this, but it was shelved. Rumors are still circulating that the group at OMB that is preparing the joint performance oriented statement of work will decide this issue, as well.

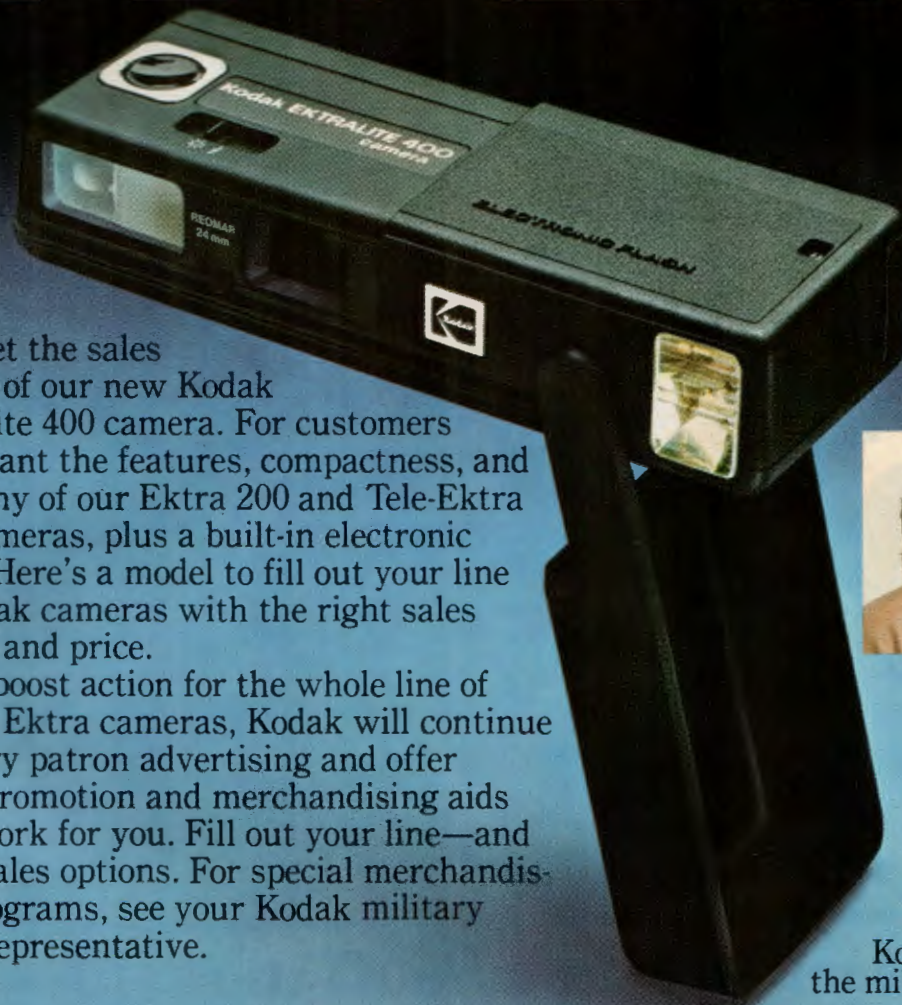
At no time, by no person, has procurement ever been mentioned as one service to be bid out. Although there is a justifiable fear that one thing may eventually lead to another, there is much time left to get across the concerns about procurement. And, as one military official pointed out, no matter what service is being bid out to contractors, government will always be one of the bidders, the one with the inside track from past experience.

Additionally, the studies that will lead to bidding will enable the commissaries to take a clearer look at how they can run their operations more efficiently. This evaluation will likely make them more competitive at their job.

Industry Prospects

For those who sell the military resale community, the next few years will tell the tale. Again, although procurement has never been mentioned by OMB, DoD or the services, there is no doubt that most supermarket chains would jump at the chance of a captive audience like the commissary patron. In a February, 1981 interview, Dale Lynch, president of Safeway, could hardly conceal his enthusiasm. He offered Safeway's research capabilities as well as supermarket ser-

NEW POCKET APPEAL.



Meet the sales appeal of our new Kodak Ektralite 400 camera. For customers who want the features, compactness, and economy of our Ektra 200 and Tele-Ektra 300 cameras, plus a built-in electronic flash. Here's a model to fill out your line of Kodak cameras with the right sales appeal and price.

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vices to OMB and the Army.

Lazarus of ALA feels the most important thing those involved can do is to keep fully informed on the issues. He suggests that ALA members get involved in ALA's Commissary Committee. Presently, a task force from the committee is developing a "white paper" on the issue. "The key thing," says Lazarus, "is to keep the issue and facts in perspective and, have confidence in the association headquarters and staff as they work to clarify these issues with those involved."

Army Bidding Procedure Under A-76

1. Develop a performance oriented statement of work (POSOW) to determine what the jobs are that must be done.
2. Do a management study to determine if the most efficient method of doing the particular function is presently being used.
3. Run a cost study to determine what in-house costs are.
4. Submit this cost study to the Army Audit Agency for auditing.
5. After cost study is approved, it is presented as a sealed bid for the designated functions.
6. Bidding is opened to contractors.
7. Outside contractors submit sealed bids.
8. On a specified date, all bids are opened and evaluated.
9. If any of the contractor's bids are at least 10% less than current in-house personnel costs, the contract is awarded to the lowest bidder.

Task Group to Create a Joint POSOW

- Chairman:** Joseph G. Turke, DoD
Director for Maintenance Policy, Office of the Secretary of Defense for Manpower, Reserve Affairs and Logistics
- Co-Chair:** Lt. Col. Al Russell, DoD
Assistant Director of Maintenance Policy, Office of the Secretary of Defense for Manpower, Reserve Affairs and Logistics
- Members:** Nadine Lewis, Management Analyst, TSA
Don Manuel, Office of the Secretary of the Army for Installations, Logistics and Financial Management
Paul McCartney, Chief of Planning, Fort Lee, Virginia
Clifford Wooten, Chief of Operations, Fort Sam Houston, Texas
- Navy** C. A. Mathiesen, Operations Manager, NAVRESSO
- Air Force** Wallace Counselman, Chief of Operations and Management Division, Headquarters, AFCS
Arthur Kramer, Chief, Budget Division, Headquarters, AFCS
Lt. Col. David Muzio, Chief, Productivity Division, AFCS
Lt. Col. Bobby Russell, Director of Planning, Headquarters, AFCS
- Marines** Cecil Saunders, Public Affairs, Headquarters, U.S. Marines
- DoD** Lt. Col. Richard Tessier, Assistant Director of Personnel Administration and Services

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The Military Patron: A Measure of His Needs

Thayer C. Taylor

Marketers have a vital stake in the new Administration's strong commitment to a buildup of the nation's defense capability. The military market's built-in appeal will become an even more attractive sales target to marketers of goods and services who are looking for new sources of plus business.

However, an effective sales strategy aimed at the market must recognize the dramatic demographic and social changes that have splintered a once grey monolithic market into various segments, each of which has its own needs. In many respects, the military market has become a mirror of the population it serves to protect. The increased presence of women and minorities on military posts is the most obvious indication of the transformation process at work. But the emergence of two newer segments, dependents and retirees, is additional evidence of the market segmentation that must be recognized in sales planning.

To put a capsule perspective on the market: 1) At 2,050,627, the active duty military personnel offer a market that's bigger than metropolitan Atlanta and almost as big as Minneapolis-St. Paul, 2) The \$21.7 billion of buying power toted by personnel stationed in the 50 states makes the military market the 12th biggest among the nation's metropolitan areas.

A long slide in the military market's "population" ended last year when active duty military personnel increased 1.1%. The gain may not be enough to set sales managers tingling with anticipation, but its significance stems from the direction in which it moved and not from its dimensions.

The 1970s were a decade of unremitting shrinkage of armed forces strength.

Thayer C. Taylor is Senior Editor, Management Sciences of Sales & Marketing Management Magazine

Now, the picture has brightened and, according to the most recent projections, defense manpower is scheduled to rise 2.4%, to 2,100,000, by 1983.

If total personnel consistently declined; that was not the case for women and minorities. Back in the early 1970s, women accounted for only 1.6% of enlisted personnel, blacks 12.6%.

Since then, both have made impressive progress, the women increasing their ratio to 8.5%, blacks to 21.6%. The latter figure is remarkable when you consider that blacks represent only 11% of the total population.

Progress among the officer ranks has been steady, albeit less flashy. The share of female officers doubled in the 1970s, from 3.8% to 7.7%, as did that of blacks, from 2.3% to 4.8%.

Sizeable year-to-year increases in women personnel began in 1973, when it leaped upwards by more than 10,000. Since then, while total active duty military personnel shrunk more than 200,000, women personnel expanded over 116,000.

The same pattern characterizes the officer class. Women officers have increased almost 9,000 in the face of a reduction in the total complement of officers of more than 43,000.

Obviously, this opens up for marketers a new vital market segment. Sales of particular product categories in military retail outlets document how important this segment has become.

Last year, for example, while total sales at Navy exchanges in continental U.S. (CONUS) rose 9.6%, even faster increases were chalked up by intimate apparel and accessories, 11.1%, toiletries and drugs, 12%, and fragrances and cosmetics, 12.7%.

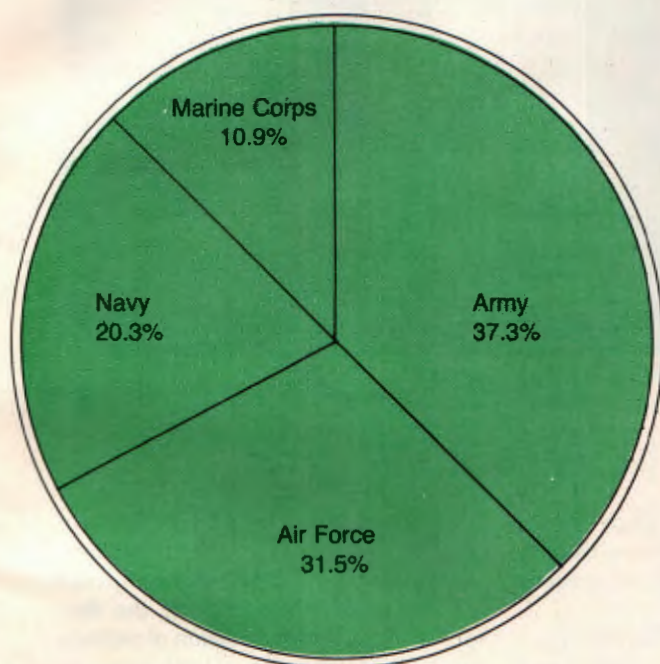
Shoppers in post exchanges have created sizeable markets for products associated with women. Navy exchanges sold \$30 million worth of toiletries and drugs last year, along with \$23 million

INTERSERVICE



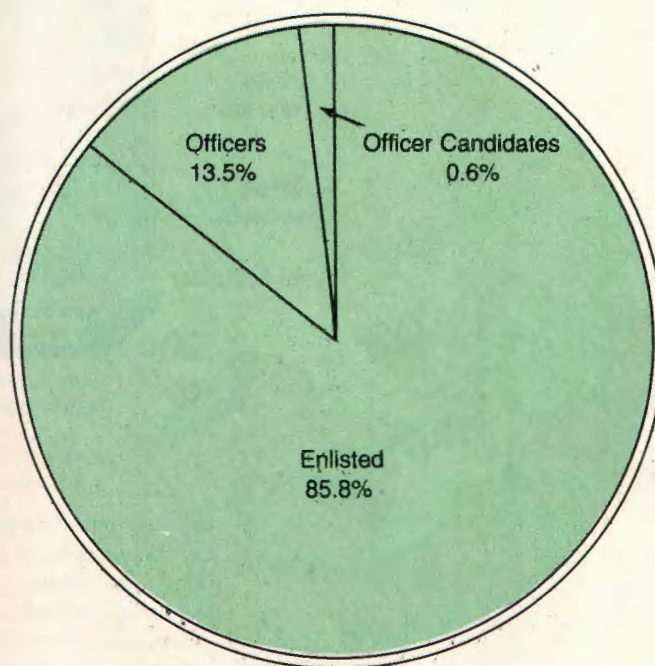
The Military Market

By service . . .



Note: Continental U.S., Alaska, and Hawaii.
Source: Selected Manpower Statistics, Table 2-4.

. . . and by rank



Note: Worldwide basis.
Source: Selected Manpower Statistics, Table 2-2.

worth of women's ready-to-wear, \$17 million worth of intimate apparel and accessories, and \$10 million worth of fragrances and cosmetics.

Interestingly enough, the women's progress has been uneven among the individual services. The female share of active duty personnel ranges all the way from 13.2% in the Air Force to 3.9% in the Marine Corps, where critics may argue, the macho image dies hard. A more likely factor may be the Marines' special combat function, which limits the career possibilities of female personnel.

Although there is talk of plans to curb Summer 1981

future growth of women in the military, demographic trends may force second thoughts on the matter. A simple fact: The military's favorite reservoir for recruiting, the 18-24 year old segment of the population, will be shrinking in the 1980's as a consequence of the extended decline in birth rates that stretches back to the mid-sixties. Between 1978 and 1990, according to Census Bureau projections, the number of 18-24 year-olds will fall 15%.

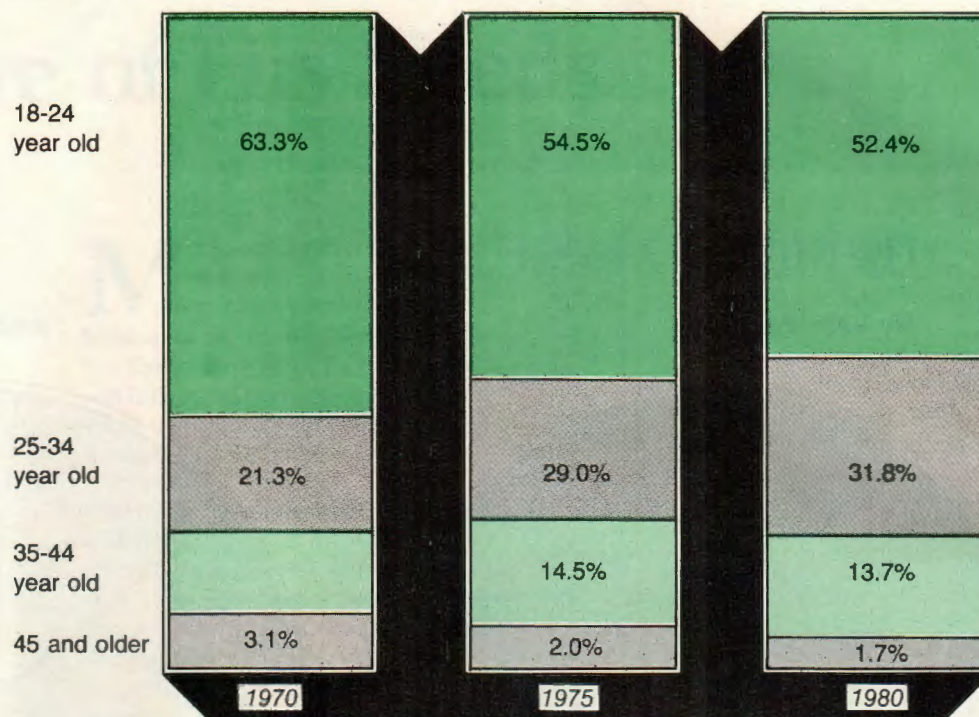
Another trend pointing to greater reliance on women in the future is the disinclination of young males to opt for

a military life. Between 1973, when the draft ended, and 1979, the proportion of males 20 and 21 years old who were in the armed forces plummeted from 12.2% to 8.5%. For the 18-24 group as a whole, the decline was from 9.3% to 6.9%.

Such demographic trends will intensify the pressure on stepped-up efforts to enhance the appeal of military careers. Last year marked the first in several when the career reenlistment rate of enlistees moved up.

Whether the improvement was a temporary blip or marked the onset of an

A maturing military



Note: Age distribution of male military personnel.
Source: Selected Manpower Statistics, Table 2-17.

uptrend will depend, to a large degree, on the success of the Defense Department's ambitious program to improve the quality of military life.

One of the key factors spurring interest in quality of life is the marked rise in the number of dependents. Included among the 2.8 million dependents are 1.1 million spouses, 1.6 million children, and 135,359 parents.

The number of dependents per military person varies substantially among the branches as well as between officers and enlistees. It's much higher for officers than enlistees, 2.31 vs. 1.39, because the former are more likely to be married and have families. The range among the services is from the Army's 1.84 to the Marines' .85.

One facet of the dependents segment with broad expectations for marketers is the rapid escalation in the proportion of military wives who joined the labor force in the last decade. Today, relatively speaking, a military wife is just as likely to work or look for work as her civilian sister.

Ten years ago, a far different picture prevailed when only 30% of military wives were in the labor force compared to 41% civilian wives. During the decade, however, the proportion of military wives in the labor force skyrocketed 20 percentage points, eclipsing the more modest nine point rise among civilian wives.

Obviously, many of the women were forced to work to supplement the low pay scales of enlistees. Inflation, against which the military shopper is not immune, compounded the problem. But the feminist drive and the search for greater fulfillment played their roles, too.

What makes the military wives' job gains even more impressive than the numbers suggest are the formidable obstacles they have to surmount. A Bureau of Labor Statistics report notes: "Because military wives must usually terminate their employment when their husbands are transferred—usually every three to four years—some employers are hesitant to hire them. These moves also tend to make it difficult to accumulate sen-

INTERSERVICE



iority and specialized skills. Thus, many military wives are forced into entry-level jobs at each new post regardless of former employment and experience."

Another rapidly growing market segment is made up of retirees. Their numbers swelled 72% in the 1970s.

A common trait shared by active duty military personnel and retirees is a high degree of geographic concentration, which makes it easier for marketers to reach them. Better than two of every five military personnel serving in the continental U.S. are stationed in five states—California, with 14.3% of the total; Texas, 10.4%; North Carolina and Virginia, 6.4% each, and Georgia, 5.5%. The five states with the most retirees—California, Texas, Florida, Virginia, and Georgia—also

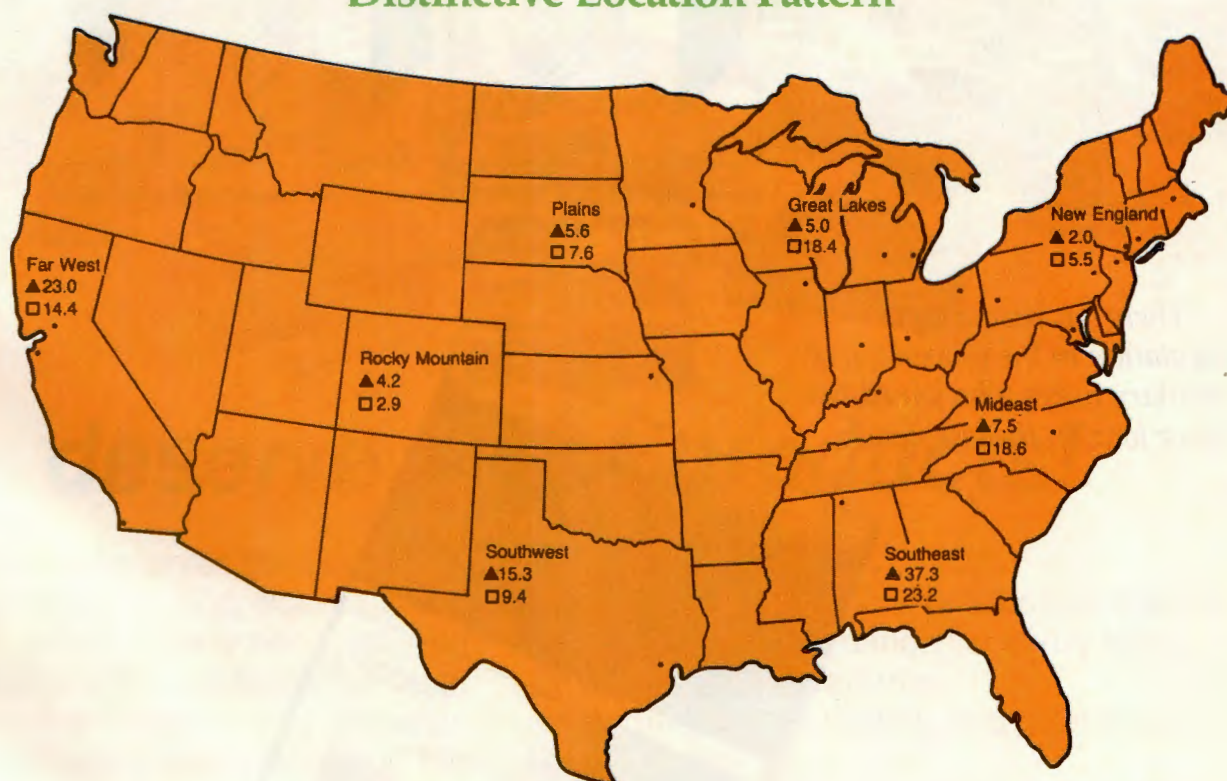
contain more than two-fifths of ex-careerists. In contrast, only 35% of the civilian population lives in the five biggest states.

Of course, special factors largely determine the geographical location of military bases. Pleasant climate and sunny days are important cost considerations when it comes to training personnel, testing equipment, and maintaining the weaponry.

Retirees tend to live where the bases are because of the special benefits they have regarding use of military medical facilities on a "when available" basis. Then, too, the same factors that make the civilian elderly head for sunny climes also act upon military retirees.

Since the early 1970s, women and blacks have made impressive progress, the women increasing their military personnel ratio to 8.5%, blacks to 21.6%.

A Market With Its Own Distinctive Location Pattern



▲% Of
Military
Personnel

□% Of
U.S.
Population

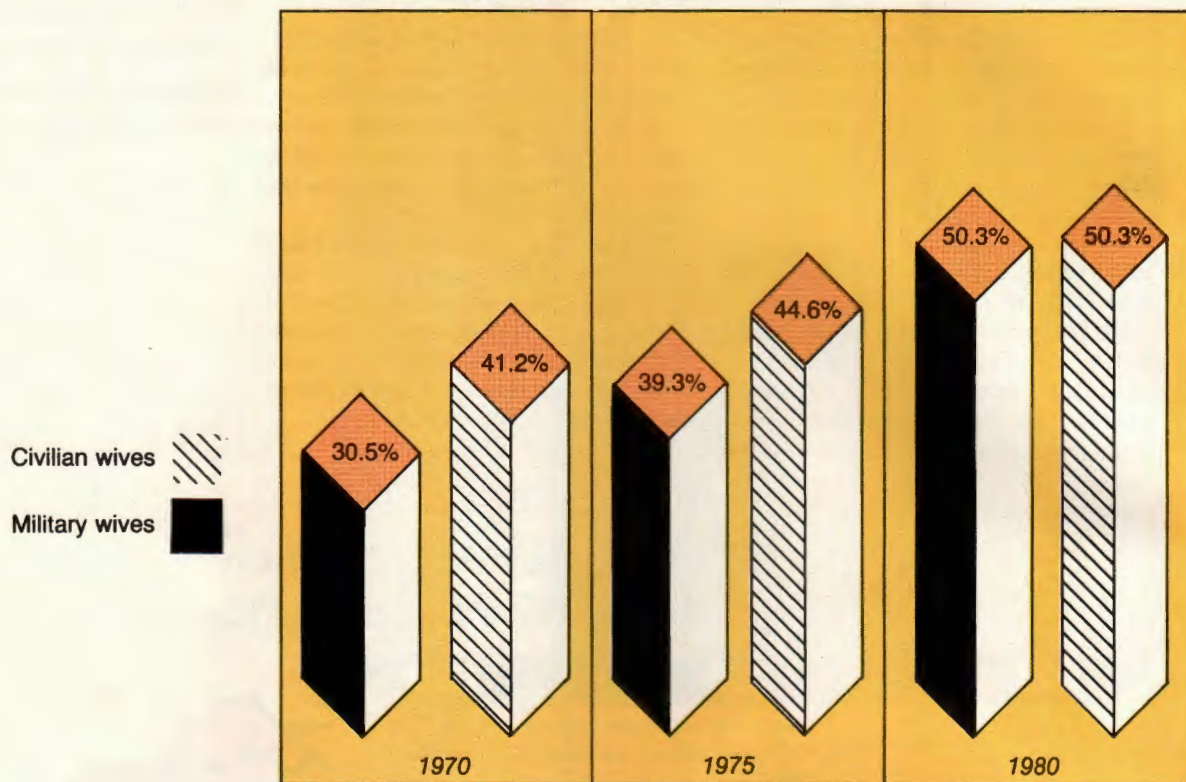
Note: Details may not add to 100% due to rounding.

Sources: Dept. of Defense, Selected Manpower Statistics, Table 1-5; Census Bureau, 1980 Census of Population and Housing.



Military wives help out handsomely

% of wives in the labor force



Source: Bureau of Labor Statistics, *Employment in Perspective: Working Women*.

There has been a rapid escalation in the proportion of military wives who joined the labor force in the last decade.





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You expect good things from the home team—things like service and quality performance. You expect a full selection of paper products available in a wide range of styles and prices to attract buyers to various sections of the commissary. You expect ease in ordering and stock availability.

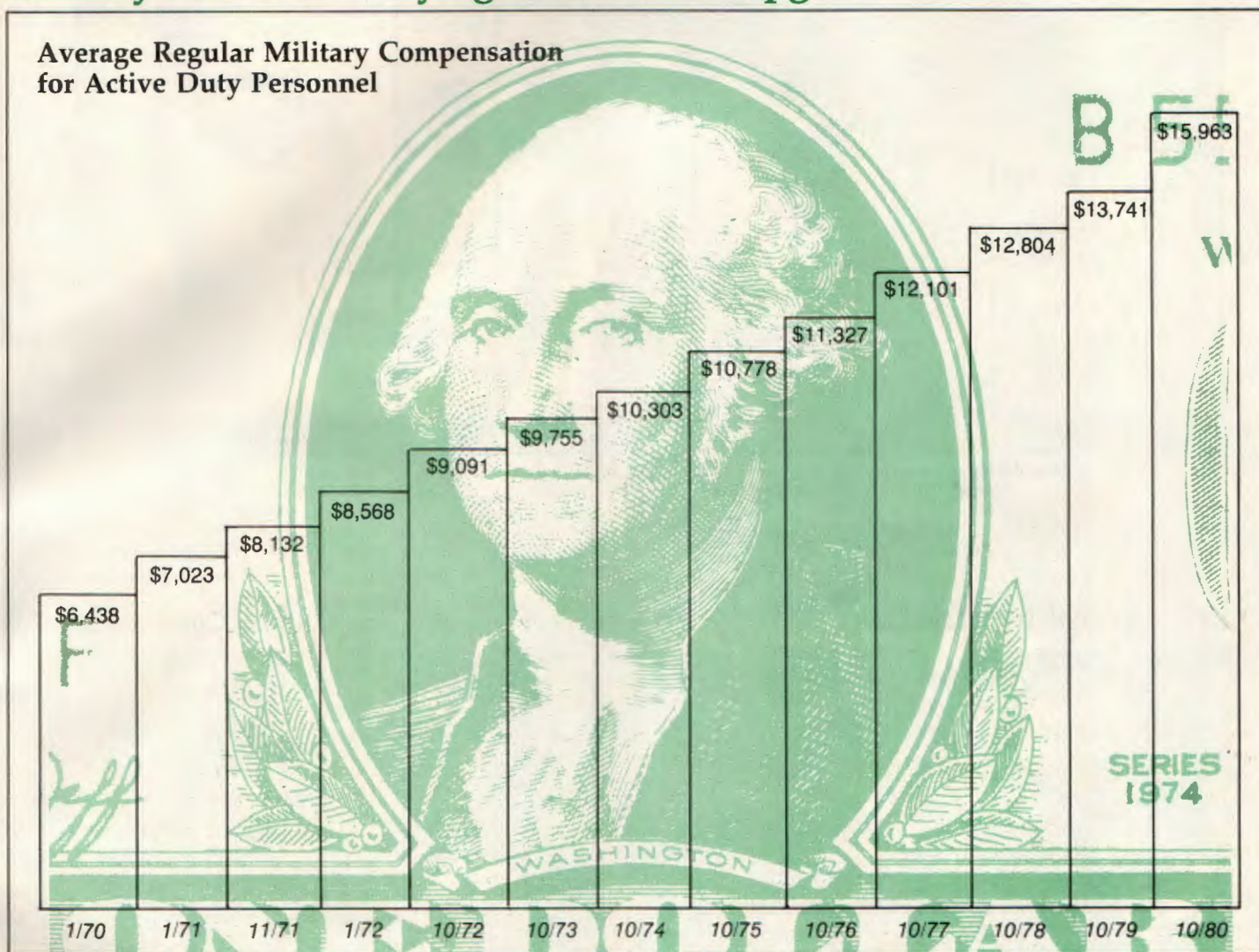
You can expect these good things from Scott... because Scott is the Home Team.

SCOTT

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Military Personnel's Buying Power on the Upgrade



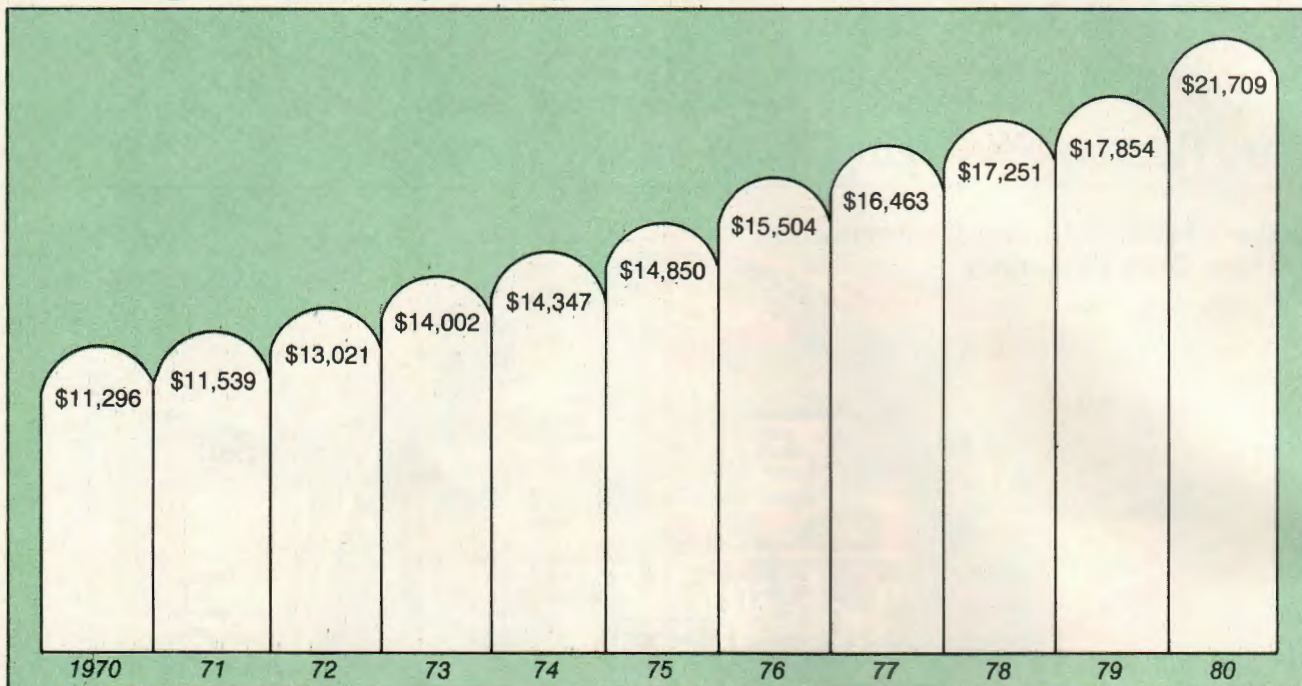
Note: Regular Military Compensation (RMC) is the total of basic pay, basic allowances for quarters (BAQ), basic allowances for subsistence (BAS) and tax advantage which results from non-taxability of the two allowances. Quarters and subsistence provided in kind are valued at the cash rates. The 1980 military personnel figures also include the variable housing allowance which was implemented Oct. 1, 1980.

Source: Department of Defense, Directorate for Compensation.



Total Regular Military Compensation

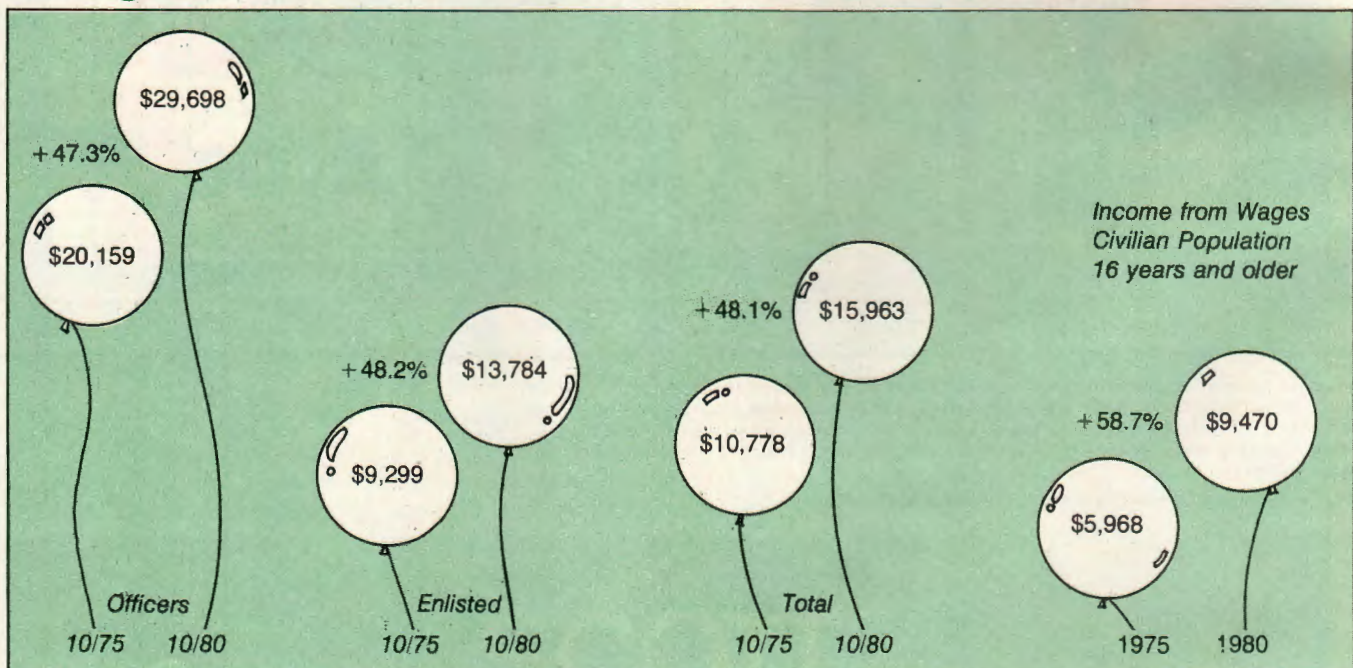
(Mil. \$)



Source: Interservice Magazine estimates.

Losing out to inflation

Average Regular Military Compensation



Sources: Department of Defense, Directorate for Compensation, for military personnel data.
Data Resources Inc., Lexington, MA, for civilian population wage data.

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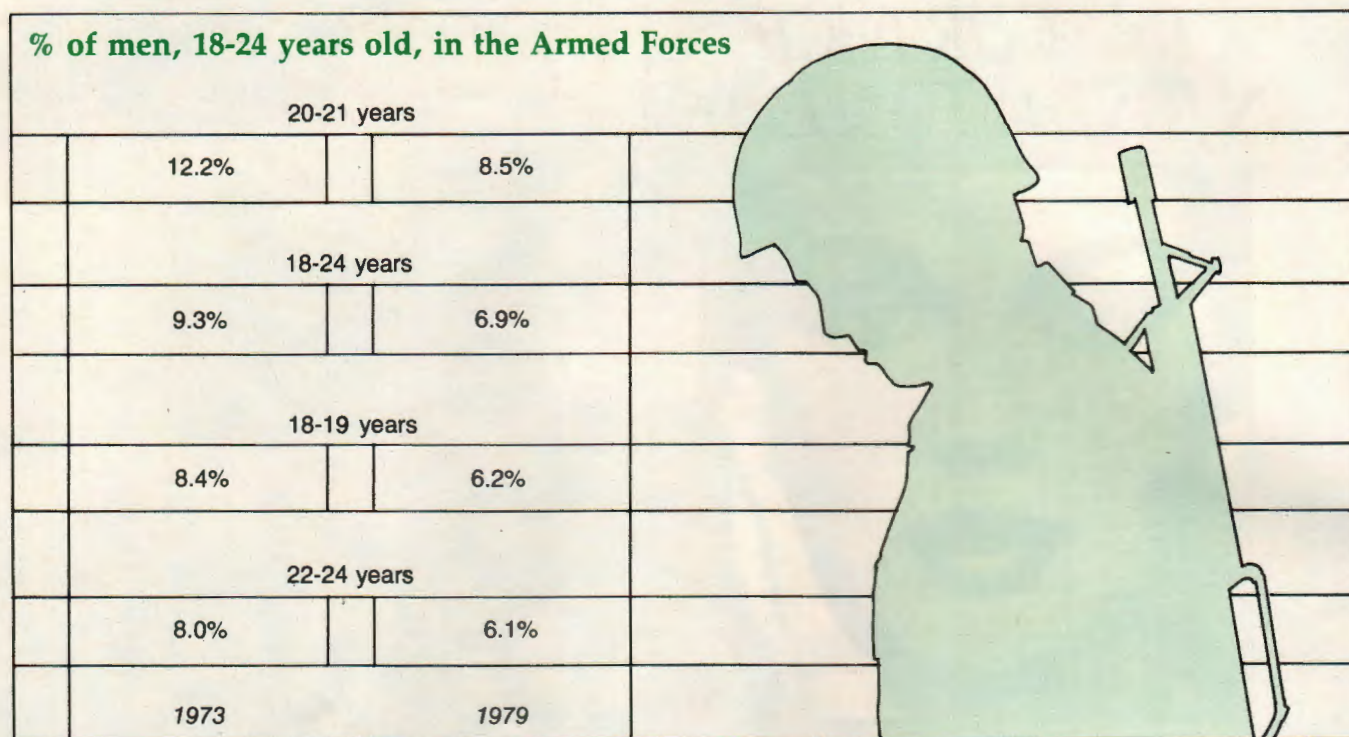


Elizabeth

Arden



Challenge for the military: Selling young males on a career

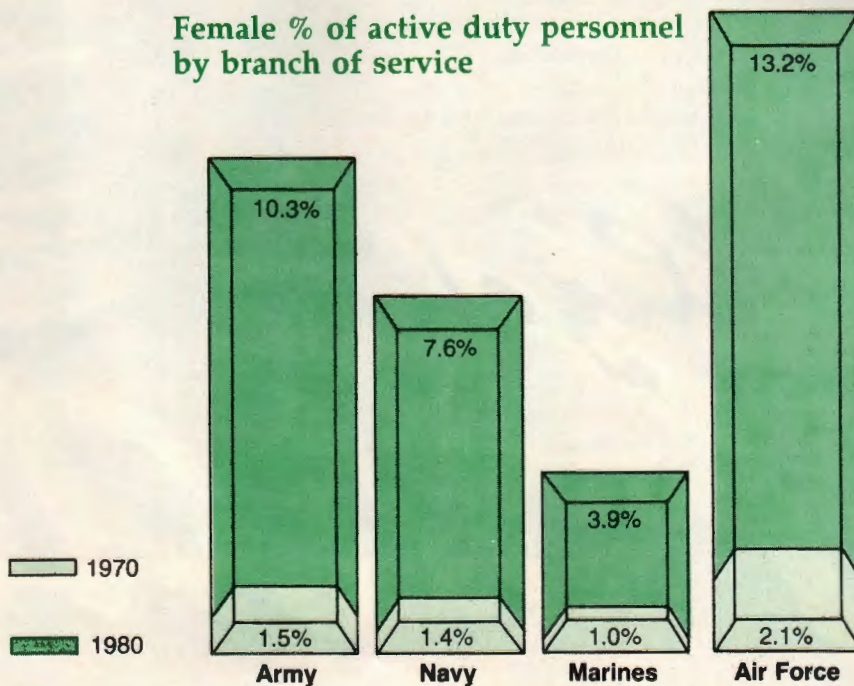


Source: Census Bureau, School Enrollment: Social and Economic Characteristics of Students.

The rising pattern of women enlisted and women officers opens up for marketers a new vital market segment.

A woman's place is in the Air Force

Female % of active duty personnel by branch of service



Source: Department of Defense, Selected Manpower Statistics.



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by our own
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— Woodrow Wilson

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The Butterball Turkey Tradition— It means more to her than ever.

When a woman is far from home, she cherishes all those things that remind her of home. That's why, during the holiday season, she'll want to serve the turkey she remembers — the Butterball Swift's Premium Turkey. It's America's best-selling turkey.

So order soon. And order enough. Remember, making the holidays special is a Butterball Turkey tradition. A tradition people take with them everywhere.



Domestically, order the Butterball Swift's Premium Turkey and other Swift poultry products through your local Swift representative. Overseas, contact your nearest Webco sales representative.



I'll give you what you want,
when and where you want it.



	Off Invoice Promotions	Instant Store Sales	Coupons at Point of Sale	Direct Mail Couponing	Introductory Coupons	Consumer Advertising
April						
May						
June						
July						Lady Com—Conus
August						Overseas: McCall's Journal, Woman's Day, Family Circle
September						Overseas: McCall's Journal, Woman's Day, Family Circle
October						Conus—Lady Com
November						Overseas: McCall's, Journal, Woman's Day, Family Circle
December						
January						
February						
March						

Off Invoice Promotions

30 day off invoice promotions on selected items will be available three times a year.

Instant Store Sales

When no other promotion is in effect, VPR's for instant store sales will be available three times a year.



Coupons at Point of Sale

You'll have coupons at the point of sale to keep her choosing Tasty Bird, available three times a year.

Direct Mail Couponing

We'll be mailing Tasty Bird coupons good for a discount on a specified item directly to the military wife. And we'll be doing this throughout the year.

Introductory Discounts

(90 Day VPR) When you add a new product to your Tasty Bird order, you'll get a special discount for 90 days.

Consumer Advertising

Tasty Bird will be running full-page, four color ads accenting the convenience and the quality of Tasty Bird in Lady Com Conus issues. Overseas, these ads will appear in Family Circle, Woman's Day, McCall's and Ladies Home Journal.

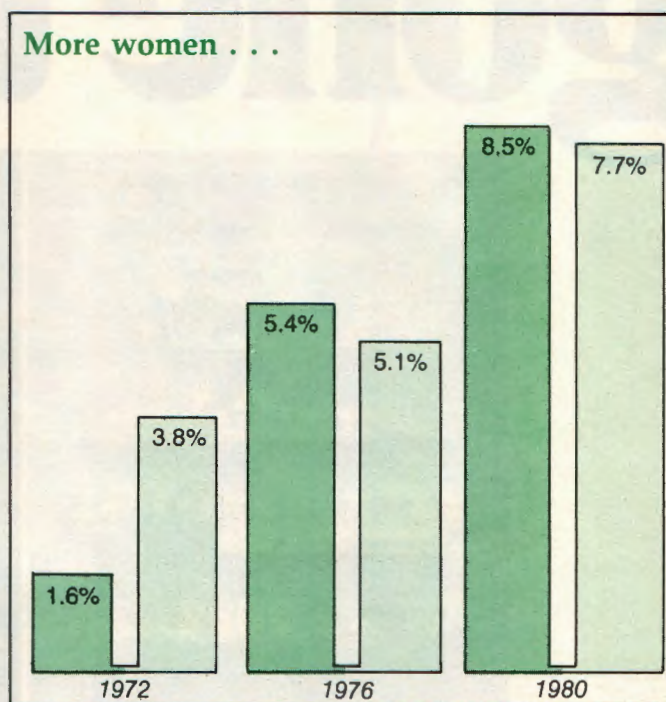
This is an example of the type of promotion calendar your Tasty Bird rep will set up for you. Overseas programs may vary due to differences in the pipeline.



Military in transition

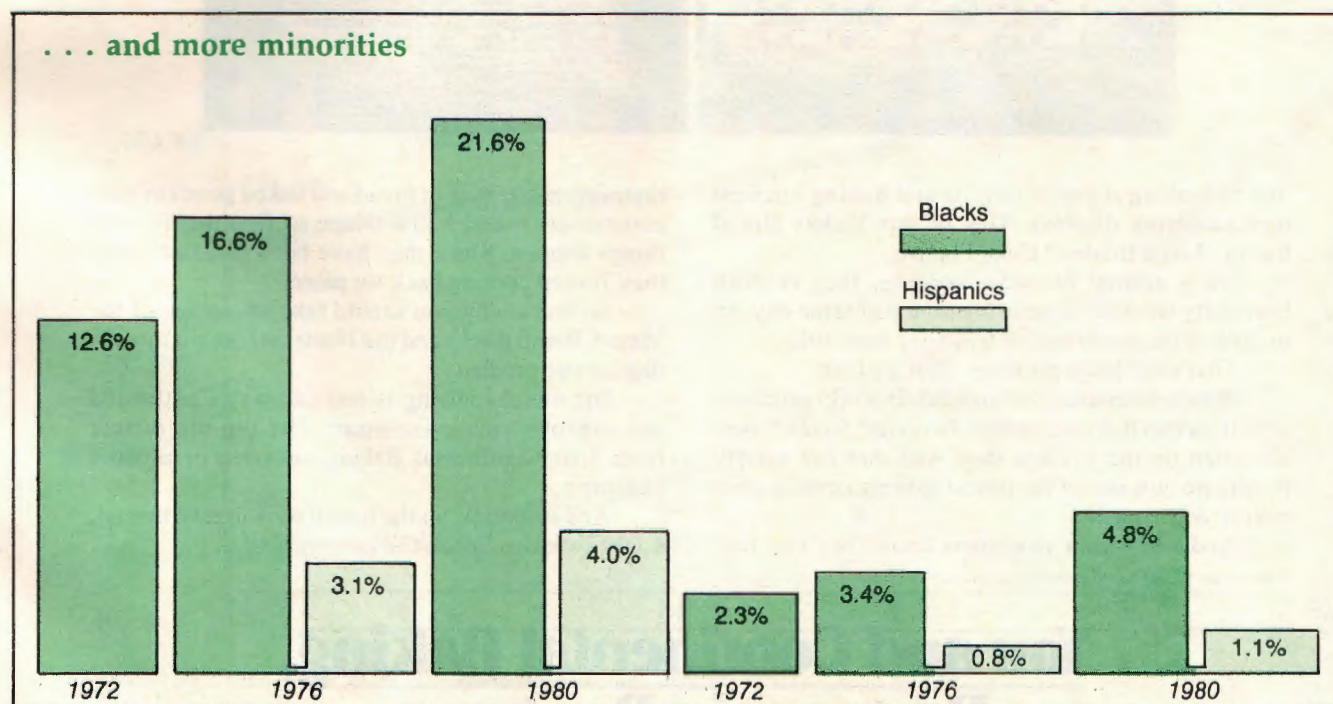
More women . . .

■ Percent of enlisted
■ Percent of officers



. . . and more minorities

■ Blacks
■ Hispanics



Sources: Department of Defense, Selected Manpower Statistics; Report of Secretary of Defense on 1982 Budget.

Here today, gone today.



You're looking at two of Continental Baking's newest merchandising displays. One of our Variety Bread Racks. And a Hostess® Cake Fixture.

On a normal Monday morning, they've both been fully stocked. By closing time that same day, up to 70% of the merchandise will have been sold.

That's not just a promise. That's a fact.

Why? Because Continental Baking products sell. It's a fact that two million Twinkies® Snack Cakes are eaten on the average day. And that our variety breads are now one of the fastest moving items in your bakery department.

And when your customers know they can find

their favorite brands of bread and baked goods in your commissary — and know where to find them — nice things happen. Since they have been satisfied once, they'll keep coming back for more.

So that's why you should take advantage of the Variety Bread Racks and the Hostess Cake Fixtures to display our products.

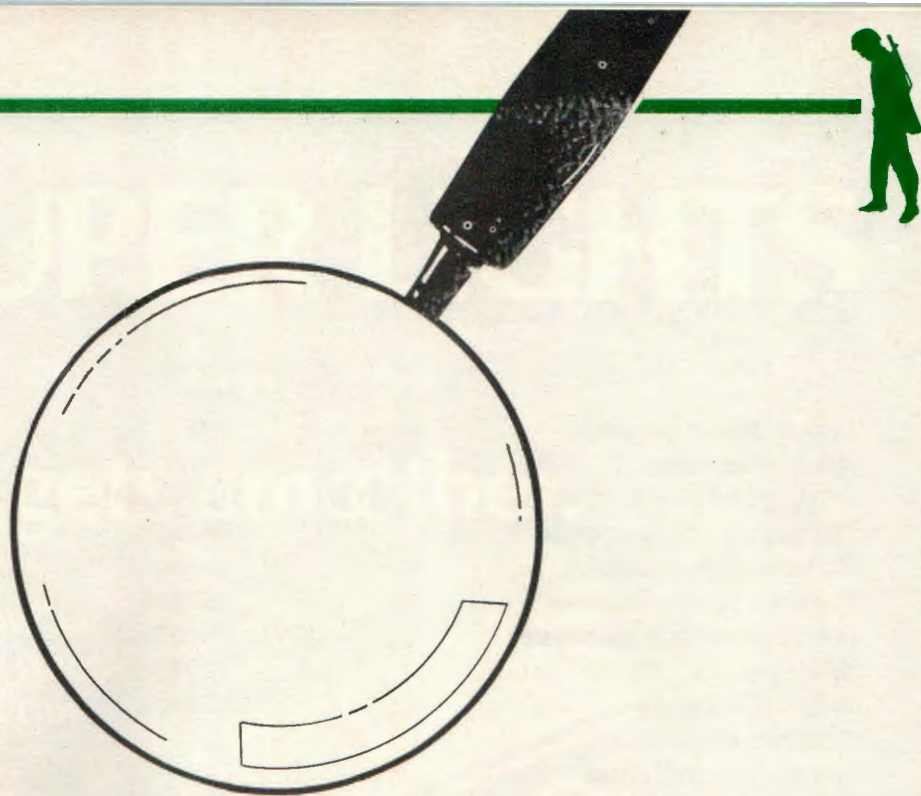
But merchandising is just one way Continental can improve your commissary. Get the big picture from your Continental Baking sales rep or account executive.

And just think, in the time it took to read this ad, 4,000 Twinkies Snack Cakes were sold.

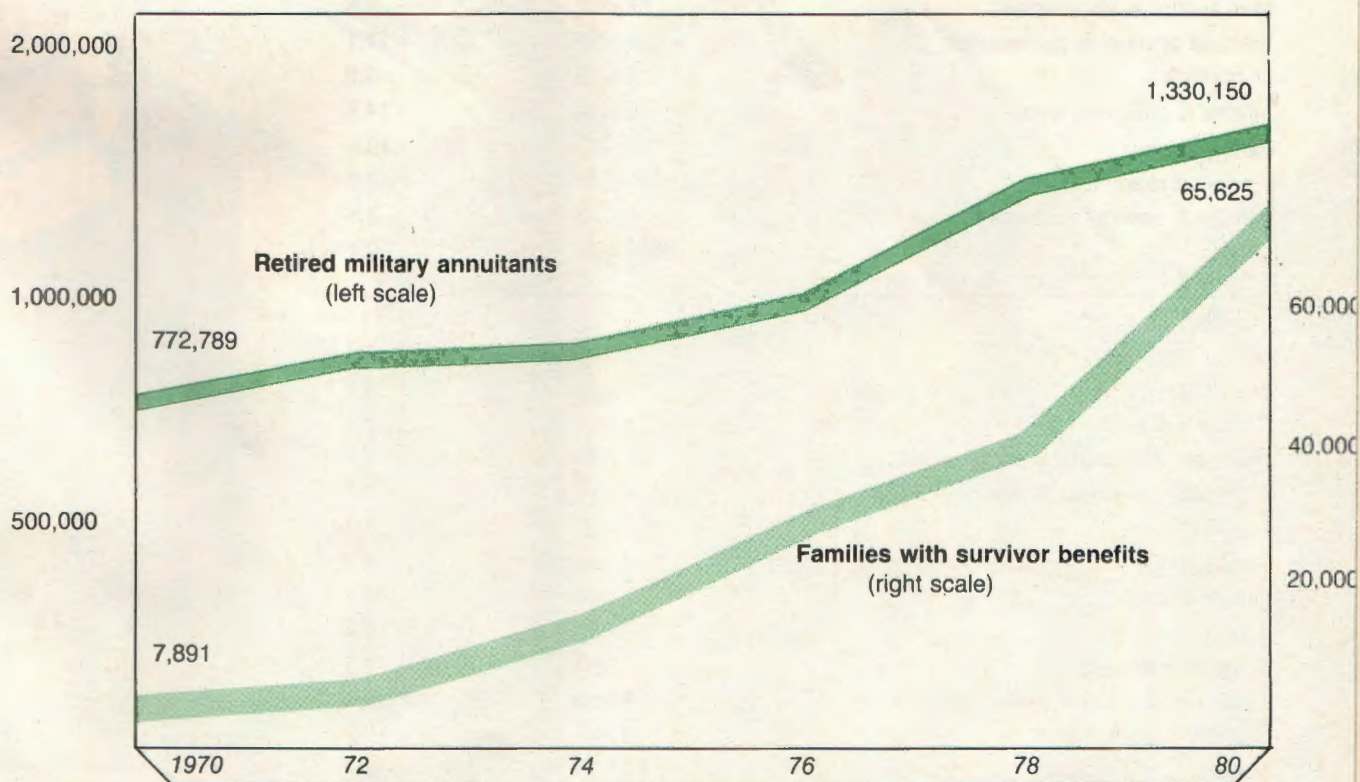
®Hostess and Twinkies are Registered Trademarks of ITT Continental Baking Company, Inc.

You and Continental Baking. **Partners in Progress.**

A common trait shared by active duty military personnel and retirees is a high degree of geographic concentration.



Retirees: The post-career market



Source: Department of Defense, **Selected Manpower Statistics**, Table 5-2.



The Navy Consumer

Product/Service Category	1980 Exchange Sales (000)	% Change 1979-80
Retail Department		
Candy & confections	\$10,259	7.1%
Tobacco & smoking accessories	86,252	7.9
Convenience food products	38,539	15.0
Camera & photo accessories	18,773	5.7
Home furnishings & housewares	25,003	7.5
Sporting goods	12,949	3.1
Electrical appliances	15,728	10.7
Consumer electronics	33,341	13.1
Luggage & leather goods	9,000	4.1
Stationery	10,429	1.5
Books, periodicals & greeting cards	16,567	10.3
Hardware & garden supplies	38,730	13.5
Toys & wheel goods	14,390	8.4
Toiletries & drugs	29,708	12.0
Jewelry	24,096	5.8
Household supplies	11,458	13.1
Fragrances & cosmetics	10,461	12.7
Uniforms & accessories	27,659	22.8
Men's wear & accessories	56,750	3.8
Intimate apparel & accessories	16,650	11.1
Domestics	15,569	3.9
Infants & childrens wear	25,514	14.6
Family shoes	22,996	10.4
Women's ready-to-wear	23,344	7.3
Fabrics & sewing accessories	2,432	-2.6
Total	\$596,600	9.6%

Service Dept.

Barber shop	7,061	9.4
Beauty salon	3,389	9.2
Gasoline & fuel	140,514	NA
Motor oil, auto parts & accessories	24,679	NA
Automotive services & labor	4,770	NA
Tailoring	2,132	-4.2
Optical	7,002	3.3
Flower shops	4,844	NA
Food service	63,059	13.3
Coke beer & soda	37,686	7.5
Retail clothing store (Navy uniforms)	9,883	9.4
Laundry & dry cleaning	8,511	12.2
Personalized services	22,863	-5.7
Vending machines	54,654	12.4
Produce	15	-16.9
Total	\$391,061	15.5%

Note: Sales are for continental U.S. (CONUS) only. NA: Not available; categories were defined differently in 1979. Source: Navy Resale and Services Support Office.

KOOL SUPER LIGHTS

Now smøth gets smøther.

A light menthol blend gives low 'tar' smokers the smøth taste they want. Never harsh tasting. Now you can make the smøth move to KOOL Super Lights.





1980 Commissary Sales: All Services System Wide

Army: In Millions Change From 1979

Groc. \$991.7	+ 3%
Meat \$257.7	+32%
Prod. \$578.9	+11%
Total \$1,307.2	+ 8%

AFCOMS: In Millions

Groc. \$990.4	+ 8%
Meat \$273.8	+ 1%
Prod. \$57.9	+10%
Total \$1,322.0	+ 7%

Navy: In Millions

Groc. \$395.8	+ 5%
Meat \$118.3	+ 5%
Prod. \$29.9	+ 9%
Total \$540.0	+ 5%

Coast Guard: In Millions

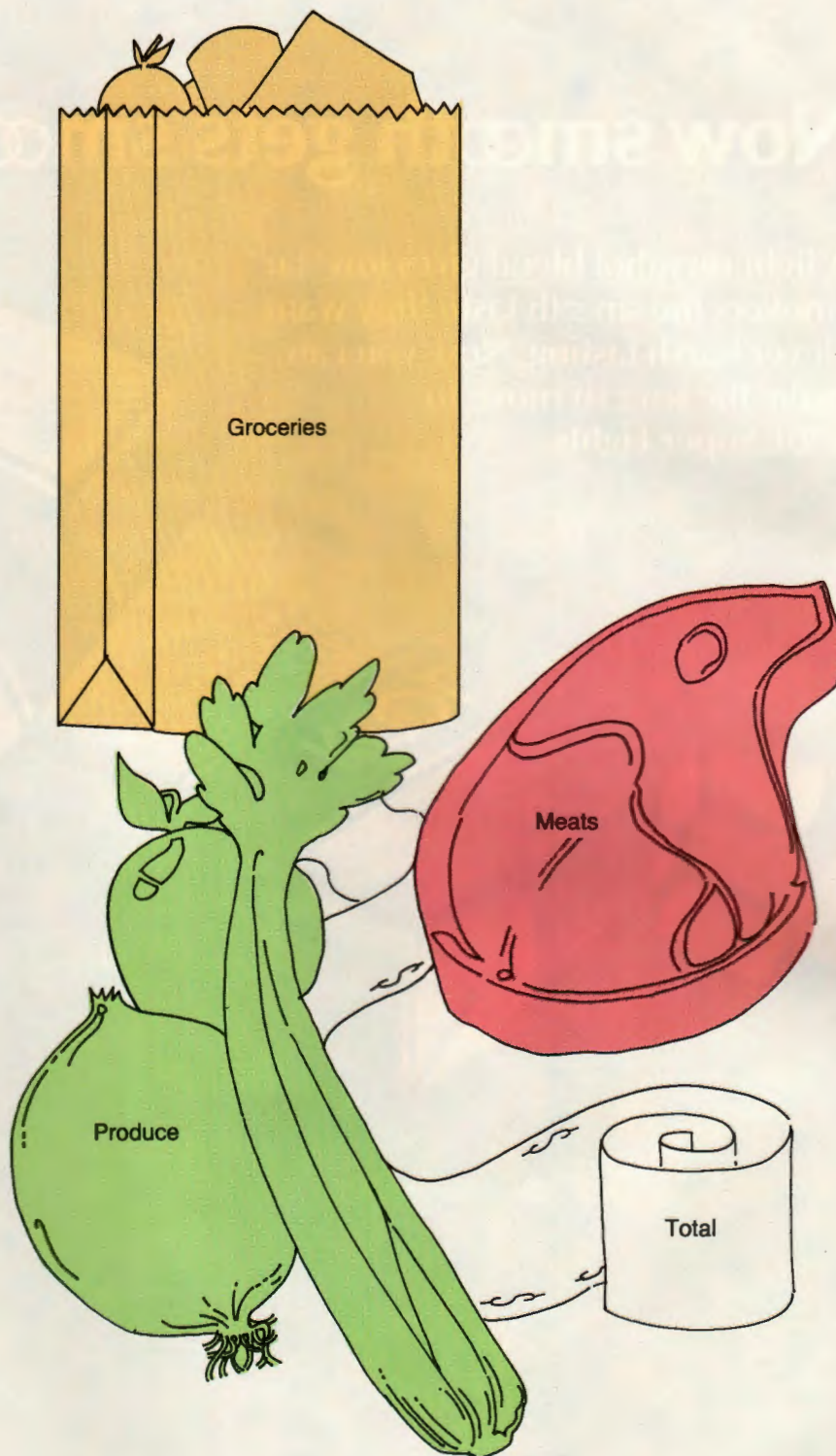
Total \$8.2	-5.4%
-------------	-------

Marines: In Millions

Total \$113.6	+6.7%
---------------	-------

Continued on page 90

The \$21.7 billion of personnel buying power makes the military market the 12th biggest in metropolitan areas.



How we earned our stripes.

At Oscar Mayer, we earned our stripes in the line of duty... selling more hot dogs, cold cuts and bacon to the military market last year than any other supplier in the world.

When you have Oscar Mayer brand products in stock, you know you're giving your customers



the best in everything from bologna to bacon. And you're getting the best, too, because Oscar Mayer provides you with in-store service and promotion programs like pre-priced packaging, stocking and display, military consumer advertising and coupons, and point-of-purchase sales promotions.

Oscar Mayer... a top-ranking hot dog and a whole lot more!



**Front lines
move fast-
when you
recruit the
Wrigley brands**



So keep the ranks filled!

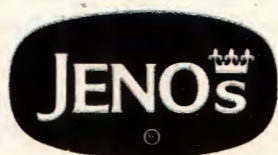
American servicemen and their families know and trust the Wrigley name, and they love the great taste of Wrigley Chewing Gum. In fact, it's America's favorite chewing gum. So put Wrigley's full line on your front line, and keep a healthy supply in reserve.

And remember, the key to making these high-impulse, high-turn items move fast is prominent displays, continuously stocked.

Want to recapture the business you lost to the pizzerias? It's your move.

Research shows 4 billion dollars in pizzeria sales. But with the rising cost of gas, a trip to the pizzeria has become more and more expensive for consumers. Those customers, representing 4 billion dollars in sales, are looking for an alternative to take-out pizza. They want quality, but without the high cost of driving out to get it.

You can capture your share of that 4 billion dollar market with Jeno's You Top It™ pizza. It's a complete sausage and cheese pizza with seven packets of extra toppings. And it's the first frozen pizza to match the quality of the pizzerias. Consumers told us so in their letters.



Represented by WEBCO, INC., Alexandria, Va.
SB #10-500-300

We're convinced You Top It™ pizza can capture those sales for you. We spent years conducting consumer research and product development to give it take-out quality at less than the cost of pizzeria pizza. Join in partnership with Jeno's and stock up to get your share of the sales.



The Military Commissary: A Retail Business

By Eugene Gerke

This is the second in a series of articles on commissaries. The three-part series is a study of the commissary system, as a food retailing business. In total, the series will cover organizational structure, controls, operations and merchandising; and in general, will concentrate on the CONUS operations.

INTRODUCTION

The first article in this series covered organizational structure and controls. The article outlined the fact that the different commissary systems have different organizational structures—some having a verticle chain of command, others having a “flatter” organizational structure. The services also have different approaches to controls: differences in financial reporting; product distribution; inventory control; invoice payments; authorized item lists, etc. Each branch of the service has its own unique set of commissary patrons—their own service men and women and their families. Each branch of the service has its own unique commissary offering to its patron—a commissary system that the service and the patron can both take pride in.

Although each branch of the service has its own unique commissary offering, this does not mean that the services cannot work together and share knowledge regarding development of new operations procedures, control system, merchandising techniques, etc. The Department of Defense is developing a commissary Executive Board (see *Inter-service*, Winter 1981, p.53) which, among other purposes, provides a forum for the

commissary commanders and others to review their control, operating and merchandising procedures.

There are, of course, many different subjects this Executive Board could review. For example, article one of this series discussed some of the potential of new electronic technology and some of the electronic systems being used and tested within the commissary system. With the advances being made in electronic systems, (e.g. computer-to-computer ordering) there is a tremendous opportunity for all branches of the service to work together to fully utilize the potential new control and information systems, while at the same time being able to maintain a unique commissary offering and pride of “ownership” within each branch of the service.

STORE OPERATIONS

Part one of this series concluded with some suggestions regarding organizational structure and controls including:

- Centralized procedures and controls;
- Decentralized merchandising;
- Few layers of management;
- Increased use of electronic technology for control and accounting systems.

Electronic technology does create the opportunity for increased efficiency in commissary control and accounting sys-

INTERSERVICE

Eugene E. Gerke is an economist who specializes in marketing and distribution systems.

Figure 2
Comparison of Productivity Statistics
Commissaries, Supermarkets, and Warehouse Food Stores

	<i>Super- markets Average</i>	<i>Commis- saries Average</i>	<i>Ware- house Average</i>	<i>Stores Range</i>
Sales per Labor Hour	\$76.77	\$92.00	\$144.00	\$105-\$175
Sales per Transaction	\$11.60	\$36.00	\$24.90	\$14.20- \$42.00
Weekly Sales per Sq. Ft.	\$ 6.49	\$16.00	\$9.10	\$4.60-\$16.70

Source: Supermarket data for 1979 from Food Marketing Institute. Warehouse store data from Competitive Edge, Feb., 1981, published by Willard Bishop Consulting Economists, Ltd.; Commissary Numbers are estimates by Gerke Economics based on data from the draft report of "Consolidation of Dept. of Defense Commissary Store Systems Study," May, 1979 Commissary sales adjusted 20% for comparability with supermarket markups.



tems. However, in any food retailing enterprise, the store is where the action is, and store operations always present opportunities for improved efficiency and increased productivity. The remainder of this article will concentrate on retail-food store operations.

Commissary Stores and Retail Outlets

In discussing retail operations, the first topic always seems to be productivity. How do commissaries rate in terms of productivity? Productivity data from other types of retail food stores can provide a basis for comparison. First a brief description of two common food retail outlets.

The supermarket of the 80's has grown into a large multi-department, high ser-Summer 1981

vice, "one-stop" shopping experience, offering health and beauty aids, flowers and plants, automotive supplies, general merchandise, etc. All of this is wrapped in a bright, well decorated, tastefully designed building.

The antithesis of the modern supermarket is the warehouse food store. In the past few years the number of these stores in the United States has grown dramatically. Warehouse food stores offer a limited line of grocery and perishable items, are often located in second use facilities, operate during limited hours, with a limited staff, with little or no advertising and offer almost no customer services. What warehouse food markets have to offer customers is price savings in a warehouse-type atmosphere. This often means warehouse shelving, items displayed in cut cases, a bare floor and a store interior with no

decor and bare fluorescent bulbs lining the ceiling. The sparse fixtures and facilities help keep costs down, but the main expense savings in warehouse stores come from high levels of labor and capital productivity.

The modern comstore more closely resembles the supermarket in terms of the products, services and "atmosphere" offered to the patron. Because of restrictions of what products can be sold (e.g. no general merchandise) and sometimes because of limited facilities, commissaries offer a more limited line of products than supermarkets, but usually a more complete line than warehouse stores.

This is a brief description of three types of retail food outlets. Figure 2 is a comparison of productivity rates among supermarkets, commissaries and warehouse markets.

Figure 1.
Trends in Supermarket Productivity

Source: Food Marketing Institute



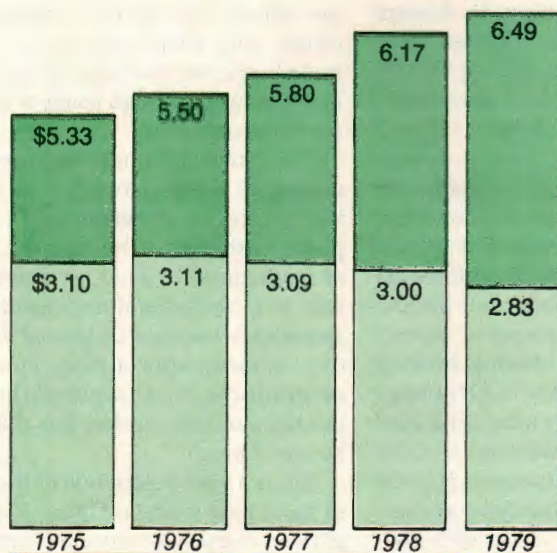
Sales
per
Customer
Transaction



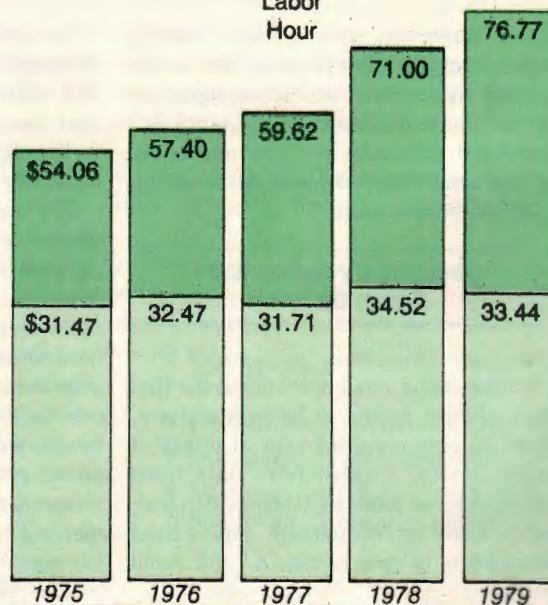
Productivity trends for commercial supermarkets have not been good. In fact, when measured in *real* terms, productivity gains over the last several years have been virtually non-existent.

■ CURRENT DOLLARS
■ 1967 DOLLARS

Sales
per
Square
Foot



Sales
per
Labor
Hour



Fresh provisions are on the way!



Keebler® cookies and crackers make it through to your customers fresh and crisp every time.

How do the Keebler elves do it? It starts with extra-careful packing. One example: we use inner wrappers to wrap our Keebler Zesta® Saltines, fresh from our magic ovens. Then we wrap them in a recloseable plastic bag. *That's extra care.*

Keebler cookies and crackers reach you while they're still fresh... because no matter where you are, we don't have to go too far to get there. There are 68 Keebler distribution centers across the United States; there's one close to every Conus commissary and exchange.

And for overseas delivery, we've got something special — Keebler's Source Load Palletized Container Program. The big news: it can cut delivery time by 30 to 45 days, while it's reducing pilferage, minimizing damage, and helping to eliminate "out of stock."

So stock your shelves with fresh, uncommonly delicious cookies and crackers from Keebler. You can rely on them to come through fresh and crisp every time. And when you see how fast they move off your shelves, you'll really believe in elfin magic.



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While each branch of the service has its own unique commissary system, this does not mean that each branch has to have its own unique set of systems for internal controls.

Commissaries, when compared to supermarkets, have higher sales per labor hour, higher sales per square foot and higher sales per customer transaction. Comstores also beat warehouse stores on two typical measures of food store productivity—sales per square foot and sales per customer transaction.

Warehouse stores have higher labor productivity than comstores. There are two reasons for this. First, many warehouse stores do not carry a full line of produce and fresh meat. In fact, some carry no fresh meat. (This limited offering of perishables also partially explains why warehouse stores have a lower sales per customer.) This reduces labor. The second reason has to do with how warehouse stores stock and display groceries—in the original shipping case, often on wooden pallets, and often without item price-marking.

Using three common measures of retail food store productivity, it appears that, in general, comstores rate very well.

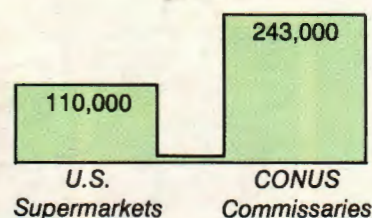
In addition to specific productivity measures, commissaries also have average store sales that are almost two times the average for supermarkets. (see Figure 3). Of course this high level of productivity is not without its problems. Running a store with limited space, operating hours and staff and keeping the store running efficiently to serve the patron's needs is not always easy.

What are some of the sometimes unique operations needs in commissaries?

Productivity and People Skills

In a retail food store, the greatest single operating expense is labor cost. The productivity of store employees is a key

Figure 3
1979 Average Weekly Sales per Store
Supermarkets vs. Commissaries



Source: Food Marketing Institute; Exchange and Commissary News, May 15, 1980. (Commissary sales adjusted 20% for comparability with supermarket markups.) Unpublished sources for number of stores. (Calculations by Gerke Economics)

to improved operating efficiency. To improve employee productivity requires employee motivation, sound supervision, training and appropriate scheduling.

Employees working in the commissary systems are a mix of military people and civil servants. On average, 8 percent of the personnel are military and 92 percent are civilian, but this mix varies considerably by branch of the service (see Fig. 4). Commissary employees also work in a unique retail food store—a store with the goal to provide quality products and service to the patron, but which officially does not want to make any money. Motivation and supervision in this environment requires special expertise. How does a military supervisor motivate and/or supervise a civil service employee? Motivation is especially a problem when many of the employees will not be working in the commissary for more than a few months—like most food stores, commissaries can have high employee turnover.

Figure 4
Mix of Military and Civilian Staffing
in Commissary Systems

	Army	Navy	Marines	Air Force	TOTAL
Military Personnel	2.3%	27.4%	1.6%	5.3%	8.2%
Civilian Personnel	97.7%	72.6%	98.4%	94.7%	91.8%

Source: Calculated from data contained in the draft report of "Consolidation of Dept. of Defense Commissary Systems Study," May, 1979.



Q.

How can you maximize
total patron savings?

A.

Display fast moving Nabisco products.

Who offers VPR's every month?
NABISCO.

Who's end-aisle displays generate more
sales and produce more total patron savings?
NABISCO.

Who advertises three times as much as the
next leading competitor?
NABISCO.

Who sells more cookies and crackers than
anyone else?

Once again the answer is
NABISCO.

NABISCO, INC.

Biscuit Division—Military Sales
The total answer to total patron savings.

Commissaries, when compared to supermarkets, have higher sales per labor hour, higher sales per square foot and higher sales per customer transaction.



In some cases, civil service employees working in comstores see a definite limit as to how far they can advance with the commissary system because of military personnel holding the management positions. Of course, being civil servants, they can get jobs elsewhere with the government, but this lack of advancement potential may cause some employees to be less enthusiastic about their work.

In any retail food store, quality technical training is a must. The stock crew has to know how to cut cases and price mark. The produce clerk has to know how to trim and wrap lettuce, etc. However, in the not-for-profit military commissary, with its mixture of military and civil service employees, proper training to develop "people" skills takes on tremendous importance. It is not just the commissary officer who needs to know how to deal with people problems. The people who are on the firing line—his assistant and department managers are the ones who really need to know how to motivate people.

Training department managers on how to properly handle their subordinates can be time consuming, frustrating and very expensive. However, there is a new approach to training supervisory skills being used by scores of supermarket companies that is relatively inexpensive, does not take much time and actually works. Supermarket companies using this technique have found great success in using a training package developed by the Quaker Oats Company and Food Marketing Institute. The program is called "Supervisory Skills for Store Managers."

This approach to training is based on a technique called "Behavioral Model-

ing." Several informal and formal studies have been done on the value of the Behavioral Modeling technique. One of the more formal and scientifically valid studies conducted is: Latham, Gary P. and Lise M. Sarri; "Application of Social-Learning Theory to Training Supervisors Through Behavioral Modeling": Journal of Applied Psychology, June, 1979. Vol 64 No. 3, page 239.

Scheduling

Another critical task that the supervisor has in a high volume commissary is scheduling of his/her people.

This article will not attempt to cover the technical aspect of forecasting sales patterns by hour and by day of the week; how to survey employees and set appropriate standards for customer service; how to graph activity and productivity rates; or how to forecast the number of workers needed for a given time period.

The approach used for labor scheduling will depend in part on the type of sales data that can be collected at the front end and whether any automated labor scheduling packages are used by the commissary. But in general, a very important ingredient in any successful labor scheduling is flexibility in when and how long employees will work on a shift. In comstores, this much needed flexibility can be achieved through the hiring of intermittent employees—part-timers who do not work a fixed time schedule each week. Commissaries are making use of intermittent civil service employees.

The greater use of these employees does mean more record keeping, as there are more employees, with varying hours worked. However, this is more than offset by the flexibility to provide more manpower during the peak periods to best serve the military patron at the lowest possible cost.

Receiving/Stocking

Many items sold in a commissary do not go through the warehouse or distribution center, but in fact, are received directly from local vendors. Depending on the commodity involved, the vendor will often deliver, price mark, stock the

EXAMPLES:

In the Navy, civilian advancement to management level is difficult because most of the key management positions are filled by military and NAF civilians. Less than 2% of the Marine commissary personnel are military. So there are opportunities for merit promotions for the civilian employees.

FEED YOUR TROOPS WITH



There's a great line of French's quality products at your Commissary and Exchange, and you will agree that they're all taste pleasers. . . French's pure mustard, tangy worcestershire sauce and a whole line of hearty instant potato products. And don't forget French's complete line of seasonings, spices and extracts, and our sauces and gravies. French's—we make your life delicious.



Commissaries also have average store sales that are almost two times the average for supermarkets.

goods, and remove all stale or damaged merchandise. These services are extremely helpful in running a high volume commissary. However, this also requires strict controls, and the main control point centers on the employee who does the receiving. Any employee doing receiving must be trusted, well trained and comfortable in dealing with both the vendors and the numbers on invoices. This job also requires constant supervision. The receiver's supervisor should recount a certain percentage of all deliveries on a random basis to insure accuracy.

EXAMPLE:

One commissary uses several trained receivers who are rotated so they don't check in the same vendor every week and at least 10% of all vendor deliveries are recounted by the supervisor.

Items not delivered by a local vendor are handled through the comstore's warehouse. How do you keep the shelves stocked in the store that has limited shelf space and is full of customers? A night stocking crew is usually the answer, but a productive stocking operation requires a system to have the appropriate items at the right place at the right time.

Despite well planned systems and appropriate labor scheduling, some commissaries fall short in manpower to do stocking and some supplier representatives end up stocking their own merchandise. Suppliers are authorized to stock certain product categories and put up special displays. Except for authorized product and display building, supplier's reps should not be involved in stocking merchandise; they become rather high paid stock boys. Instead they should be concentrating on their real job . . . helping the commissary do a better

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The Bettmann Archive

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THE COLGATE-PALMOLIVE COMPANY

An important ingredient in successful labor scheduling is flexibility in when and for how long employees will work on a shift.

job of merchandising its product for improved service to the military patron. In addition, having supplier stocking, except when appropriate, can create headaches in controlling space allocation and shelf display appearance.

To try and improve the cost effectiveness of stocking, some Air Force commissaries contract night stocking and store clean-up to a private firm that can often operate at a lower wage rate than comstore civil service employees. The experience has been that these contract crews also do good work.

Facilities and Equipment

The facilities that are used for a commissary and the maintenance of the facilities and equipment often depends on how the commissary system is funded and its relationship with the military base it serves.

Similar to supermarket chains, the commissary systems of each branch of the service do have to develop priorities such as: "Do we upgrade our facility and equipment, or do we upgrade our systems?" (e.g. inventory control systems). Because of limited budgets, these priorities do have to be established. The question is, is the military patron more pleased with a new store, or with the reduced out-of-stocks that come from a new inventory control system?

In terms of equipment, probably one of the newest waves in retail food stores is the scanner checkout. The value of scanners, in terms of controls, was discussed in article one of this series. Another reason for installing scanning, from an operations point of view, is improved productivity. Experience indicates that front-end productivity will actually decline immediately after scanning is installed and after an initial period, may

or may not exceed the productivity of electronic cash registers. (see Figure 5) So the improved productivity of front end operations may not be a prime consideration in a decision to install a scanning system. Where scanning does improve productivity is in the ability to eliminate individual item price-marking. In the commissary operation, with its limited manpower available for stocking, scanning could help reduce the labor requirements for stocking groceries.

Operations Manuals

Commissary systems have an operations manual, outlining operating procedures and policies for the commissary in total, and specifically for some or all departments within the store. Operations manuals of course, are intended to let the people working throughout the system know how the commissary is to be run and how the different aspects of their specific job is to be performed. Sometimes though, operations manuals become nothing more than a series of

EXAMPLE:

Army commissaries use a master planogram that relates shelf position in the store to warehouse slot. This is used to pull merchandise in the warehouse so that it can be queued in the proper order in a feeder area in the commissary for night stocking.

The Air Force uses labels, marking each case as it is pulled from the warehouse. This label includes the correct price for ease of price marking during night stocking.

Continued on page 89

How do you keep the shelves stocked in the store that has limited shelf space and is full of customers?



Keep your shoppers 'on base'

Use these high volume
best-sellers to build
store sales!

They're backed by multimillion-dollar advertising campaigns designed to stimulate consumer purchase. Year-round in-store coupon promotions offer the military consumer savings available only at commissaries and exchanges. Store displays designed exclusively for the military market help you generate even more sales.

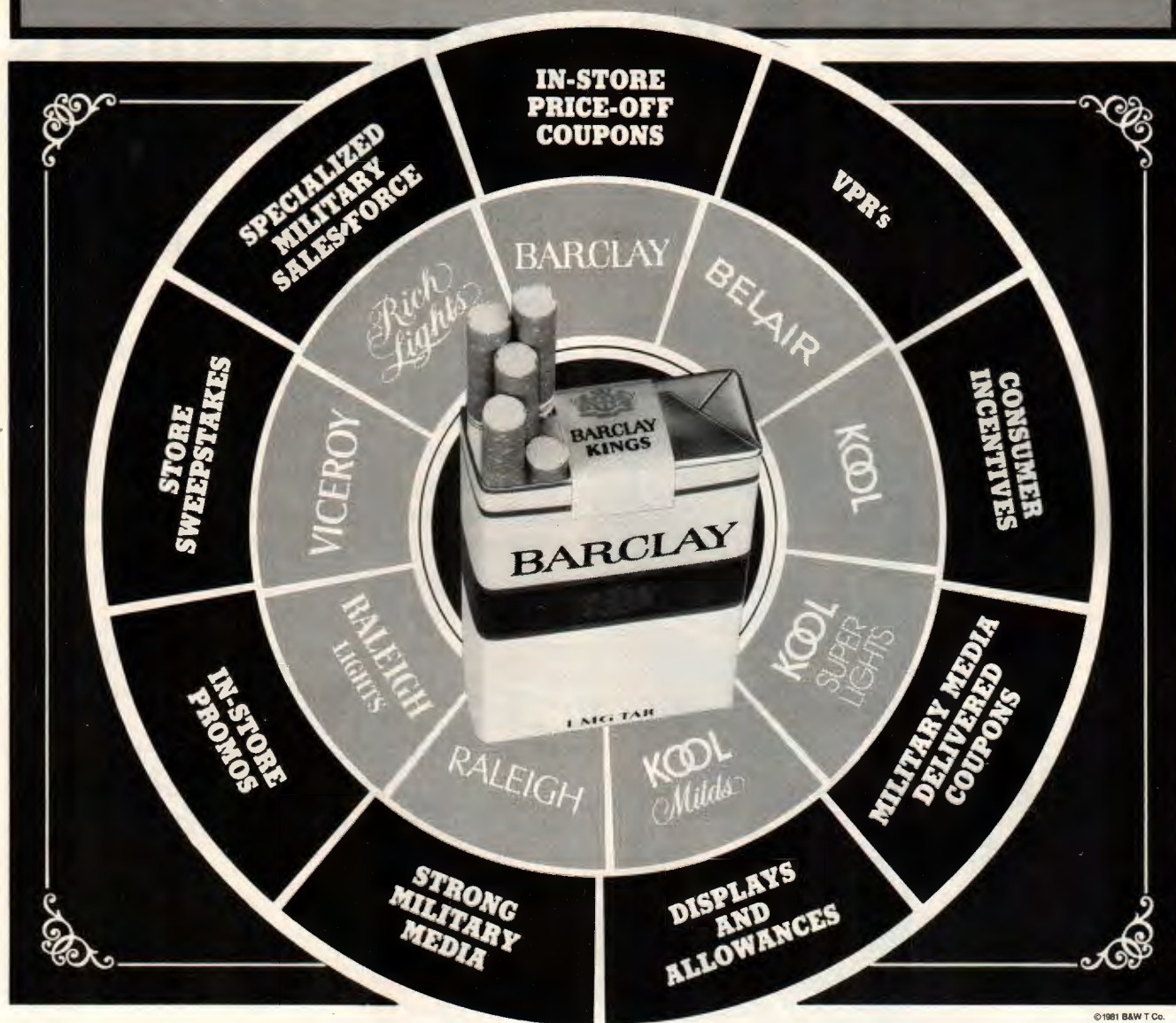
Launch a successful maneuver to keep military shoppers from "going civilian." Carry a full assortment of the **Johnson & Johnson** brands-in-demand.



Johnson & Johnson

SPECIAL MARKETS DIVISION

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**No matter where
it stops, you're always
a winner!**
B&W offers you
quality products and a
variety of promotions.

All year long...we go all out
to increase on-base shopping.

Our business is helping yours.

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Military Department

Cigarettes

Barclay
Belair
Kool
Kool Super Lights
Kool Milds
Raleigh
Raleigh Lights
Viceroy
Rich Lights

Pipe Tobacco

Sir Walter Raleigh
Sir Walter Raleigh
Aromatic
Sir Walter Raleigh
Special Mixture

For more information, contact your local
B&W Military Accounts Representative.

QUALITY PLUS VALUE

We don't have to tell you that Canon cameras are in demand. Tremendous advertising exposure certainly helped, especially in the beginning. But it takes more to sustain such high sales year after year. It takes quality plus value.

Word of mouth means a lot, especially around the exchange, and Canon quality and reliability have

earned our products an excellent reputation. Canon cameras are loaded with features, too, so your customers get a lot for their money. Which means value.

There may be some less expensive cameras you can offer for sale, but none provide the unbeatable combination of quality plus value you get from Canon. And your customers know it.

SLR CAMERAS

Canon SLR cameras represent the state of the art in 35mm photography. Canon revolutionized the marketplace for fine cameras, and any or all of our "A Series" models should be in your inventory.



Canon AE-1

featuring simple match-needle operation. The AE-1 is a quality Canon SLR with automatic point-and-shoot convenience.

Every Canon SLR camera is built to the highest of standards, and all can utilize a power winder, over forty



Canon A-1

The A-1 is one of the world's most advanced automatic cameras, featuring six-mode exposure control and LED readouts in the viewfinder for the ultimate in creativity. The AE-1 is the world's most popular automatic SLR, selling over one million units since its introduction. It's so advanced, it's simple. The AT-1 is a non-automatic,



Canon FD Lenses

interchangeable Canon FD lenses, speedlites and other

accessories that make great photography easy.

RANGEFINDER CAMERAS

Canon rangefinder cameras are popularly priced, but still provide all the quality and value that makes Canon a number one



Canon Sure Shot AF35M

choice. The AF35M Sure Shot is the world's most automatic camera, with auto focus, auto winding, auto exposure, built-in electronic flash and even automatic rewinding! The GIII-17 is a lightweight compact with an ultra-fast lens and the ability to take automatic pictures indoors or out, even with flash. Again, quality plus value make them best-sellers.

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For movie fans, Canon makes an entire line of high quality cameras. The 310XL and 514XL silent models are equipped with zoom lenses and feature low-light capability. The 514XL-S adds the exciting dimension of sound and the AF514XL-S is one of the most advanced sound movie cameras, featuring a 5X power lens with auto focus for sharp pictures scene after scene. As with all Canon cameras, quality and value are built right in. And people know it.



Canon AF514XL-S

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EH&BAs: An Expanding Market

by Mollie West

Ethnic cosmetics and toiletries, one of Health & Beauty Aids (H&BA) fastest growing categories, has become a booming business in the United States.

The growth of ethnic beauty companies during the last decade (M&M, Fashion Fair and Pro-line, to name a few) and the improvement and expansion of existing companies, such as Johnson Products Company, have primarily contributed to this expanding business. In addition to this, when many general market beauty companies began to recognize the increasing buying power of blacks and their specialized beauty needs, they began developing specialized products or expanding existing lines of cosmetics by adding products suitable for the ethnic customer. According to statistical reports, ethnic customers spend five times as much as their white counterparts.

More than ever before, the black consumer today finds he has a variety of products to choose from.

But what about the ethnic consumer in the military? Is the great effort being made to cater to his H&BA needs? Are his needs any different from those of his civilian counterpart?

A recent bulletin from the Army and Air Force Exchange Service (AAFES) reports: "Black Americans represent 29.7 percent of the Army and 14.4 percent of the Air Force troops. Their dependents bring that number up in terms of purchases. Because of the nature of the products needed, our black customers are very specialized shoppers. They know their needs and the products needed to satisfy their needs and if they are not

able to purchase these products, they will not accept substitutes and will shop elsewhere. . . ." The report continues that, "Ethnic Health & Beauty Aids were almost \$120 million for the national military and civilian retail market in 1980, with a projected growth of 15 to 20 percent for 1981. AAFES sales share for the same period was \$7 million, up from \$5 million in 1979, with a projected growth of 15 percent for 1981."

Blacks comprise 26.4 percent of the military, overall, according to statistics. That figure is remarkable when you consider that blacks represent only 11 percent of the general population.

"There is a need for the black soldier and his family to have the same products found in the civilian market but at a price in keeping with his salary. Normally they get a little better price from resale stores," says Neal Harris, director of national accounts and military sales for Johnson Products Company.

Johnson Products Company sells make-up and hair care products to AAFES, NAVRESSO, Marine Corps and Coast-guard. They also sell to commissaries, the Veterans Administration and ships afloat. The company has recently introduced a line of hair care products which includes a shampoo, conditioner and hair dressing. The line was specifically developed to help reverse and minimize any damage done to the hair by chemicals. The products can also be used on virgin (or untreated) hair.

Adam Lemoine, military accounts manager for M&M, a young black company based in Atlanta that manufactures hair care products, says "The reason we were prompted (to do) business (with the military) is the vast ethnic

Mollie West is a Chicago based consumer product writer.

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Tender Treatment™...the first hair care line created especially for relaxed hair.

Research has proven it.

Relaxed hair has its own special needs. And black women with relaxed hair know it. So the Johnson Products Research Center created Tender Treatment. The first and only line of products designed especially to meet the needs of black women with relaxed hair. And that's 44% of all black women 18-54, or 3.5 million women. A market like this, you can't afford to miss!

Tender Treatment is a complete line of hair care products that relaxed hair customers can use together as a system, or individually, for the kind of care they couldn't get until now.

Tender Treatment Detangling/Conditioning Shampoo is a special patented formula that leaves relaxed hair tangle-free. Which helps to reduce hair breakage!



Tender Treatment Super Penetrating Conditioner fortifies and restores weakened hair fibers to an almost perfect condition. Leaving relaxed hair more resilient and healthy-looking.

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No other group of products serves this special market in this special way. And your customers will know it. Tender Treatment advertising and promotion will reach 85% of all black women in the target age group.

From the Johnson Products Research Center

High-impact introductory spreads will appear in major magazines including Ebony, Vogue and Essence.

Hard-hitting radio commercials will hit every key black market.

And there'll be special trial-generating consumer incentives including: cash refund offers worth up to \$2.50, special high value in-package coupons, money-saving coupons in boxes of Ultra Sheen Relaxer, plus direct consumer sampling in specially selected markets.



Of course, there'll be introductory off-invoice and display allowances, and co-op advertising dollars.

Special free-standing displays will attract even more consumer attention.

As you can see, the demand will be great for Tender Treatment. And you will be ready, if you stock up now. So call your Johnson Products representative today and get premium profits for premium products. It's a first for relaxed hair!



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more often when you're
wearing Brut® by Fabergé.
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after anything®.

market in the military. They (military personnel) don't have any place to go where they could get those sort of prices."

M&M has been in existence for eight years and has been selling hair care products—such as shampoos, conditioners and comb out conditioners—to AAFES for six years. Within the last two years, they began worldwide distribution with NAVRESSO and commissaries.

Fashion Fair Cosmetics, a leading ethnic beauty company that is outpacing its ethnic competitors in the make-up and skin care sales division, has been servicing the military since 1976. Fashion Fair sponsored its' first two-day beauty workshop at Fort Sam Houston in San Antonio last year. More than 150 military women and wives and dependents of military men were counseled and instructed in the art of make-up application and skin care.

Lance Clark, vice-president of Fashion Fair says of the workshop last year, "Women in the military have not been catered to by cosmetic companies but this is Fashion Fair's goal. We want to educate and offer to the black woman what white women on military bases have always been given. We plan to conduct similar workshops in the future in both the United States and Europe."

Fashion Fair has a world-wide contract with the military and sells to AAFES, NAVRESSO and the Marines. Their products include their basic cosmetics and skin care products and they recently introduced a shampoo and conditioner, a fragrance line and various cosmetic beauty aids such as make-up and lip brushes. Fashion Fair cosmetics and beauty aids are not mass line distribution products and are only sold in exchange department stores.

Pro-line, Magnificent Products, Supreme Products (a subsidiary of Johnson Publishing Company and forerunner of Fashion Fair), Soft Sheen and California Curl are other ethnic owned and operated beauty companies that sell either cosmetic and skin care products and/or hair care products to the military.

EH&BAs and Military Sales Records

Many ethnic beauty companies say they did about as well as expected in military sales for 1980 but still plan to improve and expand their products in 1981 and into the future.

Fashion Fair, who did over \$1 million in military sales in 1980 and is listed on the Army and Air Force's million dollar vendor list, has vowed to push even harder with more promotions for cosmetics and skin care products in the future.

Clark says that for seven months of 1980, Fashion Fair's military sales increased by 34 percent over 1979. Last year, recalling on a bit of Fashion Fair's successful sales history, Clark says military sales had jumped from \$250,000 in 1976 to over \$1 million in 1979 to outsell the military sales of any other black cosmetics firm during that period.

Harris, who has handled the Johnson Products Company military account since September, 1980, says military sales comprise six percent of the total JPC sales. For 1980, military sales were up 30 percent and were triple in some areas, adds Harris.

"We realized the black market potential and we expanded. We're seeing tremendous growth in the military," says Harris.

Lemoine reported that M&M did over \$1 million in military sales in 1980 and expects to surpass the \$3 million mark for 1981.

"Yes, we had expected somewhere in that neighborhood. To really achieve your maximum dollar, you need a separate sales entity for the military. We have a separate department that concentrates on military business."

Military Marketing Trends

Advertising and promotional marketing trends used in the military differ little from the approach in the civilian market. When they differ, it is due to the more conservative, toned down approach of fashion, hair styles and make-up required in the military, according to most ethnic beauty company sales managers.

Lillian Lewis, associate director of military sales at Fashion Fair says, "We try to offer the same thing we offer in the domestic market. Because of some military restrictions, we do tone down make-up promotions by trying to sell subtler shades. We try to offer something that will compliment the person as well as the uniform."

Lemoine says his company really doesn't have a difference in marketing trends for the two markets.

"It's no different because we're still dealing with black people," he says. "They still read Jet and Ebony magazines and listen to black radio stations. To the ultimate black consumer, and that's who our client is, there's no difference."

He notes however, that, marketing a product such as the curly kits would be less geared to the military man than it would be to the military woman, wives and dependents of military men. He says it's not very likely a man actively engaged in military training/duty will be wearing curls but the military woman may wear curls, so there is demand for it.

Harris of Johnson Products Company comments, "The military requires high grooming. You will find a more modified look . . . so there is a need for good grooming products. However, we do specialized advertising abroad. We go into special magazines because the black guy over there, well, he's a little isolated."

Competition for Ethnic Dollars

It's the topic most companies try to avoid making comments about. But it exists and businesses study it, plan around it and even thrive from it. The topic is competition. It exists in the civilian market and is ever present in the military market.

Ethnic companies not only have to compete with one another but with large general market beauty companies that have developed specialized cosmetics and hair care products for blacks.

Revlon, the largest general market beauty company to compete with ethnic companies, has two lines specifically developed for blacks and other ethnic groups—a make-up and skin care line, and a hair care treatment line.

Carol Healy, in-store promotional manager for Revlon, says the military carries 85 percent of their products which include both lines.

Revlon's make-up and skin care line was introduced in the early 70's and Healy says, "We were the first (general) company to develop an ethnic product to go through a series of tests. These products were solely directed to the ethnic market. These were not white products with darker shades. It was developed with all the bases it needed so it wouldn't ash out on the ethnic woman. It is a mass marketed consumer product so, therefore, it is distributed and made available to all commercial outlets. They all sell very well. The biggest competitor we have is Fashion Fair."

Revlon's ethnic hair treatment line was first developed for professional use only. But through the demands of the ethnic market, Healy says, it was developed as a commercial product to be used at home.

Elizabeth Arden, on the other hand, has shades in its existing cosmetic line that can be worn by the darker skins.

Joan Jealous, manager of military sales for Elizabeth Arden, says, "We don't have a black line but we have a full range of colors, many of which are suitable for everyone, regardless of their color. And naturally, any of the treatment products are suitable for black skin."

Elizabeth Arden products are not a mass market line and go only to selected distributions. Their products (which include skin care, make-up, fragrances and limited toiletries) are in most of the larger military exchanges where demonstrators advise customers how to use the products, demonstrate proper skin care and make-up application. Many of the shades for ethnic consumers will not be found in all the exchange stores in some areas unless there is a demand for it. Many exchanges order only upon request.

L'Oreal, Clairol, and Alberto Culver are also among general market beauty companies that have developed specialized products for the ethnic consumer in the hair care treatment line.

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The black customer today finds he has a variety of products to choose from—more than ever before.

How do black companies feel about competition from the general market beauty companies?

"We welcome it. It's good," says Harris. "We're not afraid of it. We feel that our products are as good as anything ever developed for the woman of curl and color. It's little known that many people, a tremendous number of Caucasians, Asians and Spanish-speaking people are using our products for they are the only products to satisfy their unique needs . . ."

Clark of Fashion Fair says, "Since the inception of Fashion Fair, in the civilian and military markets, white companies have placed products in their lines that will compliment black women's complexions. Estee Lauder, Max Factor and Clinique have added products to their existing lines."

Shelf Space Problems

Limited amounts of store shelf space in military exchanges and commissaries was expressed as a major concern by both ethnic and general market companies. This concern is so important because the display of goods is necessary to be able to compete with other beauty manufacturers. After all, how can a consumer buy your brand if it isn't on the shelf?

One outspoken sales director says, "All we want is more shelf space for all the shelf space out there. Ten years ago there were only one or two products servicing the military and domestic markets for blacks. There was only xxx amount of shelf space. Today you have between 15 to 20 companies selling to the military. The amount of shelf space has not increased in keeping with the number of items available. The availability of ethnic items for blacks in the commissaries is sadly lacking in comparison to the domestic markets . . . This is a serious problem."

"Our basic problem is most of the military have little knowledge of ethnic products so, therefore, they are reluctant to bring them into their stores," says another military account manager. He continues, "Even in the civilian market people may not realize the profitability of selling ethnic products. Shelf space becomes a problem because they don't

want to give it, unless you run across a very progressive store person. They really don't want to give but a very few black products shelf space."

Even a giant such as Revlon has to battle for shelf space.

"Revlon, as a corporation, sells each line as a separate line in the civilian market," says Healy. "In the military, everything is sold under one line—Revlon. Merchandise and display space is far more limited in the military . . ."

Military commissary and exchange officials agree that shelf space overall is a problem—one of the biggest in the industry. Officials deny, however, that ethnic health and beauty aids are discriminated against at commissaries and exchanges when it comes to allocating shelf space.

Bill Moran, Director of Operations for the Air Force Commissary Service, explains it this way: "Our policy on shelf space allocation is based on sales. Initially we start out with a layout that allocates space in the store by category based on all sales. Within a category we tailor our stock assortment based on customer demand. We determine which items to continue carrying based on recurring customer demand."

"The reason for this is we're not profit-oriented, we're service-oriented." He adds that there is no reason not to give space to EH&BAs. "If products sell, they get space," he says.

Kenneth C. Boniface, Chief of Information, Securities Branch, AAFES, says: "We have so many departments and there's a limited amount of space, although newer exchanges do have more space." He says AAFES stores are "very heavy" on EH&BA products and have been for a long time."

Despite the problems ethnic beauty companies face in the pursuit of establishing their own products, the most important fact remains: those services and products are needed because they serve a very specialized segment of the population. As the growth of this business continues, evidenced by new and expanding businesses, the customer will be serviced even better, whether he lives on a quiet residential street in the civilian world or near a sprawling Army Air Force base not far from the desert. **T**

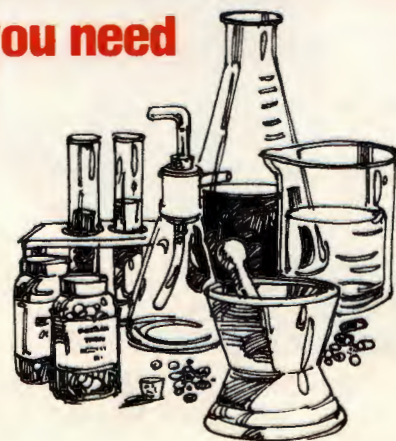


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The Military Beer Market: Viable, Growing

by Carolyn A. Page

Marketing beer in the military has its advantages and disadvantages, just like everything else. But, beer companies are very interested in the military patron and plan to go after him in a big way.

According to industry statistics, approximately 60 percent of all adult Americans drink beer. (Indeed, it has been reported that in ten years, beer will be the second most popular drink in the country, right behind carbonated soft drinks). While no similar percentages are available for beer drinkers in the military, resale executives discussing regional sales patterns agree that the top beer drinking markets in the civilian sector probably are also the leading beer drinking areas in the military.

Beer drinkers on military bases have available to them both national brands and several local beer brands of the 200 domestic and 200 imported beer brands sold in the United States.

Marketing Statistics

According to the United States Brewery Association (USBA), 173,322,000 barrels of domestic beer and 4,570,000 barrels of imported beer were sold in the U.S. in 1980. Department of Commerce figures list sales in dollars for those barrels at \$9.3 billion.

Beer manufacturers expect a good year. While the first two months of the first quarter of 1981 did not show any gains, a two to three percent increase in sales

is expected for the year. Jos. Schlitz Brewing Company reported net earnings of \$3.1 million for the first quarter of 1981 compared with \$8 million for the same period last year. That made sales off 3.7 percent.

But as USBA representative Phil Katz says, "Quarterly figures don't mean a lot."

Consumption Patterns

National beer company representatives agree that consumption of beer is expected to rise, but not substantially—at least on military bases.

Tom Moore, Director of Military Sales and Operations for Anheuser-Busch, the largest beer company in the U.S., says military sales mirror civilian sales. He says consumption is going up but not that much. Approximately two percent of A-B's \$50 million sales last year were military.

Another industry spokesman says military consumption overall has either remained steady or declined over the past 10 years. But, individual bases show increases depending on a number of factors, including local laws and regulations, personnel assignments and even the weather.

Tom Perlitz, Director of Sales Planning and Development for Adolph Coors Company sees consumption increasing—but at a moderate pace. He says his company is doing as well on military bases as it is in the civilian market.

If the consumption pattern on military bases does rise, it will be partly due to the pursuit of business by companies

Carolyn A. Page is Assistant Editor of Interservice magazine

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The top civilian beer drinking markets are probably also the leading military beer drinking markets.

like Coors, which will be "pursuing with more vigor" the military market. That particular patron who has been targeted is 18-34 years old and male. The other national beer companies agree. Women in the military are targeted for the light beer markets, if any, according to spokesmen. On the other hand, Perlitz calls the male customer a "very concentrated" consumer group and recognizes women as an important part of the light beer segment.

Advertising and promotions will play a large part in snagging the military customer. According to Perlitz, Coors will try not being so "generic" about promotions to the military. Currently, for example, television ads for the rest of the beer-drinking populace are made to do for the soldier and the sailor who happens to be watching tv. Perlitz says Coors wants to recognize the military as military and put together trade programs that are specifically tailored to the various branches of the armed services.

Laws, Rules And Sales

Federal, state and local laws can affect beer sales to military bases. One beer company representative cites local blue laws which, when lifted, can draw business away from the bases to civilian clubs.

Military bases have their own rules which can sometimes get in the way of beer sales. Sometimes the command at a particular military base will want to keep drinking down and the quotas of beer allowed on base go down, says a beer company official.

There are "plusses" in selling to the military, too, according to Perlitz. There is a price advantage; beer on the base is usually cheaper than in civilian life. And, the same local rules and regulations that sometimes hinder military sales can sometimes help. Promotions on base in the form of a sweepstakes might be illegal off base, for example. And taxes that apply to beer off base don't apply on base.

But selling to the military isn't easy. Civilians do well in competing with their military counterparts even though the bases have that price advantage. Perlitz believes this is because civilians are more



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*Individual military bases
show an increase in beer
consumption*

promotion-oriented. Besides that, while civilians can divide up the market into segments and cater or appeal to one group at a time—the young, the old, the blue collar worker, the professional—military bases are an entity, catering and appealing to all at once—from the general to the private. "This makes merchandising efforts more difficult," says Perlitz.

Foreign Beer Market

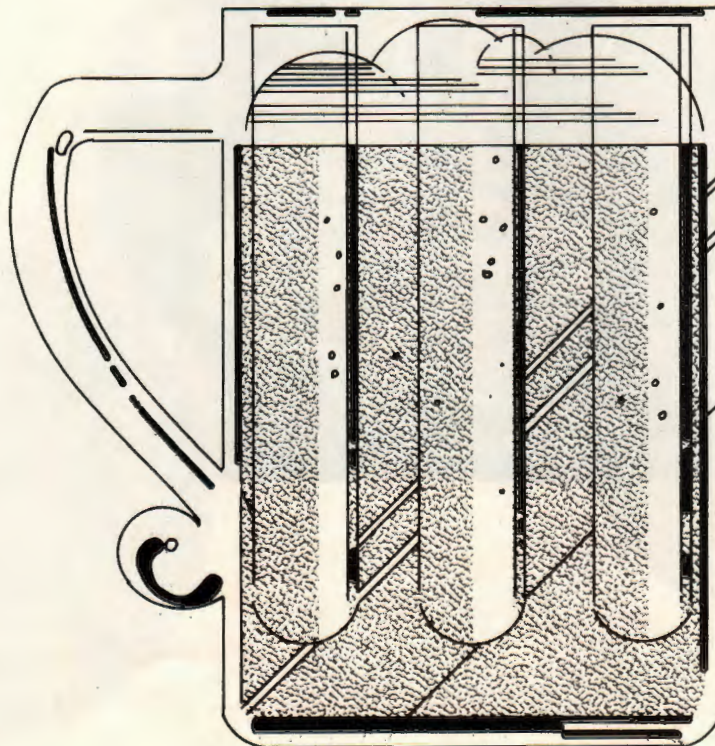
The foreign beer market in the U.S. is still relatively a small segment of the market, according to Perlitz. But, the beer business on military bases overseas is another matter.

American brands are having a difficult time competing with certain foreign brands, especially German beers, says one industry representative. For one thing, Germans deliver beer to homes much like milk is delivered to the door here, he says. German beer companies also give credit and one can buy as much beer as he wants. German beers are 25-30 percent of beer sales on military bases when they should be 10-15 percent, he says.

American companies can't compete in that market. Setting up a delivery system with trucks and extra personnel would be too expensive and would cut out any profit, says one beer company official. A possible remedy is being developed between the United States Department of Agriculture and the German government. It is hoped that a solution to everyone's benefit can be worked out soon.

Another source involved in overseas marketing acknowledges the competition problem but describes the beer business as pretty steady right now in spite of it. American beers are swinging back because the cost of German beers is going up. Yet another official says import problems overseas force exchange services to buy foreign products over American products. "It's a real concern," he says.

What it all adds up to is that selling beer to the military is a viable enterprise marked by differences that make for a challenging future. **T**





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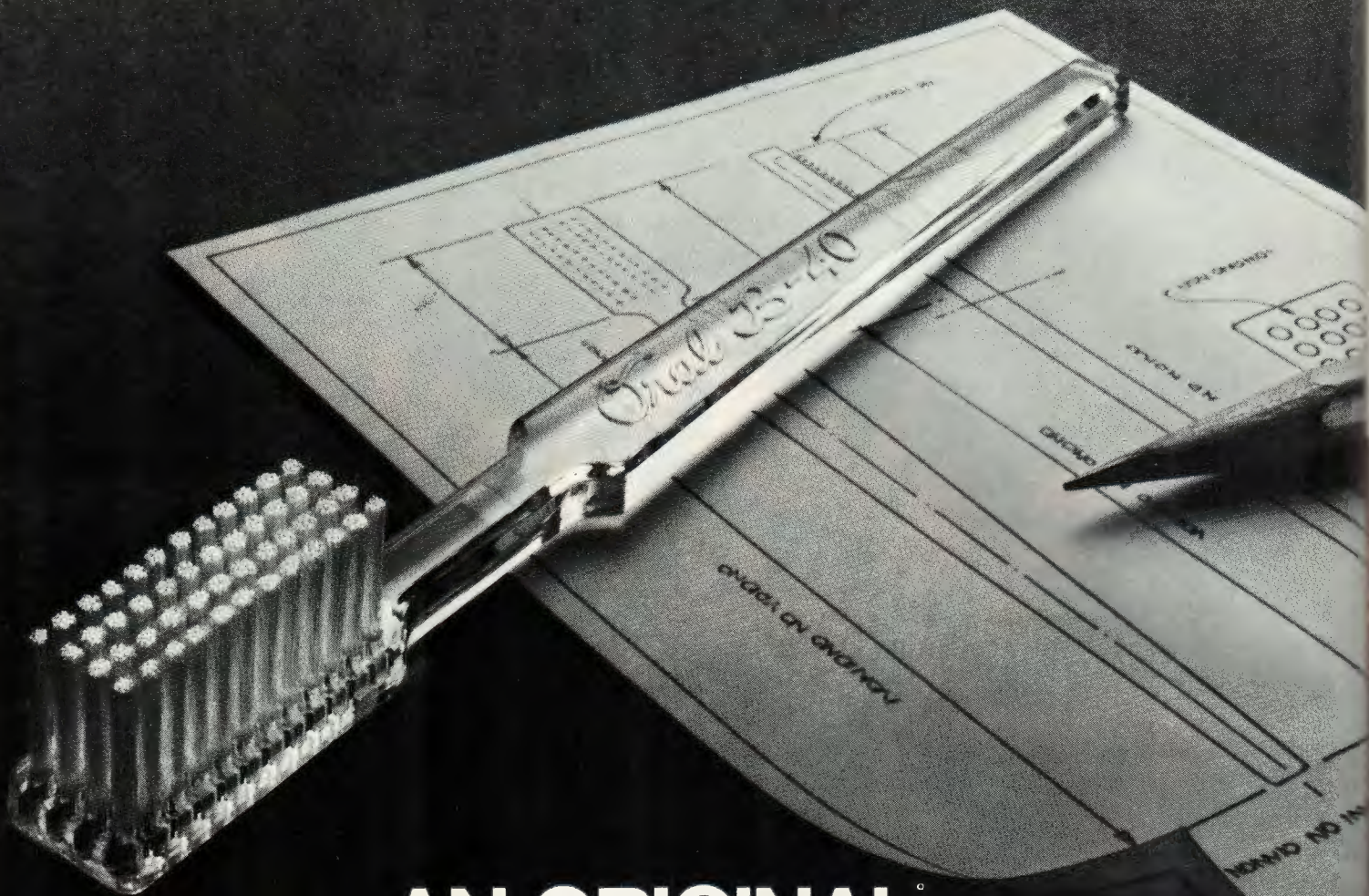
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For the store

Instant Winner gives the stores a feature event to offer customers. Unlike price only promotions, Instant Winner has hoopla and excitement plus VPR's. Lots of customers win lots of prizes. It fortifies their feeling that the commissary is a good place to shop. This kind of store game brings customers back and helps keep them coming back to their commissary.



For the manufacturer

Instant Winner gets participating stores to authorize mass displays for the sponsoring products. In order for customers to play, they must go to the displays of the sponsors' products to check winning numbers. This brings the customer face-to-face with the featured item and price. As they stop and check their numbers, they are holding a coupon redeemable on the displayed item. All elements work together and *sell* product!



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Colgate-Palmolive	Lever Bros.	Procter & Gamble
Del Monte Food	M&M Mars	(two participations)
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The people on the firing line like the assistant manager and department managers are the ones who really need to know how to motivate.

forms to be used as part of the control system, with the employee expected to complete all the forms and checklists as part of his job. Operations manuals should be oriented to getting the job done, not on how to report that you have done a good or poor job.

SUMMARY

This article has briefly covered a few aspects of commissary operations. I consider the following to be the key points covered:

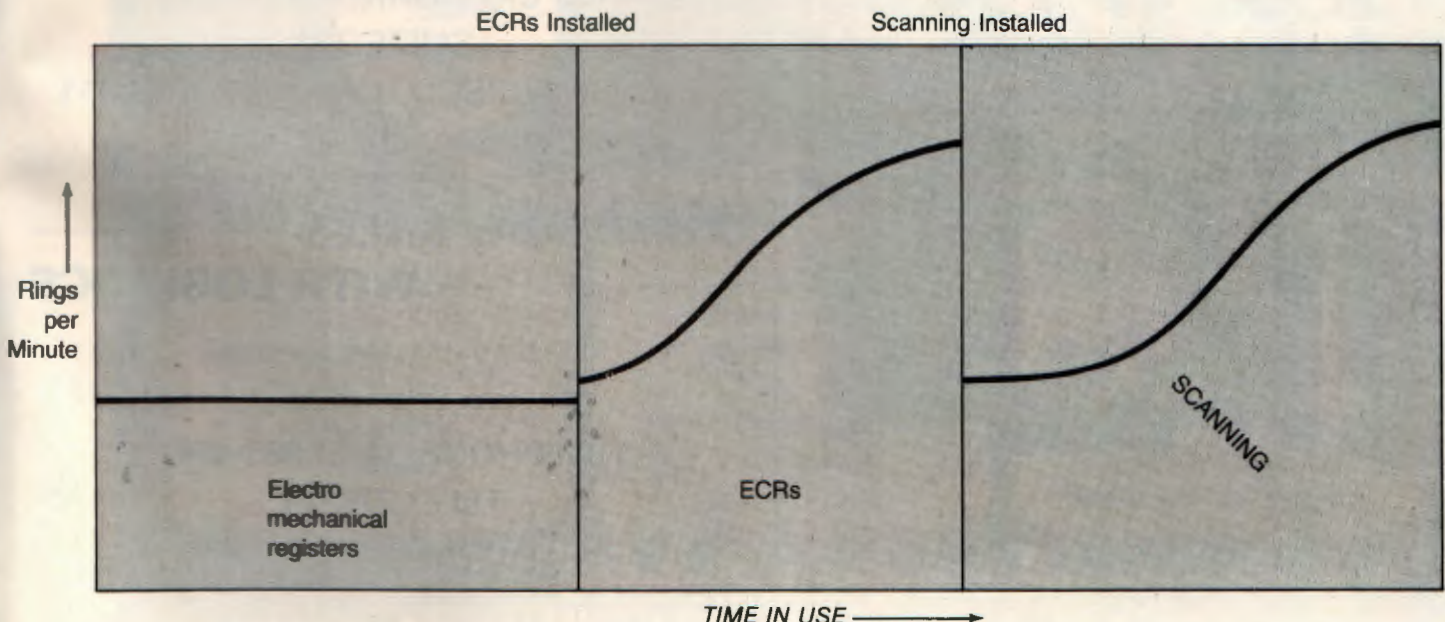
- When compared to other types of retail food stores, commissaries have good levels of productivity.
- Commissary employees should continue to receive good technical skills training, but training in "people skills" should be heavily emphasized especially with employees who are supervising others.
- Keeping a high volume comstore well stocked requires planning and efficiency. Scanning, with price removal, can improve the efficiency of stocking operations.
- Each commissary system should have an operations manual that is more

concerned with HOW to get the job done right than to measure IF it was done right.

Finally, as was mentioned at the beginning of this article, the Department of Defense Commissary Executive Board will be reviewing the various commissary systems looking for areas that could be similar for each system. One opportunity for achieving more similarity among the commissary systems would be for the various branches of the service to work together in developing the skeleton or framework of an operations manual. Each branch of the service, of course, has its own unique situations and would have to customize the manual somewhat. However, the task of developing a standard operations manual framework might achieve two goals for the Executive Board—1) a thorough discussion of current procedures and 2) development of a standard operations "framework" for all commissaries.

The next and last article of this series will cover merchandising in military commissaries. **T**

Figure 5
Typical Checker Productivity Trends
After Installing
Electronic Cash Registers (ECRs) and Scanning





The Army/Air Force Exchange Consumer

Product Category	1980 Exchange Sales (000)	% Increase 1979-80
Automotive supplies	\$ 51,800	19.1
Tobacco	92,700	9.1
Food & beverage	208,100	18.0
Health & beauty aids	140,500	13.4
Military/millinery apparel	55,800	10.7
Jewelry	67,800	3.2
Stationery	91,000	17.6
Clothing	389,600	10.0
Housewares	255,000	9.4
Sporting & recreational goods	243,100	14.4
Total	\$1,595,400	12.2

Note: Sales are for continental U.S. (CONUS) only.

Source: Army/Air Force Exchange Service

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- 22 Revlon
- 85 R. J. Reynolds Tobacco Co.
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- 25 Stokley Van Camp
- 46 & 47 Swift
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**In 1979,
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increased 7.22 billion units.

**In 1978,
Philip Morris volume
increased by
8.46 billion units.**
The total industry
increased
.94 billion units.

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Maxwell Report
Lehman Brothers.
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