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THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT OF
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CHIEF EXECUTIVE OFFICER, NAVY EXCHANGE SERVICE COMMAND
BEFORE THE MILITARY PERSONNEL SUBCOMMITTEE
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

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Mr. Chairman and distinguished members of the subcommittee, I appreciate the opportunity to provide an update on the Navy Exchange Service Command (NEXCOM). Our programs have been and continue to be a major contributor to military quality of life and support a ready and able all-volunteer force.

Military service is much more than a career; it is a commitment made not only by service members, but also by their families. Deployments, long separations, and frequent moves are just a few of the challenges facing our military families. When the fiscal constraints of today's environment are added, it can generate more anxiety and uncertainty. Our military families must have confidence that their unique needs are not only understood, but are being met. Maintaining our nation's commitment to their quality of life remains a key factor to ensuring a strong military. In this era of sequestration, military family programs remain valuable assets and the role of those programs, which are predominantly nonappropriated funded, takes on new meaning.

In this fiscal environment, NEXCOM continues to deliver a desired and relevant benefit, providing a large return on investment for the taxpayer. Both the Navy Exchange (NEX) and the Navy Lodge Programs operate as nonappropriated fund instrumentalities requiring minimal appropriated funds. The limited appropriated funds provided to Navy Exchanges predominantly support overseas locations and confirms Congress's commitment to ensure our forward deployed Sailors and families receive comparable products and prices to their U.S. counterparts - a commitment all the more important because many of these overseas locations do not offer similar products near the installation, and in some cases such as Guantanamo Bay, Cuba, or Djibouti, Africa, no alternative source of merchandise exists. In return, Navy Exchanges provide approximately \$500 million in tangible savings annually to our military families, while still providing about \$45 million dividends annually to Navy Morale,

Welfare and Recreation (MWR) and additional capital investment funds to modernize Navy Exchange facilities. The final result is a six to one payback on funds provided through appropriated support.

The NEXCOM Enterprise has broad reach and touches many aspects of Navy life. Navy Exchanges provide quality merchandise and services at a savings to military families on 94 installations and sites with 303 stores worldwide. The Navy Lodge Program provides lodging for our military families - easing the transition of frequent moves - at 40 locations worldwide. With 158 Ships Stores, the Ships Store Program provides essential items for our Sailors and Marines at sea and generates funds to support their recreational and leisure needs. To help Sailors and families stay connected, the Telecommunications Program Office partners with industry to provide personal calling at sea and internet and cellular services ashore. NEXCOM's Uniform Program Management Office manages government-issue uniforms for enlisted personnel E1-E6, commercial uniforms for Chief Petty Officers and Officers, and assists Navy with fleet organization and protective clothing requirements. The Navy Clothing and Textile Research Facility conducts research, development, testing, evaluation and engineering support on Navy uniforms and personal protective clothing and provides similar support to other military services and government agencies. Everyday our military families rely on us for casual dining, hair care, auto services, gas, laundry and much more. At overseas locations, NEXCOM operates six NEXMarts providing the commissary and exchange benefit where a stand-alone commissary is not economical, provides school lunches for the Department of Defense Education Activity, and other quality of life programs to help families, such as utility bill paying at Navy Exchanges and quick and easy purchase of gas ration cards. We make military life a little easier for our families, no matter where they are in the world, both at sea and ashore.

One example of touching our military members' lives is the opening of our new Subway at Camp Lemonnier, Djibouti, Africa. At the request of the command, NEXCOM and Subway worked together

to deliver a Subway restaurant in only six months. This was quite an achievement as this is the first Subway in Djibouti and the first Subway located on a military base in Africa. Troops stationed there were excited to have the new restaurant on base. “It’s like walking into a different world,” said a Master Sergeant of the 81st Expeditionary Rescue Squadron. “A soldier in my command had been feeling down and missing home. After going to the Subway, he was like a different guy. He got a little taste of home.” In its first week of operation, over 7,700 purchases were made at Subway.

While NEXCOM’s primary business is retail, we are first and foremost a military command. Navy’s Morale, Welfare and Recreation/Navy Exchange Board of Directors is comprised of senior Navy leaders who balance the needs of both programs for adequate operation and capitalization funding to ensure optimal program delivery to Sailors. As a Navy command, we are aligned with Navy to support many important initiatives. For example, in support of Navy’s expeditionary requirements, we recently opened Navy Exchanges in Jebel Ali (Dubai) and Isa (Bahrain). In Jebel Ali, the 6,000 square foot store is located on a compound occupied by the U.S. Navy and will bring the Navy Exchange benefit to Sailors stationed in and around the Dubai area, as well as military personnel transiting the area aboard ships. The first ship to visit the new store on opening day was USS THE SULLIVANS (DDG-68). The crew was elated to have the opportunity to shop in their NEX; first hour sales showed 72 customers had purchased 587 items. The ship’s Command Master Chief said the crew liked what they saw, “The crew has enjoyed and used it (the NEX). I have heard nothing but positive feedback so far. Good selection and the staff was very helpful.” During 2012, in an effort to reduce redundancy and improve merchandise availability, the appropriated fund supply chain for Ships Stores was transferred to NEXCOM for Seventh Fleet ships in Japan and Guam. This project provides a cost savings to Navy as the same merchandise inventory is used to supply Ships Stores and NEXs. We have aligned the products we sell with the Secretary of the Navy’s 21st Century Sailor and Marine

initiative. To emphasize Navy family values, we revised and refreshed our approach to the traditional “Black Friday” sales event for the holiday season. Our “Navy Blue Holiday” offered sales and specials across the entire holiday period, including a pre-Thanksgiving weekend sales event for our deployed Sailors featuring special merchandise identified by Sailors. Our advertising flyers help Navy communicate valuable messages on programs such as sexual assault, motorcycle safety, alcohol deglamorization and Wounded Warrior programs. In an effort to solidify the value and relevancy of NEXCOM and its products and services in our Navy customers’ minds, NEXCOM undertook a rebranding effort across the entire enterprise. The program features signs, murals and other branding elements stressing the core values, mission and history of the Navy. These enhancements have not only built a strong connection with the mission of the installations and the Navy, but they also achieved a personal connection with our customers. Through our customer satisfaction surveys, our Sailors and their families recognize this connection and tell us they view Navy Exchanges as a strong element of Navy life and know the Navy is committed to taking care of their families’ needs.

The number of dual-income families has greatly increased in the U.S. and our military families are no exception. Military family members comprise twenty six percent of NEXCOM’s work-force. Through our Continuity of Employment program, military spouses can retain their NEXCOM employment and benefit status as they transition with their military member around the world. We are a proud participant in the Military Spouse Employment Program to further support military spouse careers. When combined with our veteran and Wounded Warrior hiring programs, our military-related associates represent over one third of our workforce.

As the American standard of living changes, our military quality of life programs must also change continually to meet our military families’ expectations. Remaining relevant to military families is important to the success of our programs. To reach our patrons located far from a Navy installation,

including our Reserve, National Guard and retirees, NEXCOM continues to improve our NEX online store, www.myNavyExchange.com. New products launched last year included shoes, handbags, jewelry, fragrances and toys. More of our customers are also shopping online. As part of our commitment to continue to offer our customers low prices every day, we have expanded our Price Match Policy on many popular websites. Health and wellness are important to our military families. To encourage a healthy lifestyle and support DoD's Healthy Base Initiatives, NEXCOM is launching "A Better You" campaign in our stores, highlighting products and services that support our families' wellness needs. To help our families stay in touch and current with today's technology, free Wi-Fi service was installed in all Navy Lodges and Navy Gateway Inns and Suites. Wi-Fi service was also completed in 92 percent of all of Navy's Unaccompanied Housing. Our most significant installation was the completion of Wi-Fi service for Camp Isa Bahrain. We will continue to meet our families' evolving needs by soliciting their feedback through customer surveys, focus groups and social media.

NEXCOM's support for the warfighter, the deployed Sailor and Marine, does not stop pier-side. The Ships Store Program embarked on the development and deployment of a new point of sale system for ships that will simplify workload afloat, move workload from the ship to ashore and be easier to maintain with lower sustainment costs. Prototype programs were kicked-off focusing on greater benefits to females afloat including the first cosmetics program. This past year, we began an afloat rebranding initiative to bring a fresh new look to the shipboard stores and improve Ships Store merchandising standards. The remodeling brought more variety in the store's products and easier access for the customer. The USS HARRY TRUMAN (CVN 75) was the first carrier to receive the rebranding and opened to much success with the crew.

Our commitment to the sustainability of our environment continues. Our forward-leaning posture toward alternative fuels, together with our concession partner, NEXCOM installed Electric Vehicle

(EV) charging stations at NEX Bethesda, MD and NEX San Diego, CA. An EV charger is planned for NEX North Island, CA in 2013 and Annapolis, MD in 2014. NEXCOM facilities received Leadership in Energy and Environmental Design (LEED) certifications recognizing the design, construction and operation of high performance green buildings. The certification of LEED Gold for our new Navy Exchange Bethesda, MD and Navy Lodge North Island, CA and LEED Silver for our Navy Lodge Gulfport, MS recognizes the numerous energy cost savings, as well as reduced solid waste measures NEXCOM incorporated in these buildings. As Navy utility budgets continue to be stretched, NEXCOM has been a key partner with installations in energy conservation, reducing the energy footprint by raising thermostats and setting store standards for lighting to reduce consumption; delicately balancing retail business needs and the challenges faced by our installation leaders. We recognize our responsibility to be active partners to reduce future consumption as we implement new energy initiatives.

The NEXCOM Enterprise's financial position remains strong. In 2012, total Navy Exchange annual sales were \$2.8 billion with a net profit of \$64.8 million, which resulted in \$45.9 million in dividends for MWR programs and \$74.2 million for reinvestments in Navy Exchange recapitalization to improve customers' shopping experience and remain competitive within the retail market. Total annual sales for Navy Lodges were \$75.1 million which provided for \$11.8 million in nonappropriated funds available to modernize our lodges. Ships Store sales were \$74 million with profits of \$11.6 million returned to the ships for their recreation programs.

It is important for us, as a government organization, to remain mindful of the fiscal environment in which we are currently operating and ensure our operations are aligned with the Department of Navy as well as the Department of Defense (DoD). We anticipate potential reductions in appropriated fund support to NEXs, as well as the MWR program, and recognize our responsibility to optimize our

nonappropriated funds. Nonappropriated funds belong to the military members, not the taxpayer. As good stewards of these Sailors' dollars, we examine our budgets, expenses and priorities to help mitigate any additional NAF costs and protect our bottom line profitability. Navy Exchanges generate profits that are an important financial contribution to MWR. We will continue to balance our commitment to providing MWR with needed nonappropriated funds to augment their programs with our commitment to help our military families stretch their paychecks with savings on the products and services they need.

To help meet these challenges of today's fiscal environment, we are partnering with Army Air Force Exchange Service (AAFES), Marine Corps Exchange (MCX), Defense Commissary Agency (DeCA), Coast Guard Exchange (CGX), Veterans Canteen Service (VCS) and MWR to optimize our nonappropriated funds. Through the Cooperative Effort Board (CEB), we have found benefits and savings through teamwork with AAFES, MCX and DeCA via container sharing, utilizing transportation efficiencies, and joint contracts. NEXCOM provides travel claim assistance and supply chain support to the CGX; EEO, audit and loss prevention services to Navy MWR; and supply chain support to MCX and VCS. One effort alone, a shared contract with AAFES, MCX, and CGX, supplies store and merchandise security equipment yielded a cost savings of \$9.6 million. Other contracts include unofficial wireless services, market business intelligence information, automated retail stores, food service concepts, portable storage units, personalization shops, home delivery, income tax preparations, and car rental services. We all recognize the valuable role we play in helping our services meet their commitment to quality of life at a reduced cost to both appropriated and nonappropriated funds.

NEXCOM continues to invest in technology to remain relevant to our customers while improving business processes and driving internal efficiencies. Deployment of our new personnel recruitment

software has significantly improved our reach to potential employees while reducing paperwork processing through an online recruitment process and simultaneously reducing the onboarding time for new employees. Our new Point of Service system will improve customer throughput at the register, while delivering improved promotional functionalities and drive customer savings.

Our public private partners take on a more important role as we look at alternatives to deliver the name brand services our customers' desire, while still contributing to our overall profitability. Through these partnerships, we provide name brand food, automotive, laundry/dry cleaning, optical, tax preparation and vehicle rental services to name a few. We will continue to increase our portfolio to help us reduce our operational and investment expenses.

Another key element to the future viability of the Navy Exchange Enterprise is capitalization. Our capitalization plan is focused to meet the objectives of facility life extension, operating efficiencies through facility consolidation and relocation, response to changing demographics, and return on investment. Robust capital investments in stores continue to enhance the shopping experience while driving efficient work flow processes. Our new leased Northeast Distribution Center (Suffolk, VA) designed and built specifically for NEXCOM's workflow, incorporated the latest advancements in automation to reduce labor costs of the distribution process and improve product throughput. The consolidated facility is one of three of NEXCOM's critical distribution nodes, serving the east coast, Europe and Cuba while also supporting over 120 of our sister MCX stores. Last year we invested over \$74M in nonappropriated facilities and equipment; providing a return on our investments and improving service to our customers and our bottom line.

In 2013, we received two industry awards focused on our associates and customer service. For the second year in a row, *LATINAS* Magazine named NEXCOM as one of the top 50 companies in the United States for providing the best career opportunities for Hispanic women. To ensure our military

families receive the best customer service, we instituted our PREMIER Customer Service Suite of Learning Tools, which recently received the American Society for Training and Development Excellence in Practice citation in the Sales Enablement category. Our associates have really embraced the PREMIER Customer Service training program and it shows in our high Customer Satisfaction Index scores.

The commitment of our associates and their dedication and appreciation of our military customers is paramount to our success. They are truly a team of professionals who are passionate about our mission. I have personally witnessed the emotional connection our associates have with our customers, particularly overseas. In many of our locations, they know our Sailors by name and are willing to go the extra mile to ensure their needs are taken care of.

We cannot do this alone. I want to acknowledge the dedicated support we receive from our industry partners. From ensuring we have the current products our families want, to celebrity visits to our military installations, they share our commitment to our military and are invaluable in helping us deliver a sustainable and relevant benefit in the future. We will continue to work side by side with them as we strive for more efficient operations, particularly in supply chain initiatives. We value their expertise and deeply appreciate all they do for our military members.

This subcommittee's support of our military is both appreciated and needed. Your continued support for the preservation of second destination transportation funding is valuable in our ability to help our overseas families meet the challenges of living so far away from home. We rely on your vigilance in protecting their quality of life benefits and on their behalf, I thank you.

In closing, I would like to share a letter from a military family member that shows not only the importance of the Navy Exchange benefit to our military families, but also the dedication of our associates to take care of them, particularly those serving overseas.

Good morning,

I am writing to thank you and one of your employees, Audrey Edwards, for the exceptional service I received last week. To make sure you understand how important what she did was to me I need to tell this story. On our first wedding anniversary I presented my wife with a long stem yellow rose as a symbol of the successfully completed year. On the second anniversary she received another yellow rose along with a red one representing 2 years. Each year since I have added another red rose totaling the number of years we have been married. Over the years, even when her naval career has separated us, from Great Lakes to Hawaii to London to Iraq (they were silk for that one), I have managed to make sure she received the flowers on our anniversary. During a recent visit to my wife, who is stationed at Naval Hospital GTMO, we celebrated our 32nd wedding anniversary. Imagine my disappointed horror when I arrived on island and discovered there was not a flower to be had and I needed 32 of them. After exploring all other possible options from silk to ceramic I decided I would have to learn to make paper ones.

While on my quest for yellow tissue paper I met Audrey Edwards, the beautiful young lady working in the NEX personal services shop. After discussing my plight with her, where she discovered I had no idea how to make a paper flower, she offered to make them for me. We agreed on a price and a completion date, I left my materials with her, crossed my fingers because I didn't know what to expect, and left the store. Several hours later I was passing by and saw through the window that she was hard at work making my flowers and had several of them done already. Upon closer inspection her creations were beautiful, and I was no longer worried that this would be the year I'd fail to get flowers to my wife.

My wife, who knew there were no flowers available so was not expecting any, was very surprised and pleased when she found them on her desk on our anniversary day. I had recruited one of her coworkers to help with the delivery.

I cannot well enough express my gratitude for the exceptional service Audrey provided or tell you how truly impressed we are with the bouquet she created. She went well above any reasonable expectation for service that I had. Her willingness to share her talent on behalf of the NEX has got to make her one of, if not the best, employee you have. She is a treasure..

Thank you from a very pleased customer.
Joel Brandenburg

It is our honor to help our dedicated military families meet the stresses and challenges of military life. We will continue to work together with the other services, industry and this subcommittee to ensure the most optimal use of our valuable nonappropriated fund resources. Together we will show our military families that their needs have not been forgotten and their sacrifices and commitment do not go unnoticed.