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THE HOUSE ARMED
SERVICES COMMITTEE**

**STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON MILITARY PERSONNEL
OF THE
HOUSE ARMED SERVICES COMMITTEE
ON
MILITARY RESALE
20 NOVEMBER 2013**

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Chairman Wilson, Ranking Member Davis, and distinguished Members of the Subcommittee, it is my privilege to report on the status of Marine Corps resale activities. I want to thank Congress, especially this Subcommittee, for your continued support.

For Marines and families, the Marine Corps Exchange (MCX) is an important part of the overall non-pay compensation package and the Marine Corps mission. Consistently ranked by Marines and families as one of their most valued benefits, MCX provides not only a value for Marines and families when they shop, but also returns dollars to the Marine Corps community. Thank you for giving us the opportunity to highlight some of our new initiatives, recent accomplishments, and efficiency practices.

Keeping Faith with Marines and Families

One of the Commandant's highest priorities is "keeping faith" with Marines and families. Our Marine Corps Exchange takes that priority to heart as we strive to provide a high quality, on-brand shopping experience for Marines, Sailors, families, and retirees. To MCX, "keeping faith" means creating a consistent experience and value for Marines and families, regardless of installation assignment.

"Keeping faith" also means supporting leadership objectives, such as the 21st Century Sailor and Marine initiative that Secretary Mabus unveiled last year. The initiative, focused on five key areas - Readiness, Physical Fitness, Safety, Inclusion, and Continuum of Service - aims to increase resiliency within the Department of the Navy. The Marine Corps Exchange continues to support this effort through a variety of programs. Our Commandant recently issued a memorandum regarding alcohol sales. It instructs all Marine Marts adjacent to barracks to remove distilled spirits. Additionally, the memo limits alcohol sales times to 8:00 AM thru 10:00 PM, and dedicated floor space to no more than 10 percent of the total retail space.

Another significant step to support 21st Century Sailor and Marine came in 2012 when MCX instituted tobacco price parity. This effort complements the initiatives that Semper Fit has taken in training and education of tobacco cessation. Additionally, MCX offers tobacco cessation items at cost for patrons as part of our value program, “Xtreme Value.” This program supports the financial readiness of Marines and their families and offers items such as diapers, formula, baby food, bread, and milk at cost. In regards to safety, MCX encourages all motorcyclists on installations to take a base motorcycle safety course by offering authorized patrons who complete the course, a 25% discount on motorcycle safety equipment.

The Marine Corps resale system is also pleased to support the Department of Defense’s new Healthy Base Initiative (HBI). The two Marine Corps pilot sites for HBI are Quantico and Twentynine Palms. The HBI is aimed at keeping Service members and their families healthy, or making them healthier, to increase readiness. MCX is focused on keeping faith with Marines, Sailors, and their families by ensuring there are healthy options available to suit their needs and we look forward to more HBI-related programing in the coming months.

“Keeping faith” with families does not end there; MCX is committed to supporting initiatives like the White House’s “Joining Forces” to employ veterans and family members, along with our vendor and industry partners. As a member of the Military Spouse Employment Partnership Program we are excited to help provide jobs to military spouses who may be worried about finding a job at their next duty station. Currently, almost 30 percent of MCX employees are military family members.

Marine Corps retail programs are not immune from fiscal challenges, but challenges bring great opportunity. On our installations, MCX provides lifestyle relevant products and services Marines and families need and desire, below market price or at cost, to support

household and financial health. This environment leads to new drivers, like transformation, being change leaders and precision in all that we do.

Marine Marts and Marine Corps Exchanges

In 2007, MCX began an aggressive reinvestment into main stores; this strategy was successful as it created a higher quality, consistent experience for Marines and families. We are looking to duplicate that success with a similar strategy in Marine Marts and are currently executing our Marine Mart Capitalization Master Plan. The plan identified over 70 Marine Marts and prioritized those to build new, expand, or renovate. MCX customers on average visit the main store once per week, but visit Marine Marts almost daily, some customers visit as many as three times a day and often consume one of their meals from the food and product offerings; in 2012, there were over 11.7 million Marine Mart transactions. As Marine Marts are an important part of the Marine Corps community, we are focused on offering products and assortments meaningful to the Marine or their spouse visiting their neighborhood Marine Mart for a quick and healthy grab and go.

MCX aims to stay relevant to customers in all that we do. One way to ensure relevancy is through product diversity- we carry a wide array of brands and price points to appeal to each customer and to better meet their needs. We're especially proud of our high quality MCX private label clothing brand, 1775. The 1775 style is fashionable and priced affordably. Beyond our assortment of both branded and private label clothing lines, we offer a variety of products from cosmetics to electronics to toys to home furnishings to serve as a "one stop shop" for Marines and families. Our Xtreme Value program offers the brands and products important to our customers at the best price possible. To date, we have reduced the price on over 60 everyday

items, such as razors, detergent, deodorant, toothpaste, etc., and continue to review our inventory for other opportunities.

Marine Corps Exchanges are conveniently located at the nucleus of the installation community but also offer online shopping which allows for additional products. The Exchange On-Line Store is a cooperative effort with our Sister Services which benefits MCX shoppers in numerous ways: provides a wider variety of products; allows us to stay competitive in the ever-growing virtual market place; and earns a dividend on Marine affiliated purchases.

In 2012, our annual Customer Satisfaction Index survey indicated MCX patrons' satisfaction increased two points over the previous year. Patrons awarded MCX a customer satisfaction score of 80, indicating a high level of satisfaction with our MCX. We saw increases in areas on which we have strategically been focused, like merchandise assortment and availability. The 2012 results of our market basket survey, which we conduct annually as a cooperative effort with the Navy Exchange and Army and Air Force Exchange Service, showed an average savings of over 24 percent all while maintaining a consistent gross margin.

Marines, Sailors, and their families have come to expect high quality service, a wide selection of products, and great savings from MCX and we regularly meet or exceed those expectations. We also stand out among other retailers and, in a slow economy, are consistently increasing proceeds over each previous year. Success is measured not just by revenue, but also by the value we provide to our Marine Corps community. When shopping at MCX, Marines and families know that dividends are returned to their community, creating a stronger Marine Corps.

Gaining Efficiencies

In this resource constrained fiscal environment, MCX seeks to avoid unnecessary costs by executing programs in the most efficient way and our MCX-generated dividend has become even more important. We are now expanding our efficiency efforts to include not just the branded look of the MCX, but also the back-of-house operations. We are transforming our supply chain, specifically how we flow merchandise, and technology capabilities to support best in class processes to reduce redundancies and become more efficient. For example, in 2011, MCX partnered with a third party logistics company to streamline transportation logistics, this resulted in decreased transportation and inventory management costs and more consistent product delivery times. Despite increased transportation prices and weather delays in FY12, MCX met its transit goal of 8 days or less in 11 months of the year and reduced freight transportation costs by about 25 percent, or \$2.5 million. By establishing relationships with logistics and consulting agencies, MCX gained significant efficiencies, while growing topline sales and improving margin dollars to support Marines and families.

Along with our Sister Services, the MCX also participates in the Cooperative Efforts Board (CEB). The CEB focuses on indirect procurement and supply chain activities and proactively looks at all areas of the business to find cooperative opportunities. One example of cooperative efforts resulting in decreased costs is the use of joint contracts on indirect procurement; in 2012 the exchanges saved a total of an estimated \$10.7 million by leveraging our spending to negotiate more favorable contract terms and prices. Additionally, the exchanges are cutting shipping costs in a significant effort to collaborate on distribution when possible, through utilizing other exchanges' distribution centers and sharing shipping containers to

overseas locations. We constantly seek efficiencies across all business and support activities; it is a part of our daily business practices.

MCX Financial Results

Total MCX sales in Fiscal Year 2012 were \$1038.3 million. MCX profits were \$75.0 million and the dividend for MWR was \$49.6 million. By comparison, in Fiscal Year 2011, total MCX sales were \$997.8 million, profits were \$69.8 million, and dividend for MWR was \$47.5 million.

Deployed Support

Deployed support is one of the most important services we provide. Our mission is to support the Combatant Commander with MCX Warfighter Mobile support and MWR in theater. Within resale activities, we have ongoing missions in Afghanistan, supported in large part by Army and Air Force Exchange Service as they provide product and infrastructure. These operations include a Direct Operation Exchanges Tactical at Camp Leatherneck, one Tactical Field Exchange at Living Support Area 13, and numerous Warfighter Express Services Teams operating out of Camp Leatherneck. We also have two MCX Mobile Tactical Field Exchange (MTFE) Trailers which can serve as fully functional retail stores. Equipped with a diesel generator, the MTFE can operate on site for up to 72 hours and can provide indefinite operations when accompanied with a resupply container and connected to municipal power. The trailer can be used to support tactical field exercises, disaster relief, and special events requiring retail support. The MTFEs are road-ready and are based at Camp Pendleton and Camp Lejeune.

Conclusion

Our Marine Corps Exchange is focused on taking care of Marines, Sailors, and their families. From providing high quality goods at a great value to reinvesting dollars in the Marine

Corps community, we strive to “keep faith.” We will continue our aggressive pursuit of efficiency measures and a robust transformation strategy to protect this valued benefit. On behalf of Marines and their families, we want to thank you for your oversight and continuous support. Thank you for the opportunity to discuss these important issues.