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HOUSE ARMED SERVICES COMMITTEE

STATEMENT OF  
REAR ADMIRAL ROBERT BIANCHI  
BEFORE THE  
HOUSE ARMED SERVICES COMMITTEE  
SUBCOMMITTEE  
ON  
MILITARY PERSONNEL  
APRIL 15, 2008

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Mr. Chairman and Distinguished Members of the Subcommittee, it is my great privilege to represent the Navy Exchange Service Command (NEXCOM) and our 15,000 dedicated associates worldwide. This is my first time appearing before you and I appreciate the opportunity to update you on the Navy Exchange System (NES).

NES programs exist first and foremost to provide quality of life support to our warfighters. The role of the Navy Exchange is a vital and enduring one. By improving the quality of life of our customers and taking care of their needs, we allow our shipmates to focus on their mission and ultimately prevail in battle. Because at the end of the day, that is what it is all about. We are a combat readiness multiplier and preserving this non-pay benefit is our covenant, our social compact with our Sailors.

### **A Valued Benefit**

Navy, DoD, and Congress have long recognized that Exchanges are instrumental in supporting recruitment and retention. A Navy survey has validated this important role. Last year we received the results of the Navy's 2006 Quality of Life and Retention Survey, which asked Enlisted and Officer spouses to rank the top 10 important Navy support programs and services that affect retention. Navy Exchanges were ranked in the top five, just behind health care, retirement benefits, housing allowances and commissaries.

NES programs touch Sailors and their families every day through Navy Exchanges, Ships Stores, Navy Lodges, Navy Uniforms, and Personal Telecommunications. Globally, NEXCOM provides management for 104 Navy Exchange complexes with approximately 305 stores, 43 Navy lodges, 157 Navy Ships Stores, 37 Military Sealift command Ships Stores, Navy's Retail Uniform Program Management Office, and worldwide Telecommunications services afloat and ashore. The NES provides more than just merchandise. We provide food service, gas stations, auto service centers, a toll-free uniform call center and walk-in uniform stores, hair care, vending services, laundry and dry cleaning services to name a few.

A significant difference between Navy Exchanges (NEX) and commercial retailers is the broad diversity of our store portfolio. We are predominantly an organization of small stores. The top third of stores account for just below 90% of our total exchange operating profit. The remaining 66% of our stores, while generating just 10% of our profit, serve a critical role. Our mission is based on serving our Sailors and their families no matter the size of the installation. Where there is a Navy presence, NEX provides stores to meet Navy's requirements for a comparable level of Quality of Life support system.

Our customers themselves tell us they value the benefits our Navy Exchanges provide in two ways – increasing sales performance and increasing customer satisfaction scores. Our total sales execution has been on a continuing upward trend since fiscal year 2001, meeting or exceeding our Board of Directors approved annual financial plan targets. Despite a declining active duty population, we have averaged 5% annual sales growth over the past 5 years, which is in line with the average commercial retail industry growth of 5.1% during this same period of time. Last year, we were very pleased to reach our highest-ever score of 80 on our Customer Satisfaction Index (CSI), continuing a consistently improving eight-year trend. This places us among the top US retailers.

This survey also tells us that delivering value, not just in retail operations, but also through the broad services portfolio we offer, is very important to our families.

Our Sailors know the dollars they spend in our stores directly support their quality of life programs. In FY06, \$54 million (100% of our profits) supported these programs. \$40 million goes directly to Navy Morale, Welfare and Recreation programs and \$14 million will be invested in new NEX facilities to enhance their shopping experience. Our Ships Store Program generated another \$12 million of dividends for afloat recreation programs.

The Navy Lodge Program is self-sustaining, receiving no appropriated funds except for some limited base support as well as utilities funding overseas. In the hospitality business, guest service is the key to success and Navy Lodges rank high with a guest satisfaction rating of 94% compared to the industry average of 71%. A recent GAO audit noted that the Navy Lodge is the only lodging program that collects and analyzes guest feedback, conducts systematic performance reviews similar to other hotel chains and compares its performance against industry standards for cost, service, amenities and facilities.

### **Integral Part of Navy**

We recognize our valuable role within Navy to support our Sailors and their families. Our strategic initiatives are aligned with Navy's and we will always do what is right for the Navy. As a part of the Naval Supply Systems Command, we are constantly focused on our customers – it is their success that is the ultimate measure of our success.

The Navy's Morale, Welfare and Recreation/Navy Exchange Board of Directors have joint oversight of the MWR and NEX programs. It is comprised of senior military leaders across the Navy Enterprise. Within Navy, we have found it to be of great benefit to have one Board of Directors that oversees both MWR and NEX. We are tied together by much more than the dividends we provide to MWR programs. We serve the same customers and work together to ensure sound fiscal operations, strong facility capitalization, and programs that compliment each other. Senior Navy leadership involvement is critical to the success of both programs.

NEXCOM is a "first responder" in Navy's emergency planning process. Local NEXs and Navy Lodges supported an influx of evacuees impacted last year by the California wildfires. NEX San Diego was first on site to help assist Navy's support to Sailors and their families at the shelters providing emergency merchandise, mainly health and comfort items, to support those military families who had to evacuate their homes. NEX concessionaires also provided support. McDonald's sent Happy Meals to the various sites and Subway stayed open 24 hours. Sprint provided free local and long distance calling to all Navy and Marine Bachelor Quarters and Navy Lodges to assist relocated military personnel. In addition, NEX Mini Marts at San Diego, North Island, Submarine Base, Liberty Station and Coronado stayed open 24/7 during the height of the wildfires to support on base evacuees. Some evacuees fled to area Navy Lodges that quickly became 100 percent occupied. Fortunately there was no damage at any NEX facility or Navy Lodge. These efforts demonstrate our commitment to supporting the military members as well as the commands.

## **Our Mission...Supporting the Warfighter**

As Navy operations evolve around the globe, so does our Navy Exchange presence. NEXCOM opened its newest store at Camp Lemonier in Djibouti, Africa on June 16, 2007. NEX Djibouti occupies nearly 3,500 sq ft of selling space, a barbershop, gift shop and tailor shop. NEX carries a variety of items including DVDs, CDs, video games and consoles, TVs, laptops, cameras, sunglasses and more name brand clothing for men and women.

In November we opened a new store in Rota, Spain bringing a great quality of life enhancement to our customers in Spain. The new store is all about convenience – it not only combines five outlying stores into one location, but it is also co-located with the commissary. The complex includes a Subway, We Proudly Brew Starbucks, video rental, mini-mart, barber and beauty shops, laundry/dry cleaning and photo studio. Sales for the first weekend were \$660,000.

These new and renovated stores, constructed using our NEX non-appropriated funds, provide the infrastructure necessary to improve our retail and service offerings. This coming year, our major construction plan of \$45 million continues our investment in enhancing the benefit to our military.

When our Sailors go to sea, our Ships Store Program is there to take care of their needs. Sailors rate Ships Stores as one of the top five quality of life programs afloat, providing quality services and products for day-to-day shipboard living and funding for afloat recreation programs. Leveraging commercial best practices in technology and processes, Ships Store Program is engaged with Navy in many initiatives to realize increased efficiencies, with less Sailor manpower and at a reduced cost, while continuing to provide Sailors and Marines at sea with exceptional Quality of Life support.

Keeping in touch with home is important to our Sailors. Last year, our Sailors' phone calls from our ships totaled 17.5 million calling minutes. Most importantly, during 2007 we were able to once again lower the rate on our calling cards, which is now down to 45 cents per minute, which is a 55% reduction from the rate 3 years ago. NEXCOM and AT&T teamed up again to provide free phone calls to military members underway during the holiday season. NEXCOM and AT&T have been providing these free phones cards since 2001. Each Sailor, Marine and Coast Guard member underway received a \$10 prepaid phone card for a total of 25,000 free cards distributed during the holidays.

We are proud to take an active role in supporting our wounded warriors and their families. Working with hospital and Marine Corps liaisons, our Navy Lodges provide guest rooms to wounded service members and their families. At Bethesda, MD, over 5,500 room nights were utilized during last year. Senior Navy and DoD inspections of these rooms have always had very positive results. Our Telecommunications Program provides free phone cards to the wounded at the hospitals and aboard USNS Comfort. We have also had strong support from our vendor community. Working with Nintendo, we provided 20 Wii game system kits to three military hospitals' physical therapy departments to help recovering military patients.

Taking care of our warfighters doesn't stop when they retire from active duty. Retirees have earned their privileges and the exchanges play a vital role in fulfilling our nation's commitment to them.

During 2007 we initiated an effort to help us better meet our customers' expectations – Customer Segmentation. Before, the Navy Exchange largely addressed our customer base in terms of active-duty and retirees. NEXCOM's new segmentation tool breaks down the Navy Exchange customer base into eight life stages. These life stages consider our new recruits and single sailors, service members with families and those with grown children, our military members who are retired yet still active in the workforce and patrons who are more likely retired with a fixed income. By focusing on these segments of our customers, our buying and store staffs, as well as our suppliers, can accurately tailor the merchandise assortment and address specific needs for the demographics of each store location. We are proud of this tool and believe that this is a key differentiator to help us improve our support to the warfighter.

### **Supporting the Families**

We also are there to support the families of our warfighters. When Sailors deploy they should be able to focus on their mission and specific jobs, knowing that there is a support network back home taking care of their families. Before the House Armed Services Committee earlier this year, both the Secretary of the Navy and the Chief of Naval Operations stated the Navy's priority was to develop and support our Sailors and their families. Admiral Gary Roughhead stated in his testimony: "Supporting Navy families is critical to mission success."

We know that our exchanges are important to all our family members, particularly when their loved ones are deployed or they are located overseas. Exchanges provide more than a place to shop. They are community hubs, providing an important connection to the military community. All our stores support the Navy community they serve with many events. NEXs sponsor health and safety awareness programs such as health and fitness fairs, blood and bone marrow drives, breast cancer awareness days, fire prevention, Ident-a-Kid programs, and motorcycle safety. Events focused on families include baby day events, back to school events, bridal events, fashion shows and Military Spouse and Ombudsmen Appreciation events. During the holidays, activities include Breakfast with Santa, Angel Tree, Toys for Tots, and Kids Shopping Events. Our industry partners are instrumental in making many of these events possible. With their support we are able to bring many celebrities to our stores to meet our military families. Last year these included John Schneider (from Dukes of Hazard), Elliot Yamin (from American Idol), Kurt Busch (NASCAR driver), Deborah Norville (TV personality), Ted Nugent (rock musician), the Harlem Globetrotters and the Navy's own retired SEAL and Survivor contestant, Rudy Boesch. These are just a few of the many ways we are a valued part of the military community.

Navy family members represent 30% of our 15,000 worldwide associates. We value their contribution to our programs. Our continuity of employment program helps them to continue their Navy Exchange career as they move around the world with their Sailors.

### **Partners Delivering Quality of Life**

NEXCOM shares responsibility for Navy Quality of Life with Commander, Navy Installations Command (CNIC) who manages the Morale, Welfare and Recreation

programs. We work closely together with CNIC to ensure a seamless total approach to Sailor and family support.

We have been actively developing cooperative business initiatives with the Army and Air Force Exchange System (AAFES), and Marine Corps Community Services that will increase efficiencies and effectiveness of all our programs while allowing us to best serve our respective services. We just finished our seventh annual cooperative effort report to DoD. Exchanges have continued to build upon years of collaborative initiatives with a recent focus on three core cross-functional teams: logistics, indirect procurement and enterprise architecture. Commodity Councils have been established to combine indirect procurements to leverage spend. In November 2007, the exchanges implemented cross acceptance of exchange gift cards. Each exchange can now redeem a gift card, no matter whether it was purchased from AAFES, NEXCOM or Marine Corps Exchange. NEXCOM achieved an eight percent savings by consolidating our container loading services with AAFES for shipments destined to Japan. In addition to searching new initiatives, some cooperative efforts continue to be part of our normal operating procedures. Among these efforts are the all Services Exchange Catalog, combined house brand credit card and joint private label merchandise. Our respective Exchange Boards of Directors are pleased with the progress we are making cooperatively. We are encouraged by our progress and will continue to work together to better serve our military families.

We collaborate with the Defense Commissary Agency (DeCA) as much as possible. Our joint efforts work well at installations where the commissary and exchange are co-located where we conduct joint sales events, whether they be parking lot case sales events or in-store cross promotion of each other's merchandise. Additionally, we've partnered with all the exchanges and DeCA to find alternatives for shopping bags, which include our re-useable "green" bags and research into biodegradable bags that are more earth friendly.

Our industry partners share our commitment to our Sailors and their families. We could not do it without them. They are working side by side with us as we adapt new business processes to improve our operations. Many of the special events in our stores are a result of their contributions, particularly our Customer Appreciation Days which are a way to give back to our patrons in remote and overseas areas like Guantanamo Bay, Cuba and Naples, Italy. These are all day events with many activities, promotions and celebrity appearances, all simply to say thank you to our Navy families overseas. I thank them for the valuable role they play in delivering the exchange benefit.

Since assuming command of NEXCOM and after conducting site visits around the world, I can tell you that I am most impressed with the dedication and professionalism of the team members I have met. It is clearly evident that our successes are because of each and every one of our associates. Our diverse team of more than 15,000 dedicated men and women around the world collectively possess the wide array of knowledge, skills, and abilities that enable us to accomplish our mission. I have personally witnessed the emotional connection our associates have with our customers, especially in our overseas locations. I saw superb examples of teamwork, customer interaction and integration with the base and the local community. Even though I have traveled to some diverse areas in terms of geography and store size, one thing has remained constant – our unwavering service to our military customer. Everywhere I went, I saw our NEX and Navy Lodge

associates going above and beyond to ensure that our customers' needs were taken care of.

This Subcommittee's support and dedication to the men and women who serve our country is outstanding. Your support for eliminating certain merchandise restrictions imposed on military exchanges is much appreciated, and shows your commitment for improving the resale benefit for our warfighters. Your continued support of full funding of Second Destination Transportation requirements for exchange merchandise sent overseas is appreciated. It aids in our ability to serve those military personnel stationed far from home, providing them the same merchandise price as they would pay back in the United States. Within the Department of the Navy, we work collaboratively to make certain our exchange transportation requirements are met, while ensuring we are good stewards of these funds. On the behalf of our dedicated men and women serving worldwide, I thank you for your support. I look forward to working with you. Continuing our partnerships with Congress, the Department of Defense, the Military Services, and Industry will ensure that exchanges are poised to go forward and continue to improve the quality of life of our service members.

### **The Way Ahead**

Today's economic environment is having an impact on consumers. During these trying economic times, it is especially important that our Sailors and their families know they can count on their Exchanges for the savings and value they need. Our ability to provide that savings is dependent on our ability to operate efficiently and effectively. We will continue to work on improving our processes to ensure we are the most efficient organization we can be.

Where our brick and mortar stores cannot touch our customers, we are looking to multi-channel retailing to meet that need. As the digital lifestyle becomes more pervasive, customers have come to expect their shopping experiences to transcend the confines of the traditional brick and mortar store. Therefore, the NEX is reviewing possible multi-channel business models to both meet our patrons' growing expectations and to improve their quality of life.

As good stewards of our environment, Navy Exchanges are going green. Our gas stations in largely populated areas offer alternative fuels. In keeping with trends in the commercial retail sector, multi-use reusable shopping bags are available at Navy Exchanges worldwide. In addition, we are conserving energy/resources and improving profitability by constructing energy efficient buildings that incorporate Leadership in Energy and Environmental Design (LEED) principles, retrofitting existing facilities with energy efficient features, and strongly supporting Navy's "green" initiatives with a dedicated Energy Manager and robust NEX Energy/Resource Conservation Program. NEX is always looking for ways to help the environment and make the shopping experience a pleasant one for our customers.

While there may be many changes in our business environment, the philosophy of the Navy Exchange System will not change – we exist solely for our shareholders – the dedicated men, women and families who serve or have served our Navy and our great country. All of our worldwide NEX associates share a commitment to not only meet, but exceed the needs of our valued patrons by providing the best value products, services and

customer service. In short, we all strive to delight our customers. I am proud to take over the helm of the Navy Exchange and look forward to building on our past successes as we continue to improve military quality of life.