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DEPARTMENT OF DEFENSE  
MILITARY EXCHANGES

AD838066

Task 68-5

July 1968

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Washington, D. C. 20016

DEPARTMENT OF DEFENSE  
MILITARY EXCHANGES

Task 68-5

July 1968

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## FOREWORD

During late September, 1967, the Assistant Secretary of Defense (Manpower and Reserve Affairs) and the Assistant Secretary of Defense (Installations and Logistics) requested the Logistics Management Institute to conduct a study of the Department of Defense military exchanges. This study has been in progress since that date, and the task is completed with the submittal of this report. Because of the broad scope of operations and the complexity of exchange functions, in-depth studies of all activities were not possible within the allotted time frame. Thus, LMI has given priority to those areas which appear to offer the highest return and has concentrated its efforts on those functions.

The Institute would like to express its sincere gratitude for the cooperation and assistance of the military departments and the three exchange services. Without the total support of the Army-Air Force Exchange Service (AAFES), the Navy Ship's Store Office (NSSO), and the Marine Corps Exchange Service this project could not have been completed. It is impossible to personally acknowledge everyone who contributed to this report, but the contributions of all involved have been significant.

Of necessity the report concentrates on areas offering opportunities for improvement. It should be emphasized, however, that there are many instances of excellent and even superior operation in present exchange activities. We will attempt to highlight these wherever possible. It would be easy for a reader to lose overall perspective if these examples of progressive management planning and fine operation were not mentioned along with the report's recommendations for changes.



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## I. SUMMARY

The task order covering this LMI study of military exchanges, and the verbal instructions which accompanied it, set forth certain study objectives which can be simply stated. The report is intended to supply the Office of the Secretary of Defense with:

1. An assessment of the present organizational structures and management of the three exchange services.
2. Suggestions covering ways and means of increasing:
  - (a) responsiveness of the exchange services, and
  - (b) the operational efficiency with which they are managed and operated.
3. A summary of the interfaces and problem areas which are of particular concern to the Office of the Secretary of Defense.

Exchange sales totaled nearly \$3 billion in FY '68 with net profits of approximately \$160 million. Total employment stands at nearly 120,000 for all three exchange services.

The primary objective of military exchanges is to serve and benefit the military consumer and his family. Our observations and analyses convinced us that the three exchange services are fulfilling this mission, both in CONUS and overseas. In addition they have been responsive to their secondary mission of contributing to military department welfare and recreation funds. These contributions totaled over \$112 million

in FY '68. The remaining profits have been set aside for capital facilities investment and working capital.

The study was initiated in October 1967 and is completed with the submittal of this report. The study included all three exchange services, the Army-Air Force Exchange Service (AAFES), the Navy Ship's Store Office (NSSO), and the Marine Corps Exchange Service. Our examination took us worldwide to nearly all principal exchange areas except those in the Republic of Vietnam. The effort included not only a study of exchange operations but also an examination of military command relationships and customer and supplier attitudes.

LMI believes that the exchanges are generally well managed and controlled. However, we identified many opportunities for refinement and improvement both in the organizational structures of the exchange services and the management practices which they employ. In many cases where gaps and weaknesses in policies and procedures are evident, the exchange services have already taken action or are planning to take action to resolve the problems. Our concentration on problem areas and opportunities for improvement should not detract from the many examples of excellent management and operations which we observed.

In many respects we found the exchange services to be in a period of transition. AAFES on a total systems basis, the Navy exchanges on a limited basis, and the Marines in the initial conceptual stages have all apparently recognized the benefits which may be attainable in consolidating or aggregating certain functions on an area basis. Both AAFES and the NSSO have formed sizable centralized headquarters functions to generate policy and procedures, and in some instances have

centralized operational functions such as general accounting, CONUS payroll, etc. The Army-Air Force Exchange Service is undergoing the greatest degree of management system change of any of the three services at this time, and as a result, probably has more problems which are evident on the surface. The Navy, on the other hand, is essentially operating under two concepts. Most Navy exchanges operate separately under the technical guidance of NSSO, while others are being brought together under an area consolidation as envisioned in the Navy Exchange Service Center concept. The Marine exchanges are testing the consolidation of selected financial functions to determine specific benefits before moving further.

In reviewing present exchange operations the following observations, analyses, or conclusions appear to be the most important:

1. Mission statements of the three exchange services vary to some degree with no apparent priority of missions noted in two of them. We believe there is a definite need for a precise, clear mission statement which clarifies priorities and which is common to all exchange services. The mission statement should be included in the Armed Services Exchange Regulations. As we understand it, the priority desired by DoD places services to the consumer first and the creation of exchange profits second.
2. In our judgment there would be distinct advantages in having one common set of procurement policies, regulations, and procedures for the exchange services.



Since all exchange services are presently using variations of Price Agreement Bulletins, we believe it would be desirable to use one common set of PAB's for repetitively procured items which are in general demand in both CONUS and overseas exchanges. Likewise, commonality of customers and merchandise in the three exchange services warrants common or jointly sponsored buying clinics. Other procurement techniques, such as national contracts, can provide additional savings to the consumer; an objective which, however, should not be allowed to compromise customer demands for a choice of national brands.

3. The principle of providing price equity to all military consumers is best served by having common pricing policies and procedures worldwide. However, these should recognize the variations in local environments, and should permit flexibility among areas but require price consistency within a local area for both merchandise and personal services. We therefore suggest a common retail markup guide for merchandise pricing, and some common criteria to guide local areas in setting prices on personal services.
4. AAFES experience and Navy projections indicate that area consolidations of inventory management functions will permit greater visibility of stock structure weaknesses and will identify opportunities for improvement. The area concept provides an economically feasible environment for electronic data processing in inventory management, and thus makes possible

improved control of stock structures.

5. Similarities of missions and customer clientele support the premise that there would be considerable benefit from having:
  - (a) common supplier quality experience files,
  - (b) common merchandise inspection and acceptance standards, and
  - (c) common quality assurance examiners at plants supplying more than one exchange service.
6. There is a growing realization both in the exchanges and in their commercial counterparts that optimum distribution patterns for merchandise may vary from commodity to commodity. LMI's observations support this, and we suggest that the exchanges will benefit if detailed cost and delivery trade-offs are conducted on a commodity-by-commodity basis.
7. An area distribution concept, incorporating some of the best features of both the AAFES ASC's and the Navy's Exchange Service Center concept, presents substantial possibilities for benefits and savings through:
  - (a) consolidated procurements and shipments which can be containerized at vendor plants;
  - (b) lower freight and transportation costs due to higher volume shipments;
  - (c) reduction in the number of out-of-stock instances through shared central warehouses;
  - (d) possible pooling of available capital in an area to obtain a single warehouse with modern materials handling equipment; and

- (e) elimination of duplication in local transportation within an area.
8. Present variations in financial and accounting systems make it practically impossible to compare the performance of one exchange service with another. If comparability at the OSD or military departmental level is desired, consistent accounting policies and identical accounting formats will be required.
  9. Experience to date in AAFES ASC's plus projections of the Navy NESC concept indicate the value of electronic data processing (EDP) methods in many exchange functions at all levels. Although commonality of EDP systems is not a necessary requirement, LMI believes that all exchange services would benefit from closer coordination and interchange of EDP concepts, programs, and operating procedures.
  10. All exchange services agree that there is a need to revise the exchange facilities' space criteria to more realistically reflect the customer strength patronizing the exchanges. These criteria should also recognize the effect of customer strength and sales upon warehouse requirements.
  11. LMI sees no reason to suggest either the direct operation or the concession operation of personal services to the exclusion of the other. Local conditions often dictate. Common decision criteria should be developed among the exchange services, however, and should be applied uniformly within a local area to present a consistent front to the local business community.

12. The exchange services and their employees would benefit from a single personnel system common to the three exchange services.

In addition to an examination of each function we made an evaluation of the present operating concepts, and came to several conclusions noted below.

We believe that the AAFES Area Support Center concept is sound and offers significant advantages and future opportunities with the following reservations:

1. AAFES has not yet reached a state of refinement in determining the optimum number of ASC's, Pacific regions, or European areas, nor have they determined the optimum size of staffs supporting these operations.
2. Physical distribution patterns need considerable study and refinement, probably on an item-by-item basis.

Present AAFES command relationships with military commands in both Europe and the Pacific involve considerations far beyond the scope of this study. From the limited LMI perspective, i.e., exchange operations, they appear to be well founded and effective. In CONUS we believe that individual exchanges will be more responsive and effective if placed directly under Area Support Center management.

Likewise, we believe that the Navy Exchange Service Center concept offers distinct advantages over the present Navy methods of individual store procurement, distribution, and operation. We suggest, however, that this new concept would be more

effective if the procurement functions could be centralized under the NESC to the point that all stock structures and buying are controlled from the NESC.

We believe that present command relationships between individual Navy exchanges and base commanders are well understood and effective for the present concept of operation. With the advent of the NESC's, however, we believe that all exchanges under a NESC area should report directly to that area headquarters.

The present decentralized Marine exchange concept is working well and is responsive to Marine military commands. However, we believe that opportunities for better service and economies of operation exist in area consolidations of nearly all functions. The Marines are presently examining the opportunities on the West Coast and are testing the consolidation of certain functions at Camp Pendleton.

Inasmuch as the three exchange services are presently providing a responsive service to their customers and are producing profits and welfare contributions in fulfillment of their missions, we approach with caution any suggestion of major changes in their organizational structures. However, our task to propose an optimum organizational structure requires that we present several alternatives to the present method, briefly described as follows:

1. Alternative A - The three present exchange services could remain organizationally separate as they are today. However, certain policies, procedures, and functions could be standardized or changed to increase their responsiveness and reduce their operating costs.

2. Alternative B - The three present exchange services could be reduced to two by combining the Navy and the Marine systems into one. Standardization of certain policies and procedures between the Navy-Marine exchange system and the AAFES would be included as noted under Alternative A.
3. Alternative C - The three present exchange services could be combined into one DoD-wide exchange service under several possible arrangements:
  - (1) The combination could be administered as a joint exchange service reporting to the chiefs of the four military services.
  - (2) The combination could be operated as a DoD agency.
  - (3) The combination could be structured as a wholly owned government corporation.

If desired, provision could be made for an advisory board under any of the sub-alternatives, with representation from both the military and the commercial segment of industry.

Our evaluation of the organizational alternatives has been heavily influenced by two considerations.

The first is the finding in Section IV of this report that common, DoD-wide, policies or procedures or both will benefit every one of the dozen or more functional areas which, in the aggregate, make up the exchange services. Alternative A, therefore, would require joint task groups to consider changes which would affect virtually all exchange functions. A point of coordination for such reviews would be required and there appears to be no suitable point short of OSD itself. We

believe, therefore, that Alternative A would be cumbersome to implement and the results would be uneven and slow to achieve.

The second consideration involves the relative sizes of the three exchange systems. AAFES contributes about 73% of total exchange sales, NSSO about 22%, and the Marines a little under 5%. These figures indicate that Alternative B, a Navy-Marine combination, would have relatively small total impact when measured against DoD exchange services as a whole. Such a move might be justified if the initiative for it came from the Marines out of a desire to make more extensive use of NSSO centralized and area services than is now the case. We cannot recommend it on the basis of this DoD-wide exchange study.

We have concluded that Alternative C offers the optimum way to achieve the benefits described in Section IV. In addition it provides an environment for the reduction or elimination of redundancy among the three present exchange services.

In broad terms Alternative C calls for: (1) procurement operations centralized at the headquarters level, (2) centralized general accounting and capital management, and (3) area responsibility for stock assortments, physical distribution, inventory management, and cost accounting. Local exchange responsibilities include generation of requirements and operation of the retail and service outlets.

Command lines from unified or major military commands overseas to overseas exchange headquarters are presently matters for the theater commanders to determine. In CONUS we would suggest a direct command line from exchange headquarters down to the areas and thence to the local exchanges since the military

environments are different from those overseas and there is a direct feedback from the military departments in CONUS to the exchange headquarters.

The question whether the single DoD-wide exchange service visualized in Alternative C should be set up as a joint service or as a DoD agency involves considerations beyond the scope of exchange operations and this study, and we make no recommendation on that point. The applicability of the government corporation concept, as a sub-alternative under Alternative C, appears to us to be feasible only if the DoD decides that the exchange systems should be set up as one or more discrete organizational entities with a clear management chain extending from the central headquarters down to the individual CONUS and overseas exchanges, and with the authority over the exchanges of the theater commanders as well as post or base commanders defined as something less than "command." This sub-alternative thus also raises issues beyond the scope of this study and we make no recommendation regarding it.

Summarizing our evaluation of the various organizational alternatives:

- a. LMI concludes that the optimum form of organization for Department of Defense military exchanges would be a single Armed Services Exchange Service with all exchange activities combined under one central exchange headquarters (Alternative C).
- b. LMI makes no recommendation as to which option should be chosen under Alternative C. There are considerations beyond the scope of this task which would influence a decision one way or the other.



- c. A theater commander's authorities are not an appropriate subject for study in connection with a review of military exchange management. LMI familiarized itself with the manner in which the exchange systems have been organized and operate in Europe and in the Pacific under CINCEUR and CINCPAC. The organizational arrangement in each theater is described as satisfactory by the operational commanders concerned and appears to LMI to be conducive to responsive and efficient exchange operations. Unless sub-alternative C (3) were adopted, implementation of Alternative C would not of itself affect the organizational arrangements in either theater.

LMI believes that it would be impractical, if not impossible, to move directly from the status quo to a rapid implementation of Alternative C with any of its sub-alternatives. Nor do our findings with respect to the effectiveness and efficiency of present operations indicate that a rapid reorganization should be considered. A substantial amount of prior planning should take place prior to such a move.

Regardless of which alternative is finally chosen, there are several aspects of OSD's role in exchange affairs which should be highlighted. At the present time there is very little involvement of OSD staff groups in exchange affairs except in OASD (Manpower and Reserve Affairs) and OASD (Installations and Logistics). In OASD(I&L) the only discernible significant involvement is in the office of the Deputy Assistant Secretary of Defense (Properties and Installations). In OASD (Manpower and Reserve Affairs) a small staff is presently acting as the focal point of exchange and other resale activities at the OSD

level. We see the need for greater involvement of the various OSD functional staffs in broad policy development, but suggest that the focal point remain in OASD (M&RA) since the exchanges are primarily a morale activity. We also conclude that the exchange services should make greater use of the OASD (M&RA) staff in policy problems which might pertain to all exchange services or to other elements of the Government outside the DoD.

The LMI Task Order also asked that we study the inter-relationships between the exchanges and other non-appropriated fund activities. After considering these various interfaces and interrelationships, we believe that the recommendations made in this report regarding exchanges will not adversely affect other non-appropriated fund activities.

If the exchange managed all food service and resale operations, including concession sales, there would be some reduction in the amount of profits being held at the local posts and bases involved. This would be offset, however, by the increased exchange profit available for distribution to welfare and recreation activities.

Additional exchange support of clubs and messes in providing supplies and equipment should result in additional profit, both to the exchange and to the clubs and messes which take advantage of this opportunity for centralized purchase.

## II. INTRODUCTION

### A. STATEMENT OF THE TASK AND AREAS OF INTEREST

Increased attention is being directed toward Department of Defense exchange activities primarily as a result of their rapid growth over the past few years. In FY 1968<sup>1</sup> the Army-Air Force Exchange Service, the Navy exchange elements of the Navy Ship's Store Office, and the Marine Corps Exchange Service aggregated a total of \$2.84 billion in sales and generated profits amounting to \$160 million. The build-up of military forces in support of operations in Southeast Asia, plus increasing numbers of retired personnel and dependents in CONUS who have the exchange privilege, along with the increased buying power of the individual exchange patron, have been the major causes of this expansion. Exchange operations are definitely big business, and as such invite careful management scrutiny and evaluation.

The ASD (Manpower and Reserve Affairs) and the ASD (Installations and Logistics), in their Task Order 68-5 to LMI, have asked that the Institute make a complete management assessment and analysis of DoD military exchanges. As LMI formulated an approach to this study, the Assistant Secretaries and their staffs identified certain questions to be answered and expressed interest in certain areas. These included:

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<sup>1</sup>Fiscal Year closing dates vary among the three exchange services, as will be noted in Section IV.G.

1. Are the mission statements of the exchange services well defined, and are the exchanges responsive to their missions? (Missions are discussed in detail in Section IV.A.)
2. Are the exchanges well managed and under control? (See Sections I. and IV.)
3. What major restructuring of policy and organization is needed in exchange activities? (See Sections IV. and V.)
4. Is OSD's role in exchange activities clearly defined? What participation by various OSD staff elements is desirable? (See Sections IV.N. and V.)
5. Are the exchanges keeping pace with commercial retail practices? (See Section IV.)
6. Are procurement practices presently employed by the three exchange services sound and conducive to satisfying the mission of providing the best possible service and price to the consumer? (See Section IV.)

These and other questions stimulated the present task order which is included as Appendix A.

**E. CONSTRAINTS, LIMITATIONS, AND PERIPHERAL CONSIDERATIONS**

Although the present LMI task order is primarily oriented toward the overall management structure and organization of exchanges, there are several constraints, either stated in the task order or given verbally, which should be noted. Specifically, LMI is not to be concerned with:

1. Any evaluation of the basic need for military exchanges.
2. Any detailed recommendations concerning manning requirements.
3. Any specific evaluation or recommendations concerning the types of items offered for resale.
4. Any investigation of malpractice and/or possible black market activities.

There is a need to understand basic considerations in the first three since their interfaces with the organizational structure and management practices led to certain conclusions. These instances will be noted in detail at the proper points in the body of the report. However, LMI has made no investigation of the fourth item noted above.

A major constraint in conducting the study was the inability of the study group to visit the Vietnam Regional Exchange operation. An attempt was made to secure clearance for the trip, but the heavy traffic and press of other problems in Vietnam made it impractical. The group did visit the Thailand Region exchanges and viewed combat support operations there. However, the major impact on the Army-Air Force Exchange Service over the past few years has been the build-up and operation within the Vietnam region. We have included some facts and discussions of Vietnam exchange operations where information exists, but the study has been completed without personal observations in that area.

### C. STUDY APPROACHES, SCOPE, AND OBJECTIVES

LMI examined all three Department of Defense exchange services: the Army-Air Force Exchange Service (AAFES), the Navy Ship's Store Office (NSSO), and the Marine Corps Exchange Service. Operations are worldwide in all three, and LMI visited European, Pacific, and Far Eastern installations, as well as many of those located in continental United States.

Within the Navy Ship's Store Office exchange operations are divided into three segments: (1) the Navy shore-based exchanges operating under non-appropriated funds, (2) the Ship's Stores Afloat, which is an appropriated fund activity, and (3) Military Sea Transport Service (MSTS) exchanges which are operated under non-appropriated funds. LMI briefly examined both Ship's Stores Afloat and MSTS exchanges. We recognize that many of the shore-based exchange policies are applicable to both of these types of exchanges. We did not, however, investigate exchange operations or problems aboard ship connected with either Ship's Stores Afloat or MSTS exchanges. Nor did we attempt to identify any specific problems associated with the fact that Ship's Stores Afloat operate as an appropriated fund activity.

LMI found much of interest in the "area" concepts which will be described later. This prompted the Institute to make a rather detailed examination of both AAFES Area Support Centers and the Navy Exchange Service Center concept, which is in its initial implementation stages in the San Diego area.

The full range of the functions employed in operating exchanges was studied. Because of the large scope of exchange activities it was necessary, in certain functional areas, to

merely identify some possible opportunities for improvement without developing detailed analyses and recommendations. However, we believe that we have covered the more significant areas.

During the course of the study we had the opportunity to visit several commercial concerns or their executives, and found many similarities between the exchanges and their commercial counterparts. In drawing any comparisons between the exchanges and these commercial concerns, however, we have been careful to recognize the differing missions and environments under which each operates.

The heaviest LMI concentration was centered upon organizational considerations plus those key functions of procurement, inventory management, physical distribution, and financial management.

As called for in the task order, a major area of interest throughout the study has been the interfaces which exist among the exchanges and other government non-appropriated fund activities, such as officers' and enlisted men's clubs, open messes, liquor stores, and recreational activities. The task order implies that the study should examine the desirability of extending exchange procurement policies to those other non-appropriated fund activities.

The objectives of this study can be simply stated. The report is intended to provide the Office of the Secretary of Defense with:

1. An assessment of the present organizational structure and management of the three exchange services.

2. Suggestions covering ways and means to (a) increase the responsiveness of the exchange services to their missions, and (b) increase the operational efficiency with which they are managed and operated.
3. A summary of those interfaces and problem areas which are of particular concern to the Office of the Secretary of Defense.

The primary objective of any exchange activity operating within the Department of Defense is to serve and benefit the military consumer and his family. LMI gave this single overriding objective primary consideration in the evaluation and recommendations included herein.

D. OVERVIEW

In addition to an overall summary of the report (Section I), the report is arranged to provide a brief insight into the background and organization of present exchange activities (Section III). It then goes on to describe and evaluate present functions and operating concepts included in exchange operations (Section IV) and draws specific conclusions relating to those functions and concepts. The heart of the organizational problem is reached in Section V, wherein alternatives are presented and evaluated and recommendations are made. Section VI presents a discussion of and recommendations relating to welfare and recreation fund administration and other non-appropriated fund activities having interfaces with the exchanges.



### III. BACKGROUND

#### A. EVOLUTION OF THE EXCHANGES

A brief discussion of the background and history of U. S. military exchanges is included as Appendix H. Appendix I also contains some historical information with emphasis on the merger of Army and Air Force exchanges in Europe in 1964. A few comments concerning this history are included below to provide some background for the organizational patterns which will be examined in some detail later in the report.<sup>1</sup>

The exchanges in their present form date from the early 1900's. Both the Army-Air Force and Navy exchanges have been under centralized management for over twenty years.

During 1946-47 the Navy consolidated both the Ship's Stores Afloat and the land-based exchanges under the Navy Ship's Store Office (NSSO).

When the Air Force obtained full departmental status in 1947, the Army and Air Force mutually agreed to operate a joint exchange service with common policies and directives. This unified worldwide exchange system was called the Army and Air Force Exchange Service. In the early 1950's, the Air Force expanded its activities into the United Kingdom, Spain, Morocco,

<sup>1</sup>A reader who desires a more complete coverage of exchange history would be well advised to read:

- a) 1949 Hearings before the House Committee on Armed Services - Vol. II, 81st Congress - 1st Session.
- b) USAF JAG Law Review, Vol. VIII - No.5, dated September-October 1966, entitled "Evolution of the Army and Air Force Exchange Service," by M. Scolnick and J. L. Packer.

and other areas in the Mid-East where the Army was not located. With the asserted purpose of being more responsive to their commands, the Air Force had withdrawn all of its exchanges in Europe from the Army's European Exchange System (EES) by 1955, and had set up the Air Force European Exchange (AFEX). In July, 1964, these two separate systems, AFEX and EES, were again consolidated into one system, the European Exchange System (see Appendix I.). Later, in October, 1964, five separate exchange services in the Pacific were combined into a single system, the Pacific Army and Air Force Exchange System (PACEX).

#### B. LEGAL STATUS OF EXCHANGES

The legal question of whether the exchanges were governmental or non-governmental in character has been somewhat indefinite and cloudy in the past. There is a 1909 law covering Ship's Stores Afloat (which are appropriated fund operations). There is no specific statutory basis for non-appropriated fund exchange operations. Nevertheless, we are advised by the DoD General Counsel's Office that recent legislative, judicial, and executive actions by the U. S. Government leave no room for doubt that non-appropriated fund exchanges today are instrumentalities of the U. S. Government.

Comments concerning the legal status of the exchanges are included in Appendix H. That appendix sketches the evolution of the exchanges from private, for profit, enterprises to government instrumentalities.

### C. EXTENT OF EXCHANGE ACTIVITIES, MERCHANDISE, AND SERVICES

The present range of resale merchandise and personal services that the exchanges are allowed to offer is incorporated in the Armed Services Exchange Regulations (ASER), DoD Directive 1330.9, dated January 6, 1956 (see Appendix B). The regulations contain a specific list of merchandise and personal services with cost limitations indicated on selected items. The ASER is mandatory for CONUS exchanges and optional for overseas exchanges. No items, the cost of which exceeds the cost limitation stated in the regulations, may be purchased for CONUS resale.

The House Committee on Armed Services has been vitally interested in exchange operations for many years as evidenced by three extensive hearings (1949, 1953-54, 1957). The directive noted above was developed and issued as a result of the urging and interest of that Committee.

### D. PRESENT ORGANIZATION OF MILITARY EXCHANGES

A brief organizational summary of the three present services is included here to provide a background for better understanding of total exchange operations.

#### 1. The Army-Air Force Exchange Service (AAFES)

Figure 1 portrays the worldwide AAFES system. In essence this organization consists of a major headquarters, located in Dallas, Texas, having direct command lines to Area Support Centers (ASC's) throughout CONUS. These Area Support Centers conduct procurement, administrative, and logistics support functions for the various exchanges throughout CONUS. The individual exchanges, however,

# ARMY-AIR FORCE EXCHANGE SYSTEM COMMAND RELATIONSHIPS

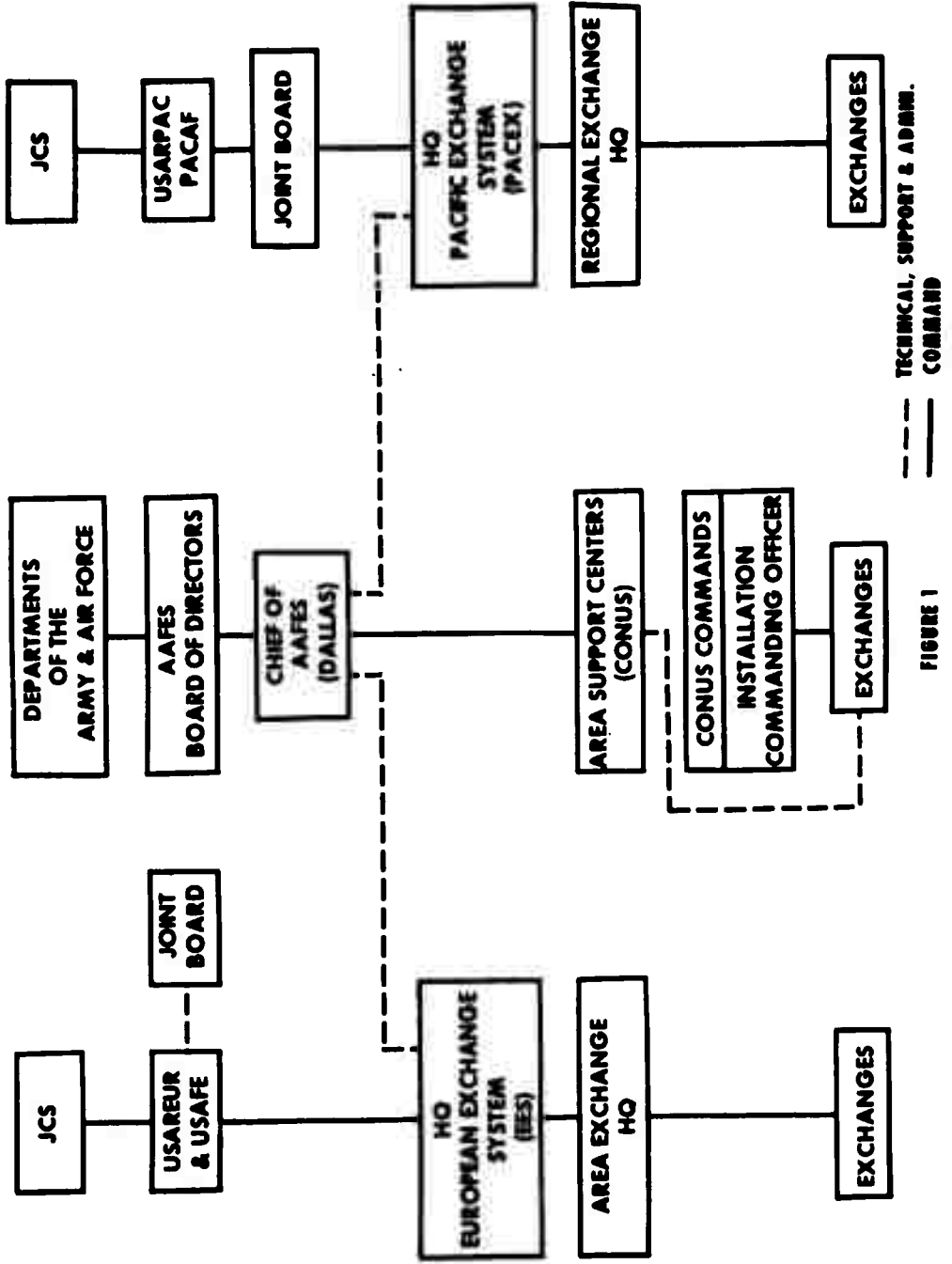


FIGURE 1

operate under the command of the post or base commanders on whose stations they are located.

AAFES overseas operations are conducted under the command of a Headquarters, European Exchange System (EES), a Headquarters, Pacific Exchange System (PACEX), and an Alaskan Exchange System. These overseas operations are essentially subordinate commands of the European, Pacific, and Alaskan military commands, although they receive exchange policy and technical direction from the Dallas headquarters. Offshore overseas exchanges from Thule, Greenland to Rio de Janeiro, Brazil are under the technical supervision of an Offshore Support Office in Dallas, Texas.

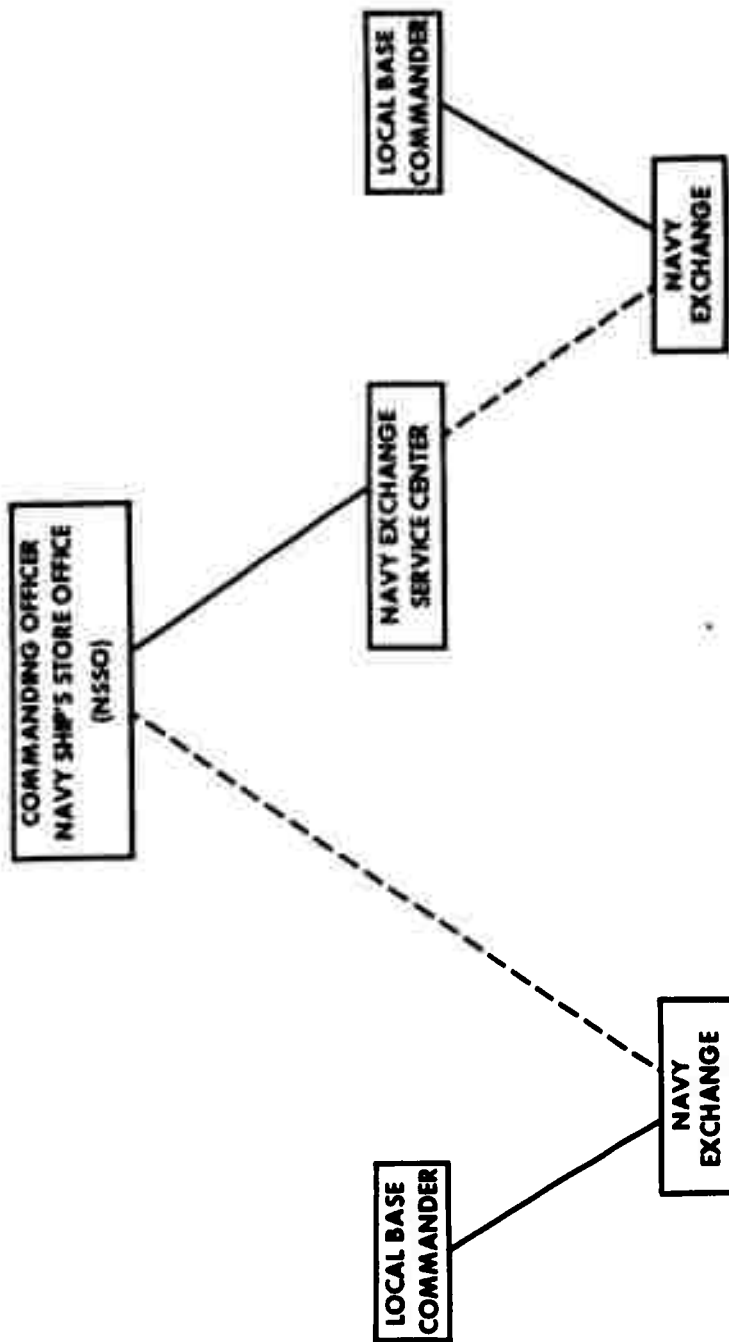
Present AAFES operations are moving rapidly toward a centralized buying concept and an area logistics support and administrative concept. The Dallas and Pacific headquarters each reports to a "board of directors" which represents the military departments or commands involved. A similar situation exists in Europe except that the board is advisory only. There, the U. S. Army is the "executive agent" in charge, since the Army is the largest military service in Europe.

## 2. The Navy Ship's Store Office (NSSO)

The Navy exchange organization appears in Figures 2 and 3. This arrangement is unique in that the NSSO headquarters has both appropriated and non-appropriated elements. The Navy exchanges (land-based) and the Military Sea Transport Service (MSTS) exchanges are both funded from non-appropriated sources, while the commissaries and Ship's Stores Afloat operate from stock-funded appropriated



# NAVY EXCHANGE COMMAND RELATIONSHIPS



NAVY EXCHANGE SERVICE CENTER CONCEPT

PRESENT OPERATIONAL CONCEPT

--- TECHNICAL, SUPPORT & ADMIN.

— COMMAND

FIGURE 3

sources. There are Federal statutes covering each of these last two functions but, as noted earlier, not for shore-based exchanges.

The Navy has recently developed an area concept called the Navy Exchange Service Center. It is presently being implemented in the San Diego area. If it proves successful, the concept will be extended to other localities having a concentration of Navy exchanges. The concept provides a means of centralized logistics support and administration within a specific geographical area.

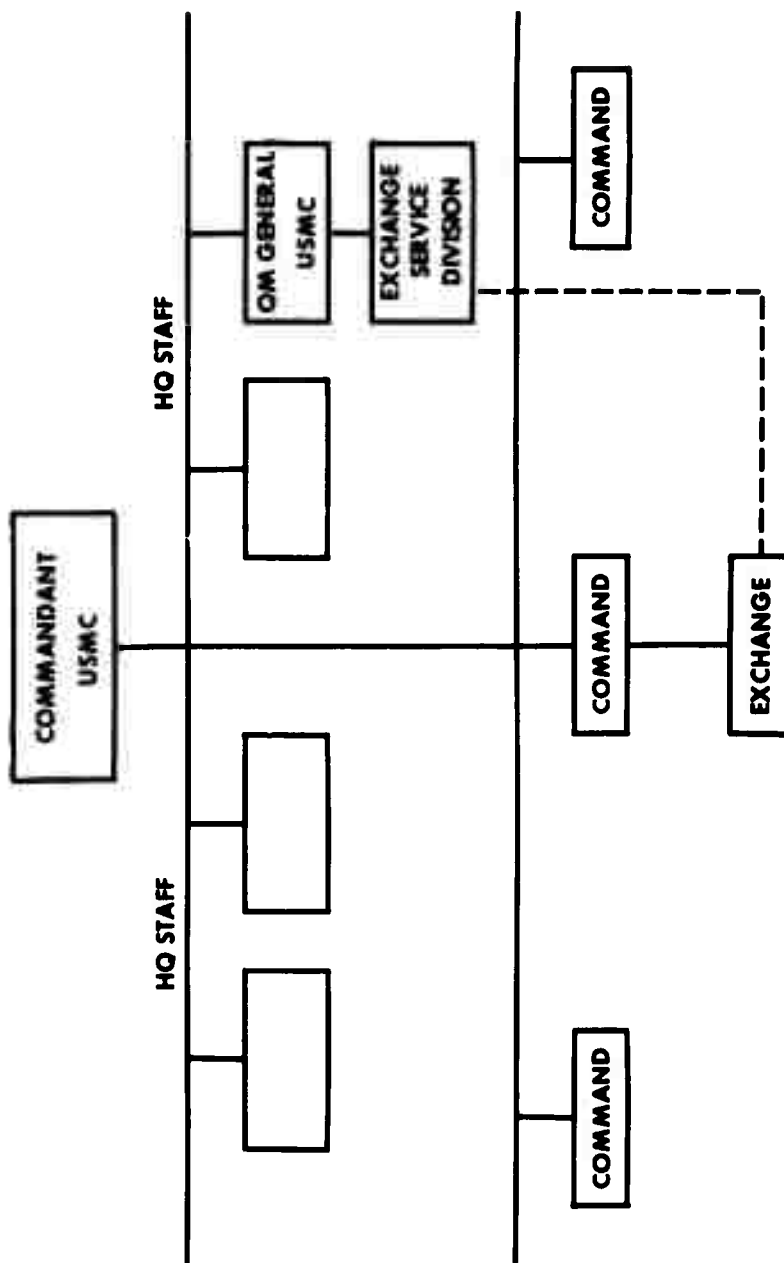
The Navy Ship's Store Office in Brooklyn acts as a central headquarters issuing policy and technical direction. The individual exchanges, however, are under the command of their respective base commanders. The Navy Exchange Service Center, when implemented, will report to the central Navy Ship's Store Office in Brooklyn, but will maintain area coordination with the Naval District Commandant's offices. The Navy Exchange Service Center will not have direct command of the exchanges which it services.

### 3. The Marine Corps Exchange Service

The Marine Corps exchanges are decentralized operations, receiving policy and technical direction from a small staff in Washington, D. C. Figure 4 shows this decentralized arrangement. The Marine Corps uses many of the Navy buying techniques, but each individual exchange is quite autonomous both in its procurement and its operation, providing such operations are in consonance with the provisions of the centrally issued Marine Corps Exchange Manual.



## MARINE CORPS EXCHANGE COMMAND RELATIONSHIPS



**FIGURE 4**

— — — **TECHNICAL, SUPPORT & ADMIN.**

## — COMMAND —

**E. MAGNITUDE OF PRESENT EXCHANGE OPERATIONS**

Table 1 presents a few of the more significant statistics which describe the size of worldwide exchange operations. It will be seen from this matrix that:

1. Total DoD exchange sales rank among the five largest retail operations in the United States.
2. The exchanges serve a significant portion of the U. S. population--at least 5%.

It should be noted that the sales and profit amounts shown in Table 1 are not comparable since they were derived using different accounting structures. For example, AAFES has a high percentage of concession-operated services, whereas the Navy operates nearly all of its services on a direct basis. Also, the Navy operates enlisted men's clubs as a part of exchange operations, whereas AAFES and the Marine exchanges do not. This factor alone accounted for over \$5 million of the Navy's profit. A more detailed analysis of the three operating statements is made in Section IV.G. Table 1 does indicate, however, that all exchange services are profitable.

Table 1

MAGNITUDE OF DEPARTMENT OF DEFENSE EXCHANGE OPERATIONS  
\$ IN MILLIONS

(BASED UPON FY '68 DATA FURNISHED BY THE EXCHANGE SERVICES)

ITEM	TOTAL	AAFES	NAVY	USMC
SALES (FY '68)				
CONUS	\$1,529M	\$1,027M	\$395M	\$117M
OVERSEAS	<u>\$1,306M</u>	<u>\$1,063M</u>	<u>\$228M</u>	<u>\$ 15M</u>
TOTAL	\$2,835M	\$2,090M*	\$623M***	\$132M***
NET PROFITS GENERATED IN MILLIONS OF DOLLARS AND AS A % OF SALES	\$ 168M	\$ 109M 5.9%***	\$ 50M 8%***	\$ 10M 7.6%***
PROFITS CONTRIBUTED TO RECREATION AND WELFARE FUNDS (FY '68)	\$112.6M	\$ 75.0M	\$32.7M	\$4.9M
INVENTORY INVESTMENT (FY '68)****	\$472.1M	\$393.9M	\$62.1M	\$16.1M
EMPLOYMENT				
MILITARY	2,158	971	820	367
CIVILIAN	<u>117,284</u>	<u>85,981</u>	<u>26,981</u>	<u>4,322</u>
TOTAL	119,442	86,952	27,801	4,689
CUSTOMERS SERVED				
MILITARY	3,229,209	2,207,922	740,646	280,641
DEPENDENTS	4,242,849	3,243,264	800,313	199,272
RETIRED	<u>1,729,848</u>			
TOTAL	9,201,906			

\*Concession sales included.

\*\*Net profit computed as a percentage of direct sales only.

\*\*\*Concession sales excluded.

\*\*\*\*Valued at retail selling price.

#### IV. FUNCTIONAL ANALYSES AND OPERATING CONCEPTS

The three military exchange services normally perform all of the classical resale functions, such as procurement, pricing, physical distribution, selling, and financial management. This section identifies and describes these functions and evaluates key problem areas and opportunities. In addition it also analyzes present operating concepts and command relationships. We believe the following breakout and order of such functions and subjects are appropriate in discussing the exchange services.

- A. Mission
- B. Procurement
- C. Pricing of Goods and Services
- D. Inventory Management
- E. Quality Assurance
- F. Physical Distribution
- G. Financial Management
- H. Electronic Data Processing
- I. Facilities and Engineering
- J. Retail, Food, Services, and Concessions  
Operations
- K. Personnel Management
- L. Planning
- M. Legal Support and Claims
- N. Operating Concepts

## A. MISSION

### 1. Discussion

The House Armed Services Committee, through hearings over many years, has suggested, and the Department of Defense has accepted, a list of authorized resale items. This list defines and limits the merchandise that can be carried by an exchange in CONUS. There are no such restrictions on overseas establishments, although overseas exchanges must operate within gold flow restrictions established by the Secretary of Defense. The Committee has also implicitly suggested the mission of exchanges to some extent through statements issued on various occasions. The Committee has stated that it was and would continue to be concerned with competition with local merchants,<sup>1</sup> that exchanges should not be the sole provider of goods and services for the serviceman,<sup>2</sup> and that the exchanges were not expected to supply the total amount of funds needed for recreational and welfare activities.<sup>3</sup> The Committee has further stated by inference that the Congress expects to appropriate recreation and welfare monies through specific line items in the budget.<sup>4</sup>

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<sup>1</sup>U. S. Congress, House Committee on Armed Services, Hearings on Sundry Legislation Affecting the Naval and Military Establishments, 81st Cong., 1st Sess., 1949, p. 3551.

<sup>2</sup>Ibid., p. 3757.

<sup>3</sup>Ibid., p. 3543.

<sup>4</sup>U. S. Congress, House Committee on Armed Services, Hearings on Sundry Legislation Affecting the Naval and Military Establishments, 85th Cong., 1st Sess., 1957, p. 3261.

The Armed Services Exchange Regulations (ASER), DoD Directive 1330.9, was originally issued on 1 January 1949 and reissued with changes on 6 January 1956. This directive provided the military departments with uniform policies relating to military exchanges located within continental United States. The term "continental United States" is defined to include the 48 states and the District of Columbia and to exclude Hawaii and Alaska. These last two states are considered overseas areas in most respects as far as exchanges are concerned. The provisions of these regulations may, at the discretion of each military service, be applied in whole or in part to exchanges operated at overseas stations.

The ASER contains the authorized item list suggested by the House Committee. It also lists authorized personal services which can be operated either directly by the exchanges or by concessionaire contracts. The directive is silent, however, on the mission of exchanges. This silence has evidently prompted the military departments to define the missions of their exchanges as follows:

Army Regulation (AR) 60-10/Air Force Regulation (AFR) 147-7, dated 19 January 1968, jointly states in Section I that:

2. Exchange service. Exchange service is the provision to authorized patrons of merchandise and services of necessity and convenience which are not furnished from appropriated funds.

. . . . .

4. Objectives. The objectives of the Secretary of the Army and the Secretary of the Air Force in the provision of exchange service are--

- a. A centrally directed and jointly operated worldwide exchange system.
- b. Substantially uniform standards of service adequate to the needs of the Army and the Air Force, subject to applicable restrictions and practical limitations.
- c. Substantially uniform prices at the lowest practicable level.
- d. The generation of reasonable earnings needed to supplement appropriated funds for the support of Army and Air Force welfare and recreational programs and to assure a sound capital structure.
- e. Optimum application of available resources (e.g., facilities, funds, and personnel), including the organization and provision of support services on a geographical basis to achieve economy and efficiency of operation.
- f. Maximum management efficiency through application of modern business methods and of uniform policies and procedures responsive to mission requirements.

The Navy Exchange Manual points out that:

The mission of an exchange is to provide a convenient and reliable source from which authorized patrons may obtain at the lowest practical cost, articles and services required for their well-being and contentment; to provide through profits a source of funds to be used for the welfare and recreation of naval personnel; and to promote the morale of the command in which it is established through the operation of a well-managed, attractive and serviceable exchange.

The Marine Corps Exchange Manual states:

It is the primary mission of Marine Corps exchanges to provide military personnel and their dependents with articles and services necessary for their health, comfort, and convenience at reasonable prices . . . Marine Corps exchanges shall provide all services which are required or desired by the command and authorized.

. . . The secondary mission of Marine Corps exchanges is, through reasonable profits, to provide recreation funds.

The total sales dollar volume of the exchanges has increased steadily in tune with (1) increases in income of military personnel, (2) general inflation of prices, (3) rise in the standard of living, where items formerly considered as luxuries are now merely conveniences, and (4) a general improvement in the quality of merchandise displayed in more attractive stores. All of this dollar volume increase is within the letter of the authorized list of items contained in the Armed Services Exchange Regulations with a few exceptions at isolated bases in CONUS. Waivers were granted for these exceptions.

At the present time the exchange services are providing substantial contributions to the departmental welfare and recreation funds (see Table 1, Section III). These totaled nearly \$113 million in FY 1968. Congress also appropriates certain O&M funds which are earmarked for welfare and recreation use, but the exchanges continue to be the main source of income for the specific departmental welfare funds. Section VI of this report describes the various ways in which exchange profits are distributed for welfare and recreation use. There is no doubt that the three exchange services are fulfilling their missions with respect to welfare and recreation.

Although each mission statement could be interpreted to recognize all of these considerations, only the Marine Corps statement clearly identifies the priority of missions.



2. CONCLUSION/RECOMMENDATION - Mission

- a. There is a need for a precise, clear mission statement, common to all exchange services, which should be included in the Armed Services Exchange Regulations. The restatement of the mission should clarify the primary mission of the exchanges which is to provide convenience and necessity goods and personal services to the military consumer, and the secondary mission which is to create profits for distribution through welfare and recreation channels.

## B. PROCUREMENT

A key factor in the operation of any retail enterprise is the adequacy and effectiveness of its procurement policies and practices. This subsection deals first with the subject of procurement policy and then discusses various procurement practices and problems in the exchange services. The selection of merchandise in a stock structure is closely related to procurement, but is covered in this study under Section IV.D.

### 1. Procurement Policy

#### a. Source of Procurement Policy

The Secretary of Defense has authorized the Secretaries of the Military Departments to implement and supplement the Armed Services Exchange Regulations. Each has done this; the Army and Air Force issued joint regulations, AR 60-10/AFR 147-7 and AR 60-20/AFR 147-14. These are amplified by the AAFES Exchange Service Procurement Instructions. The Navy has issued a Navy Exchange Manual which includes, among other things, their procedures for exchange procurement. The Marines have issued a Marine Corps Exchange Manual to provide procurement guidance. Each in effect specifies the procurement authorities and responsibilities desired. The Armed Services Exchange Regulations themselves only touch lightly on procurement matters, leaving the actual policy statements to the military departments and individual exchange services. It is our opinion that this exchange business, being as large as it is, should have a common approach and policy governing

procurement matters, just as ASPR provides this uniformity for appropriated fund procurements.

b. Similarities and Differences Between the Various Exchange Procurement Policies and the Armed Services Procurement Regulations (ASPR)

Although alike in many respects, significant differences exist between exchange procurement policies and regulations and those included under the ASPR, primarily in areas concerning the methods of procurement.

Armed Services Procurement Regulations were established to control the purchase of equipment, supplies, and services financed by appropriated funds, primarily for government use and consumption rather than for resale to individuals. As discussed below, ASPR philosophy has limited application to the procurement of resale merchandise by the exchanges, although the basic concepts of ASPR are utilized by exchanges where applicable.

As the military retailers, the three exchange services are expected to stock items their customers want rather than what the exchanges or others might think they should have. Since military customers are probably as brand-oriented as the average civilian, the exchanges must provide brand-name products and, where appropriate, those brands which customers prefer. Purchases by exchanges on a specification or purchase description basis are confined to those items where brand is not a significant factor in the demand or where a number of brands enjoy reasonably equal

acceptance by customers. Of necessity, purchase of brand merchandise requires single source negotiation with the manufacturer involved. This type negotiation is utilized in the purchase of some cigarettes, cosmetics, toiletries, watches, appliances, housewares, and other categories where brand is a significant factor in the demand.

There are instances, also, where ASPR does not cover certain factors needed in exchange procurement. AAFES, for example, has drafted contracts containing a number of stipulations for which there is no counterpart in ASPR, such as concession receipts and commissions, conduct of concessionaires and suppliers, construction and amortization of gasoline service stations, sale to exchange patrons of automobiles, money orders, and travelers checks.

Likewise, we have been advised that there are some statutes dealing with government procurement and certain ASPR provisions relating to contractual stipulations which are not applicable or appropriate for exchange activities. Specifically, this is so with regard to Assignment of Claims Act, the portion of the Walsh-Healey Act relating to open market purchases, the appropriated fund disputes clause (as distinguished from the non-appropriated fund disputes clause in AR 230-8 and AFR 176-8), and contract termination procedures (other than construction contracts).

Conversely, many ASPR provisions appear in exchange contracts. Among these are references to the Davis-Bacon and Copeland Anti-Kickback Acts, the

Covenant Against Contingent Fees, The Buy American Act, Contractors' Equal Employment Opportunity, the Miller Act, and statutory provisions relating to Humane Methods of Livestock Slaughter.

ASPR philosophy is particularly evident in exchange procurement policies covering the negotiated procurements of equipment and supplies not for resale and the award of services, concessions, and construction contracts. Much of the documentation required in procurement by negotiation, utilizing multiple solicitation, parallels the discipline found in ASPR. All of the exchange services' procurement procedures, under specified circumstances, require determination and findings, resumes of negotiations, summaries of proposals, and approvals of contracts. Those procurement instructions provide pre-printed special provisions and general provisions, including clauses applicable to exchange service contracts as well as guidance regarding suppliers' qualifications, evaluation of proposals, and contract termination.

All of the exchanges appear to have judiciously applied ASPR philosophy to those areas of procurement where appropriate, but have recognized their primary mission to provide the military customers with the products and merchandise they demand.

c. Small Business Policy Considerations

Exchange procurement policies differ from ASPR in that the exchanges make no provision for small business set-asides. However, a brief analysis indicates that a considerable portion of exchange buying

is either directly or indirectly from small business suppliers. The tabulation below summarizes available statistics concerning exchange procurement from this segment of the business community.

<u>ITEM</u>	<u>AAFES</u>	<u>NAVY</u>
Percentage of Merchandise Procured from Small Businesses (\$ Value)	32% (overseas exchanges) 49% (CONUS exchanges)	38.2%
Percentage of Retail Suppliers Who are Classified as Small Businesses (No. of Suppliers)	66% (overseas exchanges) 78% (CONUS exchanges)	75%

There were no system-wide statistics available from the Marine Corps exchanges.

## 2. Procurement Effectiveness

LMI made an attempt to determine if any one exchange service was applying procurement policies and practices which netted it substantially lower costs from suppliers. We made a relatively small sampling in the Washington-Norfolk area, and chose 31 items which were representative of the highest dollar and highest unit sales items carried in each merchandising department in major exchanges. Of these 31 items chosen, 27 were sold in all three exchange services. For each exchange service we recorded both the price from the supplier to the exchange and the selling price to the consumer. Several conclusions were apparent after an examination of these figures:

- a. If one of every item listed were purchased by each exchange service, the total procurement price to the exchanges did not vary over 1%.

b. Most of the items listed turned out to be those regularly purchased on Price Agreement Bulletins (PAB's), a procurement technique described later in this subsection. It may be, therefore, that each of the exchange services is taking advantage of the low prices from suppliers which were the result of one exchange service negotiating a Price Agreement Bulletin. The sample indicated that the three different procurement systems are generally alert to their buying opportunities.

c. A closer examination of terms and discounts extended to the exchange services indicates that it is virtually impossible to work some of these prices down to raw-boned net costs on a comparable basis. For example, the Navy may get an additional discount for quantities purchased from a vendor; that discount being paid to NSSO headquarters (and recorded as "other income") rather than to the store. Likewise, AAFES often gets distribution discounts for performing certain distribution functions for the supplier. As a result we must conclude that the widely differing procurement and costing systems now in effect are not conducive to a complete evaluation as to which procurement system is the most effective in terms of net costs incurred. (An analysis of retail selling prices and markup percentages for these 27 items appears in Section IV.C.on pricing.)

A major factor in achieving an effective procurement operation is the creation of an environment which will allow the aggregation of some highly qualified buyers,

operating under common policy guidance, who can specialize in certain commodities. For example, both the AAFES' Area Support Center and the Navy's Exchange Service Center concepts remove buyers from the local exchange and group them at a central area location. This reduces the total number of buyers and creates an atmosphere of professionalism similar to their commercial counterparts.

3. Procurement Patterns

a. AAFES exercises centralized control of procurement from its central headquarters in Dallas. It uses a technique, called Price Agreement Bulletins, which provides an open-end price agreement with a supplier on those items which are repetitively stocked or in high demand. CONUS Area Support Centers (of which there are 16) consolidate requirements generated by stores in their areas, and forward orders to suppliers. Overseas exchanges consolidate their requirements through the overseas regional and area offices and forward these to Dallas where the orders are placed with CONUS suppliers. Foreign merchandise is purchased by overseas procurement offices at the request of individual overseas stores.

b. Navy exchanges procure under the policy guidance of the central NSSO headquarters in Brooklyn. NSSO negotiates its Price Agreement Bulletins which provide individual exchanges with a firm cost for those items. Each Navy exchange, in CONUS as well as overseas, places its own orders with suppliers. When implemented, the new Navy Exchange Service



Center, now in the prototype stage in the San Diego area, will consolidate and process purchase orders for stores in a given area.

c. Marine Corps exchanges procure merchandise on a decentralized basis. They make use of Navy PAB's when they desire, and place their respective orders directly with suppliers. All procurement operations are included under procedures in the Marine Corps Exchange Manual.

#### 4. Price Agreement Bulletins

Price Agreement Bulletins, mentioned several times heretofore, are instruments by which the exchange services enter into open-ended agreements with suppliers as to price, specifications, quality, delivery, etc., and provide pre-determined costs for commonly stocked merchandise. Examples appear in Appendix C.

Both the Navy and AAFES PAB's are similar in concept and often cover identical items. Although they are made up on different formats, they rarely have different prices, terms, and delivery for like items. The AAFES has nearly 1,700 PAB's and the Navy about 1,600. In the Pacific AAFES' PACEX headquarters uses an equivalent format called a Commodity Contract Notice (CCN) for foreign merchandise. The Navy Purchasing Branch in Hong Kong and the Navy exchange in Yokosuka, Japan prepare foreign merchandise PAB's for use by other Navy exchanges.

Procurement personnel from all three exchange services raised the question of developing common Price Agreement Bulletins available to all services. We see several advantages to such a step:

- a. Suppliers may agree to an even more advantageous price to the exchanges if they foresee the possibility of having it made available to all exchanges.
- b. It may prove beneficial to have all exchanges join together and present a united front to suppliers, who often supply identical items to all three exchange services.
- c. Common PAB's could generate combined orders and pooled shipments to certain localities, thereby reducing shipping costs.
- d. Suppliers' records could be simplified if identical items sold to all exchange services carried the same item coding and nomenclature, all of which could result in some price reductions to the exchanges.

The Navy and AAFES both report that approximately one-half of their purchases (dollarwise) result from the use of PAB's. They are normally negotiated directly with those manufacturers of staple items that have continuing demand and which are not subject to side price fluctuations.

##### 5. Clinics and Seasonal Buying

An additional technique used extensively by AAFES, and to a lesser extent by the Navy exchanges, in the procurement of merchandise is the seasonal commodity clinic where selected merchandise samples of suppliers are displayed at a central point under a predetermined price schedule. No suppliers are allowed to be in attendance at these clinics.

Buyers from all over the world are invited to attend, at which time they place their orders on the spot, often for the entire season's requirements. Personnel from other exchange services also are often invited to attend.

AAFES has computerized the placement of orders at these clinics. This EDP application is discussed in Section IV.H.

LMI believes that there would be considerable benefits derived from common clinics jointly sponsored by all exchange services. There is great commonality of items among the exchange services. Common clinics would offer many advantages such as:

- a. Reduced manpower in the procurement process.
- b. Greater use of EDP applications - shown by AAFES to be time and cost saving.
- c. Common face to industry by all exchange services.
- d. Reduced selling expense on the part of the suppliers which might then result in some lower prices to the exchanges.

6. National Contracts (Consolidated Exchange Contracts)

One of the exchange services (AAFES) has taken the approach of firming up its total system requirements for an item, negotiating a consolidated exchange contract for a firm quantity, and achieving a lower unit cost through the higher volume. AAFES reports that the sales and stock position visibility, now available through its ASC computers, has been a major factor in achieving

savings on items purchased by this method. A few examples appear in Table 2 below:

Table 2

CONSUMER SAVINGS THROUGH CONSOLIDATED EXCHANGE CONTRACTS*	
ITEM	DIRECT CONSUMER SAVINGS
Blank-Record tape	\$ 1,641,000 per year
Charcoal	\$ 52,000 per year
Men's top price underwear	\$ 275,800 per year
Furlough bags	\$ 96,000 per year
Spark plugs	\$ 297,000 per year
Optical services	\$ 888,000 per year
Photo finishing	\$ 650,000 per year

\* As reported by AAFES. Direct consumer savings are computed as the difference between the unit selling price before the consolidated exchange contract and the unit selling price after the contract took effect, multiplied by the anticipated volume of unit sales.

In addition to the direct consumer savings shown above, AAFES reports that the price reductions granted by national contract suppliers also provide sizable allowances absorbed by AAFES as added gross profit. For example, in addition to the \$1,641,000 passed on to consumers on Blank-Record Tape, AAFES received price reductions totaling \$550,600 which were added to gross profits.

LMI agrees that, in all probability, a national or consolidated exchange contract produces the lowest total cost from an exchange system-wide standpoint. A question arises, however, which may highlight a possible conflict in exchange buying policies. The policies concerning brand name merchandise were generated to respond to the customers' desires to have a choice of nationally advertised merchandise available to them in exchanges. In many cases this may call for several brands of a specific item. In the national contract concept, on the other hand, competition brings a lower price but often eliminates other brands of the same item from being displayed and offered. For example, in the national contract procurement of spark plugs, AAFES awarded the contract to a single source and elected not to display other brands. There are several national brands of spark plugs which consumers find desirable. Thus we see AAFES faced with the choice of deciding whether to offer an assortment of national brands which the customer desires or offer a single brand at a price advantage. It is our understanding that on other national contracts several national brands were retained in stock in addition to the brand selected under the national contract. It is LMI's belief that AAFES policy should stem from consistent use of criteria which include recognition of both national brand and price and quality considerations.

7. CONCLUSIONS/RECOMMENDATIONS - Procurement

- a. There would be advantages in having common procurement policies, regulations, and procedures for the exchange services. These should include provisions for both domestic and foreign procurements, and should encompass the procurement

of merchandise for resale, personal services and concession contracts, and material and supplies for exchange consumption.

- b. Armed Services Procurement Regulations (ASPR) have been judiciously applied to exchange procurements where applicable.
- c. The small-business community is receiving a substantial portion of exchange business. The exchange services appear to be doing all that can be reasonably expected to procure from small business sources.
- d. Common Price Agreement Bulletins, applicable to all exchange services, would be beneficial to the exchanges, their patrons, and their suppliers. These should cover repetitively procured items which are in general demand for both CONUS and overseas exchanges.
- e. Buying clinics (seasonal and otherwise) present great opportunities for savings, both to the exchange services and to the customer. The commonality of customers and merchandise in the three exchange services warrants common or jointly sponsored clinics.
- f. A national contract concept can provide the consumer with a commodity at the lowest cost. Such a concept could be beneficially employed by consolidating the requirements of all three exchange services.

- g. AAFES should develop and apply on a consistent basis specific criteria by which to resolve the possible conflict between their national brand and national contract policies.

### C. PRICING OF GOODS AND SERVICES

For the purposes of this study, pricing is divided into two major areas: (1) the pricing of merchandise, and (2) the pricing of personal services provided by such activities as barber shops, laundries, and shoe repair shops.

Each exchange service presently has the task of maintaining a balance between offering merchandise or services at a low price to the consumer and generating profit for recreation and welfare funds. However, in both cases the consumer benefits to some extent. Section IV.A. discussed the relative priority of missions with the suggestion that these priorities be resolved at a level above the exchange services. These considerations are key issues in determining an optimum pricing policy.

#### 1. Merchandise Pricing

The policies which govern and control the pricing of merchandise in military exchanges come from many sources. The first and highest level is the Armed Services Exchange Regulations (ASER). They provide the following guidance for the pricing of goods:

4-401 Statement of Policy. Exchanges provide the principal source of funds for welfare and recreational activities. With due regard for profit requirements, merchandise and services available through exchanges shall be sold at the lowest practicable prices.

4-402 Establishment of Prices. Each Service shall prescribe the prices to be charged for merchandise and services available through exchanges under its cognizance.

Each exchange service has amplified the ASER provisions. The joint AR60-10/AFR 147-7 states that the Chief of AAFES



will administer "substantially uniform prices at the lowest practical level." To accomplish this, AAFES has issued a CONUS mandatory markup schedule, an overseas markup schedule which indicates minimum and maximum prices, as well as a few worldwide selling prices on high-volume, essential items. Minimum prices on the overseas markup schedule generally coincide with those on the CONUS markup schedule.

The Navy Exchange Manual gives the following guidance with respect to pricing:

4162 Pricing Policies. Retail prices are established in a manner to accomplish the mission of the Exchanges . . . Normally, essential items will be priced to generate the lowest gross profit, and less essential items will be priced to generate higher gross profit resulting in an adequate total Retail Departments contributions to Exchange profits.

4141 Authority. Authority for the establishment of selling prices on retail items is vested in the Navy Ship's Store Office.

4162 Pricing Policies. Prices are established wherever practicable on a "one price" basis to afford equal opportunity for all authorized patrons regardless of size or location of Exchanges. All merchandise listed on Navy Ship's Store Office bulletins will be priced as indicated thereon. Retail prices on all other merchandise will be established by using the Retail Markup Guide . . . Transportation charges . . . will be considered in determining the retail price . . .

4165 Retail Markup. Retail Price. Retail price is the price at which merchandise is marked and offered for sale. Cost Price. Cost price is the price at which merchandise is purchased, plus transportation charges. Markup. The retail markup on an item is defined as the difference between the delivered cost price and the selling price.

The Marine Corps Exchange Manual states the following with regard to pricing:

4051 Pricing. Retail prices shall be established to best accomplish the mission of the exchange. Essential items shall be priced to generate the lowest gross profit, and less essential items shall be priced to generate higher gross profit . . . . The establishment of retail prices is the responsibility of the exchange officer, except that when both a Marine Corps exchange and a Navy exchange are in operation within the single confines of any Naval establishment, retail prices of similar articles shall be not less than those of the Navy exchange. In which case, goods should be priced as indicated in Navy price agreement bulletins; and, for those items not included therein, the Navy Retail Markup Guide should be used.

4052 Retail Markup. Markup is the difference between the cost and selling price. It may be expressed as actual monetary value or as a percentage of cost. In the determination of markup percentages, all related factors such as trade discounts, transportation charges (actual or estimated), and operating expenses, shall be taken into consideration. Prices shall be established on a "one price" basis to afford equal opportunity for all authorized patrons regardless of branch locations.

All exchange services use markup guides to set retail prices. For PAB items the markup guide computed retail price is recorded in the PAB. (The Marine exchanges have the option of using the Navy markup guide and Price Agreement Bulletins when desired).

The average markup in stateside exchanges is about 16% as compared to 18% in supermarkets, 24% in discount houses,

38% in variety stores, and approximately 40% in department stores.<sup>1</sup>

In summary then, the ASER leaves the pricing of exchange merchandise to the military departments, but asks that the pricing have "due regard for profit requirements." ASER 4-401 might even be interpreted as giving greater priority to profits than to lower prices. The Navy Exchange Manual modifies this to some extent and calls for equity to the consumer "regardless of size or location of Exchanges." The Marine policy is similar to the Navy policy. In all exchange services the necessity items usually carry a lower markup than do the convenience and luxury items.

In Section IV.B we attempted to compare exchange system basic merchandise costs through a sampling of 27 high dollar volume, high unit sales items which are sold in all three exchange services. Referring once again to that sampling, we also recorded selling prices to the consumer and the percentage markup for those 27 items, with the following observations:

- a. If a consumer bought one of every item listed, first in an AAFES store, then in a Navy exchange, and again in a Marine exchange, his relative total costs would vary approximately 3% as a maximum.
- b. The markup percentages derived from computing the differences between prices to the consumer and prices to the exchanges also varied approximately 3% as a maximum.

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<sup>1</sup> National Retail Merchants Association.

c. We have refrained from drawing any conclusions as to which service offers the most advantageous prices to consumers, (1) since the exchanges' procurement costs are subject to so many variations in discounts and allowances, and (2) the sample may be too limited to be truly representative of selling prices and markup percentages.

On a visit to nine separate exchanges in the Norfolk, Virginia area, LMI found that the price of a popular brand of toothpaste (5 oz. tube) varied as much as five cents. This sample included AAFES, Navy, and Marine exchanges. In other areas we found considerable competition, resulting in price variances between two different exchanges in close proximity to each other, i.e., the Marine Corps Recruiting Depot and the Naval Training Center in San Diego. Both Navy and Marine exchange officers in that local area reported that an alert consumer would shop in both stores for the best price breaks on necessity and convenience items. Since the Marine exchange in this case is not located on the naval base, the local Marine exchange officer has the option of setting his own prices.

It seems to us that the exchanges should provide greater equity to the consumer in any given local area regardless of his military service. Since the cost of implementing uniform retail merchandise prices among the exchanges is relatively small, we believe that there would be advantages in having the exchanges jointly develop one retail markup guide and PAB selling price applicable to all military exchanges.

## 2. Pricing of Personal Services

The ASER is silent on the subject of pricing of personal services. What policies, then, do the three exchange services offer for guidance?

AR60-23/AFR147-17D provides several rules for AAFES pricing of personal services. In CONUS, AAFES has an objective of uniform service prices within a local area. With the advent of the Area Support Center concept, the mechanics of achieving this uniformity have placed responsibility on the ASC office as well as on the individual exchange. AAFES believes that ASC involvement in this process will tend to bring uniformity within those areas. In overseas areas the prices on merchandise are established by the exchanges; however, the pricing of personal services is jointly developed by the exchanges and the local military commander.

The Navy Exchange Manual takes a different approach. The Navy specifies a prescribed net contribution from a service function, which is the actual, minimum net contribution that remains after all costs and expenses have been paid by a service department. For example, some requirements used by the Navy exchanges appear below:

Table 3

NSSO PERSONAL SERVICES PRICING POLICY	
SERVICE DEPARTMENT	MINIMUM NET CONTRIBUTION (% OF SALES)
Barber Shop	5%
Beauty Shop	5%
Cobbler	5%
Service Station	11%
Watch Repair	20%
Laundry	10%

The Marine Corps Exchange Manual approaches the subject of pricing of personal services as follows:

4401 Pricing . . . The establishment of prices to be charged for services is the responsibility of the exchange officer. Consideration should be given to the effect of low profit items in the overall cost. When more than one facility of a kind is operated, identical items or services shall be sold for the same price in all of the facilities concerned.

As in the case of AAFES, we believe that both the Navy and Marine techniques do not necessarily provide the desired equity to all consumers within the same local area.

3. CONCLUSIONS/RECOMMENDATIONS - Pricing of Goods and Services

- a. There is a need to change the Armed Services Exchange Regulations paragraph 4-401 to clarify and reflect the priority of exchange missions as outlined in Section IV. A. of this report. The words "with due regard for profit" may be construed to mean that primary emphasis is to be placed on profit.
- b. Common merchandise pricing policy and procedures contribute to the exchanges' ability to provide equity to the consumer. These policies and procedures should provide for flexibility of prices among local geographical areas, but should require consistent pricing of merchandise within those local areas.
- c. The exchange services should prepare a single retail markup guide, plus provisions for identical PAB selling prices, to be used by all services.

- d. Inasmuch as the ASER presently provides no guidance on pricing of personal services, the ASER should be amended to include a policy statement which calls for consistent personal services pricing within a local area and allows flexibility of personal services pricing among different local areas.

#### D. INVENTORY MANAGEMENT

The broad field of inventory management covers total responsibility for inventory from requirements determination to consumption. In exchange operations, inventory management is closely interlaced with procurement, financial management, electronic data processing, transportation and storage, and retail operations.

The magnitude of the inventory management function and its related problems can best be described by the following summary of retail sales, retail inventories, and stock turns:

Table 4

EXCHANGE INVENTORY MANAGEMENT STATISTICS			
EXCHANGE SERVICE	RETAIL SALES	RETAIL INVENTORIES*	RETAIL STOCK TURNS/YR.
AAFES (Total) (FY '68)	\$1,545.0M	\$393.9M	3.9
AAFES (Less RVN) (FY '68)	\$1,229.9M	\$305.7M	4.0
Navy Exchanges (FY '68)	\$ 382.4M	\$ 62.1M	6.3
Marine Exchanges (FY '68)	\$ 88.9M	\$ 16.9M	5.3

\* Valued at retail selling price.

All of the exchange services operate overseas exchanges. Overseas exchanges require more inventory investment than do CONUS exchanges because of long inventory pipelines. Thus we would expect that the higher the percentage of overseas business, the lower the total retail stock turns per year. As an example, the Vietnam conflict has had considerable impact on AAFES'



investment in inventory, since AAFES operates all Vietnam exchanges. AAFES' total overseas business now stands at 52% of their total sales primarily as a result of this, compared with 37% for the Navy and 11% for the Marines. Pipeline and inventory values for Vietnam alone reached \$150 million at their peak. Vietnam generally accounts for about 31% of AAFES' inventory even though sales in that region represent only 16% of the AAFES sales worldwide.

In FY '68 the Navy reports an estimated \$42.3 million in overseas inventory out of a total of \$72.1 million (58.7%). The Marine Corps projects \$2.9 million out of a total of \$16.1 million (18.0%) for a like period for their off-shore exchanges.

Inventory turns per year of all exchange services compare favorably with average department store statistics (3.4 turns/year) and discount store averages (4.0 turns/year).<sup>1</sup>

Although the concept of inventory management deals with many functions, our discussion here is approached from two standpoints, namely:

1. Composition of the Inventory includes a discussion of stock assortments or stock structures which, for the purposes of this discussion, are the specific lists of merchandise available at exchange outlets.
2. Investment in Inventory includes a discussion of the fiscal problems encountered in attaining a balanced assortment of merchandise compatible with maximum customer service but within investment limits.

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<sup>1</sup> National Retail Merchants Association.

Controls over both of these functions are discussed since they are key to attaining the best possible stock-to-sales and inventory turn ratios while still generating acceptable levels of service to the customer.

1. Composition of the Inventory

The selection of an optimum stock assortment for an exchange service is basic to successful retail inventory management. The three exchange services approach this selection process in a variety of ways.

In the past each AAFES exchange tended toward building a stock assortment based upon its own local needs. As a result there were wide variations even in the same local areas. With the advent of the Area Support Center concept, however, the requirement to develop consistent stock assortments within an ASC complex validated what, we are told, AAFES had suspected all along, i.e., when the computer listings showed each line item carried by individual exchanges, where it came from, the price paid, terms, and other considerations involved, it became clear that improvements in stock structures were needed. The listings revealed identical items with different prices, sometimes from different sources and other times from the same source. Some exchanges were providing too wide an assortment of some items not justified by sales volume, while others offered too thin a selection in support of a particular demand. In some instances exchanges were not offering their customers the best-selling brands or a choice of popular price lines. AAFES believes that the Area Support Center concept overcomes many of these difficulties by:

- a. helping to identify those items that are slow moving,
- b. identifying those items which lend themselves to consolidated procurements, and
- c. identifying differences in prices paid for identical items.

NSSO has provided Navy exchanges with considerable stock assortment guidance through the issuance of monthly store departmental statistics as well as model departmental stock composition data lists, price agreements, "Must-Never-Out" lists, and "Additional-Never-Out" lists. A "Must-Never-Out" item is a basic item in constant demand by patrons. Heavy emphasis is placed upon having these items available at counter levels at all times. "Additional-Never-Out" items are less basic but in continual demand and are next in priority. Seasonal demand commodities are highlighted in "VOCES," a special publication tailored primarily to seasonal softgoods.

The Marine Corps has the opportunity and option to use the Navy lists if it so desires. It does not have its own lists of "Must-Never-Out" items. AAFES requires that its exchanges have stock assortments which include "Never-Out-of-Stock" items.

A factor closely associated with stock assortment and stock structures is the retail department numerical designation normally found in exchanges. AAFES has a merchandise departmental breakout of ten departments. The Navy has 18 departments in its retail operations. The Marine Corps closely follows the Navy pattern, but the choice is up to

the individual exchange officer. LMI could not find conclusive evidence that one works better than the other. Comparisons among the exchange services are difficult under the three present systems of numbering and coding retail departments.

To put order and system into stock structures, the exchange services have unilaterally developed different approaches to supplier and item coding. As a result, identical items and/or suppliers have differing code numbers in each exchange service. For example, AAFES has switched to a nine-digit item code. The Navy uses a 14-digit code for its items and suppliers. The Marine Corps uses a nine-digit code at Camp Pendleton.

It has long been a DoD goal in appropriated procurements to present a single face to American industries and suppliers. The Defense Supply Agency (DSA) achieves this through standard coding of all DSA-controlled items. LMI believes the same concepts applied to resale items would be desirable and would benefit supplier and exchange services alike. It would reduce confusion for a supplier servicing all three exchange services. We understand that for many years the National Retail Merchants Association (NRMA) has been advocating a program to install a single system of item code-numbering to be used by all of its members.

Considering all of these possible chances for differences in composition of the inventory, LMI observes that there is nothing that requires an exchange manager in a given local area to coordinate his selection of merchandise

with other exchange managers in the same area. Exceptions are AAFES exchanges which, under the present ASC concept, must coordinate their stock structure with other AAFES exchanges in a given area. The Navy Exchange Service Center concept, when implemented, may also cause this coordination to take place among area Navy exchanges. However, the Navy and Marine exchanges are not required to do so today, and there is no inducement for Marine, Navy, or AAFES exchanges to coordinate among themselves under present organizations and directives.

A representative example of this is shown on the following page (Figure 5). The Map shows a single military establishment, the Norfolk Naval Station. There are four main exchanges within that small area, three of which are less than one mile apart. There are few local interfaces among the four exchanges, except for possibly an occasional exchange officers' meeting. Three of the four main stores have one or more small branches or outlets. Some of these branches are also located near a branch of another exchange. Besides acting independently in matters of hiring, storage, transportation, and buying, these main stores unilaterally determine their separate stock structures and monthly stock requirements as long as they comply with general policy on "Never-Out" items and similar guidance.

From a stock structure standpoint the apparent redundancy could be expensive and reflect itself in higher prices. The desire of each store to supply all the needs of all patrons might preclude their carrying a wider and more attractive range of fewer categories of merchandise.

# U.S. Naval Station, Norfolk, Virginia

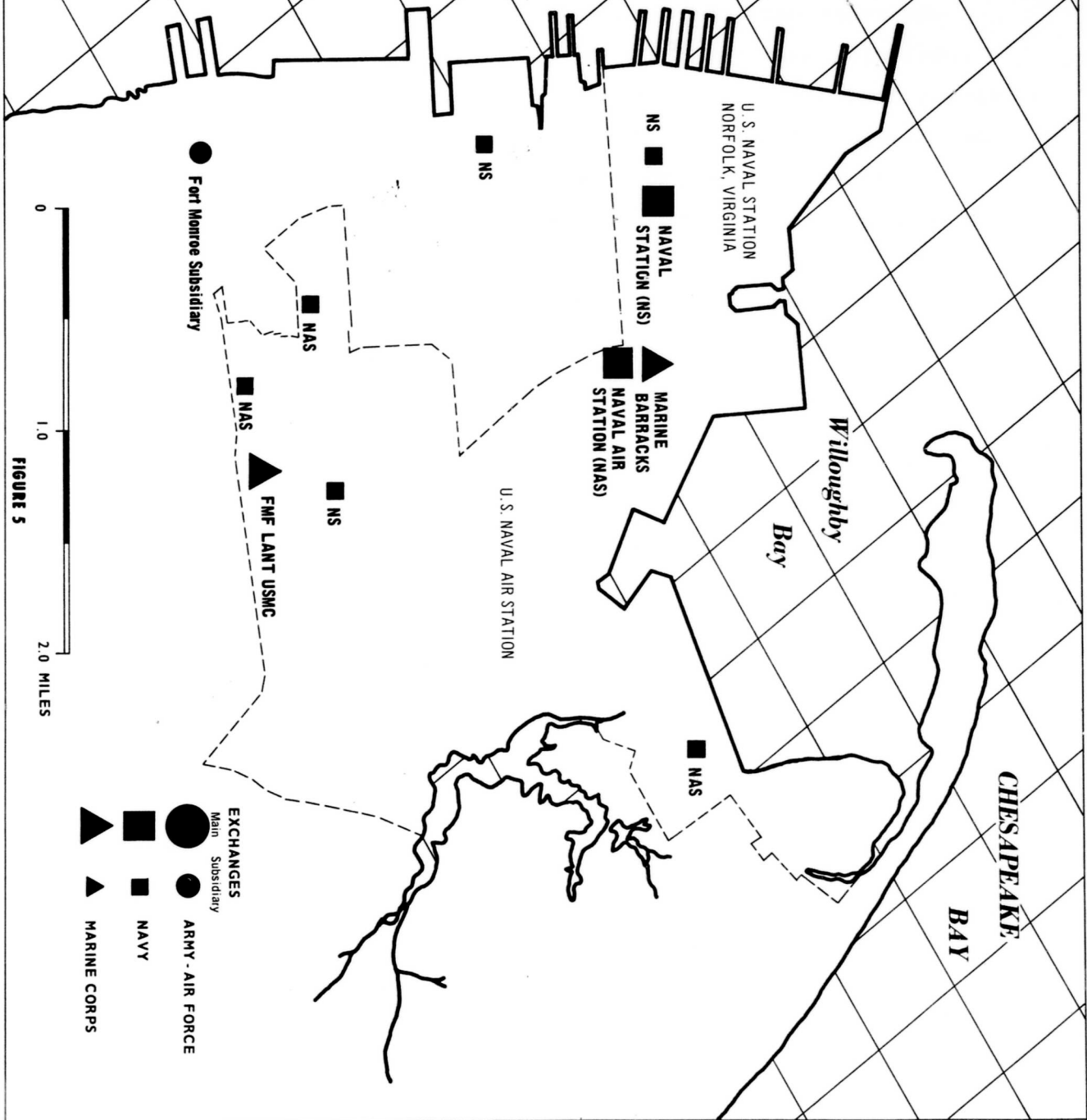


FIGURE 5

# U.S. Naval Station, Norfolk, Virginia

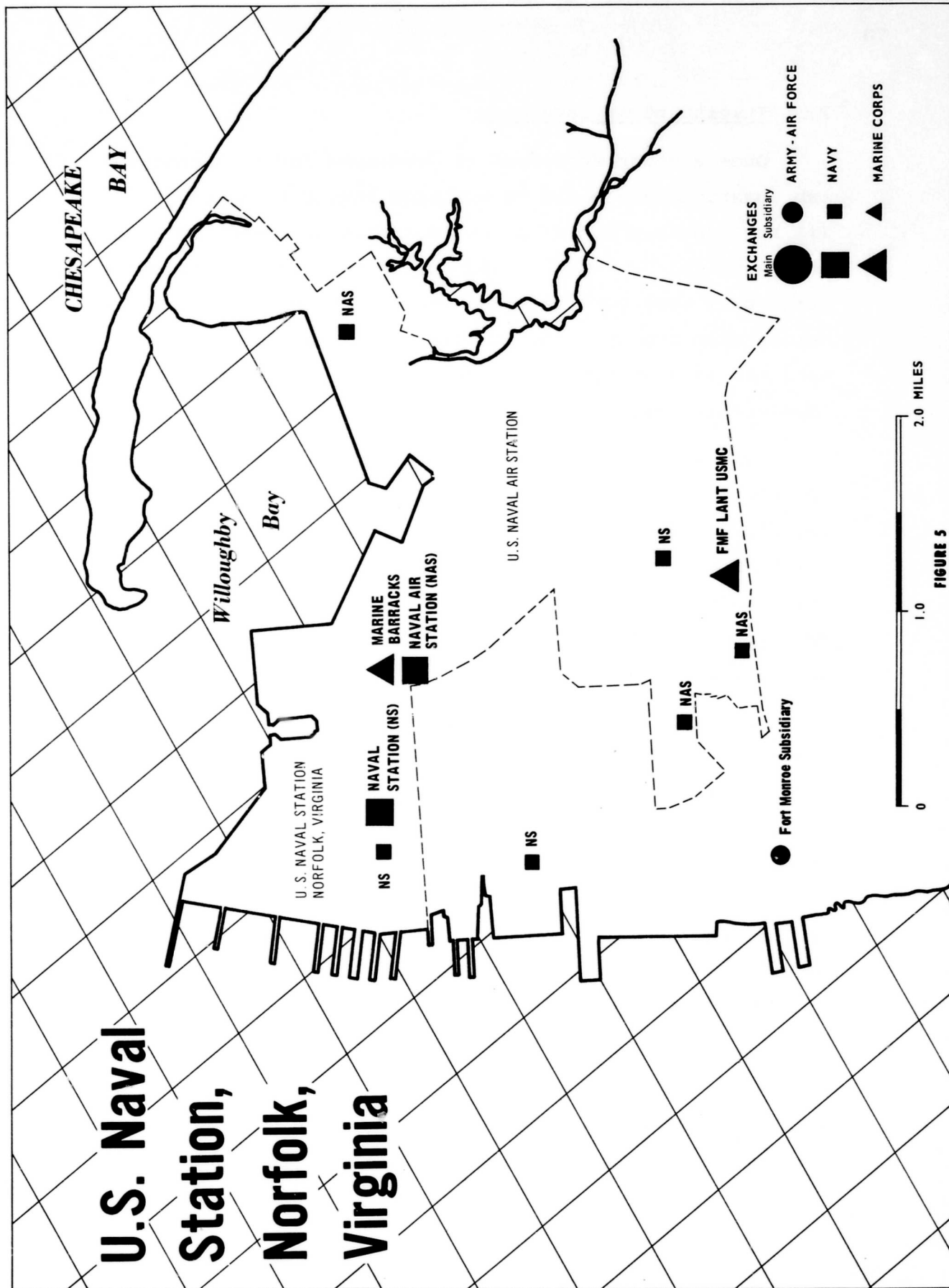


FIGURE 5

## 2. Investment in Inventory.

Once a stock structure is developed for an exchange, two questions are posed to exchange inventory managers: (1) how can they arrive at the decision to invest in inventory, and (2) how much should they invest in the new stock structure? The goal in either case is to have on hand the merchandise the customer desires, and to accomplish that with the maximum number of inventory turns per year to free working capital.

All of the exchanges use a common technique, long used in retailing, in arriving at a decision to invest in more inventory. The exchanges prepare a merchandising budget which in turn provides the basis for open-to-buy controls. Open-to-buy is a computed amount of further inventory investment an exchange can make without jeopardizing predetermined investment limits.

In the case of AAFES, requirements for individual stores or areas are computed automatically on computers at area headquarters. Navy open-to-buy controls are essentially the responsibility of the individual exchange manager, as is the case with Marine exchanges. Open-to-buy controls help the exchanges recognize when their inventories are turning over too slowly. In addition, they help the retail manager in determining when he can take advantage of attractive offers from suppliers.

Electronic data processing offers a decided advantage in maintaining up-to-date open-to-buy status and controls when the number of line items is high. For example, LMI examined the inventory control system at several Area



Support Centers and found that AAFES managers reported that they could, for the first time, purge the system of slow-moving items. They could consider the economic order quantity of a single item, the safety stock level, and the number of items in the pipeline at any given moment. With 20 to 30 thousand line items, there are clear advantages of machine-prepared reports for managers. The computer at the ASC also provides branch status reports, preprint for stock counts, sales and inventory analyses, purchase order requirements, various exception reports, and other reports.

The new Navy Exchange Service Center for the San Diego area will make extensive use of computers in inventory management. The Navy has stated that its purpose is to improve the timeliness and availability of management information and reduce the inventory levels needed to satisfy demands in that area. Consolidation under NESC-San Diego is expected to reduce inventory levels. Substantial portions of this reduction can be attributed to more rapid reaction to inventory conditions through the use of computers.

3. CONCLUSIONS/RECOMMENDATIONS - Inventory Management

- a. AAFES' experience with the ASC's and Navy projections for the NESC concept indicates that area consolidations of inventory management will permit greater visibility of stock structure weaknesses and opportunities. Similarly, these area concepts, which make the use of EDP economically feasible in inventory management, provide for improved control of the stock structures.

- b. It is desirable to have a common retail departmental numbering system among the three exchange services.
- c. Both exchanges and suppliers would benefit from the development of common supplier coding and common item coding. It would facilitate the use of common Price Agreement Bulletins suggested in Section IV.B. and would enable all three exchange services to have EDP print-outs of supplier quality experience.

#### E. QUALITY ASSURANCE

The Armed Services Exchange Regulations require that only first quality merchandise will be sold in exchanges. Some defective merchandise, however, has been found from time to time resulting in customer complaints that the exchanges are selling "seconds."

AAFES reports that in FY '68 alone over \$4 million worth of merchandise has been identified as defective, returned, or has resulted in credits issued. The Navy exchanges do not keep similar records, but report that 88 cases of defective merchandise have been forwarded to NSSO from Navy exchanges in the past year. The Marine exchanges do not aggregate records of defective goods for the total system and thus no estimate is available. All services agree, however, that the majority of the quality problems appear in soft goods.

Many commercial suppliers, particularly of ready-to-wear clothing, are somewhat unfamiliar with the government's quality assurance program. At times they question the right of the Government to reject a total shipment when the incidence of defects found in the random sampling is beyond the tolerable limits of an acceptable quality level.

LMI believes that application of the concept of "quality assurance" (rather than "quality control") would be beneficial to the exchanges, just as it has proved advantageous in the appropriated fund procurement of weapons and supplies. The responsibility for quality control lies with the supplier. The government quality assurance program insures that the supplier's quality control program discovers any defects prior to shipment.

One of the problems encountered in attempting to quantify quality problems has been an apparent lack of customer complaint data. Most of the quality deficiencies which make up the amount quoted above by AAFES were discovered by the exchanges prior to sale to a customer. This in itself is good, but data depicting the quality difficulties experienced by the customers are sporadic and are limited in most cases to recording "returns" at the point of sale.

LMI is unaware of any attempts to coordinate quality assurance information among the three services except on an occasional and informal basis. The most logical area for such coordination would appear to be in the maintenance of supplier quality performance files.

All three exchange services have become increasingly aware of the need to implement more effective quality assurance programs. Their actions to achieve a higher percentage of acceptable goods are recorded briefly as follows.

1. Army-Air Force Exchange Service

A central headquarters Quality Control Office was established in 1966. For three years prior to that this function had been performed under the Procurement Division. There is now a quality control examiner in each Area Support Center. AAFES believes that the establishment of the Area Support Centers, which made it economically feasible to assign examiners, has been instrumental in discovering many quality deficiencies that would otherwise have gone undetected. These quality examiners are attempting to identify and record defects at four levels: (1) the exchange outlet, (2) the warehouse, (3) the CONUS distribution center (when

applicable), and (4) the supplier. The earlier the defects are identified the quicker they will be corrected. This is especially desirable in overseas shipments where long lead times and high transportation expenses are involved. For that reason AAFES has placed quality control examiners at high dollar volume supplier plants, Gilbert Systems, Inc. (who mark, package and distribute), and the Military Ocean Terminals from which overseas shipments are made.

Supplier experience tests are being developed, and AAFES reports that over 90% of the quality problems identified as supplier problems are being resolved without going past the warning or consultation stages.

EDP feedback reports of inspection data are scheduled to commence in July 1968. These will incorporate random sampling, trends, geographical inspection results for comparison purposes, supplier performance, etc. Marginal suppliers, having a consistently poor quality record will be dropped from the list of qualified vendors.

## 2. Navy Exchanges

In 1967 the Navy established a Quality Control Branch at NSSO headquarters. This staff is charged with implementing the Navy exchange quality control plan, conducting supplier plant inspections, product testing, and maintaining supplier quality history files, and training field personnel in quality assurance techniques. There is a new supplement to the Navy Exchange Manual which covers these responsibilities.

Present direction from NSSO requires that all shipments be inspected upon receipt and again on the selling floor.

Defects are reported to NSSO headquarters and appropriate action with the supplier is then taken. From these reports a supplier quality history file is being developed.

The Navy Exchange Service Center concept now being implemented in San Diego will consolidate the receiving inspection functions of the various exchanges under it, which should result in greater consistency in applying inspection standards. The present organization chart of the new NESC, however, does not segregate or identify the quality assurance function.

### 3. Marine Corps Exchanges

The Marine Corps Exchange Manual is silent on the subject of quality assurance. It is a function left entirely to the separate exchanges. Our field visits indicated that Marine exchanges generally have not implemented a quality assurance program.

### 4. CONCLUSIONS/RECOMMENDATIONS - Quality Assurance

- a. Inasmuch as the three exchange services have similar missions and customer clientele, there would be considerable benefit derived from having the exchange services present a united front to suppliers in matters pertaining to quality of merchandise through:

- (1) Common supplier quality experience files which would make available to all services both good and poor quality performance.
- (2) Common inspection and acceptance standards on identical or similar items purchased by all three exchange services.

- (3) Assignment of common quality assurance examiners at supplier plants and distribution and shipping points where the three services buy from the same vendor or ship from the same point in quantities sufficient to warrant the assignment of an inspector or examiner.
- b. The implementation of area distribution concepts as envisioned in AAFES' ASC's and Navy Exchange Service Centers will increase the ability of the exchanges to achieve an earlier discovery of quality difficulties, and thus bring pressure to bear at the source of the quality defects.

#### F. PHYSICAL DISTRIBUTION

For purposes of this report, physical distribution covers the packing, movement, receipt, storage, and issue of all merchandise, supplies, and equipment from suppliers to ultimate destinations. The complexity of the function becomes apparent when one considers that up to 30,000 items are purchased for each of 200 major outlets in CONUS, and a similar variety is procured and distributed to exchanges in 34 foreign countries. This merchandise is purchased from as many as 60,000 suppliers in the United States and from hundreds of suppliers overseas. For each item purchased, logistical decisions must be made as to direct shipment vs. warehousing, mode of transportation, and the choice of carrier.

LMI encountered a variety of distribution patterns and methods in this worldwide study. Our observations tend to confirm the statement made by officials of a large retail chain in the United States who believe that there is no one best way to handle, transport, store, and deliver all merchandise to a retail outlet. In their opinion, optimum results are obtained by analyzing merchandise on a category-by-category basis, determining its point of manufacture, where it will be sold, what quantities to ship, the alternative means to supply it to retail outlets, the cost to hold in a warehouse, the level of service desired, and other factors. They estimate that there are 75 cost categories which must be considered in making such an analysis. The end result of such cost trade-offs determines how that company will ship, transport, store, and finally deliver an item onto the retail shelves.



Because of the differences in transportation and warehousing environments between CONUS and overseas exchanges, our discussion will be divided under those headings.

1. CONUS Physical Distribution

a. AAFES Distribution (CONUS)

AAFES is in the process of implementing and refining its distribution plans in the CONUS Area Support Centers. For those ASC's which are fully operational, however, merchandise is either shipped from sources to the ASC warehouse for storage and further distribution or drop-shipped directly to the store, if that has been determined to be the more economical way. AAFES headquarters' transportation staff is developing a detailed shipping and transportation guide for each ASC which specifies the most economical shipping mode and route. Individual stores under an ASC have a small back-up warehouse in or close to the store, but major warehousing needs are centralized at one or more ASC warehouses.

If a main exchange store has one or more satellite branches, these are usually supplied from that main store. Commercial transportation usually delivers to the ASC warehouse (or store if direct-drop shipment), while exchange-operated trucks carry the distribution from the warehouse to individual stores.

Distribution requirements are computerized at the ASC location, automatically cutting transfer vouchers and other physical distribution documents.

The CONUS ASC's utilize the latest third generation computers at each ASC location.

The AAFES headquarters at Dallas provides policy and coordination to the ASC's and, in addition, is undertaking some detailed studies of the best ways to handle and distribute merchandise under the ASC concept.

b. Navy Exchange Distribution (CONUS)

All of the Navy exchanges operate individually. Their physical distribution patterns reflect this autonomy, even if there are several main stores on the same base. Each store normally designates the method and routing of shipments, which are then received in locally managed warehouses or at the store itself. The merchandise manager has jurisdiction over distribution to satellite stores. Local distribution is usually a function accomplished by Navy exchange vehicles.

The new Navy Exchange Service Center (NESC), now being implemented in the San Diego area, will conduct its physical distribution function on an area basis, similar in some respects to the AAFES. This NESC is envisioned as a prototype and, after a proving period, will be duplicated at other locations where there is a reasonable concentration of naval establishments. As in the case of AAFES, the NESC's will utilize third generation computers. The Navy reports that the many functions of NESC, including physical distribution, could ultimately serve Navy commissary

stores, Ship's Stores Afloat, and MSTs exchanges in those localities.

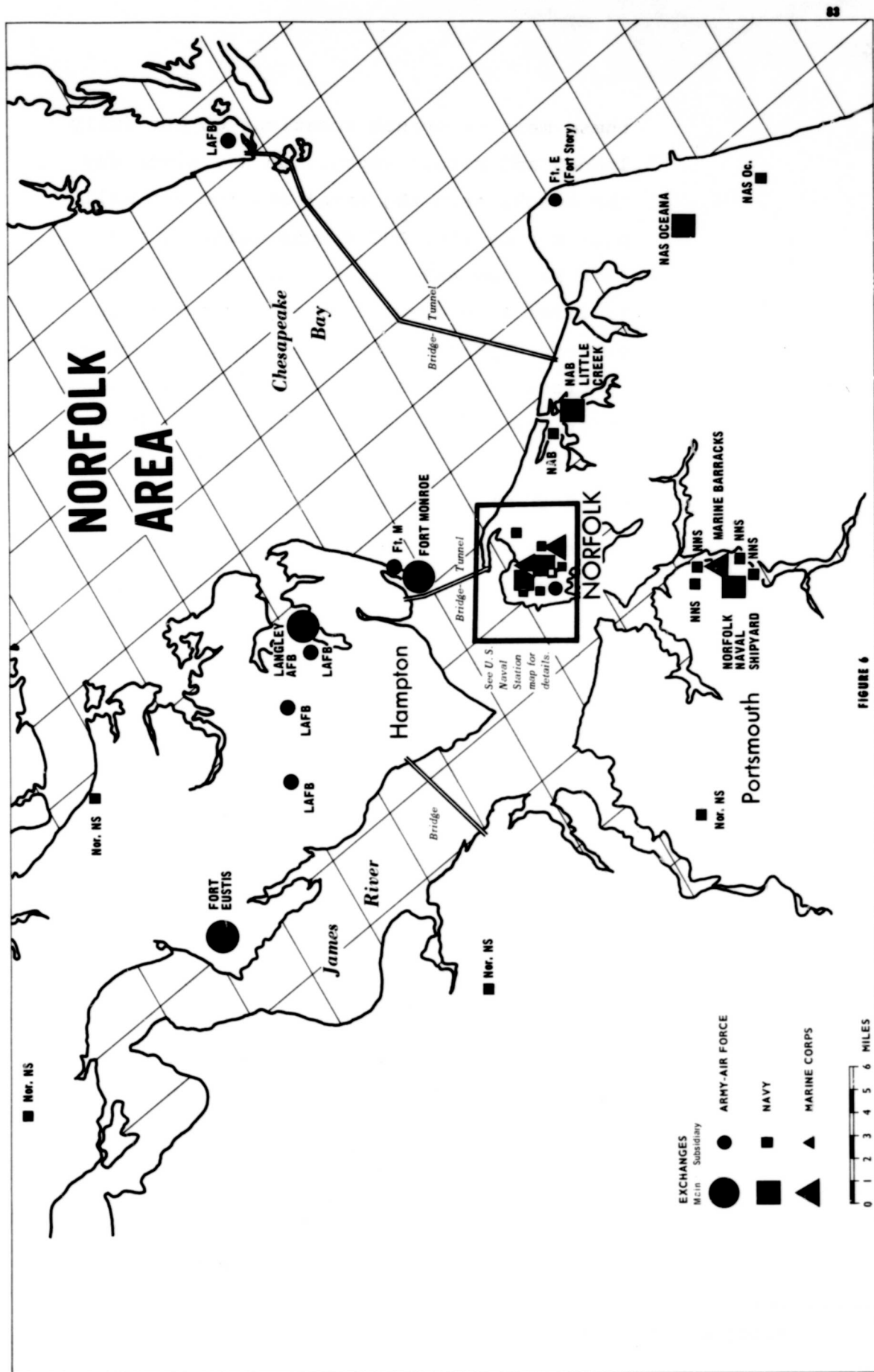
NSSO has staff groups in Brooklyn who are actively planning the distribution aspects of the NESC concept.

c. Marine Exchange Distribution (CONUS)

Marine exchanges operate and manage their distribution functions on a local basis, although there has been some consideration given to consolidating physical distribution on an area basis in Southern California. Each exchange, even if in close proximity to another Marine exchange, operates in a completely independent manner in its storage and distribution functions.

d. Common Distribution Problems and Opportunities in CONUS

- (1) The three exchange services, with few exceptions, operate completely independently of each other. Figure 6 on the following page shows all exchanges in and around the Norfolk, Virginia area. As shown in the ASC map, Appendix D, the Army-Air Force exchanges in the Norfolk area are supplied from one point, the Capitol ASC in Alexandria, Virginia, while Navy and Marine exchanges are supplied individually from suppliers. Various main stores have satellite branches or annexes which must be supplied from main store warehouses. Trucks supplying any of



these main or branch locations go out fully loaded and return empty. On any given day the trucks from the naval station may well pass the Capitol ASC trucks going to and from Langley AFB, Ft. Eustis, or Ft. Monroe. If lines were drawn from supply points to outlets, the resultant map would be a maze of crisscrossed lines. This indicates that there are economies of distribution which could be realized in any area where there are a number of exchanges.

- (2) There is a great duplication in the storage function in a given area, such as the Norfolk Naval Station. There are two Navy main exchanges and two Marine major exchanges on this station; each has its own storage facilities, even though the distance between any two of them is very short.
- (3) Along with the duplication of storage functions in some areas noted above, we observed serious shortages of warehouse and storage facilities in other areas.

Worldwide, the Navy has 61 main stores that can be considered to have warehouse operations. Warehouse problems for those stores are summarized by NSSO as follows:

- 11 stores -- Inadequate;<sup>1</sup> replacement requested
- 25 stores -- Inadequate, but no action to replace taken to date.
- 25 stores -- Adequate warehouses

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<sup>1</sup>Inadequate from a size or condition standpoint.

No similar statistics were available for AAPES or the Marine exchanges, although from our observations the Navy inadequacies seem to be representative of all exchange services.

- (4) Material handling refinements in warehouses (conveyors, standardized multiple shelving, standard bins, etc.) were observed in a few warehouses. However, all of the exchanges have been reluctant to invest in mechanized materials handling equipment and storage hardware since the warehouse facilities are often marginal in quality and such equipment is usually designed for a specific application. The Marines' Camp Pendleton exchange, however, has made a major investment in a modernized warehouse and equipment, and reports great benefits and measurable savings. Before the expenditure of \$130,000 on handling equipment, warehouse manning called for 56 people. With modernization this has dropped to 29 people (a 48% reduction) with a resultant savings of approximately \$100,000 per year.
- (5) The Navy recognized apparent duplications and opportunities in physical distribution, and as a result made an on-site survey and study of existing facilities and operations in the San Diego area in late 1966 (see

Figure 7). This led them to the conclusion and recommendation that consolidated area physical distribution would save \$482,000 per year. As a part of this savings, physical distribution personnel will be reduced approximately 44% (from 176 to 99 people). The Navy estimates that by late 1968 the four Navy exchanges in that area will be served by a single distribution system with resultant savings accruing to the consumer.

AAFES also projects sizable benefits in physical distribution costs and has recorded some measurable gains. Even though the ASC concept has been in existence only a short time and all areas are not yet fully implemented, AAFES reports that total physical distribution personnel have been reduced from 2,391 to 1,822 persons--a savings of 24%.

- (6) To summarize the CONUS physical distribution situation, LMI believes that the determination of the best way to handle, store, and distribute a given item or commodity presents some great opportunities. Officials of one of the largest merchandising firms in the U. S. reported that they are just beginning to tap the potential in that area, even though they have been highly profitable over the years. Within the exchanges, efforts to optimize this facet of physical

TO LOS ANGELES

NAVAL AIR STATION MIRAMAR  
15 MILES FROM NESC

# SAN DIEGO

(NAVY EXCHANGE SERVICE  
CENTER CONCEPT)

NAVAL TRAINING  
CENTER (NTC)

MARINE CORPS  
RECRUIT DEPOT

PACIFIC OCEAN

NTC

NTC

125 MILES  
FROM  
NESC TO  
EL CENTRO  
NAS N. I.

NTC

NTC

NAVAL AIR  
STATION  
NORTH ISLAND  
(NAS N. I.)

CORONADO

SAN DIEGO NAVAL  
STATION

NEW NAVY  
EXCHANGE  
SERVICE  
CENTER  
(NESC)

8 MILES FROM  
NESC  
NAS N. I.

EXCHANGES

Main  
Subsidiary

NAVY

MARINE CORPS

0 1 2  
Miles

FIGURE 7



distribution have been on an individual store basis until the formation of AAFES ASC's and the Navy Exchange Service Center concept. It is true that an individual store could conduct economic trade-offs on items if it could afford the staff, and eventually select an efficient distribution and storage pattern. In LMI's opinion the area or service center concept opens doors to new physical distribution benefits and savings through (1) consolidated procurements and shipments, (2) lower freight rates due to higher volumes, (3) reduction in the number of out-of-stock instances through shared central warehouses, (4) possible pooling of capital investments in warehouse and material handling equipment to achieve a single mechanized warehouse for an area, and (5) elimination of duplication in local distribution and transportation.

## 2. Overseas Physical Distribution

The scope of exchange operations overseas makes a separate discussion desirable. Last year over 52% of AAFES' sales were made in overseas exchanges, the Navy reported 37%, and the Marine overseas exchanges accounted for 11% of total Marine exchange sales.

### a. AAFES Distribution Overseas

The AAFES Transportation Division in Dallas is responsible for the packing and movement of almost

\$600 million of CONUS-procured merchandise to overseas exchanges in 34 foreign countries. All of this merchandise is routed via commercial carrier, at exchange or supplier expense, to one of five primary loading points or shipping terminals in the United States. Water shipments are processed in accordance with MILSTAMP through appropriate transportation terminals for ocean lift by Military Sea Transport Service (MSTS). MSTS transportation costs are not charged to any of the exchanges. An estimate of MSTS support of AAFES requirements is approximately \$54 million (see Table 9, Section IV.G).

With the exception of RVN all AAFES exchanges overseas arrange and pay for transportation from the foreign port of discharge to the individual exchange warehouse. Some use is made of the Army and Air Force postal system for small shipments, and commercial air and air parcel post are used to expedite seasonal merchandise and emergency requirements. MAC lift is limited to (1) supply of areas not serviced by commercial carrier, (2) military apparel items in short supply, and (3) emergency requirements which have serious impact on the morale of the troops.

Table 5 portrays the magnitude of AAFES overseas shipments.

Table 5

AAFES SHIPMENTS TO OVERSEAS EXCHANGES		
Shipments by Type	Calendar 1967	Calendar 1966
Surface Ships	1,719,767 MT*	1,300,000 MT*
Commercial Air	1,044,921 lbs.	
Military Airlift Command**	3,758,665 lbs.	
Conex Containers	7,644 Containers	1,675 Containers
Sea Van Containers	9,761 Sea Vans	3,544 Sea Vans
Individual Water Shipments	211,565 Shipments	

\* 40 cu. ft./Measurement Ton

\*\* Primarily to Vietnam during lift shortage, February-March 1967.

b. Navy Exchange Distribution Overseas

Table 6 following summarizes the appropriated fund support rendered to the Navy exchanges in transporting exchange merchandise and supplies to overseas locations.

Table 6

APPROPRIATED FUND SUPPORT (TRANSPORTATION COSTS) OF NSSO SHIPMENTS TO OVERSEAS EXCHANGES		
Method	10 Months Actual (FY'68)	12 Months Projected (FY'68)
<u>SEA LIFT</u>		
Containerized (\$)	--	\$1,938,374
Conventional Cargo (\$)	--	\$4,522,874
Total Sea Lift (\$)	\$5,384,374	\$6,461,248
Total Tonnage (MT)*	231,431 MT	277,600 MT
<u>AIR LIFT</u>		
Total Airlift (\$)	\$ 1,142	\$ 1,370
Total Airlift (Short Tons)	58.4 ST	

\* Measurement Tons

Under the guidance of NSSO, merchandise earmarked for overseas Navy exchanges is shipped by suppliers to the Military Ocean Terminals (MOT) and processed by MOT personnel for shipment via MSTs. Either the individual Navy exchange or the supplier pays the shipping costs to the MOT, depending upon the terms of the order. On the West Coast the Navy has contracted for the stuffing of containers for overseas shipments. On the East Coast the Navy reimburses appropriated funded sources for the stuffing of highly pilferable items into containers.

c. Marine Exchange Distribution Overseas

Marine exchanges generally follow the same pattern of shipment and distribution overseas as does the Navy. The Marine exchanges operate as independent entities and direct and manage their shipments to and from the ports. No statistics were available as to the magnitude of Marine exchange shipments overseas.

d. Common Overseas Distribution Problems and Opportunities

- (1) Opportunities for savings through area consolidations are also a possibility in overseas operations. The Pearl Harbor-Honolulu area is illustrative. The Navy has indicated that a feasibility study leading to a NESC has been made covering Navy exchanges in that locality. Army-Air Force exchanges already operate there under PACEX's regional exchange distribution concept.
- (2) Warehousing problems also exist overseas in all exchange services, particularly in remote areas like Thailand and Vietnam. Inadequate facilities (discussed in Section IV.I) have lessened the ability of the exchanges to streamline their warehouse operations. Pilferage of merchandise and supplies during the distribution process adds to difficulties, particularly in remote operational areas.
- (3) LMI understands that substantial progress has been made in the physical distribution

process in Vietnam. The rapid buildup produced some storage and distribution difficulties, but reports from that area indicate that necessity items are now available throughout the region. Over 900,000 measurement tons of exchange cargo have been shipped to Vietnam thus far.

The Marines who are being serviced by AAFES exchanges in Vietnam have suggested that the effectiveness of distribution there might be increased if exchanges in Marine areas were to be placed under the Marine Force Logistics Command to insure that the exchanges receive the proper transportation and storage support. This is presently under consideration by AAFES.

- (4) A significant transportation development is now underway in Vietnam. A proposed contract is being negotiated by the First Logistics Command which will provide for second destination transportation from port depots to inland depots, or from depots to retail outlets, by means of tractor-drawn vans. It is estimated that this contract will be effective by August 1968. AAFES expects not only an improvement in the capability to move merchandise but also improved security and reduction in damages resulting from handling.
- (5) Increases in the availability and use of sea van and CONEX containers has been a great

boon to all three exchange services. The vans and containers are either source-loaded at suppliers' plants or packed at the ocean terminals, and normally would not be opened until delivered at the store or warehouse overseas. Exchange enthusiasm for this mode of transportation stems from several facts: (1) it has reduced pilferage and damage considerably, (2) it is normally faster than conventional shipments (see Table 7 on the following pages), (3) it eliminates the need for expensive export packing, (4) it is cheaper to handle, and (5) it provides its own storage facility in case of an unexpected delay.

The Navy exchange in Naples is now receiving an increasing amount of its stateside merchandise in vans and containers, as are many other exchanges. All report substantial reductions in pilferage and damaged goods. Since most Navy overseas exchanges are near ports, they have been loading sea vans at the CONUS terminal with a varied assortment of merchandise, all destined for a single store.

Summarizing physical distribution aspects of overseas exchanges, we found that many of the problems and duplications encountered in CONUS also existed overseas. Likewise, the opportunities were apparent and perhaps to even a greater degree. In addition to those opportunities which the area concept may present to both AAFES and the Navy overseas, there are additional benefits to be gained in greater emphasis on containerized shipments.

Table 7

AAFPs - COMPARISON OF SHIPPING TIMES (IN DAYS)													
OVERSEAS EXCHANGE COUNTRY/POD*	PORT OF SHIPMENT	WATER					AIR						
		VENDOR LOADED		PACKER SHIPMENTS			REEFER CARGO	LOOSE CARGO	MILITARY AIR TRANS	COMMERCIAL AIR			
		SEA VAN	CARLOAD OR TRUCK LOAD	SEA VAN	CONEX	OTHER CONTAINER				Express	Freight		
<u>GERMANY</u> Bremerhaven	New York Area	20	30	29	33	40	22	35	**E 8	E 4	E 5		
	Philadelphia	20	30	-	-	-	22	35					
	Norfolk	21	21	-	-	-	23	35	***W 9	W 5	W 6		
	New Orleans	24	34	-	-	-	26	45					
	Oakland	31	41	40	44	60	33	60					
Glessen Gruenstadt Mainz-Kastel	New York Area	22	32	31	35	42	24	37					
	Philadelphia	22	32	-	-	-	24	37					
	Norfolk	23	33	-	-	-	25	37					
	New Orleans	26	36	-	-	-	28	47					
	Oakland	33	43	42	46	62	35	62					
<u>ITALY</u> Leghorn	New York Area	25	35	34	38	45	23	45	**E 8	E 4	E 5		
	Philadelphia	25	35	-	-	-	24	45					
	Norfolk	25	35	-	-	-	23	45					
	New Orleans	28	38	-	-	-	26	50					
<u>UNITED KINGDOM</u> Southampton	New York Area	20	30	29	33	40	22	40	**E 8	E 4	E 5		
	Philadelphia	20	30	-	-	-	22	40					
	Norfolk	21	31	-	-	-	23	40					
	New Orleans	24	34	-	-	-	26	47					

\* POD - Port of Discharge

\*\* From East Coast terminals

\*\*\*From West Coast terminals



Table 7 (Cont'd)

AAFES - COMPARISON OF SHIPPING TIMES (IN DAYS)												
		WATER							AIR			
OVERSEAS EXCHANGE COUNTRY/POD*	PORT OF SHIPMENT	VENDOR LOADED		PACKER SHIPMENTS			REEFER CARGO	LOOSE CARGO	MILITARY AIR TRANS	COMMERCIAL AIR		
		SEA VAN	CARLOAD OR TRUCK LOAD	SEA VAN	CONEX	OTHER CONTAINER				Express	Freight	
London	New York Area	20	30	29	33	40	22	40	10	4	5	
<u>JAPAN</u> Yokohama	New York Area	35	45	44	48	65	37	65	**E 10	E 6	E 7	
	Philadelphia	35	45	-	-	-	37	65				
	Norfolk	34	44	-	-	-	36	65				
	New Orleans	34	44	-	-	-	36	60				
	Long Beach	24	34	33	37	50	26	50				
	Oakland	24	34	33	37	42	26	42				
	Seattle	24	34	33	37	50	26	50	***W 9	W 5	W 1	
<u>THAILAND</u> Bangkok	New York Area	-	51	-	54	80	43	80	15	9	10	
	Philadelphia	-	51	-	-	-	43	80				
	Norfolk	-	50	-	-	-	42	80				
	Oakland	-	39	-	42	70	31	70				
<u>HAWAII</u> Honolulu	New York Area	28	38	37	41	55	28	55	** E 11	E 5	E 6	
	Oakland	18	28	27	31	40	18	40	***W 10	W 4	W 5	
	Seattle	18	28	27	31	48	18	48				

\* POD - Port of Discharge

\*\* From East Coast terminals

\*\*\*From West Coast terminals

Table 7 (Cont'd)

AAFES - COMPARISON OF SHIPPING TIMES (IN DAYS)												
OVERSEAS EXCHANGE COUNTRY/POD*	PORT OF SHIPMENT	WATER							AIR			
		VENDOR LOADED		PACKER SHIPMENTS				REEFER CARGO	LOOSE CARGO	MILITARY AIR TRANS	COMMERCIAL AIR Express Freight	
		SEA VAN	CARLOAD OR TRUCK LOAD	SEA VAN	CONEX	OTHER CONTAINER						
<u>VIETNAM</u>												
Saigon	New Orleans	40	50	-	-	-	42	85				
Cam Ranh Bay	New York Area	40	50	49	53	85	42	85				
Da Nang	Norfolk	40	50	-	-	-	42	85				
Qui Nhon	Long Beach	28	38	37	41	72	30	72				
Nha Trang	Oakland	28	38	37	41	70	30	70				
	Seattle	28	38	37	41	75	30	75	***W 14	W 8	W 9	
<u>ALASKA</u>												
Anchorage	New York Area	28	38	37	41	48	30	48	** E 11	E 5	E 6	
	Oakland	18	28	27	31	40	20	40	***W 10	4		5
	Seattle	16	26	25	29	46	18	46				

\* POD - Port of Discharge

\*\* From East Coast terminals

\*\*\*from West Coast terminals

3. CONCLUSIONS/RECOMMENDATIONS - Physical Distribution

- a. There is a growing realization in the exchange services that optimum distribution patterns for merchandise may vary from commodity to commodity. LMI concludes that the exchanges will benefit if detailed cost and delivery trade-offs are conducted on a commodity basis.
- b. An area distribution concept, to include some of the best features of both the Navy Exchange Service Center and the AAFES Area Support Centers, provides the best environment for conducting commodity distribution evaluations and implementing measurable improvements. Even though considerable research and planning is required to achieve optimum distribution patterns, the advantages of an area distribution concept include the possibility of benefits and savings through:
  - (1) Consolidated procurements and shipments which can be containerized at vendor plants.
  - (2) Lower freight and transportation costs due to higher volume shipments.
  - (3) Reduction in the number of out-of-stock instances through a shared central warehouse.
  - (4) Possible pooling of available capital in an area to obtain a single warehouse with modern materials handling equipment.
  - (5) Elimination of duplication in local transportation in an area.

- c. The inadequacy of many exchange warehouses has apparently stifled refinements in warehouse and handling operations in that those exchange managers are (1) reluctant to invest in new and mechanized warehouse equipment and building modifications if the probability of amortization is in question, and (2) many of the presently assigned warehouses are of such design and construction as to make modification and improvement difficult or even impossible.
- d. Increased use of sea van and CONEX containers offers substantial advantages to the overseas operations by:
  - (1) Reducing shipping times
  - (2) Cutting damage losses
  - (3) Cutting pilferage losses
  - (4) Easier handling at ports and warehouses
  - (5) Elimination of expensive export crating
  - (6) Providing temporary warehouse storage

## G. FINANCIAL MANAGEMENT

This section treats financial management in the exchanges from four standpoints: (1) profitability of operations, (2) capital planning and funding, (3) accounting practices, and (4) audit practices.

Electronic data processing, although an integral part of some financial functions, is discussed in the next section (IV.H) since a total systems EDP approach requires that we also consider applications outside the specific realm of financial management.

### 1. Profitability of Operations

Table 1 in Section III indicates that each exchange service produced a substantial net profit in the last fiscal year and has contributed sizable amounts to its respective welfare and recreation fund(s). It will be shown later that the portions of the profit contributed to these funds offset any reasonable estimate of appropriated fund support of the exchanges. We can therefore conclude that the exchange operations are profitable in a net sense, and are fulfilling that portion of their mission which calls for contributions to recreation and welfare activities.

LMI has attempted to ascertain if the operating results indicated in Table 1 are comparable one to the other. If comparisons were possible they might highlight certain areas of improvement available to all exchange services. Table 8 uses direct sales as a base in each case and records total systems profits as a percentage of that base. The Marine exchanges show a 7.6% net profit, with the Navy recording 8.0% and AAFES 5.9%. Each profit includes income from

Table 8

EXCHANGE PROFIT SUMMARY  
\$ IN MILLIONS

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ITEM	AAFES (FY '68)	NAVY (FY '68)	MARINES (FY '68)
Direct Sales	\$1,844.16M 100.0%	*	\$131.87M 100.0%
Concession Sales	245.51M		
Total Sales	\$2,089.68M		
Concession Income	\$ 35.80M	\$ .39M	\$ 1.5M
Net Earnings (Profit)	\$ 108.84M 5.9%	\$ 50.04M 8.0%	\$ 10.07M 7.6%
Contribution of Net Earnings to Welfare/Recreation Funds	\$ 75.00M (69% of Net Earnings)	\$ 32.69M Local BuPers \$6.2M (72.9% of Net Earnings)	USMC \$4.876M Navy \$ .016M Civilian \$ .018M (49% of Net Earnings)
Civilian Personnel Costs	\$ 253.00M 13.7%	\$ 92.6M 14.8%	\$17.44M 13.2%
CONUS Retail Sales	\$ 709.36M 100.0%	\$228.83M 100.0%	\$70.48M 100.0%
Cost of Goods Sold	\$ 596.28M 84.0%	\$193.45M 84.5%	\$59.19M 84.0%
Gross Profit	\$ 113.13M 16.0%	\$ 35.38M 15.5%	\$11.289M 16.0%

\* Navy sales and net earnings include sales of \$34.1M and profit of \$5.2 generated by MSSO operated Enlisted Men's Clubs. Neither AAFES nor Marine exchanges operate similar clubs.

\*\* Navy percentage computed without Enlisted Mens' Club profits of \$5.2M as follows:

$$\frac{\$32.69M \text{ (Contributions)}}{\$50.04M - \$5.2M \text{ (Net Earnings)}} \times 100 = 72.9\%$$

\$50.04M - \$5.2M (Net Earnings)

concession sales, but concession sales are not included in the direct sales base. (Complete profit and loss statements for each exchange service are included in Appendix F.)

Several variations in accounting structure became evident which prevented any realistic comparison of profit percentages:

- a. AAFES has a high percentage of concession operations compared to the other two exchange services. Although all exchange services base their profit percentages on direct sales only, the variations in concession income tend to lessen the comparability of net earnings.
- b. The Navy Ship's Store office statement includes Enlisted Men's Club sales (\$34.1M) and profit (\$5.2M) since those clubs are a department of the Navy exchange operation. Such clubs are not operated by either AAFES or the Marine exchanges.
- c. Military salaries and fringe benefits are not included as charges against sales in any exchange service. Their totals vary widely among the exchange services and thus complicate any comparisons of the exchanges' operating statements. (See Section IV.K.)
- d. Overseas transportation costs are also not included and likewise vary from service to service, depending upon the percentage and location of overseas business.
- e. Investments in overseas inventories and pipelines affect operating statements through interest

charges. For example, AAFES interest charges in FY '68 were \$2.3 million, mostly due to borrowings to maintain the Vietnam inventories and pipelines. The other two exchange services do not have similar charges.

- f. Appropriated fund support of exchanges differs widely, causing varying operating charges which appear as expenses against sales. As an example, overseas exchanges have utilities furnished at no charge; CONUS exchanges pay for their utilities. Therefore, a high percentage of overseas business would lessen the percentage of worldwide utility costs for an exchange service.

Probing further in an attempt to account for profit differences, we examined retail sales in CONUS only. These figures appear at the bottom of Table 8. The gross profits (or differences between retail sales and cost of goods sold - depending upon the differing nomenclatures used) run quite close at about 16%. The differences are too small to lead to any conclusion. At this point it was impractical to carry the analysis of CONUS retail performance any further because techniques of aggregating personnel costs, operating expenses and overhead costs varied so widely that results were meaningless without a detailed audit.

Likewise, isolated costs factors such as personnel costs (AAFES - 13.7% Navy - 14.8%, and Marines - 13.2%) do not, in our opinion, justify a conclusion that one service operates more efficiently than the others since such factors may be offset by other compensating factors.



LMI also attempted to analyze and compare the operating statements of 12 exchanges in the Norfolk-Hampton Roads area. Again, the allocation and pro-ration of charges differed so greatly that meaningful comparability ended at the gross profit or cost of goods sold level.

## 2. Capital Planning and Funding

### a. Planning Considerations

AAFES plans and projects financial requirements on a five year basis, NSSO on a three year basis, and the Marine exchanges individually on a one year basis.

Two major considerations face capital planners in the exchange services. First, they must retain enough of the profits generated to perpetuate the exchanges as viable service operations. Secondly, they must plan for the assignment of profits to welfare and recreation funds. Both of these considerations require a recognition of the degree of appropriated fund support which is rendered to the exchanges.

We found that it was very difficult to ascertain the exact amounts of appropriated fund support extended to the exchanges. However, estimates which have been provided to us, and which we have aggregated (see Tables 1 and 9) indicate that exchange welfare contributions may equal or possibly be greater than the appropriated fund support rendered in the form of military salaries, MSTS transportation, overseas utilities, facilities, and maintenance. Contributions in FY '68 totaled approximately \$112.6 million, and appropriated fund support estimates equal \$111.6 million.

TABLE 9  
ESTIMATES OF APPROPRIATED FUND SUPPORT OF MILITARY EXCHANGES  
(FY 1968)

ITEM	TOTAL DOD	A-AF EXCHANGES	NAVY EXCHANGES	MARINE EXCHANGES
MILITARY PAYROLL	\$ 18,400,000	\$ 7,000,000 (AAFES Approximation)	\$7,200,000 (Navy Study)	\$4,200,000 (LMI Approximation)
CIVILIAN PAYROLL	None	None	None	None
MIL CONSTRUCTION	\$ 2,000,000	\$ 800,000 (OSD(M) Approximation)	\$1,213,500 (Navy Study)	Not Available
FACILITIES RENTAL	\$ 16,226,000	\$11,380,000 (Hubbell Study* .73% Sales)	\$3,970,000 (Hubbell Study* .73% Sales)	\$ 876,000 (Hubbell Study* .73% Sales)
MAINT. SUPPORT	\$ 5,500,000	\$ 3,900,000 (AAFES Study)	\$1,300,000 (LMI Approximation)	\$ 300,000 (LMI Approximation)
UTILITIES (Overseas)	\$ 9,000,000	\$ 7,000,000 (AAFES Study)	\$1,856,000 (Navy Estimate)	\$ 246,000 (LMI Approximation)
TRANSPORTATION (Overseas)	\$ 60,469,000	\$54,078,000 (Hubbell Study)*	\$6,391,000 (Hubbell Study)*	Included in AAFES and Navy
TOTAL ESTIMATED APPROPRIATED FUND SUPPORT	\$111,595,000	*Military Pay Study - Directed by RADM L. E. Hubbell, 1967-1968		

b. Borrowing Practices

In peacetime the exchanges have not had a need to borrow working capital. During war, however, there have been severe strains on exchange working capital availability. During World War II the Army Exchange Service experienced a rapid expansion, and as a result, was forced to borrow funds to finance the buildup. They secured a loan of \$20M from the Defense Supplies Corporation, a subsidiary of the Reconstruction Finance Corporation.

The recent buildup in Vietnam has produced a similar need. The long pipelines necessary to support Southeast Asia operations caused the AAFES Board of Directors to face the problem of securing more working capital. The AAFES Board of Directors decided that there were two paths open by which to alleviate this situation. The first was to delay dividend payments to Army and Air Force recreation and welfare funds, and the second was to go to the banks for commercial loans. Both methods were used as follows:

- (1) The Board voted to reduce payments to the welfare fund from \$56 million (which was a five-year average previous to this) to \$48 million for Fiscal Year 1966. Payments were increased to \$56 million in FY 1967. However, the AAFES Board of Directors voted to increase their welfare contribution to \$75 million in FY 1968, but payment of this amount was spread over that year with lesser

payments being made early in the year to reduce the cash outflow in the early months of that year.

- (2) AAFES has a present credit limit of \$65 million with commercial banks. Present borrowings are stated to be less than \$20 million, all of which is expected to be paid by January, 1969. At one point borrowings reached a peak of \$60 million.

These bank loans are at commercial rates and are executed over the signature of the Chief of AAFES after authorization by the AAFES Board of Directors. LMI was unable to find any policy precedent covering bank loans to the exchanges.

On occasion AAFES has also borrowed small amounts of money from the Army-Air Force Motion Picture Service with interest charged.

Up to the present time it has not been necessary for the Navy exchanges to go to commercial banks for additional working capital. AAFES took over Vietnam exchange operations early in the buildup. The Navy had used stock funds to finance their Vietnam inventory pipeline prior to turning over exchange operations to AAFES. All of the Navy exchange expansion to date has been financed from exchange profits.

All exchange services have taken advantage of "float" in order to make maximum use of their available working capital.

### 3. Accounting Practices

The exchange services all have comprehensive but different accounting systems. They are well documented and apparently well understood at all levels. Each is built upon the premise of providing accounting for both decision making and control of resources. In the former, we encounter financial plans and performance evaluations such as (1) profit and loss statements, (2) open-to-buy controls, and (3) discounts earned. Of particular interest in the latter are such functions as (1) control of cash receipts and deposits, (2) accounts payable and receivable controls, and (3) gold flow controls. Appendix E shows the present organizational level at which financial functions for all three exchange services are performed. Several of these functions will be summarized below to highlight certain problem areas.

#### a. Profit and Loss Accounting

The exchange profit and loss statements are comparable in both scope and detail to those of commercial concerns in similar lines of business. Difficulties in making comparisons among the three exchange services' operating statements were discussed earlier in this section.

Fiscal year dates for the exchange services vary as follows:

AAFES	FY'68	25 Jan 1967 to 24 Jan 1968
Navy	FY'68	26 May 1967 to 25 May 1968
Marines	FY'68	29 Jan 1968 to 27 Jan 1969

LMI believes that there would be a considerable benefit

from establishing a common fiscal year for all exchange services. A principal advantage would be the ability to compare operations of the three exchange services covering like periods.

Although each exchange service has a different accounting system and formats, profit and loss statements and balance sheets follow accepted practices. Year-end statements and balance sheets for FY 1968 are included in Appendix F. As instrumentalities of the Government, the exchanges pay no state or local taxes and no federal income taxes.

Profit and loss accountability is extended down to individual exchanges with consolidations made at the exchange service headquarters. A significant feature of this profit and loss responsibility is the timeliness of the accounting. Normally there is a lapse of only four or five days between the close of the monthly accounting periods and the publication of the P&L "flash" statements. These are produced at the local level and give the local manager the specifics of his operation during the previous month. End-of-the-month adjustments are introduced, and the final P&L is then produced and published.

Probably the most important single factor in the attainment of operational goals is the profit and loss responsibility placed upon individual store and service managers. The management visibility and personal measurement thus acquired help make these viable operations.

b. Open-to-Buy Controls

The computation and control of "open-to-buy" is key in each store's operations. To compute the open-to-buy, the programmed sales for a month are added to the projected inventory at the end of the month. From that subtotal, the estimated inventory at the beginning of the month is deducted. Normally the open-to-buy amount is programmed several months in advance to take into account the purchasing lead times involved.

From an accounting standpoint, the open-to-buy control prevents an over-extension of working capital and helps retail and procurement managers visualize their current inventory status. LMI observed that this control was well utilized in exchange operations.

c. Discount Practices

As in commercial practice, suppliers allow the exchanges discounts for prompt cash payments. Such allowances vary with the vendor, but normally include such terms as 2-10-EOM (2% reduction on the net cost if paid in 10 days, the net amount if paid by the end of the following month) and 2-10 Net 30 (2% reduction if paid in 10 days and net if paid in 30 days). Anticipation (discount taken for early payment) is also allowed by some suppliers. It is the practice of AAFES to take advantage of the discounts; the amounts are recorded under "other income." In some cases the discounts are taken past the period allowed in the discount terms. This may cause supplier dissatisfaction at times. This is evidently a common practice in commercial trade,

but the need for absolute fairness in a government operation suggests that this practice be reviewed.

The Navy and Marine exchanges also take advantage of discounts allowed, but adhere rather strictly to the terms of such discounts. They do not take anticipation unless specifically allowed in the terms of the invoice. LMI believes that a single policy of compliance with discount terms is desirable, and that it should reflect present Navy and Marine practices.

d. Control of Cash Receipts and Expenditures, and Accounts Payable and Receivable

As in the case of most well-run commercial enterprises, the exchanges exercise controls over cash receipts and deposits, accounts payable, fixed assets, claims against vendors, carriers, etc.

e. Gold flow Considerations

Control of international balance-of-payments in exchange operations is a many-sided function. It reaches into procurement, retail operations, host country agreements, accounting and audit procedures, and a number of other activities. LMI's task order asked for specific comment on balance-of-payments (gold flow).

As a control on gold flow, there is a ceiling on the sale of foreign merchandise in exchanges. This ceiling is stated as a percentage of total exchange sales overseas. DoD-wide this provides that foreign merchandise may make up 25% of total overseas exchange sales. The Navy has elected to allocate its



authorization among its foreign exchanges on a variable basis. In Naples, for example, the limit has been set at 14% and in Yokosuka 35%. However, the total Navy percentage is within the prescribed limit. The AAFES overseas exchanges all have a 25% limit.

This DoD-wide limitation is not as effective as it might appear. An earlier study<sup>1</sup> pointed out that there are some items of foreign merchandise which will be purchased by overseas personnel whether the items are stocked in the exchange or not. These are such things as china, glassware, leather goods and wood carvings in Europe, and cameras, pearls and electronic equipment (hi-fi and tape recorders) in the Far East. These are not items of impulse buying, but rather are sought after as items to be returned to the U.S. after a duty tour. If an item is not available on the exchange, the serviceman normally purchases it in the local economy.

Under current policy, foreign merchandise in off-shore exchanges must be priced the same as similar items in the local foreign market. The exchanges are required to make up the price of a foreign procured item to equal the selling price of that item in the local economy. The purpose of this equal pricing is to entice the consumer to buy U.S. manufactured goods in lieu of foreign merchandise. The exchanges, however, believe, and the study mentioned above indicates, that the consumer's desire for foreign merchandise is

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<sup>1</sup>Report of Study by Mr. Fred C. Hecht, Vice President Sears, Roebuck and Co., March, 1967.

not lessened by this equal pricing. The consumer, therefore, goes to the local economy to buy foreign merchandise.

There are several reasons why the consumer will purchase in the local economy:

- (1) Foreign local stores can carry a larger selection than is allowed in exchanges.
- (2) Foreign local stores often offer credit terms to military customers.
- (3) Some customers have reported to the exchanges that the foreign local store gives better service on foreign merchandise than the exchange.

There are two problems involved in these local purchases.

- (1) If a Japanese-made radio is priced at \$20 in both the exchanges and the local economy, then the amount of gold outflow lost to the United States if the customer buys in the local economy is equal to the exchange's markup (approximately \$3).
- (2) In local purchases, the customer cannot always be sure that the merchandise is of good quality and can be serviced in the United States.

It is believed that customers can be encouraged to buy in the exchanges, and the gold flow decreased by the amount of the local markup, by permitting exchanges to stock a selection of this merchandise adequate to

meet the customers' demands and sell at a price which will attract the customers to the exchanges.

As a general rule, LMI believes that all exchanges of the same size in the same local area should have similar stock structures and should sell at the same prices. For foreign merchandise, however, it may be desirable to provide a more complete range of high quality, high demand items at a few reasonably accessible stores. An example of the successful application of this concept is the Navy Exchange in Yokosuka, Japan. The presence of fleet personnel in Yokosuka caused the Navy to allow a higher percentage of foreign merchandise in the Yokosuka exchange than in the Yokohama exchange which is located in a base primarily used for family housing in the same area. The increased allowance at Yokosuka justified a better stock selection, and as a result, more sales were made in the exchange and less in the local economy.

Concession sales in exchanges and clubs are not counted as gold flow sales. Conversion of these to direct sales would provide better gold flow control and a saving of a part of the markup.

The exchange services are doing about all that can reasonably be done to limit the outflow of U. S. dollars in exchange operations. The changes suggested above are not within the control of the exchange services.

Comments on gold flow problems of unit's clubs, messes, and welfare and recreation activities are in Section VI.

#### 4. Audit Practices

The Armed Services Exchange Regulations are very clear on audit policy. They state that:

4-201 - External Audits. Each Service shall require audits of its exchange system by a certified public accounting firm or firms. These audits shall include the central offices (if maintained) and such regional organizations and individual exchanges as may be necessary to obtain properly certified statements as to the financial condition of the exchanges under the cognizance of each Service.

4-202 - Internal Audits and Inspections. Each service shall determine and require such internal audits and inspections as it may consider necessary or desirable.

LMI found that the three exchanges were in compliance with these policies. Specific comments follow.

##### a. AAFES

AAFES has contracted with an outside CPA firm for annual audits, using ASPR type procedures in the solicitation and negotiation. The present auditors are Peat, Marwick, Mitchell and Company, who have a one-year contract with AAFES with an option by AAFES to renew it up to five years. They were awarded this contract after competitive negotiation with several large accounting firms. A principal criterion used to select the candidates was that they must have a worldwide audit capability. Their report is submitted annually to the AAFES Board of Directors.

AAFES has an internal audit section at the headquarters in Dallas with additional staff audit sections at EES and PACEX headquarters. Internal audits are

made of all exchanges and Area Support Centers in CONUS on a biennial basis plus annual audits of PACEX, EES, and Alaska exchange headquarters. Internal audit staffs from EES, PACEX and Alaska exchange headquarters perform audits on individual exchanges, areas, and regions overseas. LMI made no attempt to study these internal audit practices in depth.

There are also regular inspections by the Army and Air Force Inspector Generals (IG). In addition the OSD audit group has made several special audits on Vietnam problems and a recent one on brand name merchandise problems in CONUS.

b. Navy Exchanges

The Navy has contracted with S. D. Liedesdorf and Company to conduct annual audits. Liedesdorf conducts an annual audit of NSSO headquarters and covers all Navy exchanges in a three-year cycle. The NSSO Advisory Committee has raised the question of the advisability or desirability of NSSO staying with one audit firm year after year, as has been the practice.

Within NSSO there is an internal review group which has the responsibility to conduct in-depth financial audits of selected exchanges. LMI made no attempt to study the internal procedures of this group in depth.

As in the case of other exchange services, there are regular inspections of Navy exchange operations by the Navy Inspector General (IG). The Navy IG uses NSSO military and civilian employees in the conduct of these inspections.

c. Marine Corps Exchange Service

The Marine Corps Exchange Service approach to audit is quite similar to AAFES and the Navy. They have contracted with C. W. Amos and Company of Baltimore who conduct annual audits of Marine Corps exchanges.

As in the case of the other services, there are Marine Corps IG inspections on a regular basis.

The central staff in Washington has a newly formed internal audit group which conducts additional audits when directed by the Director of the Marine Corps Exchange Service.

5. CONCLUSIONS/RECOMMENDATIONS - Financial Management

- a. An aggregation of estimated appropriated fund support costs indicates that appropriated fund support of exchanges approximately equals exchange contributions to recreation and welfare activities.
- b. All three exchange services are operating profitably, even considering what appear to be reasonable estimates of appropriated fund support. They are fulfilling that portion of their missions calling for support of recreation and welfare activities.
- c. It is virtually impossible to make an assessment of the operating efficiency of one exchange service vs. another without a detailed audit or change in accounting systems.
- d. If comparability of exchange service performance is desired at the military department or OSD

level, consistent accounting policies and identical accounting formats will be required.

- e. The exchanges are generally doing everything possible to live within both the letter and spirit of gold flow directives and regulations. Specific gold flow policy dictating the pricing of foreign merchandise in an overseas exchange needs to be re-evaluated on a country by country basis.
- f. Consideration should be given to the possibility of making arrangements for advances or loans by the U.S. Treasury to provide working capital to finance inventory pipelines during the early stages of a military emergency.

## H. ELECTRONIC DATA PROCESSING (EDP)

This section briefly describes the EDP applications in each of the exchange services and attempts to evaluate the contribution of EDP to the various exchange functions.

EDP equipment is expensive, be it leased or purchased, and those costs must eventually be charged against sales as an operating expense. LMI has attempted here to weigh any advantages accruing from EDP applications against those EDP operating charges to determine whether the military consumer benefits. This benefit might take several forms: (1) increased exchange profits with resultant greater welfare and recreation contributions; (2) reduced operating costs which would allow lower retail and service consumer pricing; and (3) an increase in the quality of exchange service and responsiveness exemplified by better in-stock positions, wider choice of merchandise, and others.

### 1. AAFES EDP Applications

AAFES introduced its first computer in Europe in 1961 and in CONUS in 1963 with applications in procurement and logistics support. Various evolutionary steps took place up to 1966 when the advent of the ASC's called for a new systems approach.

Present planning has called for third-generation computers in each ASC plus several in the Dallas headquarters to handle centralized functions. In worldwide operations, modern third-generation equipment has been installed or is scheduled for installation. Applications cover many exchange functions. Fiscal functions, inventory management, main and branch store automated requirements lists,



and procurement, including purchase order preparation at buying clinics, are but a few. Dallas is programming facilities summaries and is developing quality assurance data summaries and supplier quality experience files.

Programming and systems development responsibilities are centralized at AAFES headquarters.

Most of the AAFES equipment is leased. AAFES reports that annual leasing costs run about \$3.5 million with \$2.4 million applicable to CONUS and the remainder overseas. (See later discussion in Section IV.H.4 regarding lease vs. buy.)

The EDP applications are far from problem free. Programming difficulties exist plus the task of evaluating whether ASC's can now share computers or whether each ASC should have one of its own.

Certain data exist which tend to substantiate the investment of time and money in computers operating under the area concept. About two years ago AAFES conducted a survey of the automated operation at Fort Dix/McGuire AFB (this was one of the first Area Support Centers) and compared it with the non-automated operations in the Military District of Washington. The market environments are quite similar. Two thousand and six items were selected for comparison of prices to the customer which resulted in the following:

Of the 2,006 items analyzed, 1,750 items were priced the same in each area. Of the remaining 256 items, 240 items from Fort Dix/McGuire AFB (automated operation) had lower prices,

while only 16 items from the Military District of Washington (manual operation) showed a price advantage.

This is admittedly a relatively small sampling and reflects only two localities. However, it was taken before the Mid-Atlantic ASC (Fort Dix/McGuire AFB) was fully refined in its operation. It is possible that even greater differences might be evident if the survey could be conducted today. (The Military District of Washington is now also automated which prohibits such a comparison.)

In Europe the procedures for open-to-buy controls have been automated. According to EES this has produced a net savings of \$25,000 per year through a 50% reduction in personnel performing that function.

In the latest fall-winter clothing clinic in Dallas AAFES exchanges purchased some \$25 million worth of clothing. This required the preparation of 65,000 purchase orders for 160,000 line items. If done manually, AAFES estimates these transactions would have consumed over 10,000 man-hours and it would have been impossible to get the orders out in time to meet overseas exchange shipping dates. Use of EDP allowed machine preparation of all of these orders in 36 hours with an investment of 2,500 hours of key-punch time. Total net savings for the effort, computed by AAFES, are approximated at \$50,000.

LMI has observed a changing posture in AAFES' use of EDP. The shift in the number of ASC's and changes in EDP applications in accounting, inventory control, personnel

etc., all indicate that full refinement has not been achieved. We believe, however, that major benefits can be realized, some of which are:

- (1) At the store level, clerks do not have to prepare merchandise transfer vouchers. They take physical stock counts only.
- (2) Stock counts can be made once a month instead of 2-3 times per week under the manual system.
- (3) Reports and statistics on slow-moving items, out-of-stock instances, etc., are available to store management on a timely basis.
- (4) Built-in sales forecasting is possible.

## 2. Navy Exchange EDP Applications

The Navy exchanges have proceeded more cautiously into EDP applications. NSSO headquarters has a computer system in Brooklyn for central accounting and has used it successfully for many years. This system is used to prepare accounting statements for all Navy exchanges, statements for Navy BuPers recreation and welfare fund account, all CONUS exchange payroll, and several other applications.

The Navy exchange at Subic Bay, Republic of the Philippines, is also taking advantage of computer applications. They are utilizing the computer at the Naval Supply Depot, Subic Bay, to pay 2,000 local national employees of the exchange.

The establishment of the Navy Exchange Service Center at San Diego will centralize many functions in that area which have been accomplished heretofore at the local level. The Navy reports that, "Centralizing of functions makes it feasible to mechanize many procedures that are accomplished manually at the present time." NSSO estimates that the NESC EDP program will generate costs approximated as follows:

Capital investment in EDP facilities (a one-time cost)	\$ 140,000
Annual machine rental costs	75,000/year
Annual EDP operating personnel costs	<u>60,000/year</u>
Total Annual Operating Costs	\$ 135,000/year

The return on this capital investment and these operating costs can best be described by recording the Navy's projection for a single function. They report that the machine preparation of merchandise transfers will allow a reduction of 61 people with a net annual savings of \$198,000 on this function alone.

### 3. Marine Exchange EDP Applications

As a highly decentralized exchange operation, the Marines have proceeded slowly into EDP applications, and applications have been on an individual exchange basis.

The Marines started with one computer at Camp Pendleton and have decided to fully implement that base's EDP operation before installation of computers at other bases. This EDP application has worked successfully according to both the Marine exchange headquarters in

Washington and Camp Pendleton. The Marines plan to create three computer centers in CONUS, the Camp Pendleton unit being the first. At present they are programming fiscal data applicable to all West Coast exchanges which will be processed there. This computer must be upgraded for these expanded operations, and it may be several years before the system is fully refined. When the Camp Pendleton Center is fully operational, other exchanges such as Camp Lejeune and those around Washington, D. C. will be given EDP equipment and capabilities.

From a cost standpoint the Marines report that overhead has increased \$512 per month at Camp Pendleton as a result of EDP costs. However, actual merchandise inventories have been reduced 14.4% due almost completely to the machine's capabilities. Sales have increased 19.8% since the implementation. They credit most of this to the EDP application, through better in-stock positions, rapid order processing, more responsive warehouse operations, and greater visibility of departmental operations by the store manager. This \$512 increased cost compared to a 14.4% reduction in inventories (which average approximately \$2.5 million) and a 19.5% increase in annual sales indicates sizable savings even on a conservative basis.

#### 4. Acquisition of EDP Equipment

At the present time the exchanges have leased most of their EDP equipment, but have bought it in some cases. DoD Directive 4105.55, dated 28 September 1963, clearly states the criteria for purchase vs. lease within the DoD.

We suggest the application of the criteria contained in this directive by each exchange service in future EDP capital investment planning.

5. CONCLUSIONS/RECOMMENDATIONS - Electronic Data Processing

- a. Present EDP applications in the three exchange services have proved the value of machine methods in many exchange functions at the headquarters level, the area or regional level, and at the local level.
- b. Although commonality of EDP systems is not a necessary requirement, LMI believes that all exchange services would benefit from closer coordination and interexchange of EDP concepts, programs, and operating procedures.
- c. It is recommended that each exchange service follow the provisions of DoD Directive 4105.55 in future EDP capital planning.

## I. FACILITIES AND ENGINEERING

For the purposes of our discussion the term facilities will include the actual space and equipment that an exchange occupies and uses. The engineering function refers to the support role of designing the facilities and their interiors. In this section we discuss (1) facilities funding practices and problems, and (2) facilities requirements and needs.

### 1. Facilities Funding Practices and Problems

#### a. Methods of Funding

Exchange facilities may be funded from either appropriated funds coming out of the military construction appropriation or from non-appropriated funds generated as profit from exchange operations. The process of obtaining these funds may be briefly summarized as follows:

#### (1) Appropriated Funds for Facilities

Requirements generated by an exchange service are forwarded through a military department and are submitted to OSD in August or early September. The MILCON budget is developed and screened by OASD(I&L) and submitted to the Bureau of the Budget usually in December. It is approved or modified within a few weeks and goes forward to the Congress in January. Congressional screening and evaluation continues until appropriations are passed and made available between August and October. This process takes approximately one year.

Annual amounts of appropriated fund support of exchange facilities were very difficult, and

even impossible in some cases, to obtain. In many instances exchange construction costs were included with other requirements, as in an Army barracks complex, for example, thereby making visibility of the exchange portion impossible without a detailed audit. Navy figures were prepared, however, and show:

TABLE 10

MILITARY CONSTRUCTION APPROPRIATIONS IN SUPPORT OF NAVY EXCHANGES	
FY '64	\$ 157,000
FY '65	\$ 2,261,200
FY '66	\$ 1,314,200
FY '67	\$ 1,213,500
FY '68	\$ 1,471,000

(2) Non-Appropriated Funds for Facilities

Any facilities planned under non-appropriated fund allocations need not go forward for OASD (Installations and Logistics) project approval if they meet the space criteria specified under DoD Instruction 4270.25, dated 16 August 1962. If a facility request does not meet the criteria, a waiver must be approved by OASD (Installations and Logistics). Most requirements submitted today call for greater space than the criteria allow, so an evaluation at the OSD level is often in order. OASD (Manpower and Reserve Affairs) and



OASD (Comptroller) are involved before final approval of non-appropriated fund projects can be obtained. Flow times for processing non-appropriated funded projects can vary from a few months to over a year.

Non-appropriated fund expenditures for exchange capital improvements appear in Table 11. These amounted to over \$40 million in capitalized expenditures in FY'68 for the three exchange services. In the case of the Navy, where a comparison with appropriated fund support for facilities can be made, they expended about four times as much in non-appropriated capital expenditures as they received in appropriated MILCON funds during FY 1968.

b. Priorities Assigned

Priorities assigned to exchange facilities projects deserve mention here. In the past few years the appropriated fund MILCON budget has been very tight, often resulting in disapproval of morale-type construction in favor of facilities supporting operational weapons, etc. This is not surprising, and we do not construe it as indicating a lack of interest in exchange or morale-type activities. Even though many exchange facilities are operating in less than desirable buildings, so are many military hospitals, schools, laundries, and other essential activities. OASD (I&L) has suggested that the three exchange services might fare better in the long term if they planned and consolidated all exchange facilities requirements in a

TABLE 11

EXPENDITURES OF NON-APPROPRIATED FUNDS FOR EXCHANGE CAPITAL IMPROVEMENTS			
AAFES		NAVY	MARINE CORPS
<u>Authorized</u>		<u>Capitalized Expenditures</u>	<u>Obligations</u>
FY '64 \$ 19,448,000		FY '64 \$ 4,162,430	FY '64 \$ 2,800,000
'65 \$ 20,000,000		'65 \$ 5,456,410	'65 \$ 2,800,000
'66 \$ 23,923,000		'66 \$ 6,499,315	'66 \$ 5,400,000
'67 \$ 27,000,000		'67 \$ 8,467,955	'67 \$ 1,400,000
'68 \$ 32,300,000		'68 \$ 9,188,000	'68 \$ 1,400,000
		<u>Non-Capitalized Expenditures</u>	
		FY '64 \$ 3,693,352	
		'65 \$ 3,717,755	
		'66 \$ 3,388,723	
		'67 \$ 5,701,137	
		'68 \$ 8,100,000 (projected)	

common five-year exchange facilities plan and budget proposal. This would give the MILCON staff at OASD (I&L) some flexibility in developing and submitting realistic exchange requirements in the annual MILCON budget.

c. Consideration of Military Base Closures

Capital construction or improvement planning must recognize the longevity of military bases. A base scheduled for de-activation in a year or two is certainly no candidate for a new exchange. LMI believes that it is desirable for the exchange services to check with OASD (I&L) as to the base longevity on all projects over \$50,000 to reduce the possibility of an exchange capital investment on a base which is likely to be de-activated in a few months or years.

d. Space Criteria

The present space criteria used to approve facilities construction projects are a subject of some concern to all exchange services. Simply stated, these criteria for the most part authorize space allowances on the basis of assigned active duty military strength at an installation. While this is often satisfactory for troop outlets, e.g., branch exchanges selling only to uniformed personnel, and some food and personal service facilities, it normally does not recognize the needs of main exchange retail outlets and warehouses. Increasing numbers of retired personnel and dependents shop at exchanges, but this increase in patrons is generally not fully reflected in the present criteria.

In commercial retail outlets, space requirements are based to a great extent on sales experience. Military commissaries also use sales experience as a measure in many cases, and it might also provide a basis for more realistic criteria in the exchanges.

Overseas exchanges usually require even more space than CONUS retail outlets and warehouses. They carry many additional bulky items such as refrigerators, washers, and dryers that are not allowed in stateside stores. Furthermore, shipments are received at greater intervals which requires that greater storage facilities be able to handle peak loads when ships unload. This plus the addition of foreign merchandise allowed in overseas exchanges calls for different space criteria than are suitable for CONUS exchanges.

The exchange services have all voiced approval of a study entitled "Space Criteria for Exchange Facilities," dated 15 December 1967, which was made by AAFES and which has been forwarded to OASD (I&L). This outlines the problem clearly and suggests changes in various DoD directives and instructions. OASD (I&L) is aware of the problem and has already taken some steps to alleviate the situation.

## 2. Facilities Requirements and Needs

The need for more and better warehouse facilities was highlighted in Section IV.F. on physical distribution. A similar need for improvement in retail facilities is discussed in Section IV.J. covering retail operations.

### 3. Facilities Layout and Design

AAFES has centralized facilities layout and design functions at AAFES headquarters in Dallas with additional capabilities at EES and PACEX headquarters. The Navy exchanges likewise have centralized this function at NSSO headquarters and rely on the Navy Facilities Engineering Command for local engineering support. The Marines perform this function almost wholly at the local level.

LMI sees an opportunity to effect some savings through common facilities layout and design standards. Grocery, discount, and department store chains normally have standard store designs which simplify the engineering function. Similar standard designs would make project approvals less complicated in the case of exchanges.

### 4. CONCLUSIONS/RECOMMENDATIONS - Facilities and Engineering

- a. The exchanges should jointly prepare a five-year consolidated facilities plan from which annual budget proposals could be prepared.
- b. There is a need to revise the exchange space criteria to more accurately reflect the customer strength patronizing the exchanges. These criteria should likewise recognize the effect of customer strength and sales upon warehouse requirements.
- c. The exchange services would benefit if they had common store layout and design standards.

# J. RETAIL, FOOD, SERVICES, AND CONCESSION OPERATIONS

Retail, food, services, and concession operations are the major customer contact functions in all three exchange services. Exchange sales for FY '67 were divided as follows:

TABLE 12

BREAKDOWN OF EXCHANGE SALES BY CATEGORY			
SALES CATEGORY	AAFES	NAVY	MARINES
Retail	74%	60.3%	67.8%
Food	10%	12.4%	16.8%
Services	5%	27.3%	15.4%
Concessions	11%	(Not included in Sales)	(Not included in Sales)
TOTAL	100%	100%	100%

## 1. Retail Operations

Retail operations in all exchange services operate on markups averaging 15-19%. Some necessity items have a markup as low as 5% while luxury or special items carry a 25% markup. Sales categories among the exchanges are not exactly comparable due to differing departmental coding systems in their stores, but the largest dollar volume categories are tobacco products, leverages, clothing, housewares, and sundries. Retail functions are often crowded into limited space, with a resultant high ratio of retail

sales per square foot of selling space. Department and discount stores operate at \$80 to \$90 retail sales per year per square foot, while exchanges range from \$170 to \$300 per square foot for a like period.

The effectiveness and profitability of retail operations is highly dependent upon other support functions, particularly procurement, although store operations need not be organized in the same manner as these support functions. One major retailer in the United States, for example, has a highly centralized procurement organization, but decentralizes store operations to allow autonomy and response to local marketing environments.

The three exchange services are quite similar in many respects regarding store operations. All are making the most of facilities assigned to them; many of these buildings date back to World War II or before.

All exchange business is done on a cash basis at the present time whereas their commercial counterparts often do half or more of their business on a credit basis.

Markdowns (reductions in price to move excess or slow moving merchandise) are normally very low (AAFES 1.82%, Navy 1.04%, Marines 0.2% for FY '67) when compared with average discount houses (3.5%) and department stores (6.1%).

Each exchange service has a store size category system applied to retail operations, although the categories differ among them. Main stores (large stores) may carry from 20,000 to 30,000 items, whereas "site" or "location" exchange outlets may be limited to 1,000 items or less. The Marines also have a "combat environment" list which includes from 60 to 150 items, 14 of which are essential.

These differing stock structures, allowable under various store size categories, present a problem which has been more fully developed under Section IV.D.

All exchange services agree that modernized and refurbished facilities enhance retail sales. One service estimates that retail sales will increase from 25 to 75% with such modernization. Ft. Shafter in Hawaii has recorded a 127% increase in one year since the opening of its new store as illustrated in Table 13 following. A sizable portion of this increase might well be credited to the new facility. However, in this case the 127% increase should be tempered with the realization that the store increased its operating hours up to 80 hours per week, added a food sales section, and increased its service station capabilities substantially. Any one of these factors in itself would have produced increased sales. We were unable to determine whether variations in troop strength contributed to the increased sales.

TABLE 13

FT. SHAFTER, HAWAII SALES		
	NEW STORE CURRENT YEAR	OLD STORE PRECEDING YEAR
Sales - May '66 thru Jan. '67	\$5,941,008 (Incr. 127%)	\$2,622,169
Sales - Monthly Average	\$660,112	\$291,352
Selling Area	27,520 sq.ft.	14,317 sq.ft.
Sales/Sq. Ft./Month	\$24.00	\$20.00
Storage Area	4,040 sq.ft.	10,155 sq.ft.
Average Inventory	\$846,385	\$442,508
Monthly Merchandise Turnover	.78	.66



The Marines opened a major new store and shopping center at Camp Pendleton on 29 September 1965. Their sales since that opening reflect the advantages of modern retail facilities as follows:

TABLE 14

MARINE CORPS, CAMP PENDLETON SALES*				
	1964	1965	1966	1967
Annual Sales	\$14.2M	\$13.6M	\$19.5M	\$23.3M
% Increase (Decrease) per Year		(4.2%) **	43.4%	19.5%

\*New exchange complex opened 29 September 1965.

\*\*Decrease due to troop drawdown in support of RVN.

All exchanges contacted reported increasing labor costs as one of their major problems. This is not surprising in a generally escalating economy and does not present a problem unique to the exchange services.

In summary, LMI observed retailing operations worldwide to be alert and responsive to customer requirements. What operating statistics were available and comparable indicated that the exchanges were keeping pace with their commercial counterparts.<sup>1</sup>

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<sup>1</sup>See "The Discount Merchandiser," July 1967, and "Key Business Ratios" compiled by Dun and Bradstreet, November 1967.

## 2. Food Service Operations and Food Processing Plants

The three exchange services have some 4,200 food service outlets worldwide with an annual dollar volume in excess of \$250 million. The policies governing the operation of these food service outlets vary widely; each exchange service claims advantages for its own method. We treat concession operations separately in a later paragraph; meanwhile, it should be borne in mind that some of the food service operations are operated as concessions.

AAFES is moving rapidly to standardization in recipes, portions, quality specifications, prices, equipment, and supplies. The Navy and Marine exchanges leave decisions as to such factors up to the separate exchanges, assuming that the individual food service manager recognizes the needs of his local customers and will act to serve them accordingly. NSSO also provides their food service managers with operating goals as follows: If the monthly food sales volume is under \$7,000 they are expected to net a return of 12%. If over \$7,000 this percentage is increased to 14%. These goals provide NSSO with a degree of control over food operations, but permit a certain amount of operating flexibility by the local food manager.

AAFES has implemented on a worldwide basis a standard portion and a uniform price on 39 food and beverage items that account for 60% of food sales. All food items are standardized throughout CONUS. Overseas exchanges are pursuing similar programs. The ultimate goal of AAFES is a standard, centrally controlled menu with a standard recipe program. This standardization program extends into food

service uniforms, dishes, silverware, and trays. AAFES envisions that paper products, signs, and other supply items will be included in this standardization.

NSSO headquarters advocates standard prices for all services, including food, within a local area, even though this concept has not been fully implemented.

The Food Services Directorate of OASD (I&L) advocates standard recipes, portions, quality measures, and prices. They indicate that this provides for better use of food materials and ingredients, equality of portions, and ultimate customer satisfaction. They report that major snack bar chains, such as McDonald's hamburger outlets, use standard recipes, portions, and prices and buy their equipment and supplies on a centralized basis.

LMI was unable to collect any quantifiable results of any method since there is an element of judgment involved as to the quality of food and food service rendered.

LMI supports the movement toward standardization in food service operations. However, as in the case of all programs to standardize, the purpose is to make available an increased quality product or service on a consistent basis. The dangers of standardizing on mediocrity in food service operations are all too apparent.

The AAFES and Navy exchanges operate several food processing plants throughout the world. The Navy exchange in Japan operates a bakery, of which 70% of the output is sold to appropriated fund activities. This bakery was taken over from the Army-Air Force, grosses \$40,000/month at a net

return on sales of 14%. In Europe AAFES operates 15 bakeries in over six countries, and one central ice cream and a large meat processing plant in Gruenstadt, Germany. There is extensive cross-servicing with both appropriated and non-appropriated funded activities. The Army closed down its bakeries and ice cream plants in Europe and now obtains its bread from the exchange at \$.03 a pound less than it had cost to make it. Ice cream for troop issue is purchased from EES on a cost-plus arrangement. EES is showing nearly 10% profit on sales at the ice cream plant, but showed a slight loss on their meat processing operation in FY 1967 (\$3,500 loss on \$500,000 billings).

### 3. Services and Concession Operations

All exchange services either operate directly or have under concession contract most of the following services: service stations, barber and beauty shops, garages, laundry and dry cleaning facilities, tailor shops, appliance repair shops, photo studios, optical stores, and shoe repair shops. A complete list of personal services allowed in CONUS appears in the ASER - Appendix B.

NSSO operates more service facilities on a direct basis than either AAFES or the Marine Corps Exchange Service. This is particularly true in barber and beauty shops, tailoring, watch repair, laundry, and dry cleaning. The Navy also operates personal service pick-up points in certain instances, and then contracts for services through local commercial contractors.

The following situation highlights one of the problems inherent on a large base having several somewhat independent

exchanges. Within the gates of the Norfolk Naval Station are four Navy and Marine main exchanges, each with its own tailor shop. There is considerable competition among these tailor shops in the available labor market. As a result, it has been stated that several of these stores have experienced considerable turnover in personnel. We suggest that ultimate customer satisfaction might be better served in such areas by having one large tailor shop employing the best tailors available, with pick-up points at strategic locations throughout the complex. The principle described here would also apply to other, if not all, personal services offered by the exchange services.

It was not possible to obtain any precise criteria for the selection of the direct operations method as compared to the concession route. AAFES operates those activities where they have the technical capability and can offer a level of service at a price that would not be available from the concessionaire.

The limited technical capability and lack of available manpower in AAFES to operate 8,300 service outlets over a widely dispersed area of 34 countries has been a constraint to providing direct operations. In the recent past, particularly in the European Exchange System, there has been a definitely increasing trend in contracting for services.

Even though AAFES' local exchanges in CONJS have retained the right to negotiate service concessions, the Area Support Centers now provide a pre-award review. Plans are being developed to pursue the awarding of area-wide service contracts with their potential for economies and

more equitable treatment of patrons.

4. CONCLUSIONS/RECOMMENDATIONS - Retail, Food, Services, and Concessions Operations

- a. Based upon retail outlets observed, LMI concludes that the retail operations are responsive to their missions and provide a level of service comparable to commercial outlets.
- b. Even though we were unable to ascertain on a quantifiable basis what savings or increased quality of service would result, LMI supports the concept of standardized food recipes, portions, quality standards, and prices.
- c. We conclude that there would be considerable advantage in consolidating food service operations on a local area basis. Benefits would accrue in the procurement, physical distribution, and operating functions.
- d. LMI sees no reason to suggest either the direct-service operation or the concession-operated service to the exclusion of the other. Local conditions often dictate. Common decision criteria should be developed among the exchange services and should be applied uniformly within a given area to present a consistent front to the local business community.

## K. PERSONNEL MANAGEMENT

### 1. General

In spite of many complex problems, varied environments, and occasional undesirable working conditions, LMI found that exchange personnel in all three services exhibited a high esprit de corps. This sense of loyalty and concern for the customer was generally apparent at all levels in both retail and service operations.

The exchanges operate worldwide and include U.S. military personnel, U. S. civilians, and foreign nationals on their staffs and in their operating organizations. Table 15 shows the worldwide distribution of these personnel by categories.

Of every dollar's worth of merchandise sold, roughly 12¢ to 15¢ goes for personnel costs, the largest expense category after cost of goods and services.

Our approach has been to cite the similarities and differences in policy and practice among the three exchange services to determine if any advantages or adverse impacts exist as a result of these policies. Table 16 compares elements of salary, wage, and fringe benefit information. It was quickly evident that there has been no concerted effort among the services to be consistent one with the other, although interest was expressed by many exchange managers in having a single common DoD system.

We also examined several areas of personnel management; a discussion of each follows.

**Table 15**  
**MILITARY EXCHANGES**  
**PERSONNEL DISTRIBUTION**

FY 1968

LOCATION	U.S. MILITARY	U.S. CIVILIANS	LOCAL NATIONALS	OTHERS
<u>CONUS</u>				
AAFES	83	37,738	0	0
Navy	485	17,200	0	0
Marines	<u>180</u>	<u>3,817</u>	<u>0</u>	<u>0</u>
Subtotal	748	58,755	0	0
<u>Europe</u>				
AAFES	65	4,080	16,541	37
Navy	166	1,694	996	0
Marines	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	231	5,774	17,537	37
<u>Pacific</u>				
AAFES	804	3,045	19,939	1,198
Navy	169	974	6,117	0
Marines	<u>170</u>	<u>260</u>	<u>160</u>	<u>0</u>
Subtotal	1,143	4,279	26,216	1,198
<u>Other Locations</u>				
AAFES	19	2,263	1,140	0
Navy	0	0	0	0
Marines	<u>17</u>	<u>25</u>	<u>60</u>	<u>0</u>
Subtotal	36	2,288	1,200	0
<b>TOTAL</b>	<b>2,158</b>	<b>71,096</b>	<b>44,953</b>	<b>1,235</b>



Table 16

<b>MILITARY EXCHANGES</b> <b>PERSONNEL SYSTEM COMPARISONS</b>			
ITEM	AAFES	NAVY	MARINES
<u>Salary System</u>	Has adopted the Civil Service (general schedule) salary system. See Appendix K.	Salaries conform with those of the private sector, AAFES, and Civil Service for like positions based on periodic surveys.	Not less than the higher of the following: 1) federal minimum 2) state minimum 3) municipal minimum 4) wage studies every two years of private employers in the geographical areas for like jobs.
<u>Hourly Wage System</u>	Not less than the higher of the following: 1) federal minimum 2) state minimum 3) municipal minimum 4) wage studies every two years of private employers in the geographical areas for like jobs.	Not less than the higher of the following: 1) federal minimum 2) state minimum 3) municipal minimum 4) wage studies every two years of private employers in the geographical areas for like jobs.	Not less than the higher of the following: 1) federal minimum 2) state minimum 3) municipal minimum 4) wage studies every two years of private employers in the geographical areas for like jobs.
<u>Retirement Benefits</u>			
Eligibility	No waiting	1 year	No waiting
Normal Retirement Age	62	65	65
Participation	Compulsory	Voluntary	Voluntary

Table 16 (continued)

<b>MILITARY EXCHANGES</b> <b>PERSONNEL SYSTEM COMPARISONS (continued)</b>			
ITEM	AAFES	NAVY	MARINES
<b><u>Life Insurance</u></b>			
Basic Limit	2 x Annual Salary	1 x Annual Salary	1 x Annual Salary (round to highest \$1000)
Top Limit	\$40,000	\$25,000	\$20,000
Employee Contribution	50%	75%	50%
<b><u>Disability Income</u></b>			
Waiting Period	17 days	2 months	3 months
Eligibility	1st day	3 years service	3 months
Duration of Payments	26 weeks minimum, with maximum of number of weeks insured.	2 years	until recovery or age 65
<b><u>Sick Leave</u></b>			
Eligibility	After 3 months service	After 6 months service	Varies by command, range 3-6 months
Waiting Period	No waiting period	2 days for non-mgt. for 1st 2 years	No waiting period
Allowance	13 days	1 week min. and 4 weeks max. after 4 years service	Varies by command, 1 week minimum and 3 weeks maximum
Accrual	No maximum to carry over	None	90 days

Table 16 (continued)

<u>MILITARY EXCHANGES</u> <u>PERSONNEL SYSTEM COMPARISONS (continued)</u>			
ITEM	AAFES	NAVY	MARINES
<u>Hospital Surgical</u>	Specific Benefits	Blanket Coverage	Blanket Coverage
<u>Major Medical</u>			
Limit	\$15,000	\$10,000	\$10,000
Deductible	\$50 annually	\$50-100 each benefit period	\$50-100 each benefit period
<u>Vacation</u>			
Eligibility	After 3 months service	After 6 months service	Varies by command, range 3-6 months service
Allowance	*13 days - first 3 years; 20 days - 4th-15th years; 26 days - after 15 years	1-2 weeks after 1 year; 2-3 weeks after 4 years; 3-4 weeks after 15 years	Varies by command, minimum 5 days, maximum 24 days
Accrual	Permits carryover up to 30 days to following year	None	30 days carryover
* Prior Military Service counted as AAFES Service.			

## 2. Military vs. Civilian Assignment

The three exchange services take varied approaches to the assignment of military versus civilian personnel. Table 15 indicated the number of military personnel assigned to each service. The tabulation below summarizes these military assignments as percentages of total exchange employment.

Table 17

ASSIGNMENT OF MILITARY PERSONNEL TO EXCHANGES AS OF APRIL 1968			
EXCHANGE SERVICE	ASSIGNED MILITARY	TOTAL EMPLOYEES	PERCENT MILITARY
AAFES (Total)	971	86,952	1.11%
AAFES (Less RVN)	220	76,573	.29%
NAVY	820	27,801	2.94%
MARINES	367	4,629	7.82%

AAFES has the largest number of assigned military personnel, but percentage-wise it ranks under both the Navy and Marine exchange systems. A further breakdown of AAFES personnel statistics indicates that 77% of all AAFES military assignments appear in the Vietnam region (751 military personnel in Vietnam out of 971 total military positions). The Navy, with a total of 820 military personnel, has a worldwide policy of assigning military officers to command individual exchanges. The Marine Corps follows the same practice and goes even one step further by often assigning enlisted personnel (even in CONUS exchanges) to exchange duty. We were unable to detect any differences in the effectiveness of exchanges due to these variations in approach.

The Armed Services Exchange Regulations (Appendix B) clearly define the conditions under which officer and enlisted personnel may be assigned to exchanges. This directive essentially bases the assignment on sales volume of an exchange or non-availability of qualified civilian personnel. LMI supports the concept of using civilian personnel wherever possible, but believes that the exchange services should have more flexibility in assigning military personnel within an exchange service. Directive 1330.9 permits the assignment of a military officer at an exchange if sales equal \$3,500,000 per year. It may well be that that particular exchange could be administered by a civilian, but there may be a real need for a military officer in another exchange not meeting that sales criterion. We believe that DoD Directive 1330.9 should be changed to provide criteria for the assignment of military personnel based upon the total exchange service requirements for military personnel, rather than being based upon individual store sizes.

There are good reasons both for and against the assignment of military personnel to key exchange positions. The case for assigning military personnel to exchange positions includes: (1) the need to train military personnel for manning field exchange operations in the event of wartime conditions, (2) military exchange personnel are often better able to effect liaison with the military commands which they service, (3) military personnel sometimes have a better understanding of the exchange mission and the responsiveness required than do civilians. Conversely, arguments against the assignment of military personnel include: (1) the need to build strong business backgrounds in key exchange

personnel; military officers do not always have the experience or opportunity to do this, (2) the advantages of having continuity in key exchange positions, usually available only through civilian assignments, and (3) trained military personnel, qualified in exchange affairs, are usually scarce and may be in demand in higher priority assignments.

In summary, any personnel management system needs to recognize the requirement of attaining a fine balance between continuity, consistency, and flexibility. LMI's present coverage of personnel practices in exchanges has not been of sufficient depth to state specifically what the percentages of assigned military personnel should be. Whatever the percentage, it should be the result of the application of criteria, and not an arbitrarily set ratio.

### 3. Career Patterns

LMI's studies of worldwide exchange operations indicate that there is a question in the minds of assigned military personnel as to the career patterns available to them. The apparent lack of firmly established exchange career patterns for military personnel presents obstacles to efficient operations. The exchange services all have developed approaches to career plans for military personnel which are amplified by their training programs.

There is a growing recognition among exchange executives of the capabilities that are required to manage and operate large scale resale activities, but the present military rotation system and career planning provide relatively little in the way of exposure, training, or

promotional possibilities which are desirable in a well-founded career program. It is often difficult, and sometimes not desirable from a promotion standpoint, for military officers to get repetitive assignments to exchanges.

The Navy has overcome this problem to some degree in that most of the officers assigned to their exchange program are Supply Corps officers who can progress under a Supply Corps career cone. Such a program was not designed specifically for exchanges, but provides at least an acceptable career pattern.

The problems and opportunities pertaining to military career patterns in the exchange services are paralleled to some degree in civilian career planning with the following exception. AAFES has established a definite career pattern for its civilians, including a step-by-step advancement through a career cone with training opportunities which support those steps. This program covers all principal functions in AAFES.

#### 4. Wage and Salary Systems

As in most business and governmental enterprises, the provision of a well-ordered wage and salary policy is key to effective and efficient operations. Each of the three exchange services has developed its own approach to such matters.

AAFES' salary program is patterned after the Civil Service GS schedules and includes both grades and steps within those grades. The Navy program is quite different and uses a minimum-maximum range for each grade. The

Marine schedules vary with individual bases. Appendix G includes copies of the salary schedules of the three exchange services.

To support civilian career planning and management, we believe it would be beneficial to have identical executive salary schedules worldwide. Non-executive salaries, however, might be more effective if they reflected local variations.

With respect to hourly wages, each service makes periodic wage surveys in the local communities to determine wage rates paid for similar work done in those localities. This is done since the exchanges are not using any regulated government system such as Wage Board schedules. Even with these surveys, however, the exchanges experience difficulties in keeping qualified hourly personnel. While exchange employees may enjoy the same hourly rate as their commercial counterparts in the surrounding community, the late hours and Sunday openings of many of the exchanges in conjunction with the inconvenient location of some military bases sometimes makes exchange employment less attractive. Employee turnover is increased when persons in similar jobs, like checkout clerks, command a higher government wage in a military commissary than in an exchange in the same locality.

Wage rates present further complications in overseas operations since U. S. personnel employed must receive commensurate U. S. wages; whereas wages paid to local and third country nationals employed must be consistent with wages paid in the local economy. This condition is not unique to exchanges in overseas areas. There are often wide wage differences between these two categories of employees.



This requires that any wage system be flexible enough to meet local conditions. Table 18 highlights this problem by showing the wide range of wages paid by AAFES to U. S. and local national employees in the Pacific area. The impact of anything less than a well-planned approach to meet these local environments could cause major employee problems and perhaps difficulties with the host country involved.

#### 5. Fringe Benefit Programs

All three exchange services emphasized the need for adequate and attractive fringe benefit programs. Here again, each service developed its own approach unilaterally with resultant wide variations (as previously portrayed in Table 16). The impact of these variations could easily cause employee relations problems in the long term since all three exchange services have the same mission: to render service, in many cases to the same customers, all of whom are a part of the Department of Defense. LMI sees no reason why equity in fringe benefit programs could not and should not be established.

The Navy is presently making a comprehensive study of a system-wide fringe benefit program, the results of which may warrant consideration by all exchange services.

#### 6. Selection, Hiring, Transfer, and Termination Techniques

Selection and hiring techniques vary from service to service and, in many cases, from locality to locality. There appears to be no reason why such flexibility should not be encouraged as long as the criteria for selection and hiring brings highly qualified people into the exchange services.

Table 18  
PACIFIC EXCHANGE SYSTEM  
Employee Wage Rate Comparison Chart for Benchmark Jobs  
(U.S. Dollars)

PACEX Regional Exchange		Clerk Typist	Food Services Worker	Ware- houseman	Laborer	Short Order Cook
U.S. CITIZEN EMPLOYEES						
GUAM	Hourly Rate W/Fringe Benefits (14%)	\$1.82 2.07	\$1.65 1.88	\$1.68 1.92	\$1.61 1.84	\$1.68 1.92
HAWAII	Hourly Rate W/Fringe Benefits (14%)	2.15 2.45	1.65 1.88	2.35 2.68	2.08 2.37	1.78 2.03
LOCAL NATIONAL EMPLOYEES						
JAPAN	Hourly Rate W/Fringe Benefits (98%)	\$ .50 .99	\$ .47 .93	\$ .52 1.03	\$ .49 .97	\$ .52 1.03
KOREA	Hourly Rate W/Fringe Benefits (27%)	.35 .44	.22 .28	.36 .45	.22 .28	.36 .45
OKINAWA	Hourly Rate W/Fringe Benefits (49%)	.44 .66	.34 .51	.38 .57	.35 .52	.40 .59
PHILIPPINES	Hourly Rate W/Fringe Benefits (20%)	.53 .64	.30 .36	.32 .38	.28 .34	.32 .38
THAILAND	Hourly Rate W/Fringe Benefits (13%)	.43 .49	.18 .21	.31 .35	.18 .21	.28 .32
VIETNAM	Hourly Rate W/Fringe Benefits (32%)	.37 .48	.16 .21	.29 .38	.16 .21	.26 .34

An exchange employee with long experience and training in an exchange environment often is forced to start again at the bottom if he takes employment with one of the other exchange services due to transfer of station. In cases of this sort, a single DoD policy and common personnel system would do much to benefit both the exchange services and the employees involved.

Termination practices also vary widely. In some cases this flexibility among areas is needed. As an example, in certain areas of Europe, nine months advance notice is required prior to terminating a local national employee. In these instances the host country agreements prevail, requiring that any termination policy recognize the local condition at an overseas exchange. This particular case has made it almost impossible to trim the working force at that exchange to meet unexpected changes in market conditions or reduction in troop strengths. This condition is not unique to the exchange services, and cannot be solved unilaterally by them.

#### 7. Union Activities

Almost any growing commercial or industrial enterprise requires an increasing amount of emphasis on labor relations and union activities. In the exchange services, this area of concern is amplified due to the fact that both domestic and foreign operations are involved.

LMI's study efforts have not dealt in sufficient depth with exchange-union activities to draw specific conclusions; however, it is our opinion that an increasing amount of attention will be required in this area.

#### 8. Job Classifications, Work Standards, and Measurement

There has been much good work done by the exchange services in developing job descriptions, classifications, and codings. Most of this appears to be well documented and has either been implemented or is in process. Although there has been some liaison among the exchange services in the development of this material, each is essentially a system developed in isolation.

With the exception of a few specialized areas, there is great similarity in the jobs and type of work performed among the exchange services. This leads LMI to believe that a higher degree of job standardization would be beneficial to both the employees and management of exchanges.

There was some interest expressed by exchange managers in work standards and methods of work measurement, but this phase of refinement is generally in its infancy in exchange operations.

#### 9. Training Programs

The extent of training in the exchange varies from little or no training in some functions to very thorough and extensive approaches taken in others. We encountered both on-the-job training and formal education and training courses both in CONUS and overseas.

AAFES' executive development, retail managers', and cafeteria managers' courses, formerly conducted at Fort Lee, Virginia, have now been moved to Dallas. In addition, eight new courses have been added. They expect over 2,200 to graduate the first year in the Dallas training center.

EES in Europe runs training courses in almost all functions of exchange operations and has recently set up a food service training program to increase the effectiveness of their 600 food outlets.

NSSO runs its own training program at its headquarters in New York. The two main courses offered are a six-week course in exchange management and a four-week course in commissary store management. Both courses are repeated six or seven times per year. The courses are attended by both civilian and military with the ratio presently 40% civilian to 60% military. The Navy estimates that 120 persons will graduate annually. Besides these two main courses, NSSO offers two two-week courses to reserve officers on resale management. In addition, all new employees at headquarters are given two half-days of orientation by the training staff. NSSO has also offered four twelve-week adult education courses for the past two years. To stimulate self-development, NSSO has developed eight self-study courses in key exchange subjects.

The Marine Corps does not formally conduct its own training school on exchange operations. Marine personnel are sent to the schools of the other two services. In addition, each year the headquarters exchange staff conducts an exchange officers' conference to stimulate new ideas.

#### 10. Employee Turnover and Retention

A review of employee turnover caused us to aggregate employees into three categories:

##### a. Military personnel

- b. Salaried management personnel
- c. Other salaried plus hourly-paid personnel

Table 19 shows the percentage turnover by exchange service for these three categories. As one might expect, the military turnover is a regulated process and depends upon many factors, some of which are outside the control of exchange management. However, there is a high degree of retention and longevity in salaried management personnel. With respect to the third category, we might also expect a high degree of turnover because of the transient nature of military families who in many cases supply a significant percentage of exchange employees. It is likewise common in American commercial retail concerns to experience a higher degree of turnover in the lower paid brackets.

A survey of management personnel in the AAFES Pacific operation is highlighted by the following statistics. The average PACEX executive (USP Grade 13 and above--see Appendix G) is 47 years old, has approximately three years of college training, and an average longevity of 17 years in the exchange service. Forty-six percent of this executive group has one or more college degrees and has 27 years of business and military service with considerable commercial exposure.

Table 19

EMPLOYEE TURNOVER			
Exchange Service	% TURNOVER/YEAR		
	Military	Management (Salaried)	Other Salaried And Hourly-Paid Personnel
AAFES	RVN 100% PACEX 34% CONUS & EES 25%	8% Worldwide	50% Worldwide excluding RVN
Navy Exchanges	35%	5.1%	70%
Marine Exchanges	50%	8%	50%

# 11. CONCLUSIONS/RECOMMENDATIONS - Personnel Management

- a. Both the exchange services and their civilian employees would benefit from having a single personnel system common to the three exchange services. This should include a single defense-wide exchange personnel policy with (1) identical salary schedules for salaried executive personnel, common salary schedules for non-executive personnel which reflect local variations, and common wage scales which reflect local variations, (2) identical fringe benefit programs, (3) identical selection, hiring, transfer, and termination policies, (4) common training programs, (5) common career planning policies, (6) common policies in dealing with unions, and (7) identical job classifications and coding systems.

- b. The exchanges should conduct cost/benefit studies to explore the desirability of placing exchange employees under the government fringe benefit program covering retirement, workmen's compensation, life insurance, health and accident insurance, etc., as against buying commercial coverage.
- c. The Armed Services Exchange Regulations should be amended to permit flexibility of assignment of military personnel within an exchange service.



## L. PLANNING

Detailed planning is normally a part of every function encompassed in exchange operations. All three exchange services recognize its value and contribution to the management process. This section will not attempt to describe or aggregate a description of all these planning activities, but instead will highlight two elements of the planning process: (1) long-range planning from a total exchange system standpoint, and (2) contingency planning for surges or contractions in exchange requirements.

### 1. Long Range Planning

AAFES has a five-year master plan, elements of which have already been discussed under Financial Management, Section IV.G. This five-year plan is directed toward objectives set forth in AR 60-10/AFR 147-7 and consists of some 54 individual elements and programs.

The Navy limits formal planning to three years ahead and prepares a complete financial projection for that period. Individual functions within NSSO headquarters look at various factors and estimates pertaining to the years ahead, such as estimates of wage rates, transportation costs, facilities costs, etc., but do not formalize them into a single (NSSO) long-range plan.

The Marine Corps with its small central staff projects financial requirements and performance for the ensuing year, but does not attempt to develop a single long-range plan for the entire Marine exchange system.

All exchange services cited the difficulty of obtaining reliable customer strength figures to enable them to project market potentials. LMI suggests the possibility of asking the military finance departments for computer print-outs of the number of persons, by zip code, receiving retired salary checks, since accurate data on retired and dependent personnel is especially difficult to obtain. Exchange personnel also report that it is often difficult to obtain actual active duty personnel strengths for given geographical areas.

Inasmuch as patrons for any individual exchange are usually drawn from all military services, it was suggested during the course of several field visits that a pooling of exchange marketing data might be beneficial in providing the planners with better information than they now have.

## 2. Contingency Planning

As a result of the initial difficulties which AAFES encountered in keeping up with the rapid build-up of military forces in Vietnam, they have emphasized the preparation of contingency plans to meet surges in exchange requirements. Problems encountered there included such things as (1) working capital, (2) developing and refining a stock structure for that area, (3) providing an adequate military cadre to manage and operate exchanges in a combat zone, and (4) the myriad problems connected with transporting, storing, and distributing merchandise under field conditions to name only a few.

A draft of an AAFES document covering emergency operations for use in the future has now been prepared.

The need also exists for contingency planning in periods of shrinking operations. The drawdown of troops in Europe is an example of this and has presented many exchange operating problems to AAFES' European Exchange Service.

3. CONCLUSIONS/RECOMMENDATIONS - Planning

- a. Long-range planning is indispensable to responsive and efficient exchange operations. A major constraint, however, is a realistic data base. There is a particular need to develop contingency planning, on a coordinated basis (AAFES, Navy, and Marine exchanges), which reflects the contingency operational planning of the military departments and the JCS.
- b. A more realistic planning base might be established if the three exchange services would take steps to pool their marketing data and to request a summation of retired personnel strengths from military department finance organizations.

#### M. LEGAL SUPPORT AND CLAIMS

This section includes a brief description of the legal assistance rendered to exchange services and discusses the question of claims against the exchanges.

##### 1. Legal Support

Legal support of exchange operations is especially necessary with regard to procurement, labor relations, vendor or customer claims, international law, taxes, customs, host-country agreements, etc.

AAFES has a central headquarters staff of six lawyers located in Dallas who supply legal advice and assistance to elements of the AAFES organization. This staff support is paid for by exchange non-appropriated funds.

The Navy General Counsel's Office (New York branch office) also provides NSSO with legal service. This legal service is supported by appropriated funds.

The Marine exchanges use the staff legal counsel at Marine Corps Headquarters for legal assistance. This staff support is financed from appropriated funds and is not charged to the Marine exchanges.

There are a variety of ways in which the exchange services supplement these staff capabilities. In some cases additional staff lawyers are assigned exclusively to the exchanges, as is done at EES headquarters in Europe. In other cases the exchanges use the local or regional military command JAG's for this service. The Navy exchange at Naples, for example, calls upon the local naval base

commander's legal staff for support when necessary. In other cases the exchanges use the services of the Department of Justice and U. S. attorneys when required.

## 2. Claims Against the Exchanges

LMI made no attempt to examine the legal issues associated with claims either by or against the exchanges. However, we did determine the magnitude and extent of claims to discover if they presented a major management problem.

Presently available statistics from both AAFES and the Navy indicate that the number and magnitude of claims by the exchanges against vendors, carriers, customers, etc., are relatively small as of the present time, considering the scope and magnitude of the exchange business.

Table 20

CASES PENDING - INITIATED BY AAFES (as of April 1968)	
Claims Against	Number of Claims
Vendors	18
Concessionaires	16
Former Employees	3
Bad Check - Individuals	50
Maintenance Contractors	<u>1</u>
TOTAL	88

Table 21

TOTAL CLAIMS - INITIATED BY NAVY EXCHANGES WHICH REACHED NSSO GENERAL COUNSEL'S OFFICE (for year ending 30 April 1968)	
Claims Against	Number of Claims
Vendors	9 Totaling \$7,283
Carriers	3 of which \$2,519
Customers	<u>2</u> has been collected
TOTAL	14 thus far.

There were no similar figures available concerning claims against the exchanges, although both AAFES and the Navy reported that they were infrequent. AAFES reported that several claims against AAFES are being litigated through the Department of Justice concerning: (1) defective merchandise, (2) construction, and (3) vehicle claims. The Navy reported six claims in the hands of the Department of Justice of which four are bankruptcy cases.

One major retailer reported a similar low incidence of claims. Officials of that company stated that they experienced very few such cases, since the personal injury or product deficiency type claims were usually resolved through their insurance coverage.

Legislation is being considered concerning suits against the United States that arise out of contracts entered into by non-appropriated fund activities. This proposed legislation has been generated to afford a remedy to sue and recover on a contract of a non-appropriated fund instrumentality of the United States where no such remedy now exists.

As is discussed in Appendix H, the incorporation of the exchanges would enable them to handle their legal affairs, including claims, as a businessman rather than as a sovereign.

3. CONCLUSIONS/RECOMMENDATIONS - Legal Support and Claims

- a. The legal function apparently presents fewer problems than most other functional areas.
- b. The handling of legal affairs as a sovereign instead of a business entity makes the legal function more complex to vendors and suppliers.
- c. An effort should be made to assess the cost/benefits of the exchanges being a self-insurer, as is the case with the rest of the Government, instead of buying various kinds of insurance coverage.

## N. OPERATING CONCEPTS

Section III included several organizational charts (Figures 1, 2, 3, and 4) with descriptions of the present exchange operating concepts. The preceding subsections of Section IV examined elements of these operations from a functional standpoint and contain many references to and examples of AAFES Area Support Centers, the Navy Exchange Service Center concept, and the Marine Corps' decentralized exchange operation. Here we review each of the present operating patterns in total and attempt to show its overall effectiveness and its relative costs. In addition to an evaluation of the exchange operations, we also comment on centralized and decentralized methods of exchange management and discuss command relationships between the exchanges and the military commands they serve.

Although there are similarities, particularly between the AAFES Area Support Center and Navy Exchange Service Center concepts, each exchange service is discussed separately.

### 1. AAFES Operating Concepts

#### a. General Comments

AAFES is now operating worldwide using the "area" concept. CONUS area organizations are called Area Support Centers, those in Europe are called Area Exchanges, and those in the Pacific are called Regional Exchange organizations. There are some differences among the three named, but essentially they all operate under a highly centralized procurement concept, emanating from AAFES, EES, and PACEX head-



quarters, but with area responsibility for distribution and operations.

Consolidation into areas has been an evolutionary process. As far back as 1940, moves were made to place all exchange operations on a given installation under one management. Several years ago the seven Service Centers in CONUS supplied financial, accounting, and technical support to the exchanges. These have now been phased out in favor of some 16 Area Support Centers.

The ASC concept embodies several highly complex techniques, some of which were described earlier in Section IV. It is LMI's opinion that AAFES probably moved too fast in the implementation of the physical distribution aspects of these ASC's, but that is a judgmental evaluation with the advantage of hindsight, and must be weighed against the advantages and cost savings which have already accrued. It is too early yet to make a final judgment as to the results of this concept, but we believe that its greatest potential is still to be realized.

b. Customer Benefits and Savings

Several specific advantages and savings were reported in the preceding functional discussions. Several others have been recorded as follows:

- (1) Reports from the ASC's indicate that the area method of operation will bring efficiencies which AAFES estimates will allow

retail price reductions to the customer totaling nearly \$15 million per year. More specifically, six ASC's reported customer savings through price reductions of \$1.3 million for a four months' period during FY 1968.

- (2) Consolidated gasoline/petroleum procurements increase net profits \$5.8 million per year according to AAFES. Such consolidated procurements can also be made without the implementation of an area concept, but a consolidated area environment stimulates such actions.
- (3) AAFES estimates that consolidated food procurement under the ASC concept represents a net profit benefit of \$1.2 million annually.
- (4) AAFES reports that national contracts have resulted in some distinct price advantages to the customer. (See Table 2, Section IV. B).
- (5) System-wide centralized procurement permits the aggregation of a relatively few, highly qualified buyers, each of whom can concentrate on a fewer number of items, thus building an in-depth procurement competency. On the other hand, a local exchange buyer under a decentralized procurement concept is usually charged with responsibility to procure hundreds of items. Commercial concerns contacted verified the advantages of centralized

buying, and the buyer capabilities which it fosters.

- (6) Computer applications in the ASC's have made available print-outs of all selling prices on a regular basis. This resultant visibility has highlighted different pricing and costs for identical items. AAFES reports that net savings accrued from taking action to get the lowest price offered resulted in \$1.5 million savings to the customer in FY '68.
- (7) The control and visibility of inventory which has resulted from the ASC concept is providing AAFES with an opportunity to refine and streamline stock structures to the ultimate advantage of the customer. Mark-downs and out-of-stock instances are both decreasing as a result (see Section IV,D).
- (8) The advent of the ASC concept in AAFES has increased the merchandise availability at the point of sale. Stock availability has moved up from approximately 75% to 85%, with projections to achieve 90-95%. A recent commercial study indicated that for every 1% increase in level of service there is a corresponding increase in sales of 1%. The study also estimates that a customer will spend 90¢ on impulse buying for every dollar spent on predetermined requirements if a

store is well stocked.

- (9) Centralized compilation and distribution of freight rate and transportation information for geographic areas is resulting in better decisions as to transportation modes and costs. AAFES estimates \$5 million annual savings from these refinements on a continuing basis.
- (10) There are sizable savings in freight consolidations resulting from centralized inventory, warehouse, and distribution capabilities at Area Support Centers. Consolidation of purchases in certain supplier areas designated for shipment to ASC warehouses are under consideration through the Shippers Association. AAFES estimates that there is a potential savings of \$1.5 million with a 20-50% reduction in transit time for those items shipped on a consolidated basis.

c. Supplier Relationships

There are some problems associated with the establishment of the ASC's which can or do affect AAFES' relationships with suppliers. Some of these are the result of changing from a decentralized to a more highly centralized procurement concept. In effect, the distribution middle man is being eliminated in many cases. This has brought out criticisms of the ASC concept from those who are adversely affected. Our investigations, however, indicate that the

companies themselves, which supply the merchandise, are not adversely affected by the centralized procurement arrangement.

The emphasis on consolidation of requirements which permits AAFES to place larger volume orders with suppliers tends to reduce the number of suppliers with whom AAFES deals. It is our observation, however, that in most cases the larger volume orders are competed (except in the cases where national brand preference is an overriding factor) and all qualified suppliers are given a fair chance to participate in the competition. Those suppliers who lose in such competitions have voiced objections in some cases.

d. AAFES Management Control

The centralization of procurement plus the advent of area management and control of inventories, distribution, and operations has generated sizable headquarters organizations in Europe (EES), the Pacific (PACEX), and in Dallas (AAFES). We have no criteria by which to judge the numbers assigned to any of these headquarters other than to measure the total effectiveness of the AAFES operation after a reasonable break-in period. The effectiveness of these headquarters organizations is ultimately measured by comparing (1) net profits generated, (2) dividends paid to welfare and recreation, (3) lower retail or personal service prices to consumers, and (4) better facilities, more courteous service, and a host of other intangibles.

It seems to be self-evident that in a business as large as AAFES, with worldwide operations, there is a need to continually evaluate and verify the size of these headquarters organizations and their contributions to the management process.

e. Military Command Relationships

Figure 1 in Section III shows that in both Europe and the Pacific the principal points of liaison with the military commands in those areas are at the EES and PACEX headquarters levels. EES and PACEX are, in fact, subordinate commands under the joint administration of both Army and Air Force component commands in Europe and the Pacific. Close liaison exists at the area/regional level and at the local exchange level, but both exchange policy and command desires are formalized at the major component command level. In both Europe and the Pacific there is a policy and technical relationship between the overseas headquarters (EES and PACEX) and the AAFES headquarters in Dallas. We examined these relationships carefully and found:

- (1) AAFES headquarters is generally able to exert all the influence on overseas exchange affairs that is needed with the present policy and technical relationships between AAFES headquarters and PACEX and EES.
- (2) Under the present arrangement the major and subordinate military commands in both Europe and the Pacific believe that they are able to

exercise all military command prerogatives needed in assuring that the exchanges are responsive to military needs.

- (3) Both the exchange management and the military commands in Europe and the Pacific believe the present command relationships are well founded, adequate, and most importantly, are working well.

Within CONUS there is a different relationship. Each exchange reports to the local military post or base commander instead of to the ASC. We believe that each exchange in CONUS should report directly to the ASC for the following reasons:

- (1) The concept of having exchanges report directly to their area offices works in a combat zone (RVN), it works in other overseas areas in both Europe and the Pacific, and should work in CONUS. In a recent (1 May 1968) inspection of AAFES exchanges made jointly by the Army and Air Force Inspector General's offices, the following major finding was reported: "The lack of authority granted to the Area Support Center chiefs to direct the operations of the exchange managers constituted a management gap that detracted from the efficient and effective operation of the CONUS exchange system."
- (2) The Area Support Center is better able to plan and implement a stock structure and

exchange operation for its exchanges than could be done by the individual exchanges.

- (3) The actual degree of involvement of CONUS base or station commanders in exchange affairs is minimal, since logistics support, long supply lines, etc., are not normally a problem in CONUS.

There is an argument which supports the status quo in CONUS with respect to command relationships. Several base commanders expressed concern that an exchange operation is less likely to get good facilities and maintenance support if the exchange does not report directly to a base commander.

f. CONCLUSIONS/RECOMMENDATIONS - AAFES Operating Concepts

- (1) The Area Support Center concept is sound and offers both AAFES and the consumer significant advantages and future opportunities for increased service at lower cost with the following reservations:
  - (a) AAFES has not yet reached a state of refinement in determining the optimum number of CONUS ASC's, Pacific regions, or European areas, nor have they determined the optimum size of staffs supporting these operations.
  - (b) Physical distribution patterns need considerable study and refinement. These must be done on an item-by-item



basis to determine maximum efficiency and response.

- (2) Present command relationships with military commands in the Pacific and Europe appear to be well founded and workable. In CONUS, however, we believe that individual exchanges will be more responsive, effective, and profitable if directly under ASC control.

## 2. Navy Exchanges

### a. General Comments

The Navy is presently operating (or is planning to operate) under two different concepts. Figures 2 and 3 show these organizational structures and the reporting relationships now in existence. At the present time all shore-based Navy exchanges worldwide are operating as individual exchanges, except those to be aggregated under the Navy Exchange Service Center at San Diego. NSSO headquarters is providing centralized and standardized policy and technical controls in the form of general accounting and financial statements, CONUS payroll, employee benefits, contractual support, merchandising management, operating manuals, facilities acquisition, training programs, etc. The individual stores generate requirements and stock structures; procure, store, and distribute merchandise; and operate the retail and service outlets. It has been a long-standing tradition that Navy

exchanges report directly to their naval installation commanders. Their relationship with NSSO is one of policy guidance and technical direction and support which is expressed as a dotted line in Figure 3.

The Navy apparently recognized that individual exchange operations permitted certain duplications and inefficiencies which could be eliminated. Therefore, they developed the Navy Exchange Service Center concept and decided to implement it on a pilot-run basis in the San Diego area. Projections, economic trade-offs, and cost estimates were prepared about 18 months ago, and today this first NESC is under implementation in that area.

b. Customer Benefits and Savings

Previous discussions in Section IV included some advantages and projected savings expected from the newly formed Navy Exchange Service Center. Others include:

- (1) Tables 22 and 23 summarize expected savings resulting from the NESC in San Diego. The first lists projected savings by function and includes both personnel and dollar advantages. Table 23 shows investment and operating costs and projects a comparison between the NESC operation and a summary of the individual exchanges, had they remained as they were. Total annual savings of \$527,000 are indicated which the Navy believes are conservative.

TABLE 22

NSO ESTIMATES AND PROJECTIONS

FOR

THE NAVY EXCHANGE SERVICE CENTER CONCEPT AT SAN DIEGO

SAN DIEGO COMPLEX

SUMMARY OF COSTS AND SAVINGS-DESIGN YEAR FY 1970

Present & Proposed Centralized Method of Operation

	<u>Present Method</u>		<u>Proposed Method</u>		<u>Annual Savings</u>	
	<u>No. of</u>	<u>Employees</u>	<u>No. of</u>	<u>Employees</u>	<u>No. of</u>	<u>Cost</u>
		<u>Cost</u>		<u>Cost</u>	<u>Employees</u>	<u>Cost</u>
Merchandise & Procurement Personnel	53	\$ 263,000	25	\$ 173,000	28	\$ 90,000
Administrative & Accounting Personnel	86	395,000	60	314,000	26	81,000
Personnel Time in Preparation of Transfers	14	55,000	7	28,000	7	27,000
Total Administrative, Merchandising, Procurement & Accounting Expense	153	\$ 713,000	92	\$ 515,000	61	\$198,000
Distribution Personnel	176	878,000	99	505,000	77	373,000
Truck Operating Expense		17,000		4,000		13,000
FOB Shipping Point Transport. Expense		192,000		96,000		96,000
Total Distribution & Del. Expense	176	\$1,087,000	99	\$ 605,000	77	\$482,000
Sub-Total Procurement, Admin. and Distribution	329	\$1,800,000	191	\$1,120,000	138	\$680,000
Cost of Data Processing Center Personnel			9	\$ 60,000		
Rental of Equipment & Cost of Supplies				75,000		
Total Data Processing Expense			9	\$ 135,000	( 9)	(\$135,000)
Total	329	\$1,800,000	200	\$1,255,000	129	\$545,000
Less: Cost of Depreciation-Capital Construction		\$ 112,000		\$ 130,000		(\$ 18,000)
Grand Total	329	\$1,912,000	200	\$1,385,000	129	\$527,000
Net Savings to Navy Exchanges in San Diego Area						

Table 23

**NSSO ESTIMATES AND PROJECTIONS FOR**  
**THE NAVY EXCHANGE SERVICE CENTER CONCEPT AT SAN DIEGO**  
**COMPARISON OF CAPITAL CONSTRUCTION AND OPERATING COSTS**  
**DESIGN YEAR FY 1970**  
**(For Selected Functions)**

	Exchanges Operated Individually	Exchanges/ NESC Operation
	<u>Capital Construction</u>	<u>Capital Construction</u>
Capital Construction	\$ 1,120,000	\$ 1,304,000
	<u>Operating Costs</u>	<u>Operating Costs</u>
Personnel	\$ 1,591,000	\$ 1,080,000
Freight Costs (FOB Ship./Pt.)	192,000	96,000
Truck Operating Expense	17,000	4,000
Computer Rental and Supplies	--	75,000
Building Depreciation	<u>112,000*</u>	<u>130,000</u>
Total Operating Cost	\$ 1,912,000	<u>\$ 1,385,000</u>
Annual Savings to Navy Exchanges, San Diego		<u>\$ 527,000</u>

\* Exchanges under individual operations are normally required to amortize cost of construction within three years, but for this comparison the cost has been calculated on a 10-year basis as proposed for the NESC.

- (2) The NESC breaks down its merchandise into "warehouse controlled merchandise" and "non-warehouse merchandise." The first category includes about 75% of the stock purchased. Individual store merchandising personnel choose the merchandise they want; the NESC buyers then perform the steps of actual placement of the order on all merchandise. This method was generated to reflect the individual stores' desires in merchandise and to provide those stores with a direct contact with suppliers' representatives. Suppliers are encouraged by the Navy to contact the stores directly rather than the NESC.

LMI believes that such an arrangement is too permissive with respect to stock structures, and will not make the best use of the most highly qualified buying personnel. The NESC plans to have a merchandise council, but this council will be advisory only and will have no authority over either the store stock structure or the choice of merchandise.

- (3) A brief comparison between Navy exchange and Navy commissary operating concepts is germane to this discussion. The commissaries operate under appropriated funds, but are directly under the line control of NSSO headquarters in contrast to the policy and technical relationship between NSSO and the Navy exchanges. An area consolidation of Navy commissaries in the San Francisco Bay area shows annual savings of \$117,000. No single outlet was eliminated, and yet 18 man years were saved through consolidated procurement,

administration, physical distribution, EDP, etc. The Navy also reports other commissary benefits to be:

- (a) A single EDP system is now feasible; it can serve seven outlets where it formerly was not economically feasible to have a machine serving one store.
- (b) The single procurement system can achieve additional volume discounts and do a better job for less.
- (c) Paper work is reduced; for example, there are six less financial reports to be processed at the Navy's accounting office in Cleveland as a result of the consolidation.
- (d) A common selling price can be administered for common items throughout a geographical area.
- (e) More experienced commissary management is now available to all commissaries in the area, whereas before the grade and experience of management personnel assigned to a commissary depended upon the size of the outlet.
- (f) There has been no loss in the quality of service or responsiveness of commissaries with the consolidation.

c. Military Command Relationships

The command relationships under the NESC will be similar to those existing under the separate Navy exchanges except that the NESC is interposed between NSSO and the exchange, with NSSO having direct control over the NESC

(see Figure 3). LMI spent considerable time discussing these relationships both with exchanges and the base commanders. Our thoughts may be summarized as follows:

- (1) There is apparently an excellent working relationship between most of the present exchange officers and their base commanders. As long as the Navy exchanges remain as separate entities, not consolidated under an area concept, we would see no reason to change or disturb this arrangement.
- (2) In the NESC concept, however, we do not believe that the full benefit from that concept can be achieved without having the individual exchanges report directly to their NESC's. Many of the same reasons recorded for direct reporting relationships of AAFES' CONUS exchanges are also true here.
- (3) A primary factor which motivates the individual Navy base commander to retain direct control of the exchange on his base is his belief that he can control a high percentage of the exchange generated profit. Present profit distribution practices in the Navy allow local commanders to retain and distribute a considerable portion of profits from the exchanges without having those profits first go through an approval and allocation from above. The base commander believes that he needs this freedom in order to satisfy demands for welfare and recreation needs on his base. This process is described and discussed in Section VI.

e. CONCLUSIONS/RECOMMENDATIONS - Navy Exchange Operating Concepts

- (1) The Navy Exchange Service Center concept offers distinct advantages over the present Navy methods of individual store procurement, distribution, and operation.
- (2) The NESC concept would be more effective if the procurement function were truly centralized under the NESC, and if all stock structures and buying were controlled from NESC.
- (3) Present command relationships between individual Navy exchanges and base commanders are well understood and effective for that concept of operation. However, the NESC concept will be more effective, in our opinion, if all exchanges in an NESC area report directly to the NESC, and the NESC, in turn, reports directly to the NSSO headquarters as planned.

3. Marine Corps Exchange Operating Concepts

a. General Comments

The Marine exchanges have had very little change in their decentralized operating concept for many years. The individual exchanges are the most autonomous of any in the DoD. The small staff in Washington provides policy and coordination, but the exchanges essentially generate requirements, buy, distribute, and operate on an individual basis.



b. Customer Benefits

Since the Marine exchanges have not initiated any new organizational concepts on a formalized or world-wide basis, there is no basis for "before" and "after" comparisons.

The Marines have taken initial steps to consolidate certain functions on an area basis which would indicate their recognition of some of the advantages of an area concept. In January 1968 the Marines placed all West Coast payroll operations under the direction of Camp Pendleton. The computer at Pendleton is used to write and distribute all West Coast exchange employees' payroll checks. The Marines do not yet have information that indicates the relative costs of this method. However, they are satisfied with the results so far, as indicated by the fact that all Marine exchange West Coast fiscal operations are presently being programmed for the Camp Pendleton computer. If the results prove successful, plans will be made to proceed with the area consolidation of other functions, such as procurement and inventory management.

Other areas present similar potential. In South Carolina, Parris Island and Beaufort are possibilities, as are Cherry Point, Camp Lejeune, and New River in North Carolina. In the Norfolk area the Marine Barracks and Fleet Marine Force, Atlantic, are candidates, and in the Washington, D. C. area Quantico, the Marine Barracks, and Henderson Hall might benefit from a consolidation.

c. Military Command Relationships

The Marine exchanges have a long-standing tradition of reporting directly to the base or station commander. These relationships are rigidly adhered to, and we observed that there was no question whatsoever as to the responsibilities and authorities of each in exchange matters. As a result, the base commanders' logistics support of exchanges is reported to be excellent. The Marines believe, and have so recommended to AAFES in Vietnam, that in combat areas particularly, the best logistics support of exchanges is achieved through having those exchanges report through the local logistics troop commander.

d. CONCLUSIONS/RECOMMENDATIONS - Marine Exchange Operating Concepts

- (1) The present decentralized Marine Exchange concept is working well and is responsive to Marine military commands. However, we believe that distinct opportunities exist in area consolidations of certain functions, some of which the Marines are already testing at Camp Pendleton.

4. OSD - Present Involvement in Exchange Affairs

a. Discussion

At the present time there is relatively little involvement of OSD staff groups in exchange matters except in OASD(Manpower and Reserve Affairs) and OASD(Installations and Logistics). In OASD(M&RA) the Deputy Assistant Secretary for Military Personnel Policy has a small staff of two persons assigned to all

resale activities, which include both exchanges and commissaries. This staff is the principal focal point for exchange policy matters at the OSD level.

In previous subsections of Section IV, we have outlined certain policy needs and changes which we believe to be in the best interests of the Department of Defense. Implementation of these CONCLUSIONS/RECOMMENDATIONS will require greater involvement, from a policy standpoint, of several OSD staff groups, particularly OASD(I&L), OASD(M&RA), OASD(Comptroller), OASD(Administration), and the Office of the DoD General Counsel. Each of the above OSD staff groups has an established practice of monitoring policy concerning other activities, and we believe that such practices could be extended to include policy needs of the exchanges. However, we suggest that the overall coordination of these efforts be focused in OASD(M&RA).

We have also observed that the three exchange services are often not using the OASD (M&RA) staff in situations where they might be of considerable assistance. In many cases exchange problems are brought to their attention by sources outside the Defense Department, in effect making their role that of a problem solver rather than a problem preventer.

b. CONCLUSIONS/RECOMMENDATIONS - OSD Involvement

- (1) The OSD focal point for exchange policy matters should remain in OASD(M&RA), but each OSD functional staff group should extend its established practice of developing

and monitoring functional policy to include exchange activities.

- (2) The exchange services should make greater use of OAS (M&RA) in problems which pertain to all exchange services or relate to other elements of the government outside the Department of Defense.

## V. ORGANIZATIONAL ALTERNATIVES

### A. INTRODUCTION

The task order specifically asks the Institute to "develop optimum organizational structures considering good management, sound retailing, and best customer service . . . ." The facts and analyses presented in Section IV, while not conclusive, are highly convincing that significant benefits and advantages would accrue through consolidations of certain functions and centralization of others. By consolidation we mean the aggregation of separate but like functions, usually at the area level. By centralization we mean the performance of a function under headquarters control, even though elements of that centralized function may be physically located away from the central headquarters.

We have stated before that we believe that the three exchange services are presently providing a responsive service to their customers and are producing profits and welfare contributions in fulfillment of their missions. We therefore approach any suggestions of major changes in their operating structures with caution. However, LMI's task to propose an optimum organizational structure requires us to suggest alternatives to the present method of operating which we believe would make the exchanges more responsive and profitable. This section identifies and evaluates alternatives.

**B. OVERVIEW OF ORGANIZATIONAL ALTERNATIVES**

It appears to LMI that there are three major organizational alternatives open to the DoD in operating the exchanges:

**1. Alternative A**

The three major exchange services, Army-Air Force, Navy, and Marine Corps, could remain organizationally separate as they are today. However, certain policies, procedures, formats, and functions in all three services could be standardized or changed to increase their responsiveness and reduce their operating costs.

**2. Alternative B**

The three present exchange services could be reduced to two by combining the Navy and Marine systems into one service. In addition standardization of certain policies, procedures, formats, and functions could be included as noted in Alternative A above.

**3. Alternative C**

The three present exchange services could be combined into one DoD-wide exchange service under several possible arrangements:

**Alternative C (1)**

The combination could be administered and operated as a joint exchange service reporting through a board or council jointly to the Chief of Staff of the Army, the Chief of Staff of the Air Force, the Chief of Naval Operations, and the Commandant of the Marine Corps. This would be similar in some respects to the

joint exchange service arrangements under which the present Army-Air Force Exchange Service operates.

Alternative C (2)

The combination could be operated as an agency of the Defense Department, reporting directly to the Secretary of Defense, and with an advisory board or council composed of representatives from each of the military services and the commercial segment of industry.

Alternative C (3)

The combination could be structured as a wholly owned government corporation. In this case also we envision a board or council similar in composition to that noted in Alternative C (2) above.

All options under Alternative C would include standardization of certain policies, procedures, formats, and functions as noted in Alternatives A and B.

C. CRITERIA USED IN SELECTING AN ALTERNATIVE

A principal theme throughout the study has been the emphasis on the primary exchange mission - that of providing maximum benefit and service to the military serviceman. This is carried forward into this section and predominates over all other criteria.

To evaluate the alternatives we developed and attempted to apply other criteria. Both tangible and intangible factors come into play. In some cases criteria are quantifiable; others depend partially or even wholly on past experience and judgment.

The following are the principal criteria considered:

1. Responsiveness of the exchange organization to its primary mission ( as noted above).
2. Estimated hard core cost savings which are measurable and reasonably certain of achievement.
3. Estimated cost benefits that have less likelihood of realization or are less susceptible to measurement.
4. Organizational interfaces with a military command structure.
5. Balance of military vs. civilian management.
6. Flexibility to meet operational emergencies.

D. EVALUATION OF ORGANIZATIONAL ALTERNATIVES

1. Alternative A - (Three separate exchange services with common policies, procedures, formats, and practices)

A review of conclusions drawn in Section IV indicates that common DoD-wide policies or procedures or both will benefit every one of the dozen or more functional areas which, in the aggregate, make up the present exchange services. Table 24 on the following pages summarizes the key elements of each function and denotes whether common policies and procedures are suggested. Over 90% of those listed call for common policies and over 60% call for common procedures. Alternative A, therefore, would require joint task groups to consider changes which would affect virtually all exchange functions. A point of coordination for such reviews would be required and there appears to be



TABLE 24

SUMMARY OF COMMON POLICY AND PROCEDURAL NEEDS

FUNCTIONAL DISCUSSIONS (Section IV)	COMMON POLICIES SUGGESTED	COMMON PROCEDURES SUGGESTED
A. <u>MISSION STATEMENTS</u>	X	
B. <u>PROCUREMENT</u>		
Policies & Regulations	X	
Pricing Bulletins	X	X
Clinics	X	X
National Contracts	X	X
Equipment Procurement	X	X
Small Business Participation		
C. <u>PRICING</u>		
Policies	X	
Retail Markup Guide	X	X
Personal Services Pricing	X	X
D. <u>INVENTORY MANAGEMENT</u>		
Stock Assortments/Structures	X	X
Merchandise Item Coding	X	X
Supplier Coding	X	X
Retail Dept. Breakout	X	X
E. <u>QUALITY ASSURANCE</u>		
Policy	X	
Standards	X	X
Testing Facilities	X	X
Supplier Quality Performance Files	X	X

TABLE 24 (CONT.)

SUMMARY OF COMMON POLICY AND PROCEDURAL NEEDS

FUNCTIONAL DISCUSSIONS (Section IV)	COMMON POLICIES SUGGESTED	COMMON PROCEDURES SUGGESTED
<b>F.    <u>PHYSICAL DISTRIBUTION</u></b>  Policy Distrib. Patterns for Same Category of Merchandise Warehouse Improvements Transportation	   X  X X X	     X X
<b>G.    <u>FINANCIAL MANAGEMENT</u></b>  Policies General Accounting Formats (Opn. Statements/Bal. Sheets) Borrowing Practices Discount Practices Other Accounting Practices Audit Practices	  X X  X X X X	    X  X X X X
<b>H.    <u>EDP</u></b>  Policy Systems Development Equipment Programs	  X   	    
<b>I.    <u>FACILITIES &amp; ENGINEERING</u></b>  Policies Planning Criteria	 X X X	  X X



no suitable point short of OSD itself. It would appear more appropriate to have OSD concern itself with policy and guidelines, leaving implementation studies and actions to be accomplished at the exchange level. We believe, therefore, that Alternative A would be cumbersome to implement and the results would be uneven and slow to achieve.

2. Alternative B-(Combine Navy and Marine exchanges and introduce common policies, procedures, formats, and practices as noted in Alternative A)

A dominating factor in Alternative B involves the relative sizes of the three exchange systems. AAFES contributes about 73% of total exchange sales, NSSO about 22%, and the Marines a little under 5%. These figures indicate that Alternative B, a Navy-Marine combination, would have relatively small total impact when measured against DoD exchange services as a whole. Such a move might be justified if the initiative for it came from the Marines out of a desire to make more extensive use of NSSO centralized and area services than is now the case. We cannot recommend it on the basis of this DoD-wide exchange study.

3. Alternative C-(Combination of the three present exchange services into one joint exchange service for the Armed Forces)

This alternative is admittedly a sweeping one. It is also a straightforward one. We believe that it offers the optimum and probably the only way to achieve the benefits described in Section IV. In addition it provides an environment for the reduction or elimination of redundancy among the three present exchange services.

In broad terms Alternative C calls for (1) procurement operations centralized at the headquarters and the intermediate headquarters levels, (2) centralized general accounting and capital management, and (3) area responsibility for stock structures, physical distribution, inventory management, and cost accounting. Local exchange responsibilities include generation of requirements and operation of the retail and service outlets.

Two variations of Alternative C are depicted in Figures 8 and 9. Each consists of a central headquarters; intermediate headquarters in CONUS, Europe, and the Pacific; area distribution and operation offices; and the individual exchanges as shown. They vary only in their reporting relationships to higher military authority.

In consonance with what appears to be a very workable present relationship between the Army and Air Force, we have depicted Alternative C (1) in Figure 8 in which the combined exchange service reports jointly to the Chief of Staff - Army, Chief of Staff - Air Force, Chief of Naval Operations, and the Commandant - Marine Corps. This could be done through a "board of directors" as shown (and as is the present case with AAFES), or could be accomplished through some other arrangement agreeable to the four military services.

Figure 9 shows Alternative C (2) with an identical single exchange organization, but presents a different reporting arrangement; in this case directly to the Secretary of Defense, in much the same relationship as the Defense Supply Agency is today.

The command structure for the exchange system is outlined in Figures 8 and 9. The only difference between the two is at the top of the structure. Figure 8 depicts the joint exchange system concept and Figure 9 depicts the Defense Agency concept. The overseas theater structures shown are analagous to those which now exist in AAFES in Europe and the Pacific. We recommend a change in command structure for CONUS which is reflected in Figure 8 and Figure 9. We show a direct command line from the exchange headquarters to CONUS areas and exchanges. There is no unified or single military command for CONUS. We believe that military command desires in CONUS would be adequately reflected in exchange activities by means other than placing the exchanges under the command of the military line.

With regard to the relationships between the exchanges and the military commands they serve, we find it difficult to adequately portray the authorities and responsibilities of each with dotted and solid lines on an organization chart. We also believe that we should not recommend specific authorities and responsibilities in overseas theaters since they concern the authorities of the theater commander involved and hence involve considerations beyond the scope of this study. We examined these relationships in some detail and are recording here the working relationships established by the U. S. Army - Pacific, U. S. Air Force - Pacific, and the Pacific Exchange System; an arrangement which, by all reports, is well established and effective.

With regard to exchange operations, the subordinate military commanders of U. S. Army - Pacific (USARPAC) and U. S. Air Force - Pacific (PACAF) have responsibility to:

# DEFENSE EXCHANGE SERVICE

Alternative C(1)

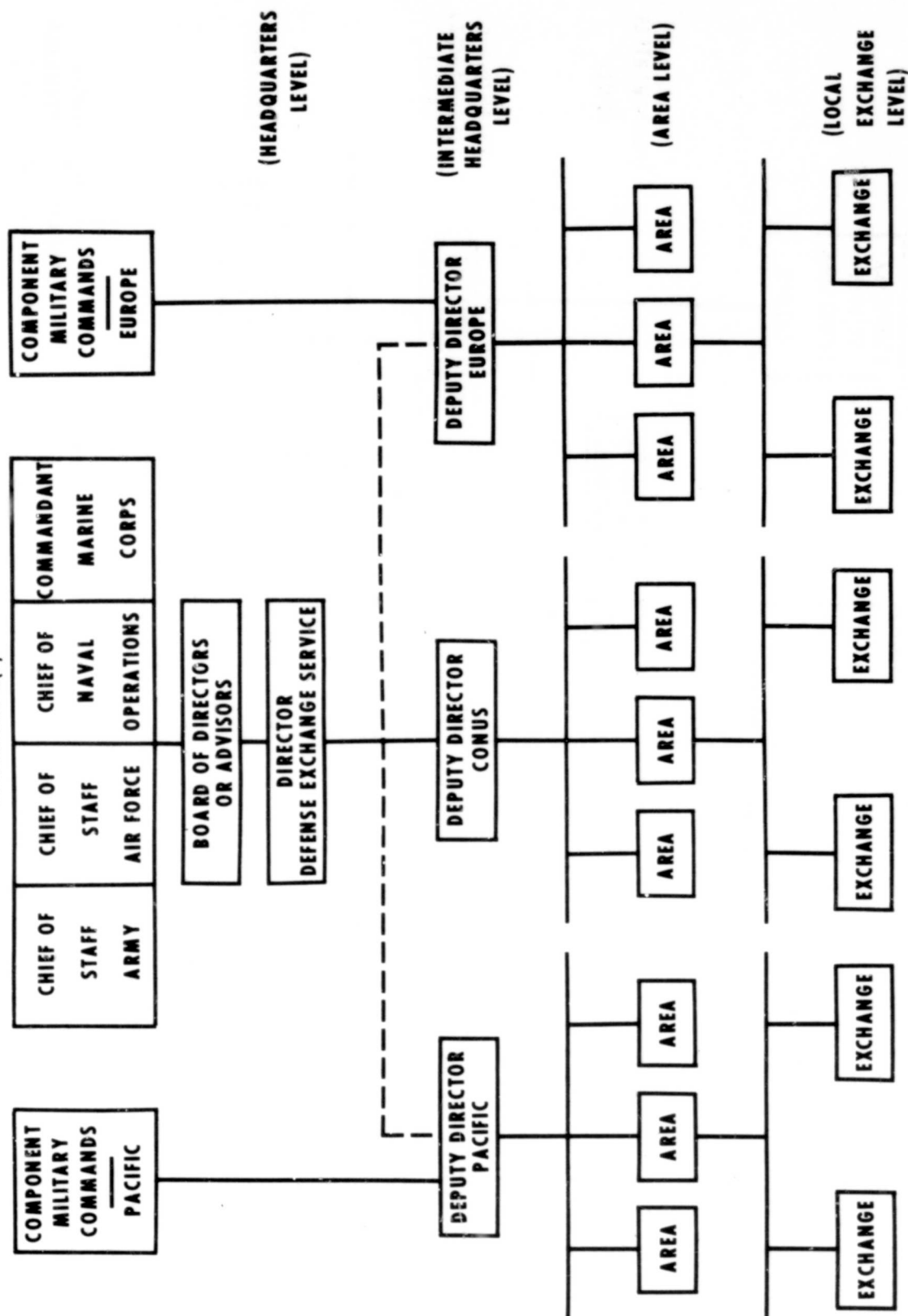


FIGURE 8

# DEFENSE EXCHANGE SERVICE

Alternative C(2)

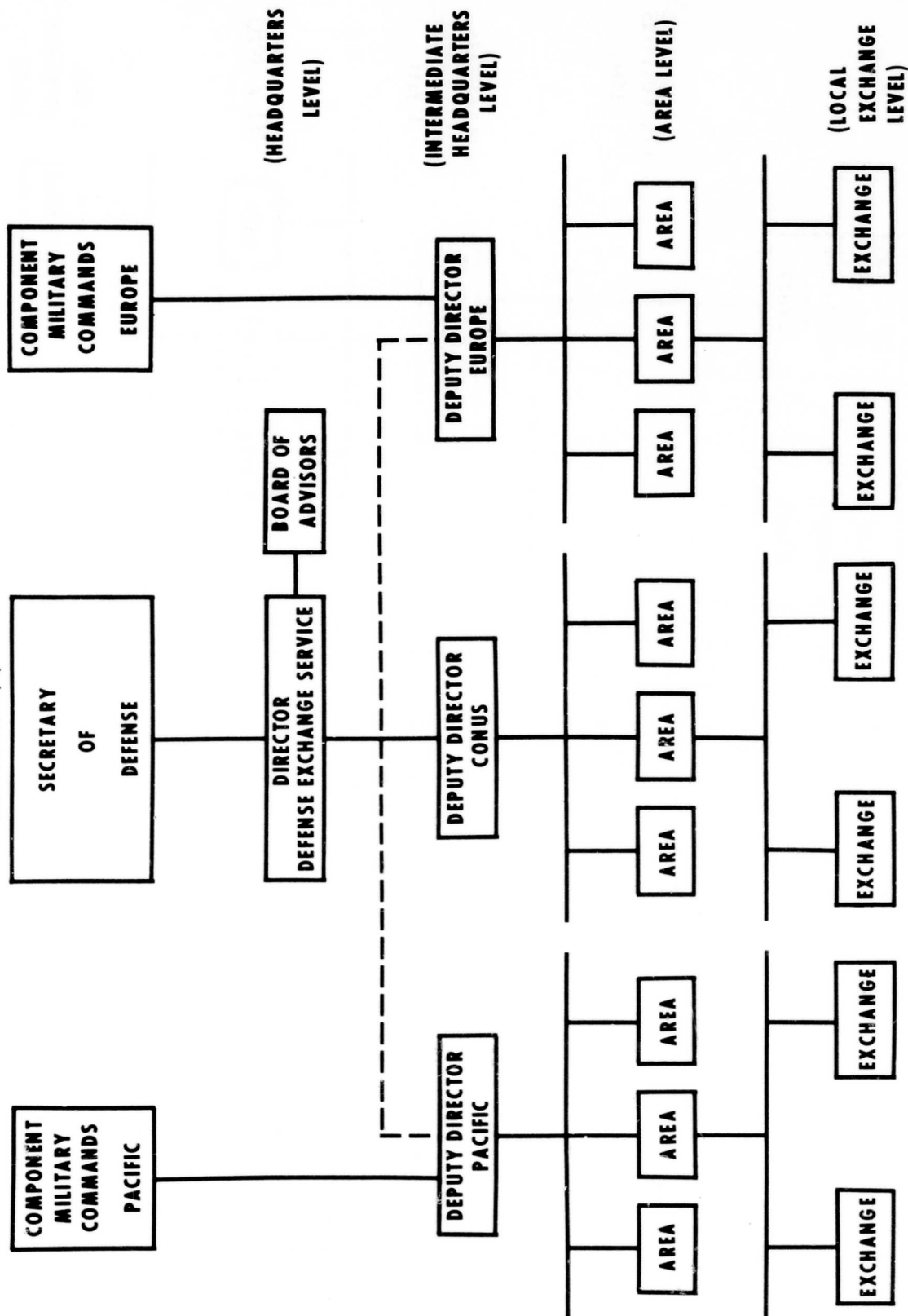


FIGURE 9



- Establish exchanges
- Determine scope of service
- Set hours of operations
- Provide buildings and facilities
- Evaluate responsiveness to mission
- Control patronage
- Investigate losses
- Supervise public relations
- Assist in inventory taking
- Provide security and fire protection
- Designate exchange liaison officer

Under the same direction the Commander - PACEX has the responsibility to:

- Meet established standards of service
- Prepare financial plans and budgets
- Achieve profit objectives
- Review and act on financial and management reports
- Achieve maximum management efficiency
- Provide common support
- Establish check cashing policy
- Determine stock assortment
- Provide for capital expenditures
- Take inventories
- Provide exchange personnel

This division of responsibilities in the Pacific area is also representative of actual working relationships between military commands and AAFES exchanges in Europe.

Summarizing the advantages and disadvantages of  
Alternative C:

a. Advantages

- (1) This alternative would create an organizational environment wherein the direction and implementation of common policies and procedures would be straightforward.
- (2) This alternative also paves the way for elimination of overlapping and redundant operations among the three services.
- (3) There may be significant cost savings each year if Alternative C is adopted. There are several past examples, plus some intangibles, which lead LMI to believe that cost advantages should accrue in the future.

The rejoining of Army and Air Force exchanges in Europe in 1964, after nearly ten years of separation, produced cost and personnel reductions estimated at 25%, which have been recorded in Appendix I. In addition, AAFES' EES has reported that many advantages have accrued which were intangibles at the time of the merger. At the time of the merger redundancies and rising operating costs triggered the decision to merge.

A further example of multi-service exchange operation exists today in Vietnam.

AAFES is far from having resolved all of the exchange problems in that area, but high commanders of all military services in the Pacific reported to LMI that the AAFES service was satisfactory and improving. There is no way to prove the point, but the weight of logic suggests that a single operation serving all military services in Vietnam is more efficient than having three or four exchange services operating in that area.

- (4) The Hubbell Study (previously referenced in Table 9) suggests that the exchanges be self-sufficient in providing their own facilities, etc. A combined, single exchange service would provide the opportunity for minimum redundancy of capital expenditures for exchange facilities.
- (5) A single exchange service provides the opportunity for maximum management visibility by the Office of the Secretary of Defense. Visibility at this level is desirable as the importance of the exchange operations to the servicemen and their dependents increases.
- (6) The growing need for emergency and contingency planning in the exchanges leads to the conclusion that such planning could be accomplished with greater ease and effectiveness if done under a single exchange service.

b. Disadvantages

- (1) Even though the exchange services have similar and even identical functions in many respects, the reorganization called for in Alternative C would be a major undertaking. Such reorganizations, even when carefully planned, involve substantial temporary costs. Also, they often divert the attention of key individuals from their normal management and operating responsibilities, a fact which might temporarily affect the overall responsiveness of the exchanges.
- (2) A combination of the three present exchange services into one could possibly have an adverse effect on service morale, unless there is a carefully planned program to inform all personnel of all services what is and is not going to be done in the reorganization.
- (3) There are sufficient variations among the Army, Navy, Air Force, and Marine profit distribution systems to present a possible problem to any reorganization calling for a single exchange service, unless carefully planned.
- (4) The combination of the three exchange services into one might be viewed by some as the creation of a large and unwieldy business entity. It is true that the combination would total some \$3 billion per year in

sales, but almost three fourths of the combined sales are presently accounted for by one of the present exchange services.

#### 4. The Government Corporation Concept

The applicability of the government corporation concept to the military exchanges is discussed in some detail in Appendix H. As noted in that appendix, the corporation concept only becomes a feasible alternative if the DoD decides that the exchange systems should be set up as one or more discrete organizational entities with a clear management chain extending from the central headquarters down to the individual exchanges; and with the authority of military commanders over the exchanges defined as something less than "command."

The organizational alternative suggested by LMI falls short of that required by the corporation concept in that an uninterrupted management chain is not recommended from the central exchange headquarters to the overseas exchanges. We should make it clear that we are not recommending against an uninterrupted management chain, but believe that the scope of our study was much too narrow to enable us to understand and evaluate the consequences of such a change.

Should the DoD wish to endow the exchange system(s) with certain capabilities and to impose upon them certain constraints which are now lacking, and which are attainable through the corporate form of organization, it may wish to consider going beyond the LMI recommendations and organizing the exchange system(s) in a manner which would make incorporation possible.

The question whether the exchange system(s) should be given the capabilities and made subject to the constraints involves policy considerations outside the scope of the present LMI management study and hence we make no recommendation on that point. The principal capabilities and constraints are:

- (a) Inclusion of the exchange system(s) budget in the Federal Budget as a business-type budget.
- (b) Audit of exchange operations by the Comptroller General of the United States.
- (c) The option of depositing funds with the Treasurer of the United States or in private banks.
- (d) The ability to sue and be sued, and to enter into contracts and acquire and dispose of property in its own name.
- (e) The power to determine the character of and the necessity for its expenditures, and the manner in which they shall be incurred, allowed, and paid.
- (f) The ability to borrow funds from the U. S. Treasury to meet working capital requirements, including funds needed to meet a military emergency or to modernize or construct new facilities.
- (g) The authority to use and reuse its revenues.
- (h) The authority to make payments in lieu of taxes to state or local governments.

E. CONCLUSIONS/RECOMMENDATIONS - Organizational Alternatives

1. LMI concludes that the optimum form of organization for Department of Defense military exchanges would be a single Armed Forces Exchange Service with all military exchange activities combined under one central headquarters (Alternative C).
2. LMI makes no recommendation as to which option should be chosen under Alternative C. There are considerations beyond the scope of this task which would dictate a decision one way or the other.
3. A theater commander's authorities are not an appropriate subject for study in connection with a review of military exchange management. LMI familiarized itself with the manner in which the exchange systems have been organized and operate in Europe and in the Pacific under CINCEUR and CINCPAC. The organizational arrangement in each theater is described as satisfactory by the operational commanders concerned and appears to LMI to be conducive to responsive and efficient exchange operations. Unless sub-alternative C (3) were adopted, implementation of Alternative C would not of itself affect the organizational arrangements in either theater.

**F. OSD RESPONSIBILITIES**

Section IV. N. included an evaluation of the present role of OSD in exchange affairs. In implementing any one of the alternatives described heretofore, we envision OSD's role to be quite similar to their present functions, but with increased emphasis by the various OSD staff groups on the development and implementation of exchange policies. We believe that OSD (Manpower and Reserve Affairs) staff is the logical place in which to develop and coordinate broad exchange policy and contacts with other government elements outside the Department of Defense.



## VI. OTHER NON-APPROPRIATED FUND ACTIVITIES

### A. INTRODUCTION

This section of the report is, in a sense, separable from the earlier sections. It is not directly associated with exchange operations to which the major thrust of the report is directed. The purpose of this section is to review briefly the operations of other morale type activities which operate with non-appropriated funds. These include officers', non-commissioned officers', and enlisted men's open messes, other sundry fund operations, liquor funds, and welfare and recreation activities which are more specifically described later in this section. We have not, in this study, undertaken to evaluate the operations of these other non-appropriated fund activities, but have looked at them only in their relationships to the exchange services.

#### 1. LMI Mission

LMI's purpose in examining these other non-appropriated fund activities has been to identify the interfaces and interrelationships which exist between them and the exchanges and to evaluate the impact of the exchange conclusions/recommendations upon these other non-appropriated fund activities.

The interfaces which have been identified are in the following areas.

#### a. Procurement from Exchanges

Non-appropriated fund activities occasionally

purchase items from exchanges. This interface highlights the extent to which the exchanges could be more responsive to needs of these other non-appropriated fund activities.

b. Procurement from Other Sources

Procurement practices of non-appropriated fund activities cover purchases for their own use and for resale. The methods and sources of procurement are of particular interest in this interface.

c. Resale Activities

Non-appropriated fund activities other than the exchanges also sell food and merchandise. Some of these sales duplicate the exchange function, and some do not. This interface is concerned with the extent of this duplication and examines the desirability of maintaining multiple resale activities.

d. Club Operations

In the Navy, enlisted men's clubs are operated by the Navy Ship's Store Office which operates Navy exchanges and commissaries. In the other services, enlisted men's open messes are operated in the same manner as officers' open messes and non-commissioned officers' open messes with local boards of governors (or advisory groups).

e. Personnel Management

The problems of determination of salaries and wages and other fringe benefit programs are very similar between the exchange service and other non-

appropriated fund activities. Some of these practices and their effect on non-appropriated fund personnel are examined.

## 2. Definition and Description of Present Activities

### a. Clubs

The term "clubs" includes all commissioned officers' open messes, non-commissioned officers' open messes, and enlisted men's open messes. These clubs are established for the purpose of promoting and maintaining the well-being, morale, and efficiency of military personnel by providing dining, social, and recreational facilities.

Clubs and open messes are established by the commandant of the Marine Corps and by local commanding officers under the authority of departmental regulations and manuals.<sup>1</sup> The Army and Air Force manuals cover the operation of open messes and other sundry fund associations. Navy and Marine Corps manuals cover both open and closed messes. In all of the Services, the basic responsibility for management of clubs and open messes is with the commanding officer of the post or base.

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<sup>1</sup> AFM 176-3, Non-appropriated Funds, Operational Manual for Open Messes and Sundry Associations, 17 June 1965.

AR 230-60, Non-appropriated Funds and Related Activities Open Messes and Other Military Sundry Associations and Funds, 28 August 1967.

NAVPERS 15951, Manual for Messes Ashore, 1962.

MCOP1746.13B, Manual for Clubs and Messes, 27 July 1967.

Navy Ships Store Office Manual.

In the Navy all enlisted men's clubs are operated under the Navy Ship's Store Office. Some of these clubs have Chief Petty Officers' sections and First and Second Class Petty Officers' sections. Navy officers' clubs, Chief Petty Officers' and First and Second Class Petty Officers' clubs are operated under direction of the Bureau of Naval Personnel and submit monthly reports to BUPERS.

In the Army and Air Force the major commands issue supplemental manuals for the operation of the clubs and open messes within the commands.

b. Sundry Fund Operations

Sundry fund operations in the Army and Air Force are organized for specific purposes, such as rod and gun clubs, flying clubs, some golf courses, parachute clubs, etc. These activities provide recreation, but are usually self-sustaining membership organizations. They generally do not receive any support from exchange dividends or station welfare and recreation funds, but are sustained by membership dues and income on specialized resale items.

Another type of sundry fund encountered is the liquor locker fund. This is an organization established outside the continental United States for the purpose of purchasing and distributing alcoholic beverages to clubs and messes for bar use and package sales. The operation of these locker funds is of some interest and is described more fully later on in the report. The liquor locker fund should not be confused with certain

Navy "locker clubs" which have nothing to do with the sale of liquor.

c. Welfare and Recreation Activities

Welfare and recreation activities, including those activities referred to as "Special Services," provide recreation and sports opportunities for eligible personnel. They include such functions as bowling centers, hobby shops, music and entertainment, community service activities, libraries, youth activities, and dayrooms.

3. Purpose of Non-appropriated Fund Activities

Morale and recreation programs in the services are supported in part by non-appropriated funds. Their scope of operations varies depending upon theater missions and geographic locality. There is a heavy emphasis given to these activities at overseas locations so that the personnel stationed there can enjoy activities which are similar to those in the United States.

The importance of welfare and recreation activities overseas cannot be overemphasized. In overseas theaters, one of the major problems is off-duty incidents affecting local national civilians. This is particularly true in non-combat areas, such as Europe, where the military strength is made up of young military personnel. Overseas commanders indicated that their first job every morning is to get a report on the "incidents" of the previous evening. High incident rates not only impair the military efficiency of the organization, but also create problems with the local communities.

**B. AREAS OF INTERFACE WITH EXCHANGES****1. Procurement****a. Procurement from Exchanges**

Most items for sale in the exchanges are items that are of interest to individuals or for use in private homes and are not suitable for clubs and messes. There are some items, such as glassware and other table pieces and cleaning gear, which are sometimes bought by clubs for club use. There seems to be little advantage to be gained in suggesting that clubs buy more of the supply items currently carried by exchanges than they now are doing.

In addition to these normal household items which are carried in stock, some exchange services have a catalog of club and mess equipment, which is made available to the various clubs and messes, from which items of supplies and kitchen equipment can be purchased. Clubs have found, however, that many of the items in the catalog are not in stock, and the time lag for purchase often exceeds the commercial delivery time. Also, in some cases, the items have to be modified for use on local electric current. This is not the case with items purchased locally. With these factors there is no incentive to purchase from the exchange catalog.

Within the United States, where the logistic problems are minor as compared to overseas, there appear to be no problems involved in having clubs and messes purchase directly from commercial sources as long as they are able to assure that the price is right.

Overseas, however, the transportation and shipping problems, as well as the problem of having uncoordinated deliveries made to ports of embarkation, indicate that a coordinated purchasing operation would be advantageous. This could be accomplished by having the exchange service purchasing offices do the necessary purchasing for clubs and messes in addition to performing this function for the exchanges.

Clubs and messes overseas have traditionally purchased much of their requirements in the local markets because of the quick delivery and, in many cases, lower prices. With the gold flow regulations, however, clubs are endeavoring to purchase U. S. goods and as a result the delivery time is much longer. In some cases, the delivery time runs into months, and in some items, such as glassware, breakage occurs in about a third of the quantities received.

There are two problems in connection with the exchange supply of club items. One is the desire on the part of club managers to equip their clubs with different types of supply items to provide a unique quality and a feeling of being apart from the usual. The other problem which confronts the exchange service is providing adequate capital for carrying the inventory. If the exchange service is to provide purchase and inventory support for clubs and messes, a source of adequate working capital for stocking the necessary inventories would have to be found.

If clubs could standardize on certain items which could be bought in large quantities and stocked by the

exchanges, a substantial saving to the clubs could be made in terms of both price and inventory required. There could be a substantial reduction of lead time for replenishment. A similar advantage could come through standardization of kitchen equipment for which spare parts could be stocked by the exchange.

A specialized case of such central procurement is the Army-Air Force Exchange Service purchase of alcoholic beverages for Vietnam and the various locker fund operations which procure alcoholic beverages in other command areas. In these cases, all requirements go through the central purchase activity whether they are for items normally stocked or not. Special orders are handled by the central purchase activity and shipments are coordinated with other items purchased.

b. Procurement from Other Sources

Clubs and messes and other non-exchange food service operations, such as bowling alley and golf course snack bars and recreation center restaurants, purchase their food items from several sources. The primary source to which all of them look is the commissary department of the post or base. To the extent that their needs cannot be met from this source either because of availability, price, or delivery, purchases are made in a local market place and from food processors. In most cases, this purchasing is quite informal with the buyer making his choice, based on his own needs and using his own judgment on price and quality. In most cases, purchasing is done on an individual activity basis, and large volume discounts are not



available. Some posts and bases have a centralized club management which procures for several clubs, in some cases both officer and NCO. Reduced prices because of larger volume purchasing and savings in administrative personnel are two of the observed advantages of combined management.

Non-food items purchased for the same activities include supply items for the use of the activity in its operations and merchandise items purchased for resale. In some cases purchases are made directly from vendors; in others they patronize local jobbers and distributors or order from a manufacturer. Supplies not for resale are sometimes purchased through the local exchange or directly from General Services Administration schedules. The choice of where and how to buy is usually left up to the club, mess, or activity manager who makes his choice based upon his own experience or desires. Decisions are based on price, quality, and delivery time.

A specialized case of centralized procurement is that of the various locker fund operations which procure alcoholic beverages in some overseas areas. In these cases, all requirements go through the central purchase activity whether they are for items normally stocked or not. Special orders are handled by the central purchase activity and shipments are coordinated with other items purchased. Large volume purchasing and local inventory stocks reduce overall costs to the club and beverage stores. In those areas in which there are locker fund operations, all clubs and messes must purchase their alcoholic beverages from the locker fund.

c. Effect of Gold-Flow Policies on Procurement

Gold-flow policies affect overseas non-appropriated fund activities. Items of equipment or supplies are purchased from U. S. companies only to find that the items are made in, and delivered from, overseas plants. There is a gold flow even though the contractors are U. S. companies.

On the other hand, clubs and messes must buy meat through the commissary rather than through outside sources even though the outside source would supply meat which is produced and processed in the United States. They are not authorized to buy through European representatives of U. S. companies.

A change in the applicable directives would help to assure purchases of U. S.-produced goods of good quality at the lowest price regardless of location of the contracting agent of the company.

d. CONCLUSIONS/RECOMMENDATIONS - Procurement

- (1) Clubs and open messes should select items of supplies and equipment which can be standardized and arrange for procurement through the exchange service. This recommendation is especially pertinent to overseas clubs and messes.
- (2) The exchange service should undertake to assist clubs in standardizing and be more responsive to requirements of clubs and messes by planning quantity purchases and maintaining inventories of items of supplies and equipment which clubs require.

2. Resale Operations of Other Non-Appropriated Fund Activities

a. Merchandise

We found many Army and Air Force locations with resale merchandise activities which were not a part of the exchange services. In clubs there are concession operations and resale activities which duplicate in part the exchange merchandise available at the post or base. The basic reason for club sales is to provide an income to the club. An additional result, however, in overseas clubs is the sale of foreign merchandise through concessionaires without reporting as gold flow.

Additional resale activities are found at recreation centers, such as the Armed Forces Recreation Center at Garmisch or Pattaya Recreation Center, and at base sports operations, such as golf courses, bowling alleys, and ski slopes. These resale activities duplicate, in part, the sports equipment available through the exchange services. In addition, they carry professional lines of sports equipment which are not and cannot be made available through the exchange services.

Although the profits on sales are retained for use at the recreation center or the post or base involved, there is an additional purpose to these sales, and that is to provide sports equipment which cannot be made available through the exchange service.

Hobby shops sell tools and raw materials for

various hobbies, such as ceramics, leather work, and woodwork. Here again the stock, to a lesser extent, duplicates that of the exchanges, but being of a specialized nature is generally broader than the range of stock in these categories which could be handled profitably by the exchange service. Hobby shops generally sell at or near cost, and the sales are not for the purpose of making profit but rather for providing a service to the hobbyist which could not be readily provided by the exchange service. In those cases where there is a profit in hobby shops, the profits are retained and used by the welfare and recreation activity at the post or base.

These competing or duplicating services are separately managed and have different operating practices. There is no single command, although management direction is provided by some local command which gives detailed direction regarding inventory control, stock shrinkage, merchandising, markdowns, pricing and gold-flow policy. In some cases, we found that controls were tighter on these resale activities than on issues for troop use. There was no way to account for damaged merchandise, shopworn goods, and overstocks other than to survey and dispose of them. In some cases local rules required that each individual item be sold at a profit, and there were no provisions for markdowns for damaged, overstocked, or out of season items.

b. Food Service

Clubs and messes have, as a part of their purpose,

the providing of food service to the club membership. We found, however, that some clubs and messes have snack bar and other food services which are operated for personnel other than those eligible for club membership and at locations away from the club premises. Some examples of these are restaurants operated for all military personnel and dependents and a flight line snack bar also operated for all military personnel. The profits from these operations go to the clubs involved rather than to the welfare and recreation fund.

Recreation and sports activities of the Army and Air Force also operate food services at golf courses, bowling alleys, and recreation centers.

These different food service operations do not have standard procedures; consequently, there are differences in portion sizes, price, and quality in similar activities in the same geographical area.

These resale activities are a source of minor disputes among the clubs, welfare and recreation activities, and the exchange services as to who should be responsible for these functions. The disputes arise because each of the different activities desires to obtain the profit on the sales. At one location, a commander was operating a snack bar, the profits of which went to the local welfare and recreation fund, but could not find space for an exchange snack bar. At another location an exchange was operating a popcorn outlet in connection with a children's playground and the base commander wanted to transfer the popcorn

concession to the welfare and recreation operation to retain the profits locally.

Income of clubs, open messes, and welfare and recreation activities stay at the base for the use of the activity concerned. Most of the Navy exchange profits are retained at the base for welfare and recreation use. In the Army and Air Force exchanges, profits are not retained at the base but are distributed through their Central Welfare Funds on a per capita basis.

In the Army and Air Force, where exchange dividends are distributed on a per capita basis, it is not equitable for some posts and bases to operate resale activities and retain the profit while others utilize the exchange service for resale activities and have the profit go into the central welfare fund for distribution. To provide consistent treatment the exchange service, which can provide uniform worldwide resale policies, could manage these resale activities for the base commanders.

c. CONCLUSIONS/RECOMMENDATIONS - Resale Operations

- (1) Overseas commanders responsible for the establishment and control of resale activities in each of the services should be given similar policy guidance regarding the kinds of functions authorized for clubs and messes, welfare and recreation activities and exchanges. Guidance should be specific on resale operation of snack bars and restaurants,

and sales of hobby and sports equipment and merchandise whether made directly or by concession.

- (2) It is recommended that exchange services operate all food service activities (except those on the premises of clubs and open messes) at all activities where there is an exchange food operation. It is further recommended that all merchandise resale (including concessions but excluding professional lines of sports equipment and specialized hobby supplies and equipment) be the responsibility of the exchange services.
- (3) For those food service operations at locations where there are no exchange food service functions and for resale merchandise at those locations where there are no exchange stores, it is recommended that a uniform set of operating rules be established to permit all retail activities to operate in a businesslike manner with guidelines regarding such things as inventories, markdowns, prices, and quality and portion control. These operating rules should be as close as possible to those used by the exchange services in order to provide reasonable consistency from one activity to another.

### 3. Club Operations

In the Army, Air Force and Marine Corps, the usual

situation is for clubs and messes to be operated as separate entities. There are some situations where there is a single management for a group of clubs, such as all NCO clubs or all officers' clubs on a given base. This single management, with few exceptions, is at the local level.

In the Navy, all enlisted men's clubs are operated as a part of the Navy exchange. The enlisted men's club manager reports to the exchange officer and the exchange food service manager. The club is a department of the exchange. There are over 180 of these enlisted men's clubs in the Navy. They are operated under the Navy Exchange Manual and have a standard system of operation, reporting, and control. When the Navy Ship's Store Office conducts its annual inspection of exchanges, the clubs are inspected and audited. The Navy Ship's Store Office provides management assistance, where necessary, and has experts in food service and bar management to participate in the exchange audits and provide advice to the club managers to help overcome local problems. NSSO also provides accounting service, design and decorating services, and selects and supplies the food and bar equipment. Other renovating and remodeling is paid for from the club's retained profits after being approved by NSSO.

There are cases where club profits accumulate because of the high volume of business. NSSO can, and does, use some of these profits to assist in remodeling and renovating small clubs which do not have an adequate dollar profit of their own. This authority



provides a way to equalize facilities between very large and small bases.

This management of enlisted men's clubs as a part of the exchange food service operation should be considered further as a possible means of providing Army enlisted men and airmen with better club facilities.

#### 4. Personnel Management

##### a. Wage and Salary Interfaces

Wages and salaries of non-appropriated fund personnel are established by the non-appropriated fund activities or by the major commands, and are not a part of the Federal Schedule or Wage Board salaries of the Government. Also, except in the Navy enlisted men's clubs and Marine Corps activities, they are not coordinated with the wages and salaries of the military exchanges. The usual practice is for the salary administrators in each geographical area to evaluate non-government salaries in that area and then to arrive at comparable wage scales for non-appropriated fund personnel. Federal minimum wage law rates apply to non-appropriated fund personnel in the United States and territories. In some instances, this results in a higher rate than other wages in the geographical area for which the wages are being evaluated. Other wage rates are based substantially on wages in the geographical area.

b. Fringe Benefits

In the Navy, the Bureau of Naval Personnel, NAVPERS 15951, Manual for Messes Ashore, 1962, specifies the minimum benefit programs in terms of holidays and leave. The club custodians have the option of granting additional leave to their personnel with the general guidance that it should be considered along with wages in their evaluation of total compensation, which should be generally the same within a geographical area. The Bureau of Naval Personnel provides all workmen's compensation, life and health and medical insurance for the employees of BUPERS clubs. Thus, these benefits are the same for all. This program is funded by the Bureau of Naval Personnel from the assessments made on the clubs.

In the Army, there are central insurance programs of group health and life and group retirement. This is handled by the Office of the Deputy Chief of Staff for Personnel and also covers all non-appropriated fund personnel other than the exchanges. In the Air Force, there are central programs for group health and life insurance. At the present time, group retirement programs are at the option of the bases or major commands. A central program is being considered. These programs are handled by the Air Force Welfare Board and cover club and mess personnel and welfare and recreation personnel.

In the case of the Marine Corps, all non-appropriated fund activities, including exchanges, messes, and

Welfare and Recreation Fund personnel, are covered by the same retirement and fringe benefit programs. This is handled by the Central Exchange Fund. The exchange pays the employer's portion for its employees, and Marine Corps Mess Fund pays the employer's portion for all Marine messes. The Central Marine Corps Recreation Fund pays the employer's portion for all recreation activity employees. The messes pay directly into the Central Exchange Fund for the employee portion of the benefit programs. This system permits transfers of personnel from one location to another and between non-appropriated fund activities if desired.

In each of the services there are wage and salary policies and fringe benefit programs which provide reasonable compensation for the personnel involved. These several systems, however, reduce the flexibility of operation which could be gained by a common system whether centrally managed or not. A single retirement plan for all non-appropriated fund personnel would, for example, permit an employee of an exchange in one service to transfer to a club operation in another. An exchange employee in one service could transfer to an exchange in another service. This kind of flexibility would provide a better promotion pattern for employees and would probably attract and retain better people.

c. CONCLUSION/RECOMMENDATION - Personnel Management

- 1) Non-appropriated fund managers, including exchanges, should coordinate their personnel programs to provide a common salary and wage

system and common retirement and insurance programs for all U. S. citizen non-appropriated fund personnel. The recommendation found in Section IV. K. should be applied to all non-appropriated fund personnel.

C. FLOW OF NON-APPROPRIATED FUNDS

1. Sources of Non-Appropriated Funds for Welfare and Recreation

One of the primary uses of the profits generated by the exchange services is for welfare fund operations in the military departments. The total amount of exchange dividends in Fiscal Year 1967 was over \$90 million, and in Fiscal Year 1968 is in excess of \$111 million. In addition to exchange dividends, the Army and Air Force motion picture service dividends are in excess of \$2.5 million. Income from welfare and recreation activities such as bowling, athletics, community services, etc., brought the Fiscal Year 1967 (latest year available) total to over \$160 million of non-appropriated funds applied to welfare and recreation programs. Tables 27, 28, 29, and 30 show the breakdown of sources of income to the Services' non-appropriated welfare funds for FY 1967 and a breakdown of the types of expenses which are paid for with these non-appropriated funds in support of the general welfare, recreation, and special services program.

a. Exchange Profit Distribution

Each military service has a different method of distribution and the utilization of exchange profit.

Table 25

ARMY NONAPPROPRIATED WELFARE FUND OPERATIONS Fiscal Year 1967	
	<u>\$ in Millions</u>
<u>INCOME</u>	
Exchange (AAFES) Dividends	\$35.61
Motion Picture Theater (AAFMPs)	
Dividends	1.50
Class VI Dividends (Overseas only)	3.78
Program Income Generated on Bases:	
Bowling Centers	9.08
Minor Income Producing Activities	4.38
Other (Interest, Inactivations, Sale of Property, etc.)	<u>2.42</u>
TOTAL INCOME	\$ <u>56.77</u>
<u>EXPENSE</u>	
Bowling Centers	\$10.70
Unit Dividends	9.30
Sports	9.05
Community Services	
Service Clubs (Enlisted Men)	5.80
Libraries	4.40
Chaplain	.44
Day Rooms	.64
Youth Activities	.89
Crafts - Hobby Shops	3.28
Music and Entertainment	2.64
Troop Information and Education	2.08
Recreation and Leave Areas	.33
Fund Administration	3.41
Other	<u>2.02</u>
TOTAL EXPENSE	\$ <u>54.98</u>

Table 26

NAVY SPECIAL SERVICES FUNDING Fiscal Year 1967	
	<u>\$ in Millions</u>
<b><u>INCOME</u></b>	
Navy Exchange Dividends	\$29.0
Navy Ship Store Dividends	5.0
Program Income Generated on Bases:	13.0
Recreation	
Bowling	
Tickets	
Athletics	
	—
<b>TOTAL INCOME</b>	<b><u>\$47.0</u></b>
<b><u>EXPENSES</u></b>	
Fleet Motion Picture Service	\$ 5.0
Navy-Marine Corps Motion Picture Service (Film Rentals & Transportation)	5.0
Recreation Programs	5.0
Cost Sales - Crafts - Hobby Shops	2.0
Supplement to Libraries	1.0
Payroll, Nonappropriated Employees	10.0
Insurance (Group Life, Retirement, Medical, Liability, Comprehensive, FICA Taxes)	2.0
Maintenance of Facilities	3.0
Installation, Renovation & Alteration of Facilities	8.0
Consumable Supplies	3.0
Depreciation, Property	2.0
Miscellaneous Expenses:	1.0
Travel & Per Diem	
Vehicle Rental	
Office Supplies	
Freight & Transportation	
Gasoline	
Publicity	
Etc.	
	—
<b>TOTAL EXPENSES</b>	<b><u>\$47.0</u></b>

Table 27

AIR FORCE WELFARE FUNDS		Fiscal Year 1967	
<u>INCOME</u>		<u>\$ in Millions</u>	
Exchange Service Dividends		\$25.2	
Motion Picture Service Dividends		<u>1.1</u>	26.3
Interest			.7
Program Income Generated on Bases:			
Recreation		2.6	
Community Services		4.4	
Bowling Alleys		10.4	
Athletics		3.8	
Administration & M.A.		.3	
Other		<u>4.4</u>	25.9
Contributions:			2.0
Assets from Dissolved Funds			
From Community			
From Other Funds--Command Prerogative			
<b>TOTAL INCOME</b>			<u><u>\$54.9</u></u>
<u>EXPENSES</u>			
Recreation			15.7
Community Services			10.9
Bowling Alleys			8.8
Athletics			9.0
Administration & M.A.			3.8
Other			<u>3.8</u>
<b>TOTAL EXPENSES</b>			<u><u>\$52.0</u></u>
EXPENDITURES by COMMANDS	\$51.5		
EXPENDITURES by AFCWF	<u>.5</u>		
	<u><u>\$52.0</u></u>		

Table 28

MARINE CORPS WELFARE AND RECREATION FUND Fiscal Year 1967	
<u>INCOME</u>	<u>\$ in Millions</u>
Marine Corps Exchange Donations	\$4,848,886
*Army/Air Force Welfare Fund Distributions	3,243,403
Recreation Program Income (including interest on savings and investments)	<u>4,730,172</u>
<b>TOTAL INCOME</b>	<b><u>\$12,822,461</u></b>
<u>EXPENSE</u>	
Purchase of Athletic and Recreation Equipment	\$2,496,134
Maintenance (facilities and equipment)	995,962
Wages	2,442,295
Other	<u>6,681,161</u>
<b>TOTAL EXPENSES</b>	<b><u>\$12,615,552</u></b>
*Marine Corps activities in the Republic of Vietnam and Okinawa receive nonappropriated fund support from the Army/Air Force Welfare Fund Distributions.	



These are not confined to differences among the services, but also differences among the commands within the services. Figures 10, 11, 12, and 13 show the flow of non-appropriated funds in the services.

The Army and Air Force are similar in their initial distribution of exchange dividends. The Army portion goes to the Army Central Welfare Fund which is in custody of the Adjutant General's office under the control of the Deputy Chief of Staff/Personnel. Funds are distributed to the major commands on a per capita dividend distribution. The per capita amount is set on a sliding scale depending on the total strength of the major command. The major commanders further distribute these funds to the Central Post Welfare Funds and to the Unit Funds. Essentially, all funds are distributed and there is no plan for retention of any funds at the headquarters level to make special grants.

In the Air Force, the Air Force Welfare Board makes distribution of exchange dividends to the major commands. Further distribution is made by the major commands to the numbered Air Forces and then to Air Force bases. This distribution is also generally based on the number of command and base personnel. A portion of the exchange dividends is retained by the Air Force Welfare Board in order that grants and loans may be made for special purposes, and to provide a better balance in the availability of welfare and recreation activities among the major commands.

The methods of distribution of exchange profits in the Navy and Marine Corps differ from the Army and

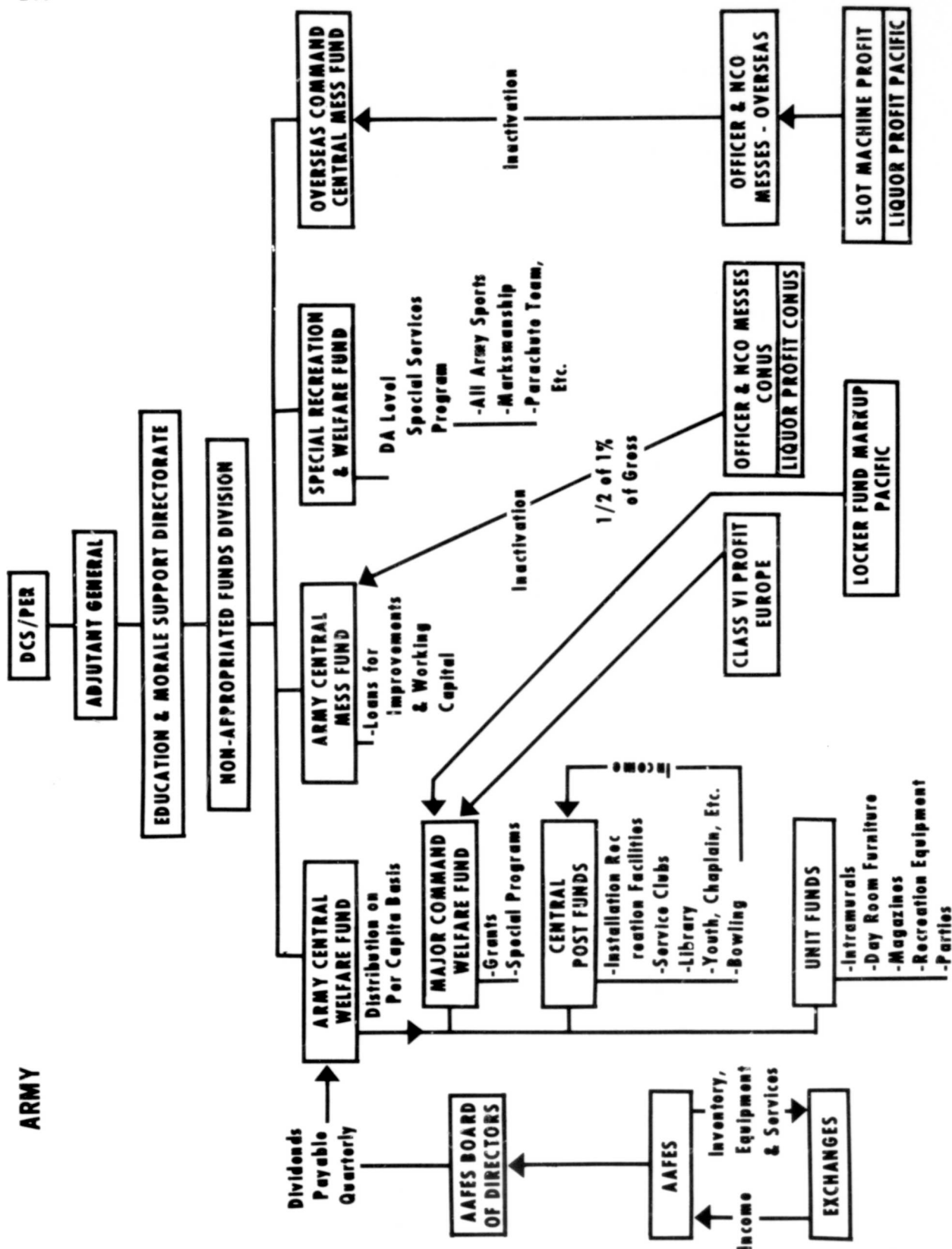


FIGURE 10

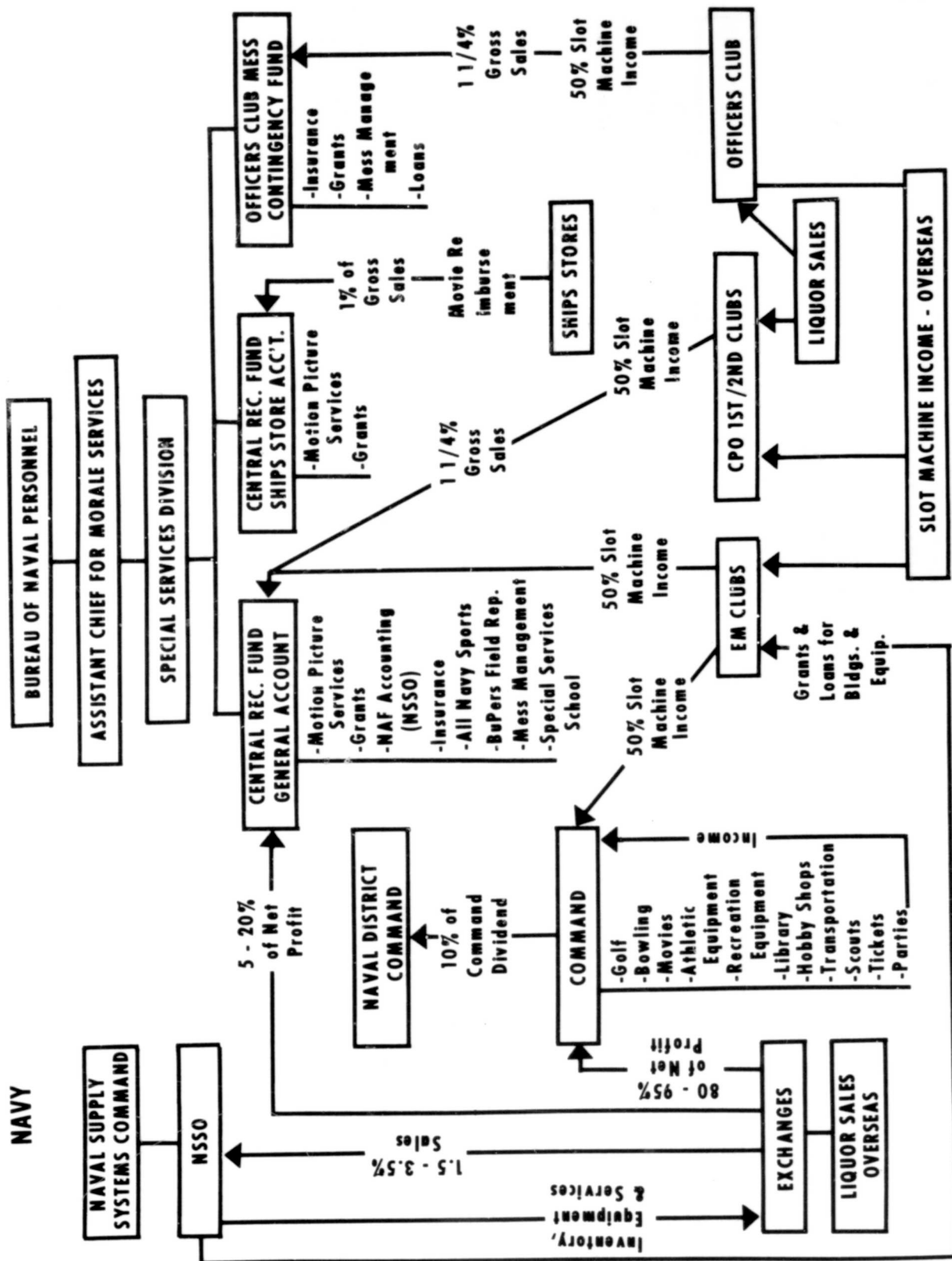
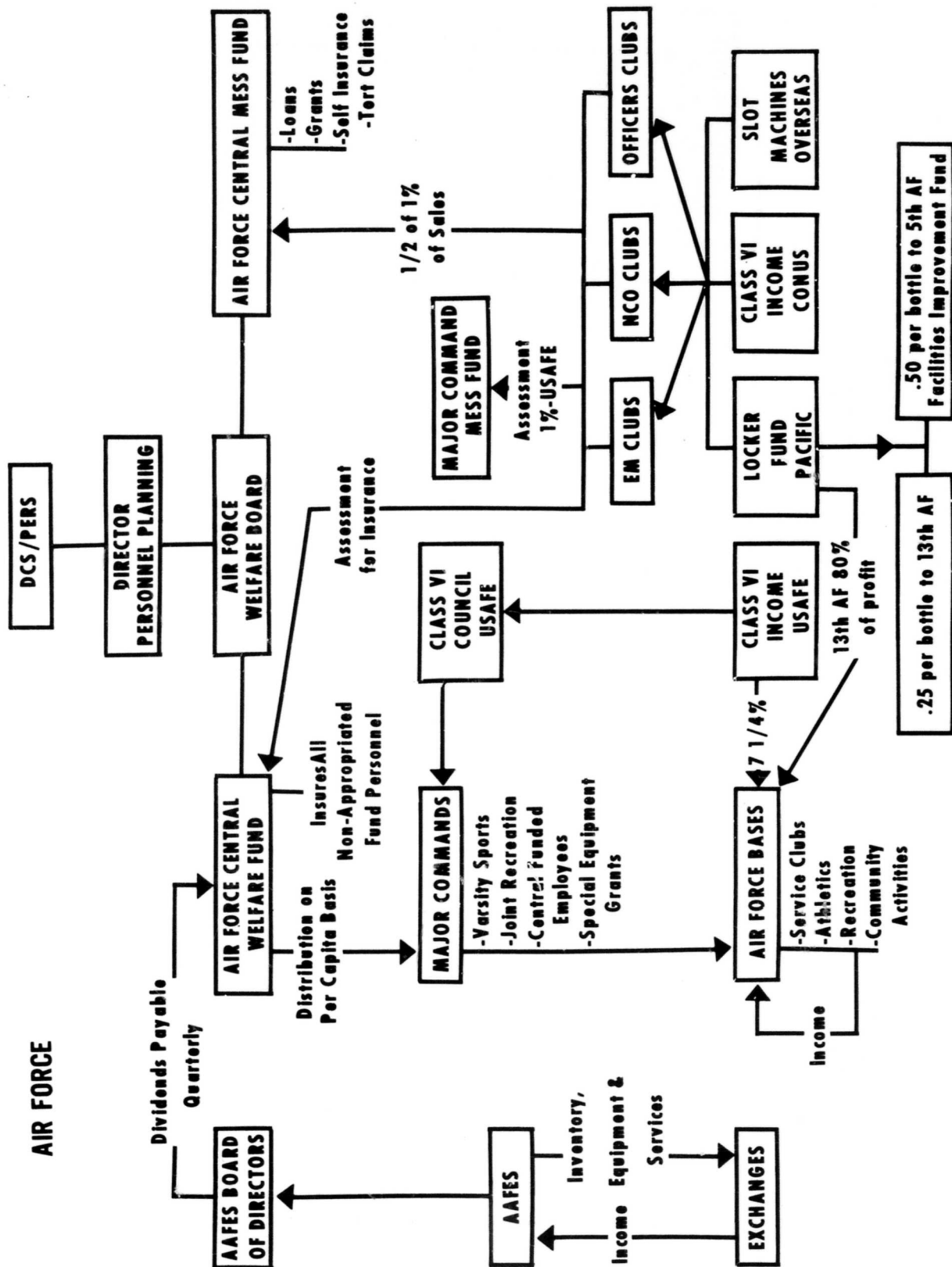


FIGURE 11



**FIGURE 12**

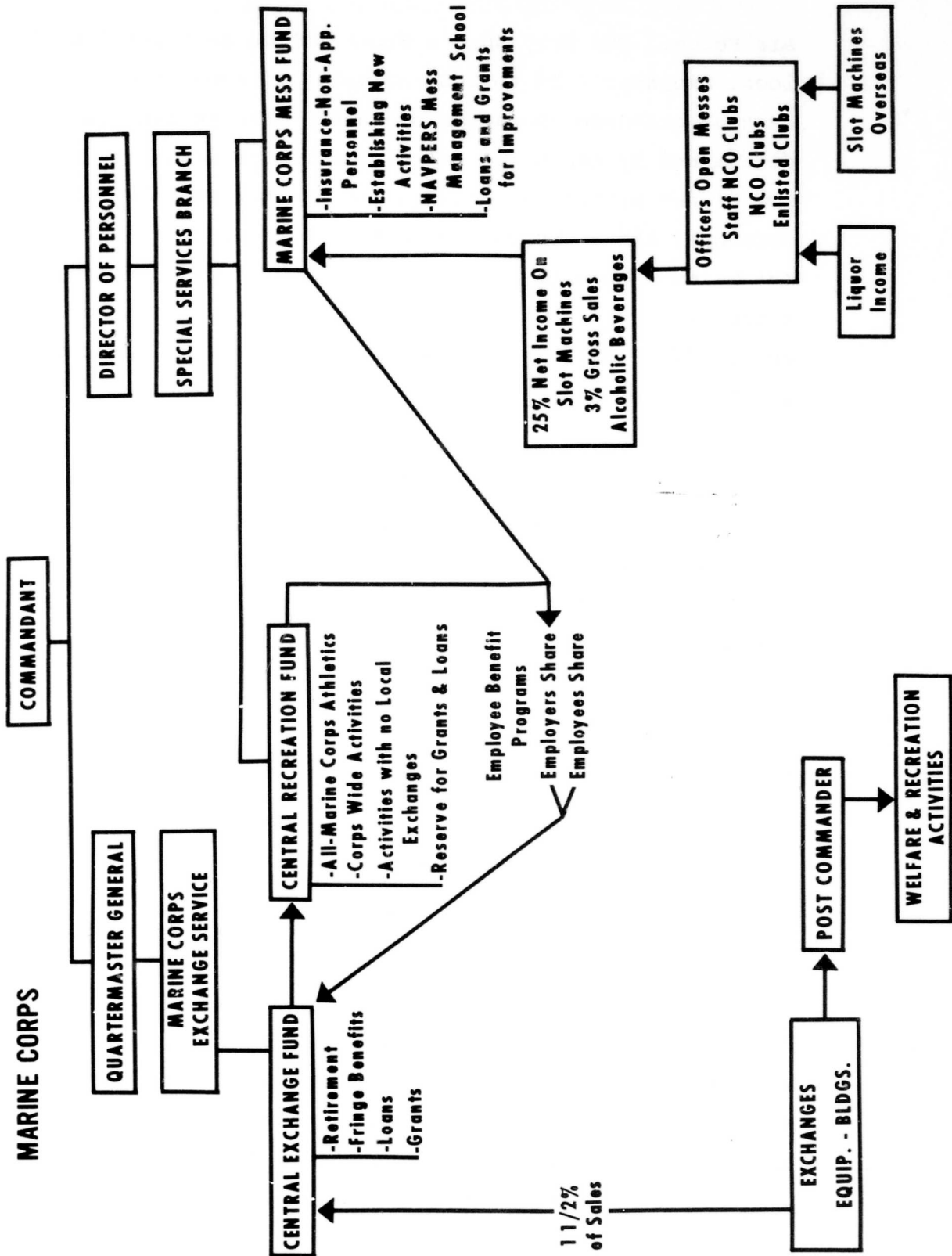


FIGURE 13

Air Force. The Navy Ship's Store Office assesses the local exchange 1.5% to 3.5% of sales to cover the central exchange operation overhead. The percent is determined by amount of sales. An amount of 5% to 20% of net profit is assessed for the Bureau of Naval Personnel for a Central Recreation Fund General Account. The balance goes to the local command for welfare and recreation. In some cases the local command forwards up to 10% of this income to the Naval District Command for the Naval District welfare and recreation fund.

Marine Corps Headquarters assesses the local 1-1/4%, one-third of which is for the cost of the Headquarters' exchange overhead, one-third for Marine Corps-wide welfare and recreation activities, and one-third for the cost of the central insurance program for non-appropriated fund personnel. The balance is turned over to the base commander for the welfare and recreation fund.

b. Welfare and Recreation Income

In all services, income from welfare and recreation activities generated at the post or base level is retained at the post or base and is utilized as additional income to the welfare and recreation fund.

c. Liquor Sale Profit

Sales of alcoholic beverages in the United States and in the Pacific (except Vietnam) are made by package stores operated by clubs and open messes. Profits are retained by the clubs and messes. The Marine Corps Mess Fund, which is located at Headquarters,

Marine Corps, assesses Marine clubs and messes 3% of the gross sales of alcoholic beverages.

As described earlier, alcoholic beverages for Vietnam are purchased and distributed by the Army-Air Force Exchange Service. In Japan and Korea, there is one liquor locker fund. That liquor fund, and one in Thailand, have been organized by the Army and Air Force commands to procure and stock alcoholic beverages for distribution to clubs for bar use and for package resale. These locker funds provide a central purchasing function and manage the ordering, shipment, and warehousing of alcoholic beverages. To pay for the locker fund operating costs, there is a small markup on goods sold to the clubs and messes. There are, in some cases, additional markups as directed by the military commands concerned in order to provide non-appropriated funds for command use. This centralized locker fund procurement greatly simplifies the logistics operation of maintaining a wide range of products available and is especially useful in coordinating the transportation and warehousing for the numerous activities which are the end users.

In the 5th Air Force in Japan, there is a fifty cent markup on each bottle of alcoholic beverage sold. These amounts go to the 5th Air Force Non-appropriated Facilities Improvement Fund. This is used for the purchase of equipment and facilities for non-appropriated fund activities.

In Thailand, the U. S. commander operates five alcoholic beverage package store retail outlets in

Bangkok to support the morale and welfare programs in the Bangkok area. The 13th Air Force adds 25 cents a bottle on sales, of which twenty cents goes to the base welfare fund and five cents to the 13th Air Force facilities improvement fund.

In Europe, the Army and Air Force operate revenue producing funds (known as Class VI) which sell to all clubs and messes and make package sales through stores. The income in the Air Force goes in part to Air Force base welfare funds and in part to the U. S. Air Force Europe Welfare Fund. All profits from U. S. Army Europe Class VI sales go to the Command Welfare Fund.

In Europe the Navy sells package goods in its exchange stores. Enlisted sale profit goes to the EM clubs and officer sale profit to the base welfare fund.

## 2. Club and Mess Income

The Air Force Central Mess Fund receives one-half of one percent of sales from all officers', NCO, and EM clubs. Major commands can also assess clubs. Some commands to have such club assessments. For example, U. S. Air Force Europe assesses the clubs 1% of sales.

In the Navy the local welfare and recreation funds are augmented overseas by 50% of the income of slot machines operated by Special Services in enlisted men's clubs. The other 50% of this slot machine income in enlisted men's clubs, and 50% of the slot machine income from Chief Petty Officer and First Class Petty Officer clubs, goes to the



Bureau of Naval Personnel Central Recreation Fund. Fifty percent of the slot machine income from Officers' clubs goes to the Naval Officers Mess Central Contingency Fund. The balance of slot machine income is retained by the club.

The Bureau of Naval Personnel Central Recreation Fund General Account is also augmented by 1-1/4% of the gross sales of Chief Petty Officers' and First and Second Class Petty Officers' clubs. The Officers' Club Mess Contingency Fund receives 1-1/4% of the gross sales from Officers' clubs.

D. SOURCES OF APPROPRIATED FUND SUPPORT

Each of the services has in its operation and maintenance appropriation an amount for support of special services. In the Army, this amount for FY 1967 was \$23 million. The Navy and Air Force do not separately identify the amount included in their O&M appropriations for welfare since these funds are allocated to the base level as a part of the total amount for operations and maintenance. It is the prerogative of the base commander to determine the extent to which these funds will be spent for special services in providing a balance with other operations and maintenance costs. To determine the extent of special services support, a special report from each base would be required. There is no reporting of the amounts spent for each activity funded by O&M appropriations.

There is some appropriated fund support available for religious, morale, welfare, and recreation activities. Facilities are provided for these activities including buildings and installed property. These include religious facilities, field

houses, gymnasiums, classrooms, service clubs, exchanges, guest houses, libraries, and open messes. Appropriated funds can be provided for construction, alteration, conversion, replacement or relocation of facilities for religious, morale and welfare activities, open messes, sundry fund clubs, exchanges, base restaurants, book departments and 35MM theaters. Appropriated maintenance and operation funds can be used for major and recurring repair and maintenance of these facilities. Utility services are provided without reimbursement to activities outside the continental United States, and to Officer and NCO open messes required for essential feeding and recreation and special services activities in CONUS. Exchanges in the CONUS and exchange concessionaires reimburse the Government for the cost of utilities. Such reimbursement comes from non-appropriated funds.

When appropriated funds are not available for construction and maintenance, non-appropriated funds can be used. There can also be a combination of both appropriated and non-appropriated funds, where one source of funding is not sufficient to accomplish the project.

Personnel used in managing clubs and messes are often provided from appropriated funds. These are usually military personnel, but can with appropriate approval be civilians. These instances might include management personnel such as club secretary, manager, or assistant manager. Personnel for welfare and recreation activities can be provided from appropriated funds. These are usually military officers in charge and civilian sports directors, coaches, or recreation personnel.

There are no conclusions or recommendations regarding funding. This material is included to show the interdependencies

among the various non-appropriated and appropriated fund sources. Changes in the level of support in any of these will have a resulting effect on the other funds and on the welfare and recreation program. Therefore, any changes should be carefully considered prior to action.

E. SUMMARY

After considering the various interfaces and interrelationships among the exchanges and other non-appropriated fund activities, we believe that the recommendations made in this report regarding exchanges will not adversely affect other non-appropriated fund activities.

In the Army and Air Force, if the exchange managed all food service and resale operations, there would be some reduction in the amount of profits being held at the local posts and bases involved. This would be offset, however, by the increased exchange profit available for distribution to welfare and recreation activities.

Additional exchange support of clubs and messes in providing supplies and equipment should result in additional profit, both to the exchange and to the clubs and messes which take advantage of this opportunity for centralized purchase.

**APPENDIX A**

**LMI TASK ORDER 68-5**

ASSISTANT SECRETARY OF DEFENSE  
Washington, D. C.

Installations and Logistics

DATE: 4 OCT 1967

TASK ORDER SD-271-79  
(Task 68-5)

1. Pursuant to Articles I and III of the Department of Defense Contract No. SD-271 with the Logistics Management Institute, the Institute is requested to undertake the following task:

A. TITLE: Department of Defense Military Exchanges

B. SCOPE OF WORK: This study will include a management assessment and analysis of the DoD military exchanges. It will concentrate on policy and management responsibilities both at the OSD level and in the Military Departments and the development of the best possible operating methods, techniques and business practices. In addition it will highlight major problem areas of prime concern to Defense managers and their relationship to related problems such as gold flow, overseas operations, etc.

The study will not be concerned with such issues as  
(1) the need for military exchanges; (2) manning requirements;  
(3) types of items offered for resale, etc.

The specific objectives of the study are to:

(1) Analyze current resale system structures as they relate one to another both intra-Service and inter-Service. Determine current differences in methods of operations and level of management decision-making in the various military resale systems. Assess the reasons for the differences which now exist, i.e., planned for a specific purpose, developed in isolation without reference to similar problems/solutions in other Services, etc.

(2) Develop optimum organization structures considering good management, sound retailing and best customer service and including any suggested role for OSD. Considering environmental constraints, set forth the best attainable organization structures, identifying and justifying the "trade-off" required.

(3) Examine the adequacy of present DoD or military service policy as it pertains to nonappropriated fund procurements. Define those problem areas of greatest concern, wherein military service-wide or DoD-wide codification and coordination of policy and procedures would strengthen the present nonappropriated fund procurement practices, so as to retain responsiveness while providing essential controls.

2. SCHEDULE: An oral report of interim findings and suggestions will be made to OASD(I&L) and OASD(Manpower) in mid-January, 1968. A final, written, report will be made to the ASD(I&L) and the ASD(Manpower) by 30 April 1968.

/S/ Thomas D. Morris

ACCEPTED /S/ Barry J. Shillito

DATE October 5, 1967

**APPENDIX B**  
**ARMED SERVICES EXCHANGE REGULATIONS**

**APPENDIX C**

**EXAMPLES OF PRICE AGREEMENT BULLETINS**



DISTRIBUTION: <input checked="" type="checkbox"/> CONUS <input checked="" type="checkbox"/> EXPORT <input type="checkbox"/> OTHER (Specify)		 ARMY AND AIR FORCE EXCHANGE SERVICE DALLAS, TEXAS 75222	P.A.B. NO: 3-3500 Replaces P.A.B. No. 3-3500 dated 1 August 67
F.O.B.: <input checked="" type="checkbox"/> DESTINATION in CONUS <input type="checkbox"/> ORIGIN			CATEGORY: Drugs
VENDOR CODE NO: 24260001		MANUFACTURER: The Gillette Company Prudential Tower Bldg. Boston, Massachusetts 02199	EFFECTIVE DATE: 18 April 1968
SHIPMENT (From Date of Receipt of Order to Date of Shipment): 10 Days		ATTENTION: Military Sales	CASH TERMS: 2% 30 net 40 from date of invoice.
PRETICKETING: <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO		PHONE NO: 617-268-3200	DISCOUNTS:

SHIPPING POINT(S): Boston, Mass; Los Angeles, Calif.; Houston, Texas; E. St. Louis, Ill.; Chicago, Ill.; Jacksonville, Fla.	REMARKS, ORDERING LIMITATIONS, Etc.: Mail all orders to Boston, Mass. address. Case packings only.
--	--

AAFES CODE NO.					Ctns.		Cubic		Min.	Cost	Unit	
	Code No.		Per Case	Lbs.	Feet	Ctns.	Per Ctn.	Per Ctn.	Order Ctns.	Per Ctn.	Cost Pkg.	Unit Sell
432202060	#1204	<u>GILLETTE RAZOR BLADES</u> <u>BLUE BLADES</u> Double Edge 5's packaged 5 paper-wrapped blades per ctn., 12 pkgs. per carton, 60 blades per carton.	12	4.1	.37	12		\$2.28			\$1.90	.20
432202070	#1105	Double Edge 10's packed 10 blades per dispenser, 12 dispensers per ctn., 120 blades per carton.	12	9.5	.37	12		4.48			.374	.41
432202080	#1106	Double Edge 20's packed 20 blades per dispenser, 12 dispensers per ctn., 240 blades per carton.	12	11.0	.47	12		8.73			.728	.80
432202140	#1028	<u>SUPER BLUE BLADES</u> Super Blue Blades 10's packed 10 blades per dispenser, 12 dispensers per ctn., 120 blades per carton.	12	9.5	.42	12		5.23			.436	.48
432202150	#1029	Super Blue Blades 15's packed 15 blades per dispenser, 12 dispensers per ctn., 180 blades per carton.	12	10.0	.46	12		7.59			.633	.70

ALL BLADES WILL BE ON SELF SERVICE (BLISTER PACK) CARDS

EXPORT PACK: Blades in wood, waterproof lines, double steel strapped, no additional charge. Razors, Right Guard, and Foamy Shaving Cream in	Page 1 of 5
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VENDOR:

The Gillette Company

NO.

3-3500

DISTRIBUTION

ARMY AND AIR FORCE EXCHANGE SERVICE

CONUS and EXPORT

AAAFES CODE No.	Code No.		Ctns. Per Case	Lbs.	Cubic Feet	Min. Order Ctns.	Cost Per Ctn.	Unit Cost Pkg.	Unit Sell
432202090	#1361	<u>BLADES cont.</u> THIN BLADES Double Edge 4's Packed 4 paper- wrapped blades per pkg. 12 pkgs. per ctn., 48 blades per carton.	12	3.75	.32	12	\$1.42	\$1.19	.13
432202100	#1362	Double Edge 10's packed 10 paper- wrapped blades per pkg., 12 pkgs. per ctn., 120 blades per carton.	12	6.0	.56	12	3.35	.280	.30
432202110	#1980	SUPER STAINLESS STEEL Double Edge 5's packed 5 blades per dispenser, 24 disp- ensers per ctn., 120 blades per carton.	12	14.0	.73	12	11.38	.475	.50
432202120	#1981	Doubled Edge 10's packaged 10 blades per dispenser, 12 dispensers per ctn., 120 blades per ctn.	12	8.0	.42	12	10.87	.906	.95
432202130	#1982	Doubled Edge 15's packed 15 blades per dispenser, 12 dispen- sers per ctn., 180 blades per carton.	12	9.75	.41	12	14.76	1.23	1.30
432205120	#1513	SUPER STAINLESS INJECTOR 7's, 12 Injectors per carton.	12	8.0	.68	12	7.50	.625	.70
432205100	#1807	TECHMATIC RAZOR BAND Refill for Techmatic Razor consisting of a continuous band of 6 shaving edges, packed 12 bands per ctn.	12	7.0	.67	12	7.50	.625	.70
432205110	#1810	Refill for Techmatic Razor consisting of a continuous band of 10 shaving edges, packed 12 bands per ctn.	12	7.0	.68	12	11.91	.993	1.05

VENDOR:  The Gillette Company	NO.:	ARMY AND AIR FORCE EXCHANGE SERVICE
	3-3500	
	DISTRIBUTION	CONUS and EXPORT

AAAPES CODE No.	Code No.		Ctns. Per Case	Lbs.	Cubic Feet	Min. Order Ctns.	Cost Per Ctn.	Unit Cost Pkg.	Unit Sell
		<u>RAZOR SETS</u>							
432250380	#2731	TECHMATIC RAZOR Includes the razor and a ribbon band of six edges, packaged in a styrene travel case, packed 12 sets per ctn.	3	14.5	1.05	3	\$19.92	\$1.66	1.80
432250070	#3035	TECH Nickel plated 3-piece razor and one package of 1 paper-wrapped Super Stainless Steel Blade, cardboard container, packed 12 sets per ctn.	3	10.5	.41	3	5.99	.50	.55
432250100	#2132	SUPER SPEED Nickel plated 1-piece razor and one dispenser of 2 Super Stainless Steel Blades in a plastic case, packed 12 sets per ctn.	3	12.75	.91	<u>Doz.</u> 3	7.60	.634	.70
432250170	#2501	SLIM ADJUSTABLE Nickel Plated with disp- enser of 2 Super Stainless Steel Blades, plastic case, packed 12 sets per carton.	3	16.0	1.44	3	12.69	1.058	1.15
432250210	#2237	LADY GILLETTE Nickel Plated and anodized 1-piece razor with dispenser of 2 Super Stainless Steel Blades, packed in a plastic case, 12 sets per ctn.	3	12.75	1.09	3	12.69	1.058	1.15
432250150	#2432	ARISTOCRAT ADJUSTABLE Gold Plated with dis- penser of 5 Super Stainless Steel Blades.	12	9.25	.45	<u>Set</u> 1	34.63	2.886	3.15
		<u>SHAVING CREAM</u>	<u>Doz.</u>			<u>Doz.</u>	<u>Doz.</u>	<u>Each</u>	
		FOAMY (Aerosol) 6.25 oz. packed 12 units per carton.	2	14.75	.51	2	5.40	.450	.49
432002030	#4030	Regular							
432005120	#4730	Menthol Specify type desired							

NOT TO BE DISSEMINATED OUTSIDE EXCHANGE OR COMMAND CHANNELS

VENDOR:		NO.		ARMY AND AIR FORCE EXCHANGE SERVICE					
The Gillette Company		3-3500							
		DISTRIBUTION		CONUS and EXPORT					
AAAFES CODE No.	Code No.	SHAVING CREAM cont.	Ctns. Per Case	Lbs.	Cubic Feet	Min. Order Ctns. Dox.	Cost Per Ctn. Dox.	Unit Cost Pkg. Each	Unit Sell
		GIANT FOAMY (Aerosol)	2	23.75	.85	2	6.70	.559	.60
432002040	#4040	11 oz. packed 12 units per carton.							
432005130	#4740	Regular							
		Menthol							
		Specify type desired							
		GIGANTIC FOAMY(Aerosol)	1	14.0	.50	1	8.82	.735	.80
432002320	#4060	14-3/4 oz.							
432005320	#4760	Regular							
		Menthol							
		Specify type desired							
		BRUSHLESS							
432001510	#4206	Regular 2 1/2 oz. tube	2	5.5	.25	2	2.32	.194	.21
432001230	#4106	Giant, 5 oz. tube	2	10.0	.47	2	3.51	.293	.32
		LATHER							
432000030	#4406	Reg. 2 1/2 oz. tube	2	5.5	.27	2	2.58	.215	.24
432000040	#4306	Giant, 4 1/2 oz. tube	2	9.25	.46	2	3.78	.315	.34
			Doz. Per Case	Lbs.	Cubic Feet	Min. Order Dox.	Cost Per Dox.	Unit Cost Each	Unit Sell
433507060	#6559	RIGHT GUARD DEODORANT	2	9.0	.37	2	\$5.25	\$4.41	.49
		RIGHT GUARD							
		Power Spray Deodorant							
		3 oz. Regular							
433506180	#5594	RIGHT GUARD	2	11.25	.46	2	6.70	.559	.60
		Power Spray Deodorant							
		4 oz. King Size							
433507070	#6510	RIGHT GUARD	2	15.3	.72	2	9.98	.832	.90
		Power Spray Deodorant							
		7 oz. Family Size							
433507100	#6577	RIGHT GUARD	2	15.3	.72	2	9.98	.832	.90
		Power Spray Deodorant							
		7 oz. Decorator							
433506810	#6731	RIGHT GUARD	1	14.0	.56	1	15.34	1.279	1.40
		Power Spray Deodorant							
		13 oz. Decorator							
		AFTER SHAVE LOTION							
432402140	#6635	SUN UP	2	26.0	1.0	2	10.05	.838	.90
		After Shave Lotion							
		6.75 oz.							
432400460	#6632	SUN UP	2	14.0	.57	2	6.70	.559	.60
		After Shave Lotion							
		4 oz.							

VENDOR:	NO.:	ARMY AND AIR FORCE EXCHANGE SERVICE
		CONUS and EXPORT

AAAFES CODE No.	Code No.	COLOGNE	Doz. Per Case	Lbs.	Cubic Feet	Min. Order Doz.	Cost Per Doz.	Unit Cost Each	Unit Sell
432405640	#6848	3.6 oz. Sun Up Cologne	2	14.0	.58	2	\$ 8.37	\$ .698	.75
432405650	#6849	5.5 oz. Sun Up Cologne	2	19.0	.73	2	11.72	.977	1.05
		<u>TALCUM</u>							
433356380	#6855	3 oz. Sun Up Talc	2	10.0	.52	2	8.37	.698	.75
		<u>HEADS UP HAIR GROOMING</u>							
431107590	#6018	HEADS UP Hair Grooming, 3 oz. tube.	2	6.5	.25	2	5.97	.498	.55
431107600	#6017	HEADS UP Hair Grooming 4.5 oz. tube.	2	9.25	.35	2	7.30	.609	.65
431109100	#6015	HEADS UP Hair Grooming, 4 oz. bottle.	2	17.5	1.0	2	5.97	.498	.55
431109110	#6014	HEADS UP Hair Grooming 6 oz. bottle.	2	22.0	1.2	2	7.30	.609	.65
		<u>DISPLAY AIDS</u>							
#5383		SELF SERVICE RACK 20-hook, pegboard type for cash register or counter. Available upon request at no charge.	Ctn. Per Case 1	Lbs. 21	Cubic Feet .329	Min. Order 1			
#5357		SELF SERVICE MODULAR RACK 1 Made up of modules of 5 hooks per row, 4 rows. Available upon request at no charge.		8.25	.96	1			

ORDERS FOR ARMY &amp; AIR FORCE LOCATED IN HAWAII SHOULD BE SENT TO:

The Gillette Company  
2222 Kalakaua Ave., Rm. #916  
Honolulu, Hawaii 96815

VENDOR:

The Gillette Company

NO.1

3-3500

DISTRIBUTION

ARMY AND AIR FORCE EXCHANGE SERVICE

CONUS and EXPORT

AAAPES CODE No.	Code No.		Dos. Per Case	Lbs.	Cubic Feet	Min. Order Dos.	Cost Per Dos.	Unit Cost Each	Unit Sell
		<u>COLOGNE</u>							
432405640	#6848	3.6 oz. Sun Up Cologne	2	14.0	.58	2	\$ 8.37	\$.698	.75
432405650	#6849	5.5 oz. Sun Up Cologne	2	19.0	.73	2	11.72	.977	1.05
		<u>TALCUM</u>							
433356380	#6855	3 oz. Sun Up Talc	2	10.0	.52	2	8.37	.698	.75
		<u>HEADS UP HAIR GROOMING</u>							
431107590	#6018	HEADS UP Hair Grooming, 3 oz. tube.	2	6.5	.25	2	5.97	.498	.55
431107600	#6017	HEADS UP Hair Grooming 4.5 oz. tube.	2	9.25	.35	2	7.30	.609	.65
431109100	#6015	HEADS UP Hair Grooming, 4 oz. bottle.	2	17.5	1.0	2	5.97	.498	.55
431109110	#6014	HEADS UP Hair Grooming 6 oz. bottle.	2	22.0	1.2	2	7.30	.609	.65
		<u>DISPLAY AIDS</u>							
#5383		SELF SERVICE RACK 20-hook, pegboard type for cash register or counter. Available upon request at no charge.	Ctn. Per Case 1	Lbs. 21	Cubic Feet .329	Min. Order 1			
#5357		SELF SERVICE MODULAR RACK 1 Made up of modules of 5 hooks per row, 4 rows. Available upon request at no charge.	1	8.25	96	1			

ORDERS FOR ARMY &amp; AIR FORCE LOCATED IN HAWAII SHOULD BE SENT TO:

The Gillette Company  
2222 Kalakaua Ave., Rm. #916  
Honolulu, Hawaii 96815

# PRICE AGREEMENT BULLETIN

05/100 R (11/60)

EFFECTIVE DATE

1 MAY 1968

<input type="checkbox"/> NEW	<input checked="" type="checkbox"/> EFFECTIVE UNTIL FURTHER NOTICE	<input type="checkbox"/> EXPIRES _____	<input checked="" type="checkbox"/> REPLACES BULLETIN DATED 1 APRIL 1968
MERCHANDISE ON THIS PAGE IS AVAILABLE TO: <input checked="" type="checkbox"/> MEX-COMUS <input checked="" type="checkbox"/> MEX-OVERSEAS <input checked="" type="checkbox"/> MSTS EXCHANGES	VENDOR THE GILLETTE COMPANY PRUDENTIAL TOWER BUILDING BOSTON, MASSACHUSETTS 02199	DEPARTMENT D-1 TOILETRIES	
SHIPMENT - (FROM DATE OF ORDER) 10 DAYS	SHIPPING POINT BOSTON, MASS.; CHICAGO, ILL.; LOS ANGELES, CAL. E. ST. LOUIS, ILL.; HOUSTON, TEXAS; JACKSONVILLE, FLA.; HONOLULU, HAWAII	DISCOUNT TERMS 2% 30 NET 40	
		<input type="checkbox"/> FOB DESTINATION <input type="checkbox"/> FOB SHIPPING POINT <input checked="" type="checkbox"/> SEE DELIVERY	

DELIVERY: All transportation charges paid to any destination within Continental United States, FOB Shipping Point.

ORDERING ACTIVITIES LOCATED IN HAWAII MAY PLACE ORDERS WITH:

THE GILLETTE COMPANY  
2222 KALAKAUA AVENUE  
ROOM #916  
HONOLULU, HAWAII 96815

ALL OTHER ORDERING ACTIVITIES EXCEPT THOSE LOCATED IN HAWAII MAY PLACE ORDERS WITH:

THE GILLETTE COMPANY  
PRUDENTIAL TOWER BUILDING  
BOSTON, MASSACHUSETTS 02199

ITEM NO	DESCRIPTION	% TO TOTAL		STANDARD PER		M IN ORDER	COST PRICE	UNIT	SELLING PRICE
		CATEGORY SALES	SALES	QUAN	WEIGHT				
	<u>3% ALLOWANCE</u> For each calendar quarter, 3% of the total net purchases will be accrued and remitted to individual Exchanges by The Gillette Safety Razor Company provided:								
	A) The Exchange maintains at all times at suitable selling stations or on selling gondolas displays of products in accordance to rate of sale.								
	B) Supply Gillette products when requested by consumer, without any attempt to switch sale to any other product.								
	C) Stock the following items as "never out" and reorders as justified by sales:								
	Gillette Super Stainless 5's								
	Gillette Super Stainless 10's								
	Gillette Super Blue 15's								
	Gillette Techmatic Band 6's or 10's								
	Gillette Slim Adjustable or Super Speed Razor								
	Gillette Techmatic Razor								
	Gillette Foamy Regular 6 1/2 or 11 oz.								
	Gillette Foamy Menthol 6 1/2 or 11 oz.								
	Gillette Right Guard 4 oz.								
	Gillette Right Guard 7 oz.								
	D) At reasonable times, permit Gillette Military Representative to check merchandise codes and replace or return for credit out dated merchandise and to refurbish, replace, destroy for credit or return for credit damaged or soiled merchandise.								
	Remittances received under this program should be credited to Account 121, Dept. D-1 Toiletries.								

U.S. NAVY SHIP'S STORE OFFICE - BROOKLYN, N.Y.

3ND PPSO 15048

PAGE 1 OF 4 PAGES

VENDOR

THE GILLETTE COMPANY





EFFECTIVE DATE

1 MAY 1968

REPT.

D-1

☐ NEW ☒ EFFECTIVE UNTIL FURTHER NOTICE ☐ EXPIRES ☒ REPLACES BULLETIN DATED 1 APRIL 1968

ITEM No.	DESCRIPTION	% TO TOTAL		STANDARD PKG		MIN ORDER	COST PRICE	UNIT	SELLING PRICE
		CATEGORY SALES	SALES	QUAN	WEIGHT				
	<b>BLADES, RAZOR, DOUBLE EDGE - GILLETTE</b> Note: All blades are packaged in Self-Service Blister Pack.			CTNS PER CASE	LBS.	*		CARTON	
	<b>SUPER STAINLESS STEEL BLADES</b>		49%						
1.	 #1980 5's - 24 dispensers per carton.	51%		12	14		11.37	pkg.	.55 ↓
2.	 #1981 10's - 12 dispensers per carton.	40%		12	8		10.44	pkg.	.98
3.	#1982 15's - 12 dispensers per carton.	9%		12	9.75		14.26	pkg.	1.40
		100%							
	<b>SUPER BLUE BLADES</b>		32%						
4.	 #1029 15's in dispenser. 12 dispensers per carton.	80%		12	10		7.20	pkg.	.70
5.	#1028 10's in dispenser. 12 dispensers per carton.	20%		12	8.5		4.97	pkg.	.49
		100%							
	<b>THIN BLADES</b>		5%						
6.	#1362 10's - 12 packages per carton.			12	6		3.24	pkg.	.32
	 <b>REFILL, BAND RAZOR</b> (Never-Out Category)		14%						
	<b>TECHMATIC RAZOR BAND REFILLS</b>								
7.	#1807 Techmatic Razor Band Refill for Techmatic Razor consist- ing of a continuous band of 6 shaving edges. Packed 12 bands per carton.			12	7		7.20	pkg.	.70
8.	#1810 Techmatic Razor Band Refill for Techmatic Razor consist- ing of a continuous band of 10 shaving edges. Packed 12 bands per carton.			12	7		11.45	pkg.	1.10
	<b>BLADES, INJECTOR</b>								
9.	#1513 7 Edges per Injector. 12 Injectors per carton.			12	8		7.20	pkg.	.70 ↑
		100%							



VENDOR

THE GILLETTE COMPANY

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☐ NEW







☒ EFFECTIVE UNTIL

FURTHER NOTICE

☐ EXPIRES

☒ REPLACES

BULLETIN DATED 1 APRIL 1968

ITEM NO.	DESCRIPTION	S TO TOTAL		STANDARD Pkg		MIN ORDER	COST PRICE	UNIT	SELLING PRICE
		CATEGORY SALES	SALES	QUAN	WEIGHT				
	<b>RAZOR SETS - GILLETTE</b>			<b>DOZ.</b>	<b>LBS.</b>	<b>*</b>	<b>DOZ.</b>		
	 <b>RAZOR, BAND (Never-Out Category)</b>								
	<b>TECHMATIC RAZOR</b>								
10.	#2731 Techmatic Razor Kit includes razor and ribbon band of 6 edges, packed in a styrene travel case. Packed 12 sets per carton.	52%		3	14.5		19.92	set	2.00
11.	#2132 SUPER SPEED - Nickel plated 1 piece razor and 1 dispenser of 2 Super Stainless Steel Blades in plastic case. 12 per carton.	27%		3	13		7.20	set	.70
12.	 #2501 SLIM ADJUSTABLE Nickel plated with dispenser of 2 Super Stainless Steel blades, plastic case. Packed 12 sets per carton.	21%		3	16	(Eff. 6/1/68)	12.69 12.89	set set	1.30 1.30
		100%							
	 <b>SHAVE CREAM, FOAMY, 6 1/2 OZ. MENTHOL, 11 OZ. REGULAR (Never-Out Category)</b>								
	<b>FOAMY AEROSOL, 6 1/2 OZ.</b>		58%						
13.	 #4030 Regular	71%		2	14.75		5.40	can	.50
14.	#4730 Menthol	29%		2	14.75		5.40	can	.50
		100%							
	<b>FOAMY AEROSOL, 11 OZ.</b>		42%						
15.	#4040 Regular	61%		2	23.75		6.70	can	.65
16.	#4740 Menthol	39%		2	23.75		6.70	can	.65
		100%	100%						
	<b>AFTER SHAVE LOTION - SUN UP</b>								
17.	#6632 4 oz. bottle	88%		2	14		6.70	bt1.	.65
18.	#6635 6.75 oz. bottle	12%		2	26		10.05	bt1.	.98
		100%							
	<b>DEODORANT - RIGHT GUARD</b>								
19.	 #6594 4 oz. can	49%		2	11.25		6.70	can	.65
20.	#6559 3 oz. can	15%		2	9		5.29	can	.50
	 <b>SPRAY, RIGHT GUARD, 7 OZ. CAN (Never-Out Category)</b>								
21.	#6510 Family size can, 7 oz.	35%		2	15.3		9.98	can	.98
22.	#6577 Decorator can, 7 oz.	1%		2	15.3		9.98	can	.98
		100%							

VENDOR

THE GILLETTE COMPANY

EFFECTIVE DATE

1 MAY 1968

DEPT.

D-1

☐ NEW

☒ EFFECTIVE UNTIL  
FURTHER NOTICE

☐

EXPIRES

☒ REPLACES  
BULLETIN DATED

1 APRIL 1968

ITEM NO.	DESCRIPTION	% TO TOTAL		STANDARD PKG		MIN ORDER	COST PRICE	UNIT	SELLING PRICE
		CATORY SALES	SALES	QUAN	WEIGHT				
	<u>HAIRDRESSING</u>								
	<u>HEADS UP HAIR GROOM. TUBE</u>		65%						
23.	#6018 3 oz. tube	61%		2	6.5		5.97	tube	.55
24.	#6017 4.5 oz. tube	39% 100%		2	9.25		7.30	tube	.70
	<u>HEADS UP HAIR GROOM. BOTTLE</u>		35%						
25.	#6015 4 oz. bottle	55%		2	17.5		5.97	btl.	.55
26.	#6014 6 oz. bottle	42% 100% 100%		2	22		7.30	btl.	.70
	<u>DISPLAY AIDS</u>								
				<u>EACH</u>		<u>EACH</u>			
27.	#5357 Modular Rack, 20 hook, pegboard type for cash register or counter. Available upon request at no charge.			1	8.25	1	NO CHARGE		
28.	#5383 Self-Service Rack, 20 hook, pegboard type for cash register or counter. Available upon request at no charge.			1	21	1	NO CHARGE		
<p><u>*MINIMUM ORDER:</u> ORDERS SHOULD BE PLACED IN MULTIPLES OF STANDARD CASE PACKS TO EFFECT PROMPT SHIPMENTS FROM LOCAL SHIPPING POINTS. ORDERS NOT PLACED IN MULTIPLES OF STANDARD CASE PACKS MUST BE SHIPPED ONLY FROM BOSTON, MASSACHUSETTS.</p> <p><u>CASE PACKING SPECIFICATIONS:</u> REGULAR COMMERCIAL CONTAINERS, DOUBLE STEEL STRAPPED FOR EXPORT AT NO ADDITIONAL CHARGE.</p>									

**PACIFIC EXCHANGE SYSTEM  
COMMODITY CONTRACT NOTICE**

<b>VENDOR:</b> Matsushita Electric Ind. Co., Ltd. Tokyo Industry Sales Office 8-2, 4-chome, Shiba, Minato-ku, Tokyo Ph: 453-2935, 3111	<b>CCN NO.:</b> 497-JA-67-045
	<b>EFFECTIVE DATE:</b> 19 June, 1967
	<b>DELIVERY:</b> 30-45 days after receipt of Purchase Order
<b>FOB:</b> Yokohama Port except for exchanges located in Japan.	<b>SEND REQUISITION TO:</b> PACEX PROCUREMENT OFFICE - Japan APO 96525

ITEM NO.	AAPE CODE NO.	VENDOR'S STOCK OR STYLE NUMBER AND DESCRIPTION	UNIT	MIN. ORDER	UNIT COST	UNIT SELL
	(497)	<u>"NATIONAL-PANASONIC" BRAND</u>				
		<u>Radio, Portable</u>				
10.	064.361	#RF-757, 10 Transistor, 2 Band AM/FM AC/DC, Operation with Built-in AC Adaptor, w/Earphone & Battery	ea.	1	\$27.00	\$36.50
11.	064.301	#RF-800, 9 Transistor, 2 Band AM/FM, AC/DC, w/Earphone, Battery & Carrying Case	ea.	1	\$19.20	26.00
12.	068.371	#RF-880, 18 Transistor, 3 Band AM/FM /MB, Automatic Tuning, Usable as Car Radio, w/Earphone & Battery	ea.	1	\$46.45	63.50
13.	068.301	#RF-100CMD, 10 Transistor, 3 Band MW/FM/MB, w/Earphone & Battery	ea.	1	\$26.00	35.00
14.	068.361	#RF-5000A, 20 Transistor, 14 Diode, 11 Band MW/FM/LW/SW1-8, Built-in AC Adaptor, w/Earphone & Battery	ea.	1	\$190.00	258.00
15.	064.341	#RF-6080, 12 Transistor, 2 Band AM/FM, Automatic Tuning, w/Earphone & Battery w/Carrying & Shoulder Straps	ea.	1	\$24.00	32.00
16.	060.351	#R-1077, 7 Transistor, 1 Band AM only, w/Earphone, Battery & Wrist Strap	ea.	1	\$ 5.00	6.85
17.	064.371	#RF-617, 8 Transistor, 2 Band AM/FM, w/Earphone, Battery & Carrying Case	ea.	1	\$13.50	19.00
18.	068.381	#RF-100MA, 12 Transistor, 4 Band AM/FM/MB/SW, AC/DC, w/Earphone, Battery & Antenna Leads	ea.	1	\$43.50	59.00
- over -						
<b>CASH DISCOUNT:</b>		<b>SPECIAL DISCOUNTS (IDENTIFY):</b>	<b>SPECIAL PACKING INSTRUCTIONS:</b>			
NET 45 DAYS						

NOT TO BE DISSEMINATED OUTSIDE EXCHANGE OR COMMAND CHANNELS

PACEX FORM MAY 67 37

PRESCRIBING DIRECTIVE:  
PACEX SUPPLEMENT 4 TO ESM 65-1

EFFECTIVE UNTIL: 18 June 1968 PAGE 2 OF 6 PAGES

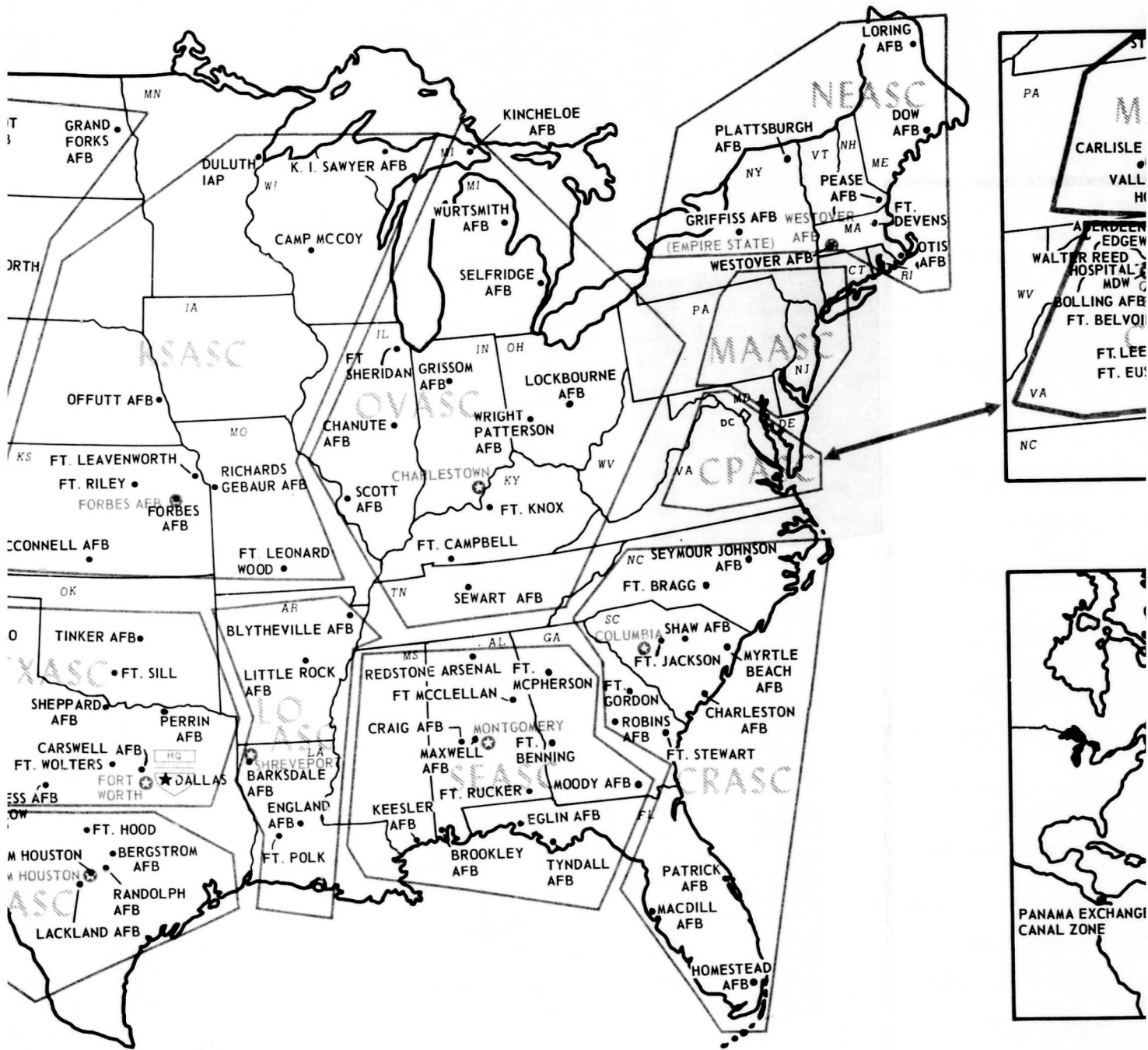
**APPENDIX D**

**AAFES AREA SUPPORT CENTER MAP**

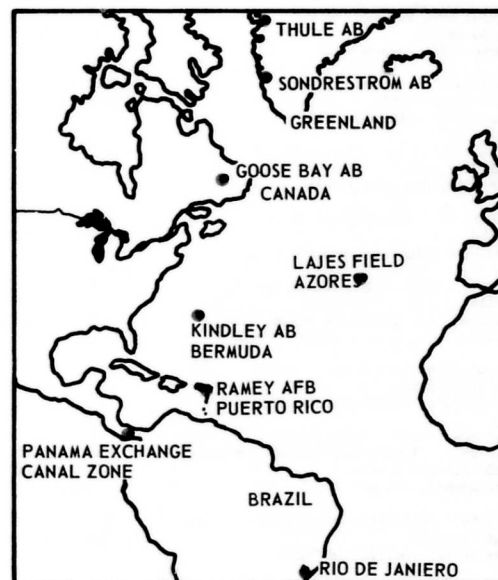
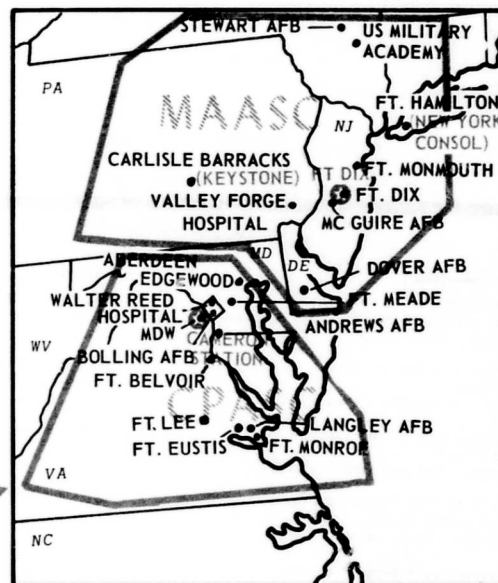
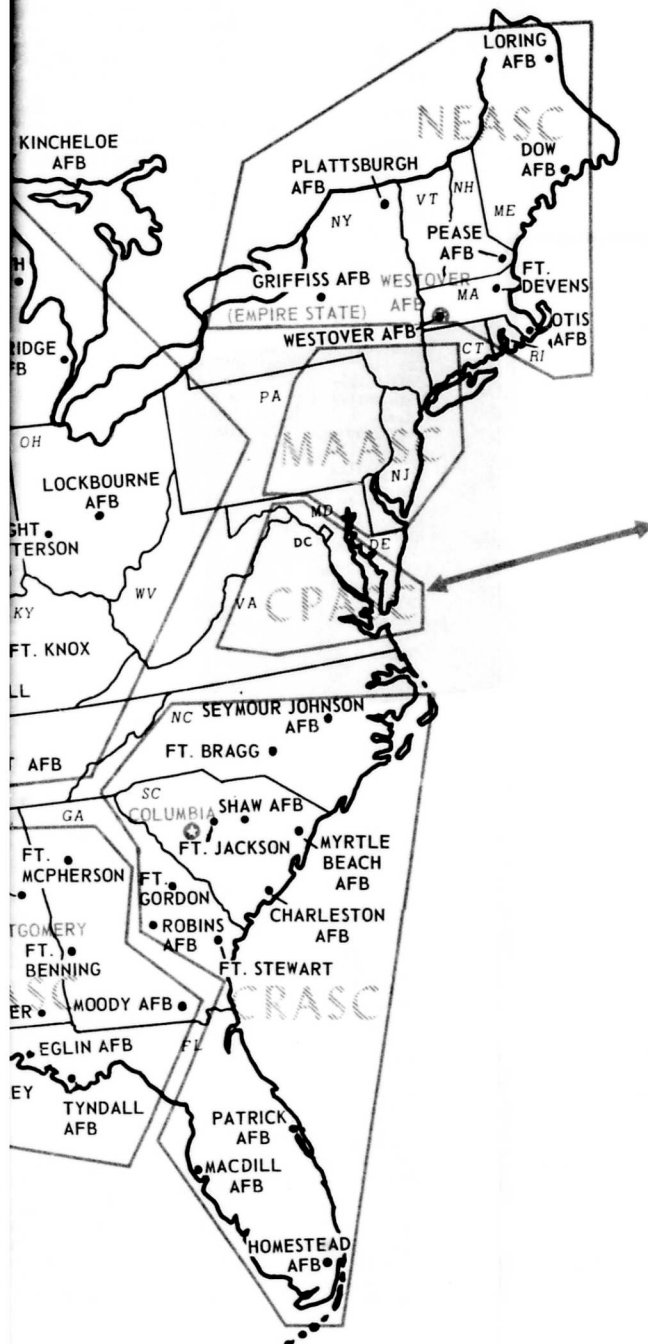
# AREA SUPPORT



# AIRPORT CENTERS



# NTERS



# ALPHABETICAL LISTING\*

## AFPS AND ASC LISTING

Mailing Address	Location
Headquarters Army and Air Force Exchange Service Dallas, Texas 75222	3911 Walton Walker Blvd. Dallas, Texas
Alamo Area Support Center Building 370 Fort Sam Houston, Texas 75234	Fort Sam Houston, Building 370 San Antonio, Texas
Capitol Area Support Center Building 6 Cameron Station, Virginia 22314	Cameron Station, Building 6 Alexandria, Virginia
Carolina Area Support Center 1745 Sumter Street Columbia, South Carolina 29201	1745 Sumter Street Columbia, South Carolina
Colorado Area Support Center P. O. Box 646 Aurora, Colorado 80010	Rocky Mountain Arsenal Denver, Colorado
Golden Gate Area Support Center Box 3553 San Francisco, California 94119	341 Market Street San Francisco, California
Kansas Area Support Center Building 320 Forbes AFB, Kansas 66620	Forbes AFB, Building 320 Topeka, Kansas
Louisiana Area Support Center 1500 Airport Drive Shreveport, Louisiana 71107	1500 Airport Drive Shreveport, Louisiana
Mid-Atlantic Area Support Center Building 8 Fort Dix, New Jersey 08640	Fort Dix, Building 8-5341 Wrightstown, New Jersey
New England Area Support Center Building 6521 Westover AFB, Massachusetts 01022	Westover AFB, Building 6521 Chicopee Falls, Massachusetts
Ohio Valley Area Support Center Building 2501 Indiana Army Ammunition Plant Charlottesville, Indiana 47111	Indiana Army Ammunition Plant, Building 2501 Charlottesville, Indiana
Puget Sound Area Support Center Building 8080 Fort Lewis, Washington 98433	Fort Lewis, Building 8080 Tacoma, Washington
Southeast Area Support Center Montgomery Industrial Terminal, Building T-5 1280 Karshaw Street Montgomery, Alabama 36108	Montgomery Industrial Terminal Building T-5 1280 Karshaw Street Montgomery, Alabama
Southern California Area Support Center Building 533 Morton AFB, California 92409	Morton AFB, Building 533 San Bernardino, California
Southwest Area Support Center Box 8053 Biggs Field Branch El Paso, Texas 79908	Biggs AFB, Building 745 El Paso, Texas
Texas Area Support Center Box 6988 Fort Worth, Texas 76115	Fort Worth Federal Center Building 2, Felix Street Fort Worth, Texas

Area Support Center	Activity	Military Installation
Capitol	0204	Aberdeen Proving Ground, Maryland 21005
Puget Sound	4915-1	Adair AFB, Oregon 97130
Texas	4850-1	Altus AFB, Oklahoma 73522
Texas	3702	Amarillo AFB, Texas 79111
Capitol	0403	Andrews AFB, Washington D.C. 20331
Capitol	0301-1	Arlington Hall Station, Virginia 22212
Mid-Atlantic	1363-1	Army Pictorial Center, New York 11106
Mid-Atlantic	1363-2	Army Recruiting Station, New York 10004
Southeast	0785-1	Atlanta Army Depot, Georgia 30050
Louisiana	3665	Barksdale AFB, Louisiana 71110
Golden Gate	4793	Beele AFB, California 95903
Ohio Valley	2506-2	Belleville AFB, Illinois 62220
Mid-Atlantic	1337-1	Benton AFB, Pennsylvania 17814
Alamo	3724	Bergstrom AFB, Texas 78743
Louisiana	3648	Blytheville AFB, Arkansas 72317
Capitol	0104	Bolling AFB, Washington D.C. 20332
New England	1670-1	Boston Army Base, Massachusetts 02210
Southeast	0897	Brookley AFB, Alabama 36615
Alamo	3722-1	Brooks AFB, Texas 78236
Kansas	2478-1	Calumet AFB, Michigan 49913
Southern California	4734-1	Cambridge AFB, California 93428
Capitol	0301	Cameron Station, Virginia 22314
Capitol	0312-2	Camp A. P. Hill, Virginia 22427
New England	1135-1	Camp Leach, New York 13603
Southeast	3599-2	Camp Leach, New York 13603
Kansas	2477	Camp McCoy, Wisconsin 54656
Capitol	0312-3	Camp Pickett, Virginia 23824
Golden Gate	4794-3	Camp Roberts, California 93446
Southeast	3905	Cannon AFB, New Mexico 88101
Mid-Atlantic	1965	Carlisle Barracks, Pennsylvania 17013
Texas	3742	Carroll AFB, Texas 76127
Golden Gate	4797	Castle AFB, California 95342
Ohio Valley	2507	Chanute AFB, Illinois 61846
Carolina	0644	Charleston AFB, South Carolina 29404
Carolina	0644-1	Charleston Army Depot, South Carolina 29404
Ohio Valley	2144-1	Clarksville Base, Tennessee 37040
Ohio Valley	2090-1	Clinton County AFB, Ohio 47177
Texas	3851-1	Clinton Sherman AFB, Oklahoma 73633
Southeast	3596-1	Columbus AFB, Mississippi 39705
Southeast	0842	Craig AFB, Alabama 36701
Ohio Valley	2457-1	Custer AFB, Michigan 49015
Southeast	4085	Davis-Monthan AFB, Arizona 85769
Ohio Valley	2091-1	Defense Construction Supply Center, Ohio 43040
Capitol	0312-1	Defense General Supply Center, Virginia 23204
Southeast	0785-2	Dobbins AFB, Georgia 30060
Mid-Atlantic	1854	Dover AFB, Delaware 19901
New England	1074	Dow AFB, Maine 04001
Colorado	4540-2	Dugway Proving Ground, Utah 84024
Kansas	2781	Eglin AFB, Florida 32542
Texas	3742-1	England AFB, Louisiana 71304
Texas	3745	Englewood Arsenal, Maryland 21010
Capitol	0205-1	Edwards AFB, California 93523
Southern California	4733	Eglin AFB, Florida 32542
Southeast	0944	Ellington AFB, Texas 77030
Alamo	3722-2	Ellsworth AFB, South Dakota 57707
Colorado	2982	England AFB, Louisiana 71304
Louisiana	3647	Ent AFB, Colorado 80914
Colorado	4123	Fairchild AFB, Washington 99011
Puget Sound	4916	Fifth U.S. Army Headquarters, Illinois 60610
Ohio Valley	2575-1	Fitzsimons General Hospital, Colorado 80840
Colorado	4120-1	Forbes AFB, Kansas 66620
Kansas	3210	Fort Baker, California 94965
Golden Gate	4790-1	Fort Belvoir, Virginia 22060
Capitol	0307	Fort Benjamin Harrison, Indiana 46216
Ohio Valley	2392-1	Fort Benning, Georgia 31905
Southeast	0783	Fort Bliss, Texas 79916
Carolina	3770	Fort Bragg, North Carolina 28307
Carolina	0530	Fort Campbell, Kentucky 42222
Ohio Valley	2146	Fort Carson, Colorado 80913
Colorado	4124	Fort Chaffee, Arkansas 72905
Texas	3850-2	Fort Detrick, Maryland 21701
Capitol	0206-1	Fort Leavenworth, Massachusetts 01433
New England	1670	Fort Dix, New Jersey 08640
Mid-Atlantic	1760	Fort Eustis, Virginia 23004
Capitol	0310	Fort George G. Meade, Maryland 20755
Capitol	0206	Fort Gordon, Georgia 30905
Carolina	0750	Fort Hamilton, New York 11252
Mid-Atlantic	1363	Fort Hancock, New Jersey 07701
Mid-Atlantic	1762-1	Fort Hayes, Ohio 43215
Ohio Valley	2091-2	Fort Holabird, Maryland 21219
Capitol	0206-2	Fort Hood, Texas 76544
Alamo	3740	Fort Huachuca, Arizona 85613
Southeast	4087	Fort Irwin, California 92310
Southern California	4734-1	Fort Jackson, South Carolina 29207
Carolina	0632	Fort Knox, Kentucky 40136
Ohio Valley	2145	Fort Leavenworth, Kansas 66027
Kansas	3211	

\*NOTE: Reporting exchanges shown on the map are indicated by a four-digit activity code. Branches and annexes of reporting exchanges do not appear on the map but are indicated here by a five-digit code.



Military Installation	Area Support Center	Activity	Military Installation	Area Support Center	Activity	Military Installation
Aberdeen Proving Ground, Maryland 21005	Capitol	0312	Fort Lee, Virginia 23801	Carolina	0634	Myrtle
Adair AFB, Oregon 97330	Kansas	3308	Fort Leonard Wood, Missouri 65473	New England	1670-4	Wichita
Altus AFB, Oklahoma 73505	Puget Sound	4915	Fort Lewis, Washington 98433	Southern California	4662	Hollis
Amarillo AFB, Texas 79111	Colorado	2880-1	Fort Lincoln, North Dakota 58501	Ohio Valley	2091-3	Waco
Andrews AFB, Washington D.C. 20331	Southern California	4730	Fort MacArthur, California 90711	Mid-Atlantic	1964-3	Wilmington
Arlington Hall Station, Virginia 22212	Southeast	0886	Fort McChesney, Alabama 36605	New England	1335-3	Wilmington
Army Medical Center, New York 11106	Capitol	0301-2	Fort McMeir, Washington, D.C. 20325	Southern California	4735	Wilmington
Army Recruit Station, New York 10004	Southeast	0785	Fort Monmouth, New Jersey 07703	Golden Gate	4790-3	Oakland
Atlanta Army Depot, Georgia 30450	Mid-Atlantic	1762	Fort Monroe, Virginia 23151	Kansas	3016	Offutt
Barksdale AFB, Louisiana 71110	Capitol	0313	Fort Myer, Virginia 22211	Ohio Valley	2575-3	O'Hare
Belle Air Force, California 95703	Golden Gate	4796	Fort Ord, California 93941	New England	1671	Otis
Bellville AFB, Illinois 62220	Louisiana	3666	Fort Polk, Louisiana 71459	Southern California	4730-3	Camden
Benton AFB, Pennsylvania 17814	Kansas	3212	Fort Riley, Kansas 66402	Alamo	3722	San Diego
Bergstrom AFB, Texas 78743	Capitol	0206-3	Fort Ritchie, Maryland 21719	Louisiana	3666-1	San Diego
Blytheville AFB, Arkansas 72317	Southeast	0843	Fort Rucker, Alabama 36362	Southeast	0887	San Diego
Bolling AFB, Washington D.C. 20332	Alamo	3720	Fort San Houston, Texas 78234	Carolina	0927	San Diego
Boston Army Base, Massachusetts 02210	Ohio Valley	2575	Fort Sheridan, Illinois 60037	New England	1173	San Diego
Brookley AFB, Alabama 36417	Texas	3850	Fort Still, Oklahoma 73503	Texas	3701	San Diego
Brooks AFB, Texas 78236	Carolina	0756	Fort Stewart, Georgia 31314	Mid-Atlantic	1762-2	San Diego
Calumet AFB, Michigan 49913	Capitol	0310-1	Fort Story, Virginia 23459	Louisiana	3668-1	San Diego
Cambria AFB, Cambria, California 93424	Mid-Atlantic	1363-9	Fort Tilden, New York 11695	Ohio Valley	2690-2	San Diego
Cameron Station, Virginia 22414	Mid-Atlantic	1363-9	Fort Wedmore, New York 10301	New England	1336	San Diego
Camp A. P. Hill, Virginia 22427	Southeast	0973-2	Fort Wingate, New Mexico 87301	Carolina	0530-1	San Diego
Camp DRA, New York 13011	Texas	3743	Fort Wolters, Texas 76067	Golden Gate	4796-2	San Diego
Camp Leroy Johnson, Louisiana 70140	Colorado	4221	Francis E. Warren AFB, Wyoming 82003	Golden Gate	4790	San Diego
Camp McCoy, Wisconsin 54656	Southern California	4734	George AFB, California 92433	Alamo	3722	San Diego
Camp Pickett, Virginia 23844	Puget Sound	4364-1	Glenn AFB, Montana 59211	Louisiana	3666-1	San Diego
Camp Roberts, California 93524	Alamo	3741	Goodfellow AFB, Texas 76004	Southeast	0887	San Diego
Cannon AFB, New Mexico 89101	Colorado	2884	Granite City AFB, North Dakota 58203	Texas	3701	San Diego
Carlisle Barracks, Pennsylvania 17013	Ohio Valley	2506-2	Greiner Field, New Hampshire 03103	Kansas	3717	San Diego
Caswell AFB, Texas 76127	New England	1670-2	Griffin AFB, New York 13442	Carolina	0531	San Diego
Castle AFB, California 93624	New England	1335	Griswold AFB, Indiana 46971	Ohio Valley	2575-6	San Diego
Chamite AFB, Illinois 1916	Ohio Valley	2392	Guantanamo AFB, Cuba 36104	Southeast	3973	San Diego
Charleston AFB, South Carolina 29404	Southeast	0840-1	Hamilton AFB, California 94935	Mid-Atlantic	1337-2	San Diego
Charleston Army Depot, South Carolina 29404	Golden Gate	4791	Hancock Field, New York 13225	Ohio Valley	2576-7	San Diego
Clarkville Race, Tennessee 37040	New England	1335-2	Hill AFB, Utah 84201	Ohio Valley	2506	San Diego
Clinton County AFB, Ohio 47177	Southeast	0971	Holloman AFB, New Mexico 88330	Ohio Valley	2456	San Diego
Clinton Sherman AFB, Oklahoma 73633	Carolina	0928	Honolulu AFB, Florida 33033	New England	1335-4	San Diego
Columbus AFB, Mississippi 39209	Southeast	0944-1	Hulbert Field, Florida 32542	Ohio Valley	2247	San Diego
Craig AFB, Alabama 36908	Carolina	0756-1	Hunter Army Air Field, Georgia 31409	Carolina	0531	San Diego
Custer AFB, Michigan 49015	Golden Gate	4796-1	Hunter Liggett Military Reservation, California 93928	Texas	3755	San Diego
Davis-Monthan AFB, Arizona 85708	Southern California	4662-1	Indian Springs Auxiliary AFB, Nevada 89018	Kansas	3016-1	San Diego
Defense Construction Supply Center, Ohio 44114	Mid-Atlantic	1909-1	Indianapolis Cap Military Reservation, Pennsylvania 17003	Mid-Atlantic	1337	San Diego
Defense General Supply Center, Virginia 23212	Alamo	3740-1	James Connally AFB, Texas 76703	Mid-Atlantic	1363-6	San Diego
Dobbins AFB, Georgia 30606	Ohio Valley	2575-5	Joliet Army Ammunition Plant, Illinois 60434	Louisiana	3665-2	San Diego
Dover AFB, Delaware 19901	Southeast	3596	Keosau AFB, Mississippi 39534	Texas	3851	San Diego
Dow AFB, Maine 04201	Alamo	3722-3	Kelly AFB, Texas 76241	Mid-Atlantic	1762-3	San Diego
DuPage Proving Ground, Utah 84022	Ohio Valley	2457	Kincheloe AFB, Michigan 49788	Capitol	0305-2	San Diego
DuPont EAP, Minnesota 55814	Golden Gate	4791-1	Kingsley AFB, Oregon 97601	Southern California	4664-3	San Diego
Duncanville Army Air Defense Site, Texas 75116	Southeast	0973-1	Kirtland AFB, New Mexico 87117	Colorado	4660-3	San Diego
Dwight AFB, Texas 76607	Kansas	2478	K. I. Sawyer AFB, Michigan 49643	New England	1173-1	San Diego
Edgewood Arsenal, Maryland 21010	Alamo	3722	Lackland AFB, Texas 78236	Golden Gate	4796-5	San Diego
Edwards AFB, California 93523	Southern California	4662-2	Lake Mead Base, Nevada 89101	Southeast	0941	San Diego
Eglin AFB, Florida 32542	Capitol	0311	Lanier AFB, Virginia 23365	Colorado	4122	U.S. Air
Ellington AFB, Texas 77030	Alamo	3722-4	Laredo AFB, Texas 78040	Ohio Valley	0403-1	U.S. Air
Ellsworth AFB, South Dakota 57207	Southern California	4662-3	Las Vegas AFB, Nevada 89101	Ohio Valley	2506-3	U.S. Air
England AFB, Louisiana 71304	Alamo	3723	Laughlin AFB, Texas 78840	Ohio Valley	2575-2	U.S. Air
Ent AFB, Colorado 80912	Mid-Atlantic	1965-2	Letterkenny Army Depot, Pennsylvania 17201	Mid-Atlantic	1338	U.S. Air
Fairchild AFB, Washington 99011	Golden Gate	4790-2	Letterman General Hospital, California 04129	Mid-Atlantic	1966	Valley
Fifth U.S. Army Headquarters, Illinois 60615	Ohio Valley	2115-1	Lexington Blue Grass Army Depot, Kentucky 40507	Puget Sound	4915-6	Valley
Fitzsimons General Hospital, Colorado 80840	New England	1670-3	L.L. Hancock Field, Massachusetts 01731	Texas	3851-4	Valley
Forbes AFB, Kansas 66420	Louisiana	3668	Little Rock AFB, Arkansas 72076	Southern California	4732	Valley
Fort Baker, California 94965	Ohio Valley	2091	Lockbourne AFB, Ohio 43217	Capitol	0307-1	Valley
Fort Belvoir, Virginia 22660	New England	1075	Loring AFB, Maine 04750	Capitol	0102	Walter
Fort Benjamin Harrison, Indiana 46216	Southern California	4730-2	Los Angeles AFB, California 90045	New England	1335-5	Walter
Fort Benning, Georgia 31905	Colorado	4120	Lovely AFB, Colorado 80230	Texas	3703	Walter
Fort Bliss, Texas 79960	Southeast	4086	Luke AFB, Arizona 85301	New England	1672	Walter
Fort Bragg, North Carolina 28307	Carolina	0926	MacDill AFB, Florida 33608	Kansas	3717-1	Walter
Fort Campbell, Kentucky 42222	Puget Sound	4915-3	Madigan General Hospital, Washington 98431	New England	3972	Walter
Fort Carson, Colorado 80913	Puget Sound	4364	Malstrom AFB, Montana 59402	Southeast	3770-1	Walter
Fort Claflie, Arkansas 72905	Southern California	4795	March AFB, California 92508	Southwest	4088	Walter
Fort Detrick, Maryland 21701	Golden Gate	4794	Matagorda Island, Texas 77962	Golden Gate	4794-1	Walter
Fort Leavenworth, Kansas 66027	Capitol	0313	Matheson AFB, California 95655	Kansas	2677-2	Walter
Fort Dix, New Jersey 08400	Mid-Atlantic	1965-1	Maxwell AFB, Alabama 36112	Kansas	2781-3	Walter
Fort Eustis, Virginia 23604	Louisiana	3668-1	McChesney AFB, Washington 98438	Ohio Valley	2090	Walter
Fort George G. Meade, Maryland 20755	Mid-Atlantic	1363-3	McConnell AFB, California 95652	Ohio Valley	2458	Walter
Fort Gordon, Georgia 30905	Mid-Atlantic	1363-4	McConnell AFB, Kansas 67221	Puget Sound	4915-7	Walter
Fort Hamilton, New Jersey 07701	Mid-Atlantic	1363-5	McGuire AFB, Florida 32812	Southern California	4732	Walter
Fort Hayes, Ohio 43215	Southeast	0784	McGuire AFB, New Jersey 08641	Southern California	4730-4	Walter
Fort Holabird, Maryland 21219	Southwest	4081	Memphis Army Depot, Tennessee 38115	Carolina	0531-2	Walter
Fort Hood, Texas 76144	Southwest	4081	Military Ocean Terminal Bayonne, New Jersey 07002	Puget Sound	4915-7	Walter
Fort Huachuca, Arizona 85613	Southwest	4081	Military Ocean Terminal Brooklyn, New York 11250	Southern California	4732-2	Walter
Fort Irwin, California 92310	Southwest	4081	Minot AFB, North Dakota 58701	Kansas	2781-2	Walter
Fort Jackson, South Carolina 29207	Southwest	4081	Montauk AFB, New York 11954	Southwest	4086-1	Walter
Fort Knox, Kentucky 40120	Southwest	4081	Moody AFB, Georgia 31601	New England	1671-1	Walter
Fort Leonard Wood, Missouri 65473	Southwest	4081	Mountain Home AFB, Idaho 83648	Southern California	4732-2	Walter
Fort Lincoln, North Dakota 58501	Southwest	4081	Mt. Lemmon Radar Squadron, Arizona 85619	Southwest	4086-2	Walter

Area Support Center	Activity	Military Installation	Area Support Center	Activity	Military Installation
Capitol	0312	Fort Lee, Virginia 23801	Carolina	0634	Myrtle Beach AFB, South Carolina 29577
Kansas	3308	Fort Leonard Wood, Missouri 65473	New England	1670-4	Natick Laboratories, Massachusetts 01230
Puget Sound	4915	Fort Lewis, Washington 98433	Southern California	4662	Nellis AFB, Nevada 89110
Colorado	2880-1	Fort Lincoln, North Dakota 58501	Ohio Valley	2091-3	Newark AFB, Ohio 43055
Southern California	4730	Fort MacArthur, California 90731	Mid-Atlantic	1965-3	New Cumberland Army Depot, Pennsylvania 17070
Southeast	0886	Fort McClellan, Alabama 36205	New England	1335-3	Niagara Falls AFB, New York 14306
Capitol	0301-2	Fort McNair, Washington, D.C. 20325	Southern California	4735	Norton AFB, California 92409
Southeast	0785	Fort Pherson, Georgia 30330			
Mid-Atlantic	1762	Fort Monmouth, New Jersey 07703	Golden Gate	4790-3	Oakland Army Base, California 94614
Capitol	0313	Fort Monroe, Virginia 23351	Kansas	3016	Offutt AFB, Nebraska 68113
Capitol	0301-3	Fort Myer, Virginia 22211	Ohio Valley	2575-3	O'Hare International Airport, Illinois 60666
Golden Gate	4796	Fort Ord, California 93941			
Louisiana	3666	Fort Polk, Louisiana 71459	New England	1671	Otis AFB, Massachusetts 02542
Kansas	3212	Fort Riley, Kansas 66442	Southern California	4730-3	Omard AFB, California 93033
Capitol	0206-3	Fort Ritchie, Maryland 21719			
Southeast	0843	Fort Rucker, Alabama 36362	Puget Sound	4915-5	Paine AFB, Washington 98205
Alamo	3720	Fort San Houston, Texas 78234	Carolina	0927	Patrick AFB, Florida 32925
Ohio Valley	2575	Fort Sheridan, Illinois 60037	New England	1173	Pease AFB, New Hampshire 03803
Texas	3850	Fort Sill, Oklahoma 73503	Texas	3754	Perrin AFB, Texas 75090
Carolina	0756	Fort Stewart, Georgia 31314	Mid-Atlantic	1762-2	Picatinny Arsenal, New Jersey 07801
Capitol	0310-1	Fort Story, Virginia 23459	Louisiana	3468-1	Pine Bluff Arsenal, Arkansas 71601
Mid-Atlantic	1363-7	Fort Tilden, New York 11695	Ohio Valley	2090-2	Pittsburgh Air Defense Site, Pennsylvania 15071
Mid-Atlantic	1363-9	Fort Wadsworth, New York 10301	New England	1336	Plattsburgh AFB, New York 12903
Southwest	3973-2	Fort Wainwright, New Mexico 87301	Carolina	0530-1	Pope AFB, North Carolina 28308
Texas	3743	Fort Wolters, Texas 76067	Golden Gate	4796-2	Presidio of Monterey, California 93940
Colorado	4221	Francis E. Warren AFB, Wyoming 82003	Golden Gate	4790	Presidio of San Francisco, California 94965
Southern California	4734	George AFB, California 92393	Alamo	3721	Randolph AFB, Texas 78148
Puget Sound	4364-1	Glasgow AFB, Montana 59231	Louisiana	3665-1	Red River Army Depot, Texas 75501
Alamo	3741	Goodfellow AFB, Texas 76904	Southeast	0887	Redstone Arsenal, Alabama 35809
Colorado	2884	Grand Forks AFB, North Dakota 58203	Texas	3701	Reese AFB, Texas 79401
Ohio Valley	2506-2	Granite City Army Depot, Illinois 62040	Kansas	3317	Richards-Gebeur AFB, Missouri 64031
New England	1670-2	Greiner Field, New Hampshire 03103	Carolina	0753	Robins AFB, Georgia 31093
New England	1335	Griffiss AFB, New York 13442	Ohio Valley	2575-6	Rock Island Arsenal, Illinois 61201
Ohio Valley	2392	Grissom AFB, Indiana 46971			
Southeast	0840-1	Gunter AFB, Alabama 36104	Southwest	3973	Sandia Base, New Mexico 87115
			Mid-Atlantic	1337-2	Saratoga AFB, New York 12866
Golden Gate	4791	Hamilton AFB, California 94935	Ohio Valley	2575-7	Savanna Army Depot, Illinois 61074
New England	1335-2	Hancock Field, New York 13225	Ohio Valley	2506	Scott AFB, Illinois 62225
Colorado	4560	Hill AFB, Utah 84401	Ohio Valley	2456	Selfridge AFB, Michigan 48045
Southwest	3971	Holloman AFB, New Mexico 88330	New England	1335-4	Seneca Army Depot, New York 13440
Carolina	0928	Homestead AFB, Florida 33033	Ohio Valley	2247	Sewart AFB, Tennessee 37168
Southeast	0944-1	Hulbert Field, Florida 32542	Carolina	0531	Seymour Johnson AFB, North Carolina 27530
Carolina	0756-1	Hunter Army Air Field, Georgia 31409	Golden Gate	4790-4	Sharpe Army Depot, California 95330
Golden Gate	4796-1	Hunter Liggett Military Reservation, California 93928	Carolina	0633	Shaw AFB, South Carolina 29152
			Texas	3755	Sheppard AFB, Texas 76311
			Kansas	2781-1	Snelling AFB, Minnesota 55111
			Kansas	3016-1	Sioux AFB, Iowa 51110
			Mid-Atlantic	1337	Stewart AFB, New York 12554
			Mid-Atlantic	1363-6	Suffolk County AFB, New York 11978
Southern California	4662-1	Indian Springs Auxiliary AFB, Nevada 89018	Louisiana	3665-2	Tamarkana AFB, Texas 75501
Mid-Atlantic	1905-1	Indianantown Gap Military Reservation, Pennsylvania 17003	Texas	3851	Tinker AFB, Oklahoma 73145
			Mid-Atlantic	1762-3	Tobyhanna Army Depot, Pennsylvania 18466
Alamo	3740-1	James Connally AFB, Texas 76703	Capitol	0205-2	Tolchester Army Air Defense Site, Maryland 21620
Ohio Valley	2575-5	Joliet Army Ammunition Plant, Illinois 60434	Southern California	4662-4	Topopah AFB, Nevada 89049
			Colorado	4560-3	Tooele Army Depot, Utah 84074
Southeast	3596	Keesler AFB, Mississippi 39534	New England	1173-1	Topham AFB, Maine 04086
Alamo	3722-3	Kelly AFB, Texas 78241	Golden Gate	4792	Travis AFB, California 94535
Ohio Valley	2457	Kincheloe AFB, Michigan 49788	Kansas	2677-1	Trux Field, Wisconsin 53707
Golden Gate	4791-1	Kingsley AFB, Oregon 97601	Golden Gate	4790-5	Two Rock Ranch Station, California 94952
Southwest	3973-1	Kirtland AFB, New Mexico 87117	Southeast	0941	Tyndall AFB, Florida 32401
Kansas	2478	K. I. Sawyer AFB, Michigan 49843			
			Colorado	4122	U.S. Air Force Academy, Colorado 80840
Alamo	3722	Lackland AFB, Texas 78236	Capitol	0203-1	U.S. Army Strategic Communications, Maryland 20331
Southern California	4662-2	Lake Mead Base, Nevada 89101	Ohio Valley	2506-3	U.S. Army Support Center, Missouri 63102
Capitol	0311	Langley AFB, Virginia 23365	Ohio Valley	2575-2	U.S. Disciplinary Barracks, Wisconsin 53201
Alamo	3722-4	Laredo AFB, Texas 78040	Mid-Atlantic	1338	U.S. Military Academy, New York 10996
Southern California	4662-3	Las Vegas AFB, Nevada 89101			
Alamo	3723	Laughlin AFB, Texas 78840	Mid-Atlantic	1966	Valley Forge General Hospital, Pennsylvania 19460
Mid-Atlantic	1965-2	Letterkenny Army Depot, Pennsylvania 17201	Puget Sound	4915-6	Vancouver Barracks, Washington 98660
Golden Gate	4790-2	Letterman General Hospital, California 04129	Texas	3851-2	Vance AFB, Oklahoma 73702
Ohio Valley	2145-1	Lexington Blue Grass Army Depot, Kentucky 40507	Southern California	4732	Vandenberg AFB, California 93437
New England	1670-3	L.G. Hanscom Field, Massachusetts 01731	Southern California	4730-4	Van Nuys Airport, California 91409
Louisiana	3468	Little Rock AFB, Arkansas 72076	Capitol	0307-1	Vint Hill Farm Station, Virginia 22186
Ohio Valley	2091	Lockbourne AFB, Ohio 43217			
New England	1075	Loring AFB, Maine 04750	Capitol	0102	Walter Reed Army Medical Center, Washington, D.C. 20012
Southern California	4730-2	Los Angeles AFB, California 90045	New England	1335-5	Watervliet Arsenal, New York 12189
Colorado	4120	Lowry AFB, Colorado 80230	Texas	3703	Webb AFB, Texas 79721
Southwest	4086	Luke AFB, Arizona 85301	New England	1672	Westover AFB, Massachusetts 01022
			Kansas	3317-1	Whiteman AFB, Missouri 65301
Carolina	0926	MacDill AFB, Florida 33608	Southwest	3972	White Sands Missile Range, New Mexico 88002
Puget Sound	4915-3	Madigan General Hospital, Washington 98431	Southwest	3770-1	William Beaumont General Hospital, Texas 79920
Puget Sound	4364	Malmstrom AFB, Montana 59402	Southwest	4088	Williams AFB, Arizona 85225
Southern California	4731	March AFB, California 92508	Golden Gate	4794-1	Winnemucca AFB, Nevada 89445
Alamo	3720-1	Matagorda Island, Texas 77982	Kansas	2677-2	Wisconsin National Guard, Wisconsin 54618
Golden Gate	4795	Mather AFB, California 95655	Kansas	2781-3	Wold-Chamberlain AFB, Minnesota 55111
Southeast	0840	Maxwell AFB, Alabama 36112	Ohio Valley	2090	Wright-Patterson AFB, Ohio 45433
Puget Sound	4915-4	McChord AFB, Washington 98438	Ohio Valley	2458	Wurtsmith AFB, Michigan 48753
Golden Gate	4794	McClellan AFB, California 95652			
Kansas	3213	McConnell AFB, Kansas 67221	Puget Sound	4915-7	Yakima Firing Center, Washington 98901
Carolina	0926-1	McCoys AFB, Florida 32812	Southern California	4735-2	Yuma Proving Grounds, Arizona 85364
Mid-Atlantic	1761	McGuire AFB, New Jersey 08641			
Louisiana	3468-1	Memphis Army Depot, Tennessee 38115	Kansas	2781-2	XIV Corps, 1006 West Lake Street, Minneapolis, Minnesota 55408
Mid-Atlantic	1363-3	Military Ocean Terminal Bayonne, New Jersey 07002	Southwest	4086-1	45th Support Squadron, Arizona 85337
Mid-Atlantic	1363-4	Military Ocean Terminal Brooklyn, New York 11250	New England	1671-1	762nd Radron (Sage), Massachusetts 02652
Colorado	2880	Minot AFB, North Dakota 58701	Southern California	4732-2	6596th Instrumentation Squadron, Vandenberg AFB, California 93437
Mid-Atlantic	1363-5	Montauk AFB, New York 11954			6929 Radar Squadron, Arizona 85301
Southeast	0784	Moody AFB, Georgia 31601			
Southern California	4735-1	Mount Laguna AFB, California 92048			
Puget Sound	4461	Mountain Home AFB, Idaho 83648			
Southwest	4085-1	Mt. Lemmon Radar Squadron, Arizona 85619			

**APPENDIX E**

**PRESENT ASSIGNMENT OF EXCHANGE FINANCIAL FUNCTIONS**

PRESENT ASSIGNMENT OF AAFES FINANCIAL FUNCTIONS

ORGANIZATIONAL LEVEL	FUNCTION
<p align="center"><u>LOCAL EXCHANGE</u> (CONUS)</p>	<ol style="list-style-type: none"> <li>1. Daily sales reports - retail, food and services.</li> <li>2. Monthly report of concession and agency sales.</li> <li>3. Semi-monthly direct delivery reports.</li> <li>4. Daily cash receipts and deposits.</li> <li>5. Receiving reports - merchandise.</li> <li>6. Overhead expense reporting.</li> <li>7. Quarterly projection - merchandise and expense budgets, Profit &amp; Loss, etc.</li> </ol>
<p align="center"><u>AREA SUPPORT CENTER</u> (CONUS)</p>	<ol style="list-style-type: none"> <li>1. Analyze and verify all input data from exchanges.</li> <li>2. Prepare inputs for EDP applications.</li> <li>3. Verification of Accounts Payable.</li> <li>4. Cut transfer vouchers on all merchandise shipped to exchanges.</li> <li>5. Retail inventories - exchanges and ASC.</li> </ol>
<p align="center"><u>HEADQUARTERS - AAFES</u> (CONUS SUPPORT)</p>	<ol style="list-style-type: none"> <li>1. General accounting for CONUS ASC's and exchanges.</li> <li>2. Review of all budgets.</li> <li>3. CONUS-procured Accounts Payable:               <ol style="list-style-type: none"> <li>a. Payment only for shipments to CONUS exchanges.</li> <li>b. Reconciliation and payment for shipments to overseas exchanges.</li> </ol> </li> <li>4. Payroll - CONUS employees.</li> <li>5. Banking - management and control.</li> </ol>

PRESENT ASSIGNMENT OF AAFES FINANCIAL FUNCTIONS (CONT'D.)

<u>ORGANIZATIONAL LEVEL</u>	<u>FUNCTION</u>
<p align="center"><u>LOCAL EXCHANGES</u> (OVERSEAS)</p>	<ol style="list-style-type: none"> <li>1. Daily sales reports - retail, food and services.</li> <li>2. Monthly report of concession and agency sales.</li> <li>3. Direct delivery reports.</li> <li>4. Daily cash receipts and deposits.</li> <li>5. Overhead expense reporting.</li> </ol>
<p align="center"><u>REGION/AREA</u> (OVERSEAS)</p>	<ol style="list-style-type: none"> <li>1. Analyze and verify all input data from exchanges.</li> <li>2. Prepare inputs for EDP applications.</li> <li>3. Verification of CONUS merchandise Accounts Payable.</li> <li>4. Verification of offshore merchandise Accounts Payable.</li> <li>5. Accounts Payable - offshore merchandise (PACEX only).</li> <li>6. Payroll - local nationals (except in Germany - done at EES headquarters).</li> <li>7. Consolidated sales reports - retail, food and services.</li> <li>8. Cut transfer vouchers on all merchandise shipped to exchanges out of regional warehouses.</li> </ol>
<p align="center"><u>OVERSEAS SYSTEM HQS.</u> <u>PACEX</u> <u>EES</u></p>	<ol style="list-style-type: none"> <li>1. General accounting for their system.</li> <li>2. Payroll - U. S. employees.</li> <li>3. Accounts Payable - offshore merchandise (EES).</li> <li>4. Accounts Payable - offshore merchandise (Hong Kong only).</li> <li>5. Monitoring banking transactions.</li> </ol>

PRESENT ASSIGNMENT OF AAFES FINANCIAL FUNCTIONS (CONT'D.)

ORGANIZATIONAL LEVEL	FUNCTION
<p align="center"><u>HEADQUARTERS - AAFES</u> (OVERSEAS SUPPORT)</p>	<ol style="list-style-type: none"> <li>1. Consolidated General Accounting worldwide.</li> <li>2. Review all consolidated overseas exchange budgets.     Prepare worldwide budgets.</li> <li>3. CONUS-procured Accounts Payable.</li> <li>4. Banking - management and control.</li> </ol>

PRESENT ASSIGNMENT OF NAVY EXCHANGE FINANCIAL FUNCTIONS

ORGANIZATIONAL LEVEL	FUNCTION
<p align="center"><u>EXCHANGES</u> (CONUS &amp; OVERSEAS)</p>	<ol style="list-style-type: none"> <li>1. Verification and reconciliation of CONUS-procured Accounts Payable.</li> <li>2. Verification, reconciliation, and payment of off-shore Accounts Payable.</li> <li>3. Cash receipts and deposits.</li> <li>4. Payroll - foreign employees.</li> <li>5. Subsidiary records and accruals.</li> </ol>
<p align="center">REGION (PROPOSED NAVY EXCHANGE SERVICE CENTERS CONUS &amp; OVERSEAS)</p>	<p>This concept is in its first stages of implementation. Primary emphasis is on distribution and inventory control functions. Financial functions will be assigned later.</p>
<p align="center"><u>HEADQUARTERS - NSSO</u></p>	<ol style="list-style-type: none"> <li>1. General Accounting.</li> <li>2. Payroll - U. S. employees - CONUS, Puerto Rico, and Bermuda.</li> <li>3. Accounts Payable - all CONUS-procured merchandise for either CONUS or overseas distribution.</li> <li>4. Banking management and control.</li> </ol>

PRESENT ASSIGNMENT OF MARINE CORPS EXCHANGE FINANCIAL FUNCTIONS

ORGANIZATIONAL LEVEL	FUNCTION
<p align="center">EXCHANGES (CONUS &amp; OVERSEAS)</p>	<p>All financial and accounting functions are performed at the exchange level with the exception of those noted below which are the responsibility of Headquarters - Marine Corps Exchange System.</p>
<p align="center">HEADQUARTERS MARINE CORPS EXCHANGE SYSTEM</p>	<ol style="list-style-type: none"> <li>1. Consolidation of Profit and Loss, Balance Sheets, and supporting summaries from the exchanges.</li> <li>2. Total Marine Corps Exchange financial and accounting policy.</li> <li>3. Audit responsibility.</li> <li>4. Employee benefit programs.</li> </ol>



APPENDIX F

EXAMPLES OF PROFIT AND LOSS STATEMENTS

# EXCHANGE OPERATING STATEMENT - ARMY AND AIR FORCE EXCHANGE SERVICE - PROFIT AND LOSS

REPORT CONTROL - OL  
APPRO - 28

COMMAND: 500

NO. EXCHANGE:

NO.

QUARTERLY MONTHLY

PERIOD ENDING:

01/25/68

CURRENT PERIOD										YEAR TO DATE										
THIS YEAR		LAST YEAR		FIN. PROG.		VAR. FROM LY.		FIN. PROG.		THIS YEAR		LAST YEAR		VAR. FROM LY.		FIN. PROG.		FIN. PROG.		
SALES	% OF SALES	SALES	% OF SALES	SALES	% OF SALES	SALES	% OF SALES	SALES	% OF SALES	SALES	% OF SALES	SALES	% OF SALES	SALES	% OF SALES	SALES	% OF SALES	SALES	% OF SALES	
52.65	44	144	50.43	100232696	46.23	100232696	46.23	100232696	46.23	666.15	28	679.11	100.00	666.15	28	679.11	100.00	666.15	28	
117164197	8A	17A11767226	1486	140532528	1402	140532528	1402	140532528	1402	155049274	3B	184358500766	100.00	155049274	3B	184358500766	100.00	155049274	3B	
188259922	1607	8A	37A17457723	1486	140532528	1402	140532528	1402	140532528	263630458	1A	22A2608000525	1642	2215840590	1642	2215840590	1642	2215840590	1642	
7710235	658	13A	17A17457723	1486	140532528	1402	140532528	1402	140532528	82161304	532	5A	17A78848667	494	70170271	534	70170271	534	70170271	534
825011	70	14A	17A17457723	1486	140532528	1402	140532528	1402	140532528	9904667	66	2A	10A9801459	81	9020575	69	9020575	69	9020575	69
62988	54	1A	15A17457723	1486	140532528	1402	140532528	1402	140532528	7047256	46	3B	14A7290052	86	6162756	47	6162756	47	6162756	47
9165080	782	12A	17A17457723	1486	140532528	1402	140532528	1402	140532528	92113235	641	4A	16A9526178	691	8353513	650	8353513	650	8353513	650
9660911	825	4A	56A17457723	1486	140532528	1402	140532528	1402	140532528	164517220	1065	B	26A165274347	1040	13086973	993	13086973	993	13086973	993
FOOD																				
SALES PER CAPITA																				
NET SALES																				
GROSS PROFIT																				
DIRECT PERSONNEL COSTS																				
DIRECT OTHER EXPENSES																				
DEPRECIATION																				
TOTAL DIRECT EXPENSES																				
DIRECT OPERATING PROFIT																				
SERVICE																				
SALES PER CAPITA																				
NET SALES																				
GROSS PROFIT																				
DIRECT PERSONNEL COSTS																				
DIRECT OTHER EXPENSES																				
DEPRECIATION																				
TOTAL DIRECT EXPENSES																				
DIRECT OPERATING PROFIT																				
ALL ACTIVITIES																				
AVER. MIL. STRENGTH																				
SALES PER CAPITA																				
NET SALES																				
GROSS PROFIT																				
DIRECT PERSONNEL COSTS																				
DIRECT OTHER EXPENSES																				
DEPRECIATION																				
TOTAL DIRECT EXPENSES																				
DIRECT OPERATING PROFIT																				
G & A PERSONNEL COSTS																				
G & A OTHER EXPENSES																				
TOTAL G & A EXPENSES																				
C DEP/WHSE PERB COSTS																				
C DEP/WHSE OTHER EXP.																				
TOTAL C DEP/WHSE, EXP.																				
OPERATING PROFIT																				
CONCESSION INCOME																				
OTHER INCOME																				
PROF. BEF. CENT'L OFF. EXP.																				
C/O PERSONNEL COSTS																				
C/O OTHER EXPENSES																				
TOTAL CENT'L OFF. EXP.																				
EXCHANGE NET EARNINGS																				
16888 ASVE. Ctr. Exp.																				
70 Income																				
33 Reloc/Activ. Exp.																				
2 Net Earnings																				

# EXCHANGE OPERATING STATEMENT - ARMY AND AIR FORCE EXCHANGE SERVICE - EXPENSE ANALYSIS

REPORT CONTROL SYMBOL  
A475 - 33

COMMAND: **WM WITH RVN**

NO. 500 EXCHANGE:

DIRECT OTHER EXPENSES

NO. 300 QUARTERLY

MONTHLY

PERIOD ENDING: 01/25/68

ACCOUNT	RETAIL BRANCHES				FOOD BRANCHES				SERVICE BRANCHES				LAST YEAR 10-TO-DATE SALES	LAST YEAR 10-TO-DATE % OF SALES
	CURRENT PERIOD THIS YEAR	% OF SALES	YEAR-TO-DATE THIS YEAR	% OF SALES	CURRENT PERIOD THIS YEAR	% OF SALES	YEAR-TO-DATE THIS YEAR	% OF SALES	CURRENT PERIOD THIS YEAR	% OF SALES	YEAR-TO-DATE THIS YEAR	% OF SALES		
1 SUPPLIES	343129	29	3822668	25	14	595543	430	7737198	448	253	1377643	109	63	63
2 LAUNDRY	8450	1	93758	1	1	41736	30	484869	28	19	260850	21	16	16
3 UTILITIES	176741	15	1990522	13	14	89754	65	962428	56	50	365098	29	27	27
4 CONTAINER LOSSES	32226	3	49253	3	3									
5 MISCELLANEOUS	157444	13	1955616	13	2	59269	43	639701	37	12	1540258	122	6	6
6 OTHER EMPLOYEE BENEFITS	633		8727			118352	83	1312880	76	41	2490			
7 REPAIRS AND MAINTENANCE	107378	9	1434111	9	4	146886	106	1709370	99	43	230472	18	10	10
8 TOTAL DIRECT OTHER EXPENSES	928011	79	9909667	64	37	104853	757	12840028	744	425	3676817	275	120	120
OVERHEAD - PERSONNEL COSTS														
ACCOUNT	GENERAL AND ADMINISTRATIVE				CENTRAL DEPOT/WAREHOUSE				AREA EXCHANGE/CENTRAL OFFICE				LAST YEAR 10-TO-DATE SALES	LAST YEAR 10-TO-DATE % OF SALES
	CURRENT PERIOD THIS YEAR	% OF SALES	YEAR-TO-DATE THIS YEAR	% OF SALES	CURRENT PERIOD THIS YEAR	% OF SALES	YEAR-TO-DATE THIS YEAR	% OF SALES	CURRENT PERIOD THIS YEAR	% OF SALES	YEAR-TO-DATE THIS YEAR	% OF SALES		
10 EXECUTIVE	503718	36	6570271	30	21	61410	4	656519	4	131692	1105319	6	6	6
11 PERSONNEL AND ADMINISTRATIVE	513761	36	500042	27	10	25300	2	229938	1	229401	1753738	10	10	10
12 FINANCE AND ACCOUNTS	947109	67	953760	52	28	136896	10	1267963	7	363593	2955159	16	16	16
13 SYSTEMS/ADP	93013	7	1089600	6	2	37992	3	257218	1	279553	202150890	12	12	12
14 OPERATIONS	1484785	105	16233305	98	52	154954	11	1370199	7	522969	5070764	27	27	27
15 ENGINEERING	333488	24	3798397	21	2	43907	3	503866	3	67486	739759	4	4	4
16 LOGISTICS	41462	3	524890	3		2053108	145	1548426	117	60208	891935	4	4	4
17 MOTOR POOL	236599	17	2469315	13		266568	19	2696933	15	382	249			
18 REPAIRS AND MAINTENANCE	361924	26	3890334	19	11	52089	4	253384	1	14999	8522			
19 TOTAL OVERHEAD PERSONNEL COST	165132	12	1782509	10	122	102968	7	1425589	8	149552	123500	1	1	1
20 TOTAL OVERHEAD PERSONNEL COST	4380772	307	46037428	250	122	2729363	192	27360873	148	52	14352941	76	76	76
OVERHEAD - OTHER EXPENSES														
ACCOUNT	GENERAL AND ADMINISTRATIVE				CENTRAL DEPOT/WAREHOUSE				AREA EXCHANGE/CENTRAL OFFICE				LAST YEAR 10-TO-DATE SALES	LAST YEAR 10-TO-DATE % OF SALES
	CURRENT PERIOD THIS YEAR	% OF SALES	YEAR-TO-DATE THIS YEAR	% OF SALES	CURRENT PERIOD THIS YEAR	% OF SALES	YEAR-TO-DATE THIS YEAR	% OF SALES	CURRENT PERIOD THIS YEAR	% OF SALES	YEAR-TO-DATE THIS YEAR	% OF SALES		
21 RENT	4139		38261			43650	3	366370	2	14344	152694	1	1	1
22 STATIONERY AND SUPPLIES	278268	19	217920	12	6	259921	18	1698409	9	108553	799836	4	4	4
23 UTILITIES	28668	2	211923	1	1	15469	1	87290		1363	22308			
24 CASH SHORT (OVER)	18032	1	215342	1	1									
25 ORGANIC TRANSPORTATION	140977	10	1293316	7	3	115718	8	835623	5	5541	46823			
26 DATA PROCESSING EQUIPMENT RENTAL	38876	2	585365	3	1	22273	2	170681	1	205331	1114773	6	6	6
27 MISCELLANEOUS	291377	21	1776336	10	5	33538	2	873167	5	368453	896111	5	5	5
28 TRAVEL	68718	5	1115662	6	2	10549	1	128873	1	36776	591287	3	3	3
29 TELEPHONE AND TELEGRAPH	143913	10	1444248	8	4	7813	1	82938		29416	265543	1	1	1
30 FREIGHT EXPRESS POSTAGE	34172	2	321387	2	1	219773	13	2207764	12	9327	216763	1	1	1
31 REPAIRS AND MAINTENANCE	213213	15	1943352	11	7	44449	3	760185	4	21350	190180	1	1	1
32 EMPLOYEES TRANSPORTATION	657		44317			2289		33333			16778			
33 INSURANCE	276643	20	3157334	17	9	142971	10	1758313	10	12582	115813	1	1	1
34 COST OF TRANSFERRING EMPLOYEES	198823	14	1034810	6	1	6652		42120		40530	301680	2	2	2
35 DEPRECIATION	244608	17	2789708	15	7	209690	15	2245367	12	54849	435809	2	2	2
36 TOTAL OVERHEAD OTHER EXPENSES	42443	3	439113	2	47	1134760	80	11200658	61	70031	872893	5	5	5
37 TOTAL OVERHEAD OTHER EXPENSES	2009449	142	18587716	101	47	1134760	80	11200658	61	976460	6041310	33	33	33

EXCHANGE OPERATING STATEMENT - ARMY AND AIR FORCE EXCHANGE SERVICE - ANALYSES & STATISTICS

COMMAND: World Wide NO. EXCHANGE NO. QUARTERLY MONTHLY PERIOD ENDING: 25 Jan 68

ITEM	DESCRIPTION	CURRENT PERIOD		EMPLOYEE PERIOD		YEAR TO DATE	
		THIS YR	LAST YR	THIS YR	LAST YR	THIS YR	LAST YR
1	SALES	29 564	27 706	28 048	27 923	26 785	25 404
2	MARKUP % - AFTER DISC	18 301	18 997	18 127	18 953	18 872	18 188
3	MARKDOWN %	4 999	5 088	5 404	5 155	5 017	5 340
4	EMPLOYEE PRODUCTIVITY	9 733	9 484	9 062	9 589	9 376	9 057
5	AVERAGE WAGE RATE	10 626	10 560	9 658	10 037	9 998	9 093
6	OTHER EXPENSES %	2 731	2 746	1 773	2 660	2 723	1 726
7	DEPR (ATON)	75 952	74 581	72 072	74 317	72 771	68 808
8	CONC & OTHER INCOME	3 081	3 322	3 185	3 082	3 333	3 333
9	TOTAL	1 044	953	932	942	949	940
10	TOTAL ALL EMPLOYEES	80 074	78 856	76 189	78 341	77 000	73 081
SALES PER EMPLOYEE (PRODUCTIVITY)							
11	SALES	3 963	4 240	3 574	55 332	59 306	51 710
12	MARKUP % - AFTER DISC	757	791	707	9 111	9 306	8 354
13	MARKDOWN %	2 163	2 111	1 840	24 529	24 839	21 336
14	EMPLOYEE PRODUCTIVITY	14 572	15 102	13 572	192 321	201 445	174 398
15	AVERAGE WAGE RATE	13 347	13 563	12 735	18 737	18 913	173 708
16	OTHER EXPENSES %	51 933	52 158	69 369	69 3295	69 3628	915 135
17	DEPRECIATION	1 867	1 920	1 706	24 815	29 555	22 956
18	CONC & OTHER INCOME	261	246	235	2 942	2 932	2 762
19	TOTAL	237	227	201	2 708	2 672	2 445
20	TOTAL ALL EMPLOYEES	352	328	290	3 860	3 914	3 320
21	MARKUP % - AFTER DISC	447	438	378	4 801	4 817	4 338
22	MARKDOWN %	257	235	206	2 726	2 632	2 414
23	EMPLOYEE PRODUCTIVITY	603	588	501	5 396	5 282	5 585
24	AVERAGE WAGE RATE	297	282	251	3 245	3 222	2 954
25	OTHER EXPENSES %	297	282	251	3 245	3 222	2 954
26	DEPR (ATON)	297	282	251	3 245	3 222	2 954
27	CONC & OTHER INCOME	297	282	251	3 245	3 222	2 954
28	TOTAL	297	282	251	3 245	3 222	2 954
INVENTORIES - TURNS - STOCK TO SALES RATIOS - YTD MARKON %							
29	INVENTORIES	403 704 763	363 211 947	403 704 763	363 211 947	393 946 387	374 446 467
30	FIN PROG.	363 211 947	363 211 947	363 211 947	363 211 947	393 946 387	374 446 467
31	TOTAL	363 211 947	363 211 947	363 211 947	363 211 947	393 946 387	374 446 467
TURNS							
32	THIS YEAR	29	31	31	31	3 92	4 24
33	FIN PROG.	29	31	31	31	4 24	4 25
34	LAST YEAR	29	31	31	31	4 24	4 25
35	TOTAL	29	31	31	31	4 24	4 25
STOCK TO SALES RATIO							
36	THIS YEAR	3 47	3 47	3 47	3 47	1 879	1 879
37	FIN PROG.	3 47	3 47	3 47	3 47	1 879	1 879
38	LAST YEAR	3 47	3 47	3 47	3 47	1 879	1 879
39	TOTAL	3 47	3 47	3 47	3 47	1 879	1 879
FINANCIAL PROGRAM							
40	SALES	11 716	197 10 000	100 236 96	100 00	100 00	100 00
41	TRANSPORTATION	218 631	19	917 94	92	92	92
42	EARNED DISCOUNTS	1104 044	94	13 136 327	13 11	13 11	13 11
43	GROSS PROFIT PR TO E DISC.	17 721 969	15 13	2 657 657	2 65	2 65	2 65
44	CONTRIBUTABLE MARKDOWNS	3834 903	3 27	531 43	05	05	05
45	DIR - YTD MARKDOWNS	797 488	68	711 000	2 70	2 70	2 70
46	TOTAL MARKDOWNS	4632 391	3 95	854 574	85	85	85
47	PROGRAMME MARKDOWNS	3735 794	3 19	854 574	85	85	85
48	SALES DISCOUNTS	749 728	64	1 464 637	1 46	1 46	1 46
49	SHORTAGE	2 285 637	1 95	1 464 637	1 46	1 46	1 46



PAGE NO. 5  
PRELIMINARY

## COMPARATIVE OPERATING ST

	MONTH ENDING		
	25 MAY 1968	PERCENT OF SALES	25 MAY 1967
<u>INCOME</u>			
Sales (All Exchanges)			
Retail Departments	\$33,735,740	60.8	\$27,181,181
Service Departments	21,712,594	39.2	18,181,181
Total Sales	<u>\$55,448,334</u>	<u>100.0</u>	<u>\$46,362,362</u>
<u>Cost of Sales</u>			
Reserve for Inventory Shortages	\$ 253,019	.5	\$ 253,019
Cost of Merchandise and Materials	40,273,921	72.6	33,181,181
Total Cost of Sales	<u>\$40,526,940</u>	<u>73.1</u>	<u>\$33,434,181</u>
Gross Profit	<u>\$14,921,394</u>	<u>26.9</u>	<u>\$12,928,181</u>
<u>Direct Expense</u>			
Payroll	\$ 5,453,208	9.9	\$ 4,181,181
Vacation and Termination Pay	414,951	.7	314,951
Stationery and Supplies	230,515	.4	181,181
Employee Benefits - Local Nationals	203,858	.4	151,181
Repairs and Minor Replacements	162,199	.3	121,181
Taxes - FICA	186,605	.3	141,181
Utilities	110,259	.2	81,181
Retirement Annuity Contributions - Exchanges	150,105	.3	111,181
Miscellaneous Expense	523,375	.9	401,181
Total Direct Department Expense	<u>\$ 7,435,075</u>	<u>13.4</u>	<u>\$ 5,611,181</u>
Net Contributions	<u>\$ 7,486,319</u>	<u>13.5</u>	<u>\$ 5,662,362</u>
<u>Exchange General Expenses</u>			
Payroll	\$ 1,188,640	2.1	\$ 911,181
Vacation and Termination Pay	(163,019)	(.2)	(121,181)
Stationery and Supplies	57,124	.1	41,181
Employee Benefits - Local Nationals	60,360	.1	41,181
Repairs and Minor Replacements and Alterations	103,021	.2	71,181
Installation and Alteration Expense	404,629	.7	311,181
Retirement Annuity Contributions - Exchanges	37,215	.1	21,181
Taxes - FICA	42,228	.1	31,181
Federal Occupational Taxes	-0-	.0	-0-
Utilities	32,373	.1	21,181
Freight, Express and Haulage	4,886	.0	3,181
Cash, Short or Over	6,283	.0	4,181
Traveling Expense	25,076	.0	11,181
Telephone, Telegraph and Postage	52,042	.1	31,181
Miscellaneous General Expense	26,957	.0	11,181
Exchange Profits or Loss Transferred to NSSO	(30,703)	(.1)	(21,181)
NESC Expense Allocated to Exchanges - NSSO	-0-	.0	-0-
Total Exchange General Expense	<u>\$ 1,847,112</u>	<u>3.3</u>	<u>\$ 1,411,181</u>
Gross Operating Profit Before NSSO Charge	<u>\$ 5,639,207</u>	<u>10.2</u>	<u>\$ 4,551,181</u>
<u>Exchange Other Income</u>			
Purchase Discounts	\$ 32,565	.0	\$ 21,181
Miscellaneous Other Income	36,619	.1	21,181
Income from Concession	35,011	.1	21,181
Income from Sale of Money Orders and Travelers Checks	7,667	.0	4,181
Total Exchange Other Income	<u>\$ 111,862</u>	<u>.2</u>	<u>\$ 61,181</u>
Net Exchange Contributions	<u>\$ 5,751,069</u>	<u>10.4</u>	<u>\$ 4,612,362</u>

U. S. NAVY SHIP'S STORE OFFICE

(NAVY EXCHANGE DIVISION)

COMPARATIVE OPERATING STATEMENT AS AT 25 MAY 1968

MONTH ENDING				12 MONTHS FISCAL YEAR TO DATE			
	PERCENT		PERCENT		PERCENT		PERCENT
1968	OF SALES	25 MAY 1967	OF SALES	25 MAY 1968	OF SALES	25 MAY 1967	OF SALES
5,740	60.8	\$27,583,351	59.3	\$382,364,839	61.4	\$328,267,382	60.3
2,594	39.2	18,965,648	40.7	240,802,957	38.6	216,189,335	39.7
3,334	100.0	\$46,548,999	100.0	\$623,167,796	100.0	\$544,456,717	100.0
3,019	.5	\$ 206,876	.4	\$ 2,867,746	.4	\$ 2,491,784	.4
3,921	72.6	33,958,700	73.0	455,326,900	73.1	397,925,471	73.1
6,940	73.1	\$34,165,576	73.4	\$458,194,646	73.5	\$400,417,255	73.5
1,394	26.9	\$12,383,423	26.6	\$164,973,150	26.5	\$144,039,462	26.5
3,208	9.9	\$ 4,769,511	10.2	\$ 61,161,716	9.8	\$ 53,756,809	9.9
4,951	.7	362,482	.8	4,674,018	.8	4,110,859	.8
0,515	.4	208,030	.4	2,599,793	.4	2,383,215	.4
3,858	.4	178,917	.4	2,260,882	.4	1,969,032	.4
2,199	.3	146,736	.3	1,833,406	.3	1,664,073	.3
6,605	.3	221,966	.5	2,167,935	.3	1,892,140	.3
0,259	.2	134,030	.3	1,639,937	.3	1,575,185	.3
0,105	.3	163,591	.3	1,531,484	.2	1,325,585	.2
3,375	.9	466,401	1.0	5,838,911	.9	5,288,948	1.0
5,075	13.4	\$ 6,651,664	14.2	\$ 83,708,082	13.4	\$ 73,965,846	13.6
6,319	13.5	\$ 5,731,759	12.4	\$ 81,265,068	13.1	\$ 70,073,616	12.9
8,640	2.1	\$ 973,049	2.1	\$ 12,961,389	2.1	\$ 10,746,657	2.0
3,019)	(.2)	(105,384)	(.2)	273,530	.0	204,397	.0
7,124	.1	47,580	.1	652,126	.1	541,334	.1
0,360	.1	51,136	.1	618,908	.1	539,264	.1
3,021	.2	109,625	.2	1,116,896	.2	973,534	.2
4,629	.7	196,929	.4	3,654,041	.6	2,607,191	.5
7,215	.1	37,755	.1	375,574	.1	309,163	.1
2,228	.1	47,553	.1	491,630	.1	410,092	.1
-0-	.0	419	.0	5,955	.0	6,443	.0
2,373	.1	31,038	.1	320,569	.1	280,512	.1
4,886	.0	4,156	.0	62,596	.0	30,510	.0
6,283	.0	1,913	.0	68,072	.0	60,244	.0
5,076	.0	24,111	.0	249,237	.0	216,306	.0
52,042	.1	40,412	.1	612,462	.1	520,550	.1
26,957	.0	(8,230)	.0	(8,316)	.0	124,123	.0
30,703)	(.1)	-0-	.0	(87,383)	.0	417	.0
-0-	.0	-0-	.0	-0-	.0	-0-	.0
7,112	3.3	\$ 1,452,062	3.1	\$ 21,367,286	3.5	\$ 17,570,737	3.3
39,207	10.2	\$ 4,279,697	9.3	\$ 59,897,782	9.6	\$ 52,502,879	9.6
32,565	.0	\$ 20,572	.0	\$ 270,558	.0	\$ 218,850	.0
36,619	.1	38,645	.1	446,191	.1	560,107	.1
35,011	.1	32,429	.1	393,337	.1	330,511	.1
7,667	.0	9,500	.0	83,067	.0	75,955	.0
11,862	.2	\$ 101,146	.2	\$ 1,193,153	.2	\$ 1,185,423	.2
51,069	10.4	\$ 4,380,843	9.5	\$ 61,090,935	9.8	\$ 53,688,302	9.8

## COMPARATIVE OPERATING STATEMENT

Total Net Exchange Contributions Brought Forward

	MONTH END	PERCENT OF SALES
25 MAY 1968		
\$ 5,751,069		10.4

NSSO Expense

Payroll	426,973	.8
Vacation and Termination Pay	21,098	.0
Retirement Annuity Contribution - NSSO	25,582	.1
Group Life Insurance Contributions	5,000	.0
Group Comp. Medical Contributions - NSSO	45,834	.1
Career Management Expense	15,910	.0
Provision for Employees' Death Benefits	500	.0
Employment Expense	2,672	.0
Employees' Benefits	2,520	.0
Stationery and Supplies Exchange (Printed Forms)	36,042	.1
Stationery and Supplies - NSSO	7,883	.0
Stationery and Supplies - NSSO (IDP, MR Forms)	4,166	.0
Repairs and Minor Replacements	16,007	.0
Machine Rentals	9,296	.0
Federal Insurance Contributions Act - Tax	17,919	.0
Display Material Expense	12,545	.0
Utilities	106	.0
Freight, Express and Overpacking	6,483	.0
Traveling Expense	43,159	.1
Telephone and Telegraph	6,658	.0
Postage	4,244	.0
Repair and Alterations to Building and Equipment	6,516	.0
Insurance	49,666	.1
Subscriptions and Periodicals	421	.0
Professional Services	27,223	.1
Automobile Expense	2,812	.0
Miscellaneous Expense (General)	1,038	.0
Foreign Currency Revaluation Expense	(103)	.0
Grants - Navy Exchanges	80,848	.2
Exchange Losses Absorbed by NSSO	44,483	.1
Advisory Committee Expense	13,008	.0
Bad Debts	416	.0
Research and Development Expense	51,096	.1
Management - Seminar Expense	-0-	.0
NUS Exchange Support	3,393	.0
Service Charge Rebate	-0-	.0
Total NSSO Expense Before Provision for Reserve	\$ 991,414	1.8
	\$ 4,759,655	8.6

Provision for Reserves

Prov. for Self-Insurance Losses Sustained	\$ 275,003	.5
Prov. for Reserve for Dep. - NSSO Equipment	292,492	.5
Prov. for Reserve for Revaluation of Inventory	2,083	.0
Total NSSO Provision for Reserve	\$ 569,578	1.0
Total Operating Profit	\$ 4,190,077	7.6

NSSO Other Income

Service Charges - BUPERS	\$ 10,000	.0
Interest Income	142,041	.2
Gain or Loss on Sales of Gov't Securities	(2,477)	.0
Purchase Discount	316,364	.6
Miscellaneous Income	9,392	.0
Gain or Loss on Sales of Fixed Assets	(3,963)	.0
Service Charges to MSTB Exchanges	1,526	.0
Total Other Income	\$ 472,883	.8
Net Profit	\$ 4,662,960	8.4

## COMPARATIVE OPERATING STATEMENT AS AT 25 MAY 1968

MONTH ENDING				12 MONTHS FISCAL YEAR TO DATE			
5 MAY 1968	PERCENT OF SALES	25 MAY 1967	PERCENT OF SALES	25 MAY 1968	PERCENT OF SALES	25 MAY 1967	PERCENT OF SALES
5,751,069	10.4	\$ 4,380,843	9.5	\$61,090,935	9.8	\$53,688,302	9.8
426,973	.8	362,467	.8	4,772,754	.8	4,054,936	.7
21,098	.0	18,098	.0	242,376	.1	203,715	.0
25,582	.1	26,489	.1	254,711	.1	214,848	.1
5,000	.0	(20,125)	.0	60,000	.0	43,695	.0
45,834	.1	(10,181)	.0	550,000	.1	506,761	.1
15,910	.0	6,487	.0	106,570	.0	47,937	.0
500	.0	500	.0	6,000	.0	6,000	.0
2,672	.0	2,356	.0	45,454	.0	33,532	.0
2,520	.0	3,145	.0	41,004	.0	37,925	.0
36,042	.1	20,833	.0	327,664	.1	250,000	.1
7,883	.0	6,624	.0	95,786	.0	76,902	.0
4,166	.0	3,583	.0	50,000	.0	43,000	.0
16,007	.0	17,299	.0	194,068	.0	210,286	.0
9,296	.0	8,361	.0	110,383	.0	100,548	.0
17,919	.0	22,517	.1	174,221	.0	155,701	.0
12,545	.0	8,890	.0	87,319	.0	61,195	.0
106	.0	80	.0	1,248	.0	952	.0
6,483	.0	15,902	.0	173,522	.0	223,317	.1
43,159	.1	38,293	.1	395,759	.1	505,496	.1
6,658	.0	7,374	.0	85,245	.0	86,067	.0
4,244	.0	2,125	.0	41,537	.0	34,194	.0
6,516	.0	1,815	.0	65,998	.0	52,267	.0
49,666	.1	30,946	.1	596,598	.1	350,937	.1
421	.0	304	.0	12,539	.0	10,611	.0
27,223	.1	23,255	.1	224,505	.1	235,025	.1
2,812	.0	755	.0	12,737	.0	7,001	.0
1,038	.0	1,294	.0	17,985	.0	10,416	.0
(103)	.0	117	.0	15,828	.0	(121)	.0
80,848	.2	70,919	.2	127,358	.0	155,463	.0
44,483	.1	2,126	.0	40,488	.0	1,291	.0
13,008	.0	6,548	.0	25,325	.0	27,404	.0
416	.0	416	.0	4,957	.0	5,043	.0
51,096	.1	57,216	.1	265,866	.0	164,238	.0
-0-	.0	-0-	.0	-0-	.0	1,009	.0
3,393	.0	15,796	.0	52,641	.0	36,723	.0
-0-	.0	-0-	.0	-0-	.0	80,900	.0
\$ 991,414	1.8	\$ 752,624	1.6	\$ 9,278,446	1.5	\$ 8,035,234	1.4
\$ 4,759,655	8.6	\$ 3,628,219	7.9	\$ 51,812,489	8.3	\$ 45,653,068	8.4
275,003	.5	\$ 287,000	.6	\$ 1,800,000	.3	\$ 2,000,000	.4
292,492	.5	441,666	1.0	5,009,163	.8	5,300,000	1.0
2,083	.0	2,083	.0	25,000	.0	25,000	.0
\$ 569,578	1.0	\$ 730,749	1.6	\$ 6,834,163	1.1	\$ 7,325,000	1.4
\$ 4,190,077	7.6	\$ 2,897,470	6.3	\$ 44,978,326	7.2	\$ 38,328,068	7.0
10,000	.0	\$ 26,033	.1	\$ 144,773	.0	\$ 144,112	.0
142,041	.2	79,941	.1	1,223,194	.2	1,005,760	.2
(2,477)	.0	(500)	.0	30,867	.0	9,149	.0
316,364	.6	255,688	.5	3,586,019	.6	3,149,054	.6
9,392	.0	7,517	.0	119,127	.0	93,101	.0
(3,963)	.0	(40,161)	.0	(69,594)	.0	(143,538)	.0
1,526	.0	1,666	.0	24,411	.0	38,034	.0
\$ 472,883	.8	\$ 330,184	.7	\$ 5,060,797	.8	\$ 4,295,672	.8
\$ 4,662,960	8.4	\$ 3,227,654	7.0	\$ 50,039,123	8.0	\$ 42,623,740	7.8



U. S. NA

(NAVY)

RECONCILIATIONAS

	MONTH ENDING		
	25 MAY 1968	PERCENT OF SALES	25 MAY 1967
* Net Profit or Loss (All Exchanges)	\$ 3,905,188	7.0	\$ 2,845,350
NSSO Reserve Charge to Exchanges	\$ 1,845,881	3.3	1,535,493
Less: NSSO Net Expense	1,088,109	1.9	1,153,189
Exchange Program Expansion	\$ 757,772	1.4	\$ 382,304
Net Profit or Loss as shown on U.S. Navy Ship's Store Office Consolidated Operating Statement	<u>\$ 4,662,960</u>	<u>8.4</u>	<u>\$ 3,227,654</u>

## \* NOTE

Net Profit or Loss (All Exchanges)  
Allocated as Follows:

Station Local Recreation Funds	\$ 2,519,129	\$ 1,919,469
Bureau of Naval Personnel	586,112	400,107
Provision for EM Club -		
Entertainment/Refurbishment	458,828	351,233
Amortization of Capital Improvements	341,119	174,541
	<u>\$ 3,905,188</u>	<u>\$ 2,845,350</u>

U. S. NAVY SHIP' STORE OFFICE

(NAVY EXCHANGE DIVISION)

PAGE NO. 7  
PRELIMINARY

RECONCILIATION OF CONSOLIDATED OPERATING STATEMENT

AS AT 25 MAY 1968

<u>MONTH ENDING</u>			<u>12 MONTHS FISCAL YEAR TO DATE</u>			
<u>PERCENT</u> <u>OF SALES</u>	<u>25 MAY 1967</u>	<u>PERCENT</u> <u>OF SALES</u>	<u>25 MAY 1968</u>	<u>PERCENT</u> <u>OF SALES</u>	<u>25 MAY 1967</u>	<u>PERCENT</u> <u>OF SALES</u>
7.0	\$ 2,845,350	6.2	\$40,313,050	6.5	\$35,715,245	6.5
3.3	1,535,493	3.3	\$20,777,885	3.3	\$17,973,057	3.3
1.9	1,153,189	2.5	11,051,812	1.8	11,064,562	2.0
1.4	\$ 382,304	.8	\$ 9,726,073	1.5	\$ 6,908,495	1.3
<u>8.4</u>	<u>\$ 3,227,654</u>	<u>7.0</u>	<u>\$50,039,123</u>	<u>8.0</u>	<u>\$42,623,740</u>	<u>7.8</u>
\$ 1,919,469			\$26,499,576			
400,107			6,188,503			
351,233			5,201,812			
174,541			2,423,159			
<u>\$ 2,845,350</u>			<u>\$40,313,050</u>			
			\$23,587,320			
			5,380,941			
			4,232,299			
			2,514,685			
			<u>\$35,715,245</u>			

**MARINE CORPS EXCHANGE SERVICE CONSOLIDATED P AND L STATEMENT**  
**Period 23 Jan 1967 - 28 Jan 1968**

1

ACCOUNTS	%	AMOUNT
Total - Sales	100.00	\$131,875,939.64
Less Cost of Sales	77.14	101,730,091.45
Supplies & Direct Expense	1.25	1,653,305.17
Payroll (Less 630)	11.08	14,609,740.97
Gross Profit	10.53	13,882,802.05
Other Operating Expenses:		
General Overhead Payroll	1.77	2,335,305.53
Telephone	.05	63,766.88
Other Utilities	.16	207,890.02
Laundry & Linens	.02	28,618.73
Maintenance & Repairs to Property	.58	764,086.43
Gas, Oil & Vehicle Maintenance	.04	52,946.01
Travel & Mileage Allowance	.03	33,832.41
Stationery & Office Supplies	.08	103,893.70
Insurance	.16	214,985.37
Taxes & Licenses	.49	646,029.98
Purchase of Equipment (\$25.00 or less)	.06	83,014.95
Cleaning & Maintenance Supplies	.10	127,580.26
Bank Service Charges	.00	716.15
Machine Rental	.10	125,992.70
Technical Books & Periodicals	.00	3,435.95
Miscellaneous	.02	25,988.81
Total Other Operating Expenses	3.66	4,818,083.88
Profit Before Other Income & Other Deductions	6.87	9,064,718.17
Other Income:		
Free Merchandise	.08	104,582.18
Cash Discount Earned	.74	978,917.03
Commissions	1.14	1,502,334.04
Interest on Investments & Savings	.09	115,422.31
Adjustments of Reserve for Contingencies	.24	309,959.35
Adjustments of Reserve for Equipment & Improvements	1.06	1,393,817.26
Gain on Equipment Sold or Trade-in	.00	194.00
Miscellaneous Income	.09	120,308.52
Deductions from Capital	.03	45,300.00
Grants from Marine Corps Exchange Fund		
Reduction of Equipment	.59	783,120.02
Total Other Income	4.06	5,353,954.71
Other Deductions:		
Survey Losses	.08	105,054.53
Price Reductions	.33	430,932.89
Cash Discount Allowed	.08	105,878.29
Loss on Equipment Sold or Trade-in	.19	252,483.21
Other Losses	.39	520,214.34
Assessments	1.09	1,431,761.03
Additions to Equipment	1.13	1,497,974.47
Total Other Deductions	3.29	4,344,298.76
Net Profit	7.64	10,074,374.12

**MARINE CORPS EXCHANGE SERVICE CONSOLIDATED P AND L STATEMENT**  
**Period 23 Jan 1967 - 28 Jan 1968**

ACCOUNTS	%	AMOUNT
Merchandise - Sales	100.00	\$88,920,796.41
Less Cost of Sales	83.65	74,378,601.91
Supplies & Direct Expense	.50	448,544.83
Payroll	8.03	7,141,259.45
<b>Gross Profit</b>	<b>7.82</b>	<b>6,952,390.22</b>
Enlisted Service Club - Sales	100.00	1,741,668.33
Less Cost of Sales	58.77	1,023,584.90
Supplies & Direct Expense	4.01	69,826.44
Payroll	19.86	345,944.44
<b>Gross Profit</b>	<b>17.36</b>	<b>302,312.55</b>
Service Station - Sales	100.00	15,225,221.07
Less Cost of Sales	75.29	11,463,387.46
Supplies & Direct Expense	.83	126,867.24
Payroll	11.80	1,796,257.43
<b>Gross Profit</b>	<b>12.93</b>	<b>1,838,708.94</b>
Restaurant - Sales	100.00	4,055,262.83
Less Cost of Sales	54.04	2,191,557.32
Supplies & Direct Expense	4.05	164,163.44
Payroll	31.45	1,275,194.70
<b>Gross Profit</b>	<b>10.46</b>	<b>424,347.37</b>
Soda Fountain - Sales	100.00	4,258,086.95
Less Cost of Sales	55.84	2,377,519.22
Supplies & Direct Expense	2.55	108,534.20
Payroll	25.52	1,086,832.01
<b>Gross Profit</b>	<b>16.09</b>	<b>685,201.52</b>
Barber Shop - Sales	100.00	1,628,235.65
Less Cost of Sales	.30	4,835.19
Supplies & Direct Expense	4.24	68,976.69
Payroll	82.32	1,340,416.44
<b>Gross Profit</b>	<b>13.14</b>	<b>214,007.33</b>
Beauty Shop - Sales	100.00	282,806.16
Less Cost of Sales	7.44	21,040.92
Supplies & Direct Expense	8.52	24,090.78
Payroll	73.83	208,804.08
<b>Gross Profit</b>	<b>10.21</b>	<b>28,870.38</b>
Tailor Shop - Sales	100.00	1,165,208.47
Less Cost of Sales	40.66	473,744.46
Supplies & Direct Expense	2.58	30,027.65
Payroll	48.35	563,422.22
<b>Gross Profit</b>	<b>8.41</b>	<b>98,014.14</b>
Shoe Shop - Sales	100.00	6,376.16
Less Cost of Sales	41.25	2,630.46
Supplies & Direct Expense	2.17	138.23
Payroll	37.72	2,405.14
<b>Gross Profit</b>	<b>18.86</b>	<b>1,202.33</b>

**MARINE CORPS EXCHANGE SERVICE CONSOLIDATED P & L STATEMENT (CONT.)**  
**Period 23 Jan 1967 - 28 Jan 1968**

ACCOUNTS	%	AMOUNT
Photo Shop - Sales	100.00	916,345.40
Less Cost of Sales	49.67	455,164.79
Supplies & Direct Expense	1.41	12,900.13
Payroll	8.05	73,735.99
Gross Profit	40.87	374,544.49
Other Activities - Sales	100.00	2,312,306.69
Less Cost of Sales	75.58	1,747,685.39
Supplies & Direct Expense	1.79	41,358.11
Payroll	15.47	357,615.92
Gross Profit	7.16	165,647.27
Snack Bar - Sales	100.00	2,081,098.77
Less Cost of Sales	56.41	1,174,045.29
Supplies & Direct Expense	2.70	56,246.85
Payroll	16.44	342,073.56
Gross Profit	24.45	508,733.07
Vending Machines - Sales	100.00	8,278,159.99
Less Cost of Sales	66.62	5,514,875.96
Supplies & Direct Expense	5.98	494,801.74
Payroll	.24	19,798.43
Gross Profit	27.16	2,248,683.86
Grocery - Sales	100.00	1,004,366.76
Less Cost of Sales	89.75	901,418.18
Supplies & Direct Expense	.68	6,828.84
Payroll	5.57	55,981.16
Gross Profit	4.00	40,138.58

**APPENDIX G**  
**MILITARY EXCHANGES SALARY SCHEDULES**

ARMY AND AIR FORCE EXCHANGE SERVICE  
UNIVERSAL SALARY PLAN SCHEDULE

GRADE	ANNUAL RATES AND STEPS									
	1	2	3	4	5	6	7	8	9	10
5	\$ 5,565	\$ 5,751	\$ 5,937	\$ 6,123	\$ 6,309	\$ 6,495	\$ 6,681	\$ 6,867	\$ 7,053	\$ 7,239
6	6,137	6,342	6,547	6,752	6,957	7,162	7,367	7,572	7,777	7,982
7	6,734	6,959	7,184	7,409	7,634	7,859	8,084	8,309	8,534	8,759
8	7,384	7,630	7,876	8,122	8,368	8,614	8,860	9,106	9,352	9,598
9	8,054	8,323	8,592	8,861	9,130	9,399	9,668	9,937	10,206	10,475
10	8,821	9,115	9,409	9,703	9,997	10,291	10,585	10,879	11,173	11,467
11	9,657	9,979	10,301	10,623	10,945	11,267	11,589	11,911	12,233	12,555
11A	10,559	10,911	11,263	11,615	11,967	12,319	12,671	13,023	13,375	13,727
12	11,461	11,843	12,225	12,607	12,989	13,371	13,753	14,135	14,517	14,899
12A	12,484	12,900	13,316	13,732	14,148	14,564	14,980	15,396	15,812	16,228
13	13,507	13,957	14,407	14,857	15,307	15,757	16,207	16,657	17,107	17,557
14	15,841	16,369	16,897	17,425	17,953	18,481	19,009	19,537	20,065	20,593
14A	17,123	17,693	18,264	18,834	19,405	19,975	20,546	21,116	21,687	22,257
15	18,404	19,017	19,630	20,243	20,856	21,469	22,082	22,695	23,308	23,921

NSSO MANAGEMENT SALARY STRUCTURE  
Effective 1 October 1967

RANGE

<u>Grade Level</u>	<u>Min.</u>	<u>Max.</u>	<u>Increment</u>
1	\$ 5,400	\$ 8,500	\$ 300
2	6,200	9,700	400
3	7,400	11,800	500
4	9,200	14,300	600
5	11,100	17,700	700
6	13,700	21,700	800
7	16,800	23,300	900
8	22,300	26,400	1000



REVISED-EFFECTIVE  
1 February 1968

NAVY EXCHANGES  
NTC SAN DIEGO  
NS SAN DIEGO  
NAS NORTH ISLAND  
NAS MIRAMAR

San Diego Wage Structure

<u>GRADE</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
1	---	---	---	---	---
2	---	---	---	---	---
3	---	---	1.65	1.68	1.71
4	---	1.65	1.68	1.73	1.82
5	1.65	1.68	1.75	1.84	1.93
6	1.70	1.77	1.85	1.94	2.04
7	1.78	1.86	1.95	2.05	2.15
8	1.88	1.96	2.05	2.15	2.26
9	2.01	2.10	2.15	2.26	2.37
10	2.06	2.15	2.25	2.36	2.48
11	2.24	2.34	2.45	2.57	2.70
12	2.32	2.43	2.55	2.68	2.81
13	2.45	2.57	2.70	2.84	2.98
14	2.73	2.86	3.00	3.15	3.31
15	3.02	3.18	3.35	3.52	3.70

Department K-4 & K-5 less .05¢ per hour meal allowance.

5 September 1967

## NTC GREAT LAKES, ILLINOIS

## S T E P S

---

	1	2	3	4	5
1.			1.60	1.71	1.82
2.		1.60	1.71	1.82	1.94
J 3.	1.70	1.81	1.93	2.06	2.20
O 4.	1.85	1.97	2.10	2.25	2.41
B 5.	2.00	2.12	2.25	2.42	2.60
L 6.	2.15	2.30	2.45	2.62	2.80
E 7.	2.30	2.46	2.63	2.81	3.00
V 8.	2.50	2.67	2.85	3.05	3.25
E 9.	2.75	2.95	3.15	3.35	3.55
L 10.	3.10	3.30	3.50	3.75	4.00
S					

2 November 1967

## SALARY STRUCTURE FOR CATEGORY A &amp; E EMPLOYEES (NONMANAGEMENT)

7/113 (REV)10/67

9/29/67

JOB LEVEL		WEEKLY, BI-WEEKLY AND ANNUAL RATES						
		Guide steps only. Increment recommendations may be in any amount + or - the guide steps.						
		JR. OR TRAINEE	1	2	3	4	5	6
CATEGORY A	1) WEEKLY		69	72	76	80	84	89
	BI-WEEKLY		136	144	152	160	168	176
	ANNUAL		3536	3744	3952	4160	4368	4626
	2) WEEKLY	67	70	74	78	82	86	90
	BI-WEEKLY	134	140	148	156	164	172	180
	ANNUAL	3484	3640	3848	4056	4264	4472	4680
	3) WEEKLY	70	74	78	83	88	93	98
	BI-WEEKLY	140	148	156	166	176	186	196
	ANNUAL	3640	3848	4056	4316	4576	4836	5096
	4) WEEKLY	77	81	86	91	96	102	108
	BI-WEEKLY	154	162	172	182	192	204	216
	ANNUAL	4004	4212	4472	4732	4992	5304	5616
	5) WEEKLY	84	89	94	99	105	111	117
	BI-WEEKLY	168	178	188	198	210	222	234
	ANNUAL	4368	4628	4888	5148	5460	5772	6084
	6) WEEKLY	92	97	103	109	115	122	129
	BI-WEEKLY	184	194	206	218	230	244	258
	ANNUAL	4784	5044	5356	5668	5980	6344	6708
CATEGORY E	7) WEEKLY	99	105	111	118	125	133	141
	BI-WEEKLY	198	210	222	236	250	266	282
	ANNUAL	5148	5460	5772	6136	6500	6916	7332
	8) WEEKLY		126	133	140	148	156	164
	BI-WEEKLY		252	266	280	296	312	328
	ANNUAL		6552	6916	7280	7696	8112	8528
	9) WEEKLY		139	147	155	163	172	181
	BI-WEEKLY		278	294	310	328	344	362
	ANNUAL		7228	7664	8060	8476	8944	9412
	10) WEEKLY		154	162	171	180	190	200
	BI-WEEKLY		308	324	342	360	380	400
	ANNUAL		8008	8424	8892	9360	9880	10400

1 February 1968

COPY

MARINE CORPS EXCHANGE 6-3 HOURLY WAGE AND SALARY SCHEDULE

GRADE LEVEL	START	1	3	5	7	9	11	13	15
X-1 A	1.60	1.66	1.72	1.78	1.84	1.90	1.96	2.02	2.08
B	1.62	1.68	1.74	1.80	1.86	1.92	1.98	2.04	2.10
C	1.64	1.70	1.76	1.82	1.88	1.94	2.00	2.06	2.12
X-2 A	1.65	1.71	1.77	1.83	1.89	1.95	2.01	2.07	2.13
B	1.67	1.73	1.79	1.85	1.91	1.97	2.03	2.09	2.15
C	1.69	1.75	1.81	1.87	1.93	1.99	2.05	2.11	2.17
X-3 A	1.70	1.76	1.82	1.88	1.94	2.00	2.06	2.12	2.18
B	1.72	1.78	1.84	1.90	1.96	2.02	2.08	2.14	2.20
C	1.74	1.80	1.86	1.92	1.98	2.04	2.10	2.16	2.22
X-4 A	1.75	1.81	1.87	1.93	1.99	2.05	2.11	2.17	2.23
B	1.77	1.83	1.89	1.95	2.01	2.07	2.13	2.19	2.25
C	1.79	1.85	1.91	1.97	2.03	2.09	2.15	2.21	2.27
X-5 A	1.80	1.86	1.96	2.06	2.16	2.26	2.36	2.46	2.56
B	1.82	1.88	1.98	2.08	2.18	2.28	2.38	2.48	2.58
C	1.84	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.60
X-6 A	1.85	1.91	2.01	2.11	2.21	2.31	2.41	2.51	2.61
B	1.87	1.93	2.03	2.13	2.23	2.33	2.43	2.53	2.63
C	1.89	1.95	2.05	2.15	2.25	2.35	2.45	2.55	2.65
X-7 A	1.90	1.96	2.06	2.16	2.26	2.36	2.46	2.56	2.66
B	1.92	1.98	2.08	2.18	2.28	2.38	2.48	2.58	2.68
C	1.94	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70
X-8 A	1.95	2.01	2.11	2.21	2.31	2.41	2.51	2.61	2.71
B	1.97	2.03	2.13	2.23	2.33	2.43	2.53	2.63	2.73
C	1.99	2.05	2.15	2.25	2.35	2.45	2.55	2.65	2.75
X-9 A	2.20	2.26	2.36	2.46	2.56	2.66	2.76	2.86	2.96
B	2.26	2.32	2.42	2.52	2.62	2.72	2.82	2.92	3.02
C	2.32	2.38	2.48	2.58	2.68	2.78	2.88	2.98	3.08
X-10 A	2.40	2.47	2.57	2.67	2.77	2.87	2.97	3.09	3.23
B	2.46	2.53	2.63	2.73	2.83	2.93	3.03	3.16	3.30
C	2.52	2.59	2.69	2.79	2.89	2.99	3.09	3.23	3.37
X-11 A	2.60	2.67	2.77	2.87	2.97	3.07	3.21	3.35	3.49
B	2.66	2.73	2.83	2.93	3.03	3.13	3.28	3.42	3.56
C	2.72	2.79	2.89	2.99	3.09	3.19	3.35	3.49	3.63
X-12 A	3.00	3.07	3.17	3.27	3.37	3.47	3.57	3.67	3.78
B	3.10	3.17	3.27	3.37	3.47	3.57	3.67	3.77	3.87
C	3.20	3.27	3.37	3.47	3.57	3.67	3.77	3.87	3.97
X-13 A	3.30	3.37	3.47	3.57	3.67	3.77	3.87	3.97	4.07
B	3.40	3.47	3.57	3.67	3.77	3.87	3.97	4.07	4.17
C	3.50	3.57	3.67	3.77	3.87	3.97	4.07	4.17	4.27
X-14 A	3.60	3.67	3.77	3.87	3.97	4.07	4.17	4.27	4.37
B	3.70	3.77	3.87	3.97	4.07	4.17	4.27	4.37	4.47
C	3.80	3.87	3.97	4.07	4.17	4.27	4.37	4.47	4.57

COPY

ENCLOSURE (1)



## JOB CLASSIFICATION SCHEDULE

COPY	JOB TITLE	GRADE	STARTING SALARY HOURLY RATE		
			A	B	C
	Invoice Clerk	X-5	1.80	1.82	1.84
	Lubrication Specialist				
	Mechanic, Apprentice				
	Mechanic, Helper				
	Receptionist/Typist/Payroll Clerk				
	Assistant EADM Operator	X-6	1.85	1.87	1.89
	Assistant IBM Operator				
	Assistant Manager, Barber Shop (Special)				
	Assistant Manager, Warehouse				
	Billing/Computing Machine Operator				
	Head Presser				
	Night Supervisor, Restaurant				
	Spotter, Dry Cleaning				
	Spotter/Presser				
	Stock Control Clerk				
	Cash Collector	X-7	1.90	1.92	1.94
	Chief IBM Operator				
	Clerk-Stenographer				
	Finance Section Clerk				
	Manager, Beauty Shop				
	Photo Colorist & Finisher				
	Assistant Bookkeeper, Junior	X-8	1.95	1.97	1.99
	Assistant Manager, Ladies & Children				
	Assistant Manager, Main Store				
	Assistant Manager, Restaurant				
	Assistant Manager, Service Station				
	Assistant Manager, Sporting Goods				
	Assistant Manager, TV-Radio Repair Shop				
	Chief EADM Operator				
	Chief Stock Clerk				
	Parts Technician, Service Station				
	Route Man, Dry Cleaning Shop				
	Secretary				
	Secretary-Finance Section				
	Stock Control Coordinator				
	Assistant Bookkeeper	X-9	2.20	2.26	2.32
	Assistant Manager, Photo Shops				
	Chief Receiver, Warehouse				
	Manager, Barber Shops (Special)				
	Manager, Fountains/Snack Bars				

COPY

ENCLOSURE (2)

## JOB CLASSIFICATION SCHEDULE

COPY	JOB TITLE	GRADE	STARTING SALARY HOURLY RATE		
			A	B	C
	Manager, Main Store Manager, Sporting Goods Department Manager, Warehouse Mechanic, General (Also under SPECIAL) Photographer	X-9	2.20	2.26	2.32
	Assistant Manager, Tailor/Dry Cleaning Shop Assistant Purchasing Agent Chief Cash Collector Chief Photographer Executive Secretary Head Bookkeeper Head Mechanic (Also under SPECIAL) Manager, Photo Shops Personnel Assistant & Payroll Clerk	X-10	2.40	2.46	2.52
	Manager, TV-Radio Repair Shop	X-11	2.60	2.66	2.72
	Manager, Restaurant Manager, Tailor/Dry Cleaning Shop Purchasing Agent Shop Manager, Garage/Service Station	X-12	3.00	3.10	3.20
	Supervisor, Photo Shops Unassigned (Exchange Officer's Use)	X-13	3.30	3.40	3.50
	Unassigned (Exchange Officer's Use)	X-14	3.60	3.70	3.80
	Administrative Assistant Manager (Merchandise Control/Buyer)	SPEC SPEC	Salaried Salaried		
	Barbers (Includes Manager & Assistant Manager) Director, Food Services Garage Mechanics Supervisor, Garage/Service Station Supervisor, Tailor/Dry Cleaning Shop	SPEC SPEC SPEC SPEC SPEC	Commission Commission Commission Commission Commission		

COPY

ENCLOSURE (2)

APPENDIX H

APPLICABILITY OF THE GOVERNMENT CORPORATION CONCEPT  
TO MILITARY EXCHANGES



## APPENDIX H

### APPLICABILITY OF THE GOVERNMENT CORPORATION CONCEPT TO MILITARY EXCHANGES

#### A. PURPOSE OF THE PAPER

This Appendix is for the purpose of aiding the DoD in arriving at a decision regarding the application of the government corporation concept to military exchanges. This alternative presents itself regardless of whether the exchanges are maintained as three separate systems or some form of consolidation is decided upon. This alternative only becomes a feasible one if the DoD decides that the exchange systems should be set up as one or more discrete organizational entities with a clear management chain extending from the central headquarters down to the individual exchanges; and with the authority of the military chain over the exchanges defined as something less than "command."

The principal documents used in the preparation of this paper are listed in Attachment 1 to this Appendix.

#### B. LEGAL BACKGROUND AND STATUS

Army-Air Force - As governmental activities the services provided by the Army-Air Force Exchange Service has what has been described as "a curious and little known history."<sup>1</sup> Early in this country's history goods and services, such as they were, were sold to men in the Army by men known as "sutlers," each of whom was "a combination of saloon keeper and general store

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<sup>1</sup>Ref. No. 1, p. 19.

operator."<sup>1</sup> There is no doubt that the sutlers, although subject to government regulation, were private parties operating for profit and were not parts of, or agents of, the Government itself. The same was true of the "post traders" who replaced the sutlers around 1867 and who in turn were eliminated around 1895. Many abuses developed under both the sutler and post trader arrangements.<sup>2</sup>

In 1880 the first Army post canteen was opened. It consisted of a room in one of the buildings at an Army post which was set aside where newspapers, magazines, writing paper, envelopes, pen and ink were available; where soldiers could play billiards, cards, and other games; and where they could obtain light food and beverages. The canteen served as a combination social club and general store for the enlisted man, and was operated on a self-supporting, non-profit basis.<sup>3</sup> The canteen arrangement proved to be a success; the number of canteens grew steadily; and by about 1895 the canteens had almost completely replaced the post traders in the Army. The War Department started that action in February 1889, based upon a study and report of The Assistant Adjutant General, Major Theodore Schwan. Major Schwan's report has been described as ". . . a landmark in the development of the exchange system. The basic philosophy, concepts, and principles for the establishment and operation of post canteens, first clearly enunciated in his recommendations, still remain as valid guidelines for the exchange system at the present time . . ."<sup>4</sup>

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<sup>1</sup>Ref. No. 1, p. 20.

<sup>2</sup>Ref. No. 1, pp. 24-26.

<sup>3</sup>Ref. No. 1, p. 26.

<sup>4</sup>Ref. No. 1, p. 27.

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<sup>1</sup>Ref. No. 1, p. 20.

<sup>2</sup>Ref. No. 1, pp. 24-26.

<sup>3</sup>Ref. No. 1, p. 26.

<sup>4</sup>Ref. No. 1, p. 27.

In contrast to the private, civilian character of the sutlers and post traders, the Army canteens perhaps could best be described as local military cooperatives. To the extent that they were organized and managed by government personnel, occupied government facilities, and were furnished utilities by the Government, the canteens began to take on the coloration of government activities. In 1892 the Secretary of War changed the name of the "post canteens" to "post exchanges."<sup>1</sup> Centralized management of the Army-Air Force Exchange Service (AAFES) was established in 1946.<sup>2</sup>

Navy - The Navy counterparts to the Army-Air Force exchanges are of two kinds which have different histories, depending upon whether they are afloat or ashore.

● Afloat - The title of Navy Ship's Stores was originally applied to all stores afloat. Their predecessors were "slop stores" inherited from the British Royal Navy and "bumboats" which have always been a parasite to men of the sea.<sup>3</sup> In the 1800's canteens appeared aboard U. S. naval ships which were individual cooperatives, apparently similar in structure and financing to the canteens of the Army. These were replaced around 1909 by full-fledged governmental activities, authorized by an Act of Congress, financed from appropriations, and called Ship's Stores.<sup>4</sup>

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<sup>1</sup>Ref. No. 1, p. 31.

<sup>2</sup>Ref. No. 3.

<sup>3</sup>Ref. No. 3.

<sup>4</sup>10 USC Ch. 651.

- Ashore - Navy shore-based exchanges were originally called Ship's Service Stores and were small concessions operated by enlisted men for personal profit. They were superseded in 1923 with the issuance of a Navy Regulation which provided for operation of the stores with non-appropriated funds with profits to be used for welfare and recreation purposes.<sup>1</sup>

In 1946 and 1947 the Secretary of the Navy consolidated the operation of the Ship's Service Stores under the Navy Ship's Stores Office (NSSO) which, in turn, was under Navy Supply Systems Command (then the Bureau of Supplies and Accounts).<sup>2</sup>

- Marine Corps - The history of the Marine Corps exchanges is said to parallel that of the Army exchanges prior to 1900, when the first Marine post exchange was established. In 1912 the last Marine post trader was replaced by a post exchange.<sup>3</sup> Unlike the other Services, the Marine Corps still operates its exchanges as separate, independent facilities.

- General - By 1902 Congress was making provision in appropriation acts for the construction, equipment, and maintenance of buildings for the conduct of post exchange activities. Congress has not, however, enacted legislation authorizing military exchanges and defining their functions.<sup>4</sup>

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<sup>1</sup>Ref. No. 3.

<sup>2</sup>Ref. No. 3.

<sup>3</sup>Ref. No. 3.

<sup>4</sup>As already noted, there is authorizing legislation for the Ship's Stores Afloat. Another merchandising operation resembling the exchanges, the Veterans Canteen Service, also has specific authorizing legislation (38 USC Ch. 75).

Although the Courts have not ruled that authorizing legislation was necessary (see below), the absence of such legislation left in limbo for a long time the question whether the exchanges were governmental or private in character.<sup>1</sup>

In 1949, at the request of the House Armed Services Committee, the designations of the exchanges of the four Services were made uniform. The Navy's term, "ship's service stores," was dropped and the term "post" was deleted from the Army and Marine designations. The facilities were then designated, "Army Exchange," "Navy Exchange," "Marine Exchange," and "Air Force Exchange."

However murky the past may have been with respect to the legal status of the exchanges, fairly recent legislative, judicial, and executive actions have left no room for doubt today that they are part of the U. S. Government.

- In 1942 the U. S. Supreme Court found that the Army-Air Force Exchanges "... are arms of the Government, an integral part of the War Department, and partake of whatever immunities it may have under the Constitution and Federal statutes."<sup>2</sup>

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<sup>1</sup>As recently as 1949, for example, a court held that a Navy Ship's Service Store employee was not an employee of the Government. *Falini v. U. S.*, 125 F. Supp. 630 (D.C.E.D.N.Y. 1949). In 1963 the Comptroller General said, "... the exchanges are not government-owned or operated activities ... " Opinion No. B-146868, January 1963.

<sup>2</sup>316 U. S. 481, 62 Sup. Ct. 1162 (1942).

- In 1952 the Congress by implication recognized exchange employees as Federal employees by exempting them from laws administered by the Civil Service Commission.<sup>1</sup>
- In 1957 the Army and Air Force Departments stated, "The AAFES is an instrumentality of the United States entitled to the immunities and privileges available under the Federal Constitution and statutes to the departments and agencies of the Federal Government . . ."<sup>2</sup>

Although the functions of the exchanges are Federal functions, they bear little resemblance to the functions of the regular Federal departments and agencies. The functions are, however, quite similar to the functions of government corporations. There is, therefore, a need for exploration of the pros and cons of Federal incorporation of the exchanges.

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<sup>1</sup>5 USC 150K exempts civilian employees of the exchanges from laws administered by the Civil Service Commission and the Federal Employees Compensation Act. 5 USC 150K-1 places exchange civilians under the Longshoreman's and Harbor Workers' Compensation Act.

<sup>2</sup>AR 60-10/AFR 147-7, 26 April 1957.

C. DISTINGUISHING CHARACTERISTICS OF A  
GOVERNMENT CORPORATION

The characteristics which distinguish a government corporation are:

1. The Government is dealing with the public as a businessman rather than as a sovereign.
2. Users, or consumers, rather than the general public, pay for the cost of goods and services.
3. Expenditures necessarily fluctuate with consumer demand and cannot accurately be predicted or realistically kept within annual limitations.
4. Additional expenditures to meet increased demand do not in the long run increase the net outlay from the U. S. Treasury.
5. Operations are being conducted within functional areas in which there are well-established trade practices.

It will be seen that the military exchanges have all five of these characteristics.

D. DISTINGUISHING AUTHORITIES AND EXEMPTIONS  
OF A GOVERNMENT CORPORATION

The Congress has conferred widely differing authorities and exemptions upon government corporations; nevertheless, it is possible to make some generalizations about the distinguishing authorities and exemptions of government corporations. Such distinguishing attributes stem not from the fact of incorporation, but from specific grants of power to corporations by the Congress.



There are some places in the U. S. Code in which a department or agency of the U. S. Government is defined; the definitions include corporations; and whole bodies of statute are made applicable to departments and agencies generally, including corporations.<sup>1</sup> Such statutes do not confer unique powers on corporations. On the contrary, they treat corporations the same way they treat regular departments and agencies.

1. Corporation Control Act - The only general Act with provisions exclusively related to government corporations is the Government Corporation Control Act of 1945.<sup>2</sup> The Act contains important provisions affecting the financial affairs of corporations.

a. Budget and Audit - A method of budget presentation and audit is provided which is different from that applicable to other agencies under the Budget and Accounting Act of 1921<sup>3</sup> and the Budget and Accounting Procedures Act of 1950.<sup>4</sup> Corporations present business-type budgets prepared in accordance with principles and practices closely resembling those of private business. Corporations are annually audited by the Comptroller General "in accordance with principles and procedures applicable to commercial corporate transactions." This is an on-site

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<sup>1</sup> See, for example, 18 USC 6, (Criminal Statutes); and 28 USC 451 (Judicial matters).

<sup>2</sup> 31 USC 841-869.

<sup>3</sup> 31 USC Chap. 1.

<sup>4</sup> Ibid.

audit, and comprises a complete survey and analysis of the financial condition and operations of the corporation.<sup>1</sup>

b. Corporate Funds - Corporate funds are authorized to be deposited with the Treasurer of the United States or in private banks, and the corporation can make its own disbursements from such accounts.

2. Corporate Charters - Each government corporation has an individual charter in the form of an Act of Congress establishing the corporation. No two of these charters are alike. An examination of the charters of a number of corporations<sup>2</sup> discloses the following distinguishing attributes additional to those set out in the Corporation Control Act:

a. Legal Status - Unlike a government department or agency, a body corporate is a separate entity for legal purposes and consequently its charter authorizes it to sue and be sued, and to enter into contracts and acquire and dispose of property in its own name.

b. Authority to Make Expenditures - A corporation is usually given power "to determine the character of and the necessity for its expenditures, and the manner in which they shall be incurred, allowed, and paid."<sup>3</sup> A corporation is thus exempted from most

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<sup>1</sup>Historically the exchanges have successfully resisted audit by the Comptroller General. In 1949 the House Armed Services Committee agreed to forego introducing legislation which would have required audit by the Comptroller General provided the exchanges were audited by "a recognized firm of outside accountants."

<sup>2</sup>Ref. Nos. 12 through 18.

<sup>3</sup>Ibid.

of the regulatory and prohibitory statutes applicable to the expenditure of appropriated funds by departments and agencies. Congress usually places no quantitative limits, other than a corporation's total available resources, on its program expenditures as long as such expenditures are made in accordance with the corporation's charter and its annual budget program. Agencies are generally financed by direct annual appropriations from Congress. Corporate funds are ordinarily derived from U. S. Treasury subscriptions to capital stock, borrowings, and revenues. A corporation is generally authorized to use and reuse its revenues.

c. Accounts - The accounting practices of government corporations normally follow those used by private business and are devised primarily as an aid in the management and control of the corporate program. Instead of maintaining customary appropriation accounts on an obligation basis, including accounts by objects of expenditure, corporation accounts are classified by character of activity and are kept on an accrual basis.

d. Personnel - Several corporate charters recognize the need for flexibility in the handling of personnel. Some corporations are totally exempt from Civil Service laws, and most of them have been given special powers to employ attorneys and agents. The charters display a high degree of selectivity in this area, some exempting employees from the Civil Service but covering them under one or more of: Federal Employees Group Life Insurance, Federal Employees' Compensation Act, and the Civil Service Retirement Act.

E. ORGANIZATIONAL AND ADMINISTRATIVE FEATURES OF  
GOVERNMENT CORPORATIONS

An examination of the charters of several existing government corporations<sup>1</sup> shows that there are precedents for a variety of organizational arrangements. Some examples:

1. Governing Board (Board of Directors) - One corporation has no board of directors. Others have boards ranging in number from 3 to 13. Some boards are part-time, others full-time. Some members are ex-officio, others not.

It should be noted that a board of directors is not an indispensable attribute of a government corporation. Indeed, it appears to be something of an anachronism stemming from the fact that early "Federal" corporations were, in fact, chartered under state laws which required boards of directors as representatives of stockholders. The need for meshing the activities of a government corporation into other departmental functions indicates that a single head for a government corporation would usually be preferable to a board.

2. Advisory Board - Most government corporations do not have statutory advisory boards, but some do, with differences as to both the composition and numbers of the membership.

3. Chief Executive - Corporate charter provisions for chief executives display a very wide variety. Examples:

- A single executive with the title, "Administrator."
- A three-member board of directors which collectively functions as chief executive.

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<sup>1</sup>Ref. Nos. 12 through 18.

- Several single executives called, "President."
- A single executive who is also the head of a separate, non-corporate agency.

Although no existing government corporation has a charter which specifically authorizes the assignment of a military officer as the chief executive there appears to be no legal bar to such an arrangement. The Panama Canal Company has, in fact, been headed by a military officer for many years. There are some statutory precedents affecting non-corporate, civilian agencies. For example, 42 USC 2038 has the following to say regarding the Atomic Energy Commission: "Notwithstanding the provisions of any other law, any active duty officer of the Army, Navy, or Air Force may serve as Director of the Division of Military Application without prejudice to his commissioned status as such officer . . . . Notwithstanding the provisions of any other law, any active or retired officer of the Army, Navy, or Air Force may serve as Chairman of the Military Liaison Committee without prejudice to his active or retired status as such officer . . . ." The National Aeronautics and Space Administration has authority under 42 USC 2473(b)(12) to utilize active duty military personnel in the performance of NASA's functions.

4. Deputy Chief Executive - Most government corporation charters do not specifically provide for a deputy chief executive, but two of them do so. One provides for a Deputy Administrator, the other for a First Vice President.

5. Internal Organization Structure - None of the government corporation charters which were reviewed placed any

constraints upon internal organization, leaving that important matter entirely under the control of corporate management.

6. Other Special Features

a. Taxes - Government corporations are not subject to state or local taxation. Where it has appeared, however, that the impact of their tax-free operations on the local governmental structure would be seriously adverse, some corporations have been authorized to make payments in lieu of taxes to state or local governments.

b. Utilization of Other Government Services - Some corporations have been authorized, with the consent of the head of the department or agency involved, to make use of the information, services, facilities, officers or employees of such department or agency in the discharge of authorized corporate activities.

c. Employment of Aliens - At least one government corporation has been authorized to employ or to contract for the employment of aliens outside of the United States.

F. IMPORTANCE OF THE ISSUE OF INCORPORATION

The question of giving the military exchanges the status of a government corporation will assume special significance if:

1. The DoD decides to make the exchanges more fully

self-supporting<sup>1</sup>; or to make the character and value of the exchange appropriated fund support specific and subject to annual appropriation; or, simply, to make it possible to identify and measure the amount of the appropriated fund support on an after-the-fact basis.

OR

2. The DoD decides that a legislative basis should be sought from the Congress which would remove the uncertainties and complications which presently are associated with the exchange operations. These uncertainties and complications are discussed elsewhere in this report. They involve primarily the status of exchange employees<sup>2</sup>; the settlement of claims for and against the exchanges; and the financial activities of the exchanges.

The characteristics of the exchange operations are such that it is questionable that either the Executive Office of the President or the Congress would be willing to support organic legislation for the exchanges which established them on other than a corporate basis.<sup>3</sup>

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<sup>1</sup>As recommended in the Report of the First Quadrennial Review of Military Compensation, Vol. I, Active Duty Compensation, Recommendation No. 19--1 Nov. 1967.

<sup>2</sup>The exact legal status of exchange civilians is still cloudy. See "The Legal Status of the Exchange Employee-Resolved and Unresolved Questions." Ref. 2, p. 37.

<sup>3</sup>The Veterans Canteen Service, mentioned earlier, is a government corporation for all practical purposes although it is not so designated in law.

G. SOME BENEFITS

Over and above the matter of clarification of the status of the exchanges, it would appear that, if desired by the DoD and approved by the Congress, the following benefits could be obtained for the exchanges by appropriate charter provisions:

- Ability to secure working capital from the United States Treasury. One of the major, historical problems of the exchanges has been the need of substantial amounts of working capital to extend exchange services into operational theatres in WW I, WW II, Korea, and the present Vietnam War.<sup>1</sup> Working capital for Army exchanges was obtained in WW II through a \$20 million loan from the Defense Supplies Corporation, a subsidy of the Reconstruction Finance Corporation.<sup>2</sup> Working capital to fill the AAFES Vietnam pipeline is being obtained by borrowing large sums from private banks--as much as \$60 million at one point. The interest on these loans reduced, and is still reducing, the benefits to the people the exchanges are set up to serve. Quick access to a U. S. Treasury loan or advance would be of great value in enabling the exchanges to respond to "surge" requirements. Since the purpose of such a loan would be to meet a military requirement, it seems appropriate that it bear little or no interest.
- Ability to construct, own, and operate exchange facilities. The quality of service, volume of sales, and

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<sup>1</sup>Ref. No. 1, pp. 33-35.

<sup>2</sup>Ref. No. 3.



"profitability" of many exchange stores are being impaired by the inadequate facilities available to many of the stores under present arrangements. As a corporation, the exchange system(s) would be in position to construct, enlarge, or modernize local stores as needed, with investments from exchange capital. This is being done now on a small scale. A widespread need would develop if Recommendation No. 19 in the First Quadrennial Review of Military Compensation<sup>1</sup> is adopted.

- Ability to settle claims and to sue and be sued in its own name. As unincorporated Federal instrumentalities the exchange systems must handle claims as is done by the regular departments and agencies. Claims are for or against the U. S. Government and those which go to court are handled by the department through a local U. S. Attorney.<sup>2</sup> The grants of authority to government corporations to bring and to defend suits in their own names have been considered to be major contributions toward the flexibility of operation which makes the corporate form useful.<sup>3</sup>

The question whether the exchange systems should be able to sue and be sued in their own names involves considerations relative to (1) government flexibility and efficiency, and (2) the impact upon those with whom the exchanges are dealing.

From the efficiency point of view, there is no doubt

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<sup>1</sup>Ref. No. 3.

<sup>2</sup>Ref. No. 2, pp. 24-28.

<sup>3</sup>Ref. No. 4, p. 16.

that the present arrangement is cumbersome compared to that of government corporations. The Department of Justice and the U. S. Attorneys must handle suits for and against the exchanges (and stemming from matters generally foreign to their areas of legal concern such as bad check collection and commercial type claims involving vendors). LMI has not been able to calculate the extra cost to the Government imposed by the present arrangement with respect to claims, but it appears to be comparatively small.

From the point of view of claims handling the question of incorporation may be less important in terms of efficiency than in terms of its effect upon the businessmen with whom the exchanges deal, a matter which is briefly discussed in Section I.2. of this Appendix. The issue may also be regarded as of some importance were it decided to make the exchanges more fully self-supporting since in handling claims the Department of Justice may be said to be providing some small measure of appropriated fund support.

#### H. SOME PROBLEMS

1. Appropriated Fund Support. - A major problem associated with exchange incorporation involves the question of appropriated fund support. Historically, objections have been made to incorporating governmental commercial-type programs with a variety of reasons advanced, when the real and underlying basis for the objection was the fact that the corporation was expected to operate with little or no appropriated fund support. There is, however, nothing in

law or precedent to preclude appropriated fund support for the exchanges as an incorporated instrumentality if that is what the executive and legislative branches want. There are, in fact, precedents for such support. One, for example, is defense-related. The Panama Canal Company charter provides, "there shall be excluded from the government investment in facilities on which the corporation pays interest any portion of the transferred property which is properly allocable to defense." Another is the Virgin Islands Corporation, which has a specific provision in its charter for annual grants from appropriated funds to the corporation to meet expenses of non-revenue producing programs. The appropriated fund support problem is one largely involving policy--once a decision has been reached whether there should be appropriated fund support and, if so, what form it should take, the mechanics of implementation should not be very difficult.

2. Relationship to the Military Command Chain - As far as CONUS is concerned with respect to AAFES and with respect to Navy and Marine systems generally, incorporation of the exchanges can be considered only if a decision has been made to take local exchanges out from under the "command" of the military chain. The problem is different with respect to the European Exchange System (EES) and Pacific Exchange System (PACEX). In those theaters the exchanges are parts of centrally managed systems. The problem would involve placing a constraint upon the authority of the theater commander, an issue which is well outside the scope of this study.

3. Title to Exchange Stores - Title to the present exchange stores is in the U. S. Government. A decision would need to be made whether to transfer title to the stores to the corporation(s) and, if so, under what terms and conditions. If title is not passed, there will then be a question whether the corporation(s) should pay rental on the properties. Again, this problem appears to be a knotty one as to policy but fairly straightforward as to implementation once a clear policy is set. The free use of facilities is considered by some to be a "subsidy." Considering the constraints placed upon the exchanges as to store location and operating conditions, and the fact that their prime mission is service to military personnel and their dependents, the question may fairly be asked whether a "subsidy" is truly involved.

I. WHY IDENTIFY THE EXCHANGES AS A "CORPORATION?"

As non-appropriated fund activities, the exchanges have some of the principal features of a government corporation. Why then need the question of formalization be considered? The detailed issues are dealt with in prior sections of this Appendix. Two broad and somewhat intangible aspects of the matter are brought out here.

1. Internal Government Problems - Generally speaking, the executive branch of the Federal government is made up of two types of organizations. The first and predominant type is the department or agency which is financed from appropriations. The second and minority type of government corporation (either wholly-owned or mixed government and private ownership) which is financed wholly or primarily

from non-appropriated funds. There is no recognized "third type" of organization. Any organization which is not called a corporation will be subject to efforts by such agencies as the Bureau of the Budget, Civil Service Commission, the Departments of the Treasury and Justice, and the General Accounting Office to impose upon it the conventional constraints applicable to the departments and agencies. This is a general problem and is well brought out in a United Nations publication of some years ago:

"While it is theoretically possible to endow an enterprise organized along normal governmental lines with a high degree of operating and financial flexibility, in practice it is difficult to do so. As long as an enterprise is not clearly differentiated from other types of governmental activity, strong pressures will be brought to make it conform to standard governmental regulations and procedures, since emphasis on uniformity is a common characteristic of bureaucratic administration. Unless specific legal provisions are made applicable to specifically designated enterprises, the effort to apply different procedures often fails."<sup>1</sup>

2. External Relationships - It is generally recognized to be true that government corporations are able to work more smoothly in their external business relationship than can departments and agencies. A Bureau of the Budget publication puts it this way:

"Freedom from certain restrictive statutes with respect to disbursements, contracts, purchases, and personnel make it possible for a government corporation, where desirable, to follow standard commercial

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<sup>1</sup>Ref. No. 6

practices in carrying on its business. In addition, businessmen are familiar with the corporate form of organization and feel more at home in doing business with a corporation than with a government agency. The businessman knows that a corporation can sue and be sued, but he is not always certain of his rights and obligations with respect to an agency."<sup>1</sup>

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<sup>1</sup>Ref. No. 4

PRINCIPAL DOCUMENTS USED IN THE  
PREPARATION OF APPENDIX H

- Ref. No. 1 - "Evolution of the Army and Air Force Exchange Service," by M. Scolnick and J. L. Packer, The USAF JAG Law Review, Vol. III, No. 5, Sept.-Oct. 1966.
- Ref. No. 2 - "Special Army and Air Force Exchange Service Issue" - The USAF JAG Law Review, Vol. IX, No. 2, March-April, 1967.
- Ref. No. 3 - Hearings before Special Subcommittee on Resale Activities of the Armed Services, Committee on Armed Services, House of Representatives, Hs. Doc. No. 104, 1949.
- Ref. No. 4 - "Elements of a Model Charter for Government Corporations" (Rev.), August 1952, Office of Management and Organization, U. S. Bureau of the Budget.
- Ref. No. 5 - "The Government Corporation: Organization and Controls," by Harold Seidman, Bureau of the Budget--from Public Administration Review, Number 3, Summer, 1954.
- Ref. No. 6 - "Some Problems in the Organization and Administration of Public Enterprises in the Industrial Field" - United Nations Technical Assistance Administration, New York, 1954.
- Ref. No. 7 - "The Government Corporation in the United States," by Harold Seidman, from Summer 1959 issue of Public Administration (Great Britain).
- Ref. No. 8 - 1948 Budget Message of the President of the United States - H. Doc.19, 80th Cong., pp. M57-M62.
- Ref. No. 9 - Budget and Accounting Act of 1921, 31 USC Chap. 1.
- Ref. No. 10 - Budget and Accounting Procedures Act of 1950, 31 USC Chap. 1.

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- Ref. No. 11 - Government Corporation Control Act, 31 USC 841-869.
- Ref. No. 12 - St. Lawrence Seaway Development Corporation Charter, 33 USC 981.
- Ref. No. 13 - Tennessee Valley Authority Charter, 16 USC 831.
- Ref. No. 14 - Export-Import Bank of Washington Charter, 12 USC 635.
- Ref. No. 15 - Panama Canal Company Charter, 5 CZC 61-75.
- Ref. No. 16 - Federal Deposit Insurance Corporation Charter, 12 USC 1811.
- Ref. No. 17 - Federal Savings & Loan Insurance Corporation Charter, 12 USC 1724.
- Ref. No. 18 - Virgin Islands Corporation Charter, 48 USC 1407.



**APPENDIX I**

**SUMMARY OF AFEX-EES MERGER, 1964**

APPENDIX I

SUMMARY OF AFEX-EES MERGER, 1964

When the Air Force obtained full departmental status in 1947, the Army and Air Force elected to operate a joint exchange service on a worldwide basis. However, in Europe in the early 1950's, the Air Force expanded its military activities into the United Kingdom, Spain, Morocco, and other areas in the Middle East where Army units were not located. As a result, the Air Force elected to withdraw its European exchanges from the joint Army-Air Force system to allegedly be more responsive to command, recreation, welfare, and morale needs. Thus from January 1952 there were two exchange services serving Army and Air Force troops in Europe, North Africa and the Middle East:

- (1) European Exchange System (EES) serving Army personnel.
- (2) Air Force Exchange System (AFEX) serving Air Force personnel.

Following this separation in 1952, knowledgeable experts claimed that the duplication of effort in Europe was extremely costly and required corrective action. Studies of possible alternatives continued for over 10 years. Finally, the need to eliminate basic redundancy combined with rising operating costs triggered the decision to merge. In the fall of 1963 the Air Force and the Army established a joint task force to study and submit a plan to merge the two separate exchange systems. The commands approved the merger plan which called for phasing over a three-year period. However, the merger process was completed

in twelve months because of the pressure of operational requirements. The two systems were formally merged on 25 July 1964 and the resultant combination was called the Army-Air Force European Exchange System (EES).

The merger resulted in many cost reductions and refinements as shown on the statistical summary that follows.

A major result of the merger was a reduction in the numbers of employees and resultant personnel costs despite a continued escalation of wage rates. Thus net profit improvement was primarily a reflection of personnel cost reductions. Note that the average military strength was fairly stable. Sales, which rose only modestly, might have been greater except for military draw-down in the spring of 1966 which resulted in a decreasing number of dependent customers in FY 1967 and FY 1968. The merger had little effect on gross profit. The new system resulted in only a minimum increase in volume discounts and a consequent nominal decrease in cost of sales.

This merger can be used as a gross indicator of personnel reductions when two large exchange organizations merge. At the beginning of the merger there were 25,000 people in the combined systems. Three years after the merger this figure had been reduced to 18,000 - a reduction of over 25%.

However, this 25% reduction cannot be legitimately applied to a single worldwide defense exchange service, even though certain elements of the combination may achieve or even surpass this percentage. It is predicted, however, that sizable personnel cost savings, along with reductions in other cost elements, can be realized through such a combination.

# STATISTICAL SUMMARY

Operations of European Exchange System FY 1964 - 1968  
(Dollars in thousands)

Strength	FY 1964	FY 1965	FY 1966	FY 1967	FY 1968
Average Monthly Military Strength Served	N/A	342,032	339,677	319,115	319,715
<u>Sales</u>					
Total Direct Sales	\$321,442	\$320,039	\$328,835	\$328,441	\$316,845
Per Capita Sales		\$ 936	\$ 968	\$ 1,029	\$ 991
% Increase Over Prior Year			3.4	6.3	(3.7)
<u>Gross Profit Margins (%)</u>					
Retail		21.30	22.02	22.10	22.54
Food		53.84	54.25	56.18	57.83
Service		27.59	26.26	25.88	26.10
<u>Net Profits</u>					
Dollars	\$ 18,518	\$ 15,134	\$ 13,801	\$ 15,504	\$ 21,157
Per Cent	5.76	4.73	4.20	4.72	6.68
<u>Personnel</u>					
Year-end Head Count - # of Employees	N/A (1)	25,822	25,082	22,450	20,291
Average Monthly # of Computed Employees (4)	25,677	24,555	24,379	21,479	18,196
Personnel Costs - Prior Year	\$ 52,649	\$ 53,247 (2)	\$ 53,778 (2)	\$ 59,103	\$ 58,042
Tariff and Within Grade Increases	N/A	\$ 4,650 (2)	\$ 5,950	\$ 4,500	\$ 4,300
Resulting Potential Personnel Costs	N/A	\$ 57,897	\$ 59,728	\$ 63,603	\$ 62,342
Actual Net Personnel Costs for Year	\$ 53,247	\$ 53,778	\$ 59,103	\$ 58,042	\$ 53,408
<u>Savings</u>		\$ 4,119	\$ 625	\$ 5,561	\$ 5,934 (3)
Annual Cost per Computed Employees	\$ 2,074	\$ 2,190	\$ 2,424	\$ 2,702	\$ 2,845
% Increase Over Prior Year		5.6	10.7	11.5	5.3
Annual Sales per Employee	\$ 12,519	\$ 13,034	\$ 13,488	\$ 15,291	\$ 16,857
% Increase Over Prior Year		4.1	3.5	13.4	10.2

(1) Although data not available for year end FY 64 (January, 1964), strength at October 1963 was 27,853.

(2) Also includes personnel costs related to assuming operation of former OM gas stations in July 1964 at annual rate of \$1,300,000, half of which is reflected in FY 1965 and half in FY 1966.

(3) \$3,900,000 attributed to phaseout of operations in France.

(4) Excludes food and service plant employees, personnel costs for whom are accounted for as an integral element of cost of goods sold of processing plants, and data for which are set forth on this line:

2,968	3,000	2,876	2,485
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13. ABSTRACT  This study provides an overall assessment of present exchange organizational structures and suggests ways and means of increasing the responsiveness of the exchange services and the operational efficiency with which they are managed. It also provides a summary of the interfaces and problem areas which are of particular concern to the Office of the Secretary of Defense.  The study evaluates management practices and techniques in such functions as procurement, pricing, inventory management, physical distribution, financial management, personnel management, etc. Conclusions and recommendations are pointed toward greater commonality of systems and the development of policies which will give equal advantages to all customers in a local area, regardless of their military service affiliation.  The study presents three organizational alternatives ranging from the <u>status quo</u> to a single armed services exchange service. In addition the study discusses in some detail the military command relationships involved.		

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