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Army Air Force Exchange Service Ethics?

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### Abstract

The Army Air Force Exchange Service (AAFES) provides a great sum of money to support military installations. AAFES, in fact, is the major funding provider for the Morale, Welfare, and Recreation (MWR) of the Army. My ethical dilemma is the means by which AAFES gets their funds to support these programs. Their practices, prices, and policies upset me. Yet, AAFES has a monopoly on every installation. How can an organization that pays considerably less for its inventory sell their goods at the same price and most of the time higher prices than that of the local community? I ask you, to whom does AAFES cater. It is certainly not the junior Soldiers of the military, but that seems to be their target client base. I will present my thoughts and personal experiences concerning AAFES ethics in this essay.

## Ethics of AAFES

### *Introduction*

The Army Air Force Exchange Service (AAFES) is an organization that services the United States Army and Air Force around the world. AAFES traces its roots back to the late 1890s when the war department authorized canteens on posts due to inferior quality of products from off post traders (AAFES Website, History). AAFES' total revenue in 2006 was 8.9 billion and their earnings were 427 Million (AAFES Website, Fact sheet). Of the 427 Million, 140.2 million went back to the Army—mostly to the Morale, Welfare, and Recreation (MWR) program (AAFES Website, Fact sheet). This amount of money is staggering. AAFES also supports our Soldiers around the world in such hostile areas as Iraq, Afghanistan, and Kuwait. Just about anywhere, we deploy our Soldiers; AAFES eventually opens up a small sales service at that location. In most aspects AAFES is a wonderful organization, however, I intend to question some of AAFES practices in this essay.

### *Personal Experience*

In 1992 I, as a young specialist, walked into the Post Exchange (PX) at Fort Riley Kansas and purchased a Television. What happened over the next 93 days led up to my decision to never shop at an AAFES PX again. Over the next 16 years, I have relaxed my boycott of AAFES slightly, but I still have major concerns over the ethics of AAFES management. The television's price that I purchased was \$489.00 and at the time was top of the line. I took my new TV home, plugged it in, and started watching some local channels. The following Tuesday I was called to my platoon sergeant's office and ordered to go pack for Primary Leadership Development Course (PLDC) as a last minute replacement. Following this notice, I took an Army Physical Fitness Test (APFT) and had a military gear inspection by my squad leader. I

departed the next morning for 30 days at PLDC. Ten days after completion of PLDC, I deployed to Baumholder Germany for Return of Forces To Germany (REFORGER) exercise for an additional 50 days. After redeployment, I once again found myself in the comforts of my barracks room. However, when I turned on my TV purchased 93 days earlier, the TV made a loud pop and smoke came from the back. Trying to return my TV to the PX was a nightmare. They informed me that I could not exchange or get a refund because the purchase was over 90 days prior.

I explained the situation repeatedly, but they refused to budge on their policy. I estimate that I paid \$489.00 to watch a television for a total of 13 days. I eventually talked to every manager up the chain in person or on the phone before AAFES finally issued a refund. However, I had to threaten to report them to the Inspector General (IG) before they finally agreed to the refund.

### *Research and Boycott*

The personal situation I experienced in 1992 led me to do research on AAFES practices and eventually to my decision to boycott AAFES establishments. In 1992, the return policy was 90 days exchange or refund on electronics. At the time, AAFES purchased large quantities of electronics directly from the manufacturers without manufacturer's warranties what-so-ever. Purchasing without any warranty, could reduce the price of the unit by up to 70%. AAFES had seven regional repair services that they would honor their own warranty on electronics by shipping the items off for repairs. This would sometimes takes up to six months to have your item returned. There was a Soldier in line behind me at the PX that day that stated he was checking on his compact disk player repair from three months ago. These facts led me to believe that AFFES practices were not ethically sound for the junior Soldiers of the Army. Had I given

up that day without threats of exposing them to the IG, they would have sent SPC Shrout out the door with no TV or money for the next several months. My anger over this situation, led me to decide to boycott AAFES. However, I have over the years relaxed my opposition slightly, but still think AAFES sales practices are somewhat unethical.

### *Cost of Living*

Several times over the years, I dealt with many situations with young married Soldiers that frustrate me terribly. Soldiers receive Army Emergency Relief (AER) loans because their auto transmission failing or young married couples supported by government low-income programs in the way of food stamps and coupons from women, infant, and children (WIC). I ask myself, why do Soldiers not have enough money to support a family of three? The only answer I can come up with is that the cost of living is high. Soldiers must pay the prices that are in the local economy. But why is this—Why can a Soldier not buy gas a dollar cheaper on post than off, why can a Soldier not get diapers three dollars cheaper on post. After all, AAFES is supposed to support the Soldiers, but instead of passing along the grand discounts, they charge what the local economy charges. I will prove this with some price comparisons between the PX and local community.

### *On Post Versus Off*

AAFES pays zero state and federal taxes for any items it purchases and sells. Why then does a gallon of gas on Fort Bliss cost more than the Valero gas station on Dyer St in El Paso? If you ask an AAFES manager, their answer is this: “AAFES is required by congress to charge the average prices of the local economy”. I cannot prove there answers true or false, but I find nothing in my research that proves this statement. Gasoline sales tax on a gallon of gas is 18.4 cents, and Texas state tax is 20 cents. Therefore, this means that AAFES pays 38.4 cents less for

each gallon of gasoline than does private vendors on the local economy. Yet, the price for gas on post is either the same, or one to two cents difference than it is off post. Let us briefly examine tobacco sales on military installations. In Texas, every pack of cigarettes purchased includes a sales tax of \$1.41 per pack. Federal excise tax is \$.39 per pack (bill currently in congress to raise excise tax to \$1.00). AAFES purchases their tobacco directly from the cigarette manufacturers and pays none of these taxes. However, a pack of Marlboro cigarettes in the PX is \$4.45 per pack. At the Valero gas station on Dyer this price is \$4.65. Therefore, AAFES pays \$1.80 less per pack of cigarettes, which it sells for the same price as off post vendors for a staggering profit.

Let us examine clothing sales in AAFES Post Exchange (PX). Again, AAFES does not pay any taxes for the items they purchase from manufacturers. Take for example a polo shirt. I challenge you to find a polo shirt in the PX for under \$20.00. Most likely, unless it is a discontinued sale item, you will pay between \$20 and \$28 for any polo shirt in the PX. In fact, from the AAFES website (AAFES web site) the cheapest polo shirt is Wearguard Polo Shirt for \$27.95. The comparative quality shirt at Wal-Mart is Faded Glory Polo Shirt \$10.83.

Alternatively, a Puritan polo shirt in Wal-Mart sells for only \$5.00. The food court is yet another area that I could discuss for days. AAFE supported vendors in the food court pays at least 50% of their profits to AAFES. The Manchu Wok, for example, in the PX at Fort Bliss charges \$5.25 for a single plate of Chinese food consisting of two main courses, rice, and egg roll. In the meantime, if you have a car, you can drive off post and pay \$4.99 at the New China restaurant for all you can eat buffet with better quality and fresher food. Why is this?

#### *Who Pays the Prices?*

Why would a Soldier choose to pay more for food in the food court than they could pay off post? Who in their right mind would pay \$28.00 for a shirt, when they can get one at Wal-

Mart for \$10.00? I do not run to the PX when I need to buy something, I drive to the Wal-Mart or Target. Just suppose, however, I was a private again, living in the barracks at the Air Defense Artillery (ADA) School, I would have to walk to the PX. I certainly could not afford to buy many clothes on my “private’s” salary—could I? I would pay \$3.00, however, for that slice of pizza at the food court if I did not want to eat at the Dining Facility.

The Soldiers that must use AAFES services are those with little time on their hands, or Soldiers without transportation. I would argue that this demographic is your junior enlisted Soldiers. Why then is AAFES prices and inventory only affordable by higher pay military personnel (officers and senior enlisted in military terms)? Why not set prices and stock inventory targeted to your largest client demographics—lower enlisted?

*What about the discounts*

I ask you to ponder this question. What would prices be like if Wal-Mart pays zero taxes, on their inventory? Could you imagine their prices then? You could buy a polo shirt for \$3.00 or kaki pants for \$8.00 or buy gas at the Wal-Mart station for \$.30 less per gallon than the Valero. Where would you shop? I would never purchase anything at any other store in El Paso. In fact, if Wal-Mart had those kinds of discounts, I would venture to say everyone in El Paso would shop at Wal-Mart thus putting every other retailer out of business. If AAFES, however, had the discounted prices, we would shop there instead of Wal-Mart. The difference is that if everyone in the military shopped at AAFES, it would not cause the rest of El Paso businesses to go broke. Only government employees or retirees can shop at AAFES. The number of government employees in a town of nearly a million people is so minute that Wal-Mart, Target, Valero, Wilco, etcetera would keep on making money as usual.

*Summary*

In summary, I think AAFES does some wonderful things for Soldiers and the Army. The money they give back to the Army community is a wonderful thing. However, I feel that Soldiers would rather have the discounts. I know that I would rather have the discounts. If AAFES charged even 10% less than the local community charges for services and goods, they would still have profits and still support the Army. However, they do not charge less—they charge the same or more. Even with sales tax imposed in the local community, I get everything I need at Wal-Mart cheaper than shopping the PX. For the most part, I do not think anyone notices that I am wearing an \$11.00 polo shirt when I am in public. Why does an organization with a mission to support the Soldier not sell inventory cheaper than prices available for the average citizen? I cannot answer this question, but if I were in charge of AAFES, would make some serious changes. If laws require AAFES to charge its customer the same prices as the local economy, then the lawmakers of this country have failed you and I. If this is not a requirement by law, we must reconsider their policies. Give cheaper prices to the Soldiers and stop catering the inventory to the higher income members. If I want to spend \$28.00 for a shirt, I can go to the mall to do it.



Thesis: I will argue that, although the Army Air Force Exchange contributes enormous amounts of money to the military, it also takes money from those who cannot afford it.