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FACTORS THAT INCREASE PRICES AND REDUCE
AVAILABILITY OF GROCERY PRODUCTS
IN EUROPEAN COMMISSARIES

R E P O R T

OF THE

MORALE, WELFARE AND RECREATION PANEL

OF THE

READINESS SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

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LETTER OF TRANSMITTAL

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, August 8, 1984.

Hon. MELVIN PRICE,
Chairman, Committee on Armed Services,
U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: Attached is a report entitled "Factors That Increase Prices and Reduce Availability of Grocery Products in European Commissaries", approved without objection by the subcommittee members. This report is based on an indepth investigation conducted by the Morale, Welfare and Recreation Panel of the Readiness Subcommittee.

I shall appreciate your early approval of the report so that it may be printed.

Sincerely,

DAN DANIEL,
Chairman, Subcommittee on Readiness.

Approved for Printing:

Melvin Price.

Date: August 9, 1984.

LETTER OF TRANSMITTAL

U. S. HOUSE OF REPRESENTATIVES
COMMITTEE ON ARMED SERVICES
WASHINGTON, D. C. August 8, 1951

Hon. Mervyn Dymally
U. S. House of Representatives
Washington, D. C.
Dear Mr. Chairman: Attached is a report entitled "Factors That
Influence Prices and the Availability of Grocery Products in Eu-
ropean Countries," approved without objection by the subcom-
mittee on prices. This report is based on an in-depth investigation
conducted by the House Committee on Armed Services and Recreation Panel of the
House of Representatives.

I call attention to the fact that the report is available
to all members of the House.

Very truly yours,
Dwight D. Eisenhower

Approved and Forwarded:
Mervyn Dymally
Date: August 11, 1951

FACTORS THAT INCREASE PRICES AND REDUCE AVAILABILITY OF GROCERY PRODUCTS IN OVERSEAS COMMISSARIES

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Military commissaries are the only source of American products for military personnel and their dependents stationed overseas. When stationed in the United States, commercial stores are available if alternative grocery facilities are desired. This is not true at overseas locations.

Information gathered by the Morale, Welfare and Recreation Panel during earlier studies indicated that prices for brand name products in European commissaries were considerably higher than prices in the United States. Inasmuch as the cost of transporting grocery products from the United States to overseas commissaries is paid with appropriated funds, there is little reason for substantial price differentials to exist. To charge higher prices in overseas commissaries is highly inequitable and could have an adverse impact on the morale and readiness of our overseas military forces.

Brand name merchandise sold in the United States and overseas commissaries is procured through the Supply Bulletin Program, a system centrally managed by the Defense Personnel Support Center. The program was started over 50 years ago, and remains the principal means of procuring brand name merchandise for commissaries.

Brand name grocery products are procured by the Defense Personnel Support Center for overseas commissaries and by commissary personnel for stores located in the United States. A market basket analysis conducted by the panel showed that Air Force European commissary patrons paid \$6.00 or 4.3 percent more than was paid by U.S. commissary shoppers and Army European commissary patrons paid \$10.00 or 6.8 percent more than U.S. commissary shoppers. Another 2 to 3 percent in vendor price reductions given to the Center through the Supply Bulletin Program were never passed on to European patrons because the Defense Personnel Support Center incorrectly billed the commissaries. Also, most manufacturers pay distributors between 5 and 12 percent of the cost of their products to have them delivered to commissaries throughout the United States. When shipping to overseas commissaries distribution costs are not involved. Manufacturers pay the cost of shipping from their plants either to a port or to the Defense Logistics Agency Depot in Mechanicsburg, Pennsylvania. Transportation costs from the port in the United States or the Mechanicsburg Depot to overseas commissaries are paid with appropriated funds. In effect, European Air Force patrons paid at least 11 percent more, and Army patrons at least 14 percent more, than shop-

pers in Air Force and Army commissaries located in the United States.

The major reasons for the disparity in prices are that—

The Defense Personnel Support Center accepts supply bulletin prices when procuring brand name items for European commissaries, while buyers for commissaries located in the United States are offered or negotiate prices below those listed in supply bulletins.

European commissaries receive fewer vendor price reductions than commissaries in the United States, and

The system used by the Defense Personnel Support Center to bill the commissary systems for overseas shipments results in incorrect shelf prices, thereby making it difficult to pass vendor price reductions to European commissaries.

Officials from the Defense Logistics Agency, the Defense Personnel Support Center, and the Army and Air Force Commissary Systems agreed in June 1984 that the existing billing system was inadequate. The Center was authorized to bill the commissary systems at actual cost for goods shipped overseas. This new billing method, referred to as lot pricing, if properly implemented, should eliminate the pricing problem found during the panel's investigation.

Lot pricing is scheduled to be completed in January 1985. The panel strongly endorses this change because overseas patrons will benefit from more accurate shelf prices and increased vendor price reductions.

Lot pricing is scheduled to be completed in January 1985. The panel strongly endorses this change because overseas patrons will benefit from more accurate shelf prices and increased vendor price reductions.

During the investigation several problems unrelated to pricing were noted. The panel addressed these issues because they impacted on the availability of grocery products in European commissaries. The investigation revealed that—

Deficiencies in the Defense Personnel Support Center's computer system caused 9,000 of the 45,000 requisitions submitted by overseas commissaries during the test period to be cancelled. The requisitions were reinstated, delivery orders sent to manufacturers, and shipped from the United States during the next cycle—one month late.

The supply pipeline for Army and Air Force European commissaries is extremely long and the distribution and warehousing systems in Europe are inefficient and ineffective.

To resolve the problems identified during its investigation the panel recommends that the Assistant Secretary of Defense (Manpower, Installation and Logistics):

Monitor the implementation of lot pricing to ensure it is completed on schedule and accomplishes its intended purpose.

Direct the Department of Defense's Commissary Executive Board, in conjunction with the Director, Defense Logistics Agency, to review the Supply Bulletin Program and implement the changes needed, or if necessary, to develop another method or system for obtaining better prices from suppliers who provide brand name products to European commissaries.

Instruct the Director, Defense Logistics Agency, in conjunction with Army and Air Force commissary system officials, to develop a method of assuring that requisitions from overseas commissaries are received, filled and shipped in accordance with established schedules.

Award a contract to a knowledgeable consulting firm for the purpose of—

Shortening the existing pipeline to European commissaries, and

Identifying more efficient and effective warehousing and distribution systems for Army, Navy and Air Force commissaries in Europe.

The investigation conducted by the panel was limited to the pricing and distribution of products to European commissaries. Planned corrective actions should also consider and eliminate similar problems that exist in military commissaries located in the Pacific area, Asia, and other overseas locations.

BACKGROUND

Subsistence Management Within the Department of Defense

The Defense Personnel Support Center, located in Philadelphia, Pennsylvania is one of six supply centers operated by the Defense Logistics Agency. The Center is responsible for managing troop issue and commissary food items. It also provides direct support for Army and Air Force commissaries overseas. The Navy's Norfolk Field Support Office primarily supports Navy commissaries in Europe.

The Defense Personnel Support Center reported the following subsistence sales for fiscal year 1983:

[In millions of dollars]

	Troop issue	Resale	Total
Perishable.....	448.9	351.6	800.5
Nonperishable.....	285.1	353.0	638.1
Total.....	734.0	704.6	1,438.6

Supply Bulletin Program

The Defense Personnel Support Center manages the Supply Bulletin Program. This 50-year-old program is the principle means of procuring brand name merchandise for commissaries. The Supply Bulletin Program has three major elements:

Brand name offers are signed by the supplier. They contain the provisions and clauses typically associated with a government contract and those required especially for brand name procurement.

Supply bulletins are published by the Defense Personnel Support Center, but are prepared by suppliers. Similar to catalogs, they list the food and grocery items that manufacturers offer to military commissary stores for resale to their customers. The bulletins show the size, quantity, and price of items

available for sale. They are an offer to sell to the federal government, not a contract. Over 660 supply bulletins currently offer 55,000 brand name items to commissaries for resale. Manufacturers can reduce prices in a supply bulletin at any time for any period, but price increases require 30-days advance notice.

Delivery orders are prepared against the supply bulletins by the ordering commissary in the United States and by the Defense Personnel Support Center for overseas commissaries.

Military Commissary Operations

Each service has an independent system for managing and operating its commissaries. The U.S. Army Troop Support Agency at Fort Lee, Virginia, manages the Army commissary system through 4 continental U.S. regional offices and 1 European office. The Air Force Commissary Service at Kelly Air Force Base, Texas, manages and operates Air Force commissaries through 15 continental United States offices and 2 overseas regions. The Navy Resale and Services Support Office at Fort Wadsworth, Staten Island, New York, manages Navy commissaries through 10 continental United States and 5 overseas regional offices.

The number of stores operated by the 3 services and the fiscal year 1983 sales are shown in the following table:

FISCAL YEAR 1983

	CONUS	Overseas	Total
Number of stores:			
Army	71	70	141
Navy	60	19	79
Air Force	96	42	138
Total	227	131	358
Sales (millions):			
Army	\$1,187.0	\$368.8	\$1,555.8
Navy	643.8	74.5	718.3
Air Force	1,682.0	336.0	2,018.0
Total	3,512.8	779.3	4,292.1

Scope and Methodology of Study

Before starting the investigation extensive meetings were held with officials from the Defense Personnel Support Center and the Army, Navy and Air Force commissary systems—the Marine Corps commissary system was not included in the study because it has no commissaries in Europe. During these meetings it was agreed that 128 nonperishable and 30 perishable items would be included in the test (See Appendix I). These items were selected because they were brand name, fast-moving, high-volume items with an excellent probability of being purchased. It was agreed the test would last one month, and July 1983 was selected as the test period.

Each service selected two stores located in the United States, one a high-volume store, the other a small-to-medium-size store. The Army and Air Force also selected three commissaries in Europe

with sales characteristics similar to the U.S. stores selected for the test. The Navy selected only its commissary located in Rota, Spain.

The commissary stores at the locations listed below were selected for the test:

Service	United States	Europe
Army	Fort Lee, Virginia Fort Bragg, North Carolina	Frankfurt, Germany. Wildflecken, Germany. Wuerzburg, Germany. Rota, Spain.
Navy.....	Norfolk, Virginia Patuxent River, Maryland	
Air Force	Dover AFB, Delaware McGuire AFB, New Jersey	Spangdahlem, Germany. Rhein Main, Germany. Vogelweh, Germany.

The objectives of the test were to be accomplished by comparing supply bulletin, invoice and shelf prices for the test items purchased during July 1983. Because of problems encountered at the Defense Personnel Support Center, however, the Center incorrectly billed many items included in the study that were acquired for European commissaries. This mistake resulted in erroneous shelf prices for overseas commissaries. As a result, the comparison made by the panel was between shelf prices in U.S. commissaries and invoice (purchase) prices for overseas commissaries. Data was also collected on the number, type and amount of vendor price reductions (discounts offered below supply bulletin prices), and reasons for incorrect pricing.

During its study, the Panel encountered two other problems which had an impact on the availability of grocery items in European commissaries:

Deficiencies in the computer system sometimes results in the cancellation of requisitions for overseas stores.

The distribution of products to European commissaries is lengthy and inefficient.

Because of their importance, this report also addresses these issues.

EUROPEAN COMMISSARY PATRONS PAY MORE FOR BRAND NAME PRODUCTS THAN DO SHOPPERS IN U.S. COMMISSARIES

A market basket of brand name merchandise purchased by the Defense Personnel Support Center for Air Force and Army European commissaries cost \$6 and \$10 more, respectively, than a similar market basket cost Air Force and Army commissaries located in the United States.

Separate market baskets were developed for each service and shelf prices in U.S. commissaries were compared to the Center's invoice prices. The invoice prices included vendor price reductions and quantity discounts offered by suppliers even though most were not passed on to patrons in Europe.

The market basket analysis conducted by the panel showed that Air Force and Army European commissary patrons paid 4.3 and 6.8 percent more, respectively, than did U.S. commissary shoppers. Another 2 to 3 percent in vendor price reductions given to the Center

through the supply bulletin program were never passed on to European patrons because the Defense Personnel Support Center incorrectly billed the commissaries. Also, most manufacturers pay distributors between 5 and 12 percent of the cost of their products to have them delivered to commissaries throughout the United States. When shipping to overseas commissaries distribution costs are not involved. Manufacturers pay the costs of special marking, packing, and shipping from their plants either to a port or to the Defense Logistics Agency Depot in Mechanicsburg, Pennsylvania. Transportation costs from the port in the United States or the Mechanicsburg Depot to overseas commissaries are paid with appropriated funds. In effect, European Air Force patrons paid at least 11 percent more, and Army patrons at least 14 percent more, than shoppers in Air Force and Army commissaries located in the United States.

The results of the panel's analysis are summarized in the following tables:

MARKET BASKET ANALYSIS

	Defense personnel support center	Commissaries in United States (2)	Difference	
			Dollars	Percentage
Number of items, 106—Market basket total	\$153.17	¹ \$146.83	\$6.34	4.32
Number of items, 115—Market basket total	164.12	² 153.64	10.48	6.82

¹ Air Force. ² Army.

The Defense Personnel Support Center acquires perishable items for Navy commissaries in Italy and the United Kingdom. Orders from Navy commissaries in Spain and Iceland are filled by vendors in the United States and transshipped through the Naval Supply Center in Norfolk, Virginia. The Navy Field Support Office in Norfolk, Virginia procures nonperishable grocery items for Navy commissaries in the Norfolk area and in Europe.

Quantities purchased by the Field Support Office are based on requisitions received from the European commissaries and on historical consumption for the Norfolk area commissaries. The quantities to be acquired can be increased depending on reduced prices received from suppliers. Deliveries for Norfolk stores are made either directly or from a central Navy warehouse as needed. Certain bulk items for the European commissaries are delivered directly, but most requisitions are filled from the warehouse and shipped twice monthly on commercial ships.

The market basket analysis conducted by the panel showed that prices for Navy commissaries in Europe and Norfolk were 4.5 percent less than the prices paid by the Defense Personnel Support Center for identical items, as shown in the following tables:

MARKET BASKET ANALYSIS

	Defense Personnel Support Center	Navy Commissaries	Difference	
			Dollars	Percentage
Number of items, 99—Market basket total	\$144.19	\$137.97	\$6.22	4.51

The panel's investigation determined that European commissary patrons pay more for brand name products than do shoppers in U.S. commissaries for two major reasons. First, the Defense Personnel Support Center does not negotiate price reductions in the way that U.S. commissaries do. That is, the Center seldom questions the prices that manufacturers submit for brand name products, and it does not receive price reductions for ordering in large quantities. The cause for the Center's lack of negotiation for price reductions seems to be that it has neither the staff nor the means to do so. Second, erroneous billing procedures sometimes result in incorrect shelf prices.

Defense Personnel Support Center Does Not Negotiate Price Reductions

In the United States, individual stores issue delivery orders for Army and Air Force commissaries. Managers at the stores and at the regional or complex level—the administrative office for a group of commissaries in a geographical area—negotiate with suppliers for price reductions. These managers create competition between companies by using location and shelf space as bargaining tools. Suppliers also offer or negotiate price reductions to compete with other similar products carried by the commissary or by commercial stores.

Overseas, the Center conducts no similar price negotiations. Its responsibilities are limited to accepting requisitions, summarizing them by product, and issuing delivery orders to manufacturers.

The panel's study highlights the lack of negotiations by the Center during the test period. U.S. stores paid the supply bulletin price for 60 percent of their purchases, while the Center paid supply bulletin prices 87 percent of the time. The 13 percent reduction is the result of quantity discounts and price reductions that suppliers offered on their supply bulletins, rather than any Center initiatives.

The Defense Personnel Support Center Accepts Prices Manufacturers Submit For Brand Name Nonperishable Products

Army and Air Force commissaries located in Europe and the United States use the Center's Supply Bulletin Program. European commissaries submit requisitions to the Defense Personnel Support Center once each month. The Center summarizes the requisitions by product and issues delivery orders to the suppliers.

The price used on the delivery order is the price on the supply bulletin that was established by the manufacturer. Normally, Center personnel do not analyze nor raise questions about price unless there are obvious errors or wide price disparities. Occasionally, manufacturers make price reductions unilaterally without any input from Center personnel. The manufacturer accomplishes the price reduction by amending the supply bulletin and, on rare occasions, by reducing the price on its invoice.

The Defense Personnel Support Center Accepts Prices Manufacturers Submit For Brand Name Perishable Products

Perishable products for European stores are ordered, purchased and managed by the Center and warehoused in its depots at Kai-

serslautern, Germany and Felixstowe, England. Requisitions for perishable products are submitted by Army and Air Force commissaries in Europe to the Center every ten and eighteen days, respectively. The Center has item managers for the 650 perishable items stocked in Europe. They match store requisitions to inventories at the depots and issue shipping instructions.

The Center's item managers place replenishment orders—based on historical usage data—with suppliers as the depot inventories are depleted. They obtain prices either from a supply bulletin or from the vendor prior to placing an order. The Center does not negotiate prices but pays the amount the vendors ask unless there is an obvious error or wide price disparity. Once a price is acquired, the Center prepares an order, and the items are shipped to the deposits.

European Commissaries Pay Higher Prices for Larger Quantities

Because the Defense Personnel Support Center does not negotiate prices with suppliers, it paid more for brand name merchandise than commissaries located in the United States paid, even though the Center ordered substantially larger amounts. Only 12 of the 126 nonperishable items included in the test, less than 10 percent, had discounted prices for quantity purchases.

For example, during July 1983—the test period—5 of the 6 overseas Army and Air Force commissaries included in the study requisitioned 3,400 cans of corn. These requisitions, along with the requisitions from the other Army and Air Force commissaries in Europe, resulted in a total order of 45,000 cans of corn. The Center issued a delivery order to the manufacturer of 45,000 cans at \$.47 per can, the supply bulletin price. During the same month, the commissary at Fort Bragg, North Carolina ordered 1,400 cans of the same corn at \$.46 a can, \$.01 per can less the supply bulletin price.

The Center also issued a delivery order for 26,000 cans of pork and beans at \$.35 a can. This was the total requisition for all European commissaries. During the same month, the Army commissary at Fort Lee, Virginia, ordered 1,400 cans at \$.30 a can, \$.05 a can less. In this instance the commissary negotiated a price reduction of \$.05 per can on a much smaller quantity.

The supply bulletin contains a price warranty clause whereby manufacturers guarantee that supply bulletin prices are as advantageous as those offered commercial customers. During 1982 the General Accounting Office audited six vendors that sell to military commissaries using supply bulletins. The General Accounting Office concluded that the vendors were in general compliance with the price warranty provision. The General Accounting Office did point out, however, that commercial customers were buying in large quantities to take advantage of manufacturers' discounts while commissaries were buying in limited quantities at higher prices. The report addressed buying practices of commissaries located in the United States. It did not evaluate the procurement of brand name products for overseas commissaries by the Defense Personnel Support Center, or consider whether the Center could take advantage of quantity buying as commercial stores did.

In April 1983, the Center requested the Defense Contract Audit Agency to review selected manufacturers for compliance with the warranty provision. Five companies had been reviewed as of June 30, 1984, and most were found to be offering the Center pricing as advantageous as any other commercial purchaser. The audit report on one manufacturer noted that the Center's base price is fixed at the "truckload" quantity bracket price and that this price is granted even when orders are for less than a full truckload. The report said this is the lowest base price available except for the "Super Carload" price offered on some products. The manufacturer's representative said the lower price is available to the Center but the Center never orders in the manner and quantities adequate to qualify for the "Super Carload" price.

European Commissaries Received Fewer Vendor Price Reductions

During the test period, the commissary stores in the United States received twice as many vendor price reductions for nonperishable and perishable products as did the military commissaries in Europe. The European commissaries received 51 vendor price reductions through the Defense Personnel Support Center and an additional 51 from vendor and manufacturer representatives, for a total of 102. Commissaries in the United States received 214 vendor price reductions, 112 more than the European stores. Patrons of the U.S. stores received \$83,000 in vendor price reductions, about 9 percent, while patrons in European commissaries received \$14,000, or only 3 percent.

For example, during July 1983, the Defense Personnel Support Center issued a delivery order to a manufacturer for 25,000 cans of green beans at \$.43 a can, the manufacturer's supply bulletin price. During the same month the Dover Air Force Base commissary issued a delivery order for 500 cans of the same brand-name green beans but negotiated a price of \$.34 a can, \$.09 a can less.

The Center ordered 7,800 tubes of toothpaste at \$1.46 a tube, the supply bulletin price. The commissary at McGuire Air Force Base received a vendor price reduction of \$.47 a tube, resulting in a cost of \$.99 a tube for 700 tubes of the same brand name toothpaste.

The Center issued a delivery order for 22,000 cans of tuna fish at \$.91 a can. This was the supply bulletin price and included a discount for a quantity purchase. During the same month the Army commissary at Fort Lee procured 700 cans of the same brand name tuna fish at \$.69 a can.

The Center ordered 36,000 cans of frozen biscuits at the supply bulletin price of \$.26 a can. The commissary at Fort Lee ordered 384 cans at \$.21 a can, a nickel per can less.

In summary, while the quantities ordered by the Defense Personnel Support Center were always larger than the quantities ordered by military commissaries in the United States, the prices paid by the Center were generally higher. During the test period—July 1983—the Center and the Air Force and Army commissaries procured over 100 of the same brand-name items. The Center received a lower price on about 18 percent of the orders, paid higher prices on 46 percent of the orders, with identical prices being obtained on 36 percent of the orders.

Reasons The Center Is Unable To Obtain Lower Prices

The Defense Personnel Support Center is responsible for procuring brand name merchandise for overseas military commissaries. The Army and Air Force Commissary Systems are responsible for all other aspects of commissary operations.

Acquiring brand name products is the only subsistence area where the Defense Personnel Support Center makes no attempt to obtain lower prices. The Center totals requisitions from overseas commissaries and issues delivery orders to suppliers at prices included on the latest manufacturer's supply bulletins. The Center replenishes perishable products stored at its depots by issuing a delivery order when the item is listed on a supply bulletin. Otherwise, the Center obtains the current price from the vendor and issues a purchase order at the quoted price for the quantity desired.

The Center could obtain lower prices if some type of negotiation took place. However, the Center has neither the staff nor the means to accomplish this. Existing personnel responsible for acquiring brand name merchandise for overseas commissaries are more like clerks than professional buyers. They have neither the credentials nor ability to negotiate prices. More importantly, the Center does not have the jurisdiction to enter into firm negotiations with a supplier to obtain lower prices. Only the military commissary systems have the authority to reduce the number of similar products, to reduce the shelf space allocated to a product, or not buy an item.

Conclusion

The procurement of brand name merchandise by overseas commissaries is big business. Commissaries purchase hundreds-of-millions of dollars of grocery items annually, which are shipped overseas at government expense. The prices commissaries pay for this merchandise are those a supplier unilaterally establishes. Suppliers offer significantly fewer price reductions for overseas shipments than those commissaries in the United States obtain, even though the quantities purchased for overseas commissaries are substantially greater. In addition, fewer vendor price reductions are offered to European commissaries.

As a result, commissary patrons in Europe are paying more for brand name products than do the patrons in U.S. commissaries. The panel believes that this is inequitable, and that the Supply Bulletin Program needs to be changed or replaced.

Recommendation

Accordingly, the panel recommends that the Assistant Secretary of Defense (Manpower, Installations and Logistics), direct the Department of Defense's Commissary Executive Board, in conjunction with the Director, Defense Logistics Agency, to review the Supply Bulletin Program and implement the changes needed, or if necessary, to develop another method or system to obtain better prices from suppliers who provide brand name products in the European commissaries.

ERRONEOUS BILLING PROCEDURES RESULTED IN INCORRECT SHELF PRICES

During the test period incorrect pricing data provided by the Defense Personnel Support Center to Army and Air Force commissaries could have resulted in all test items having incorrect shelf prices. However, because the panel's study was in progress and these items were being closely monitored, the Center discovered these problems before all the orders were delivered. Nevertheless, 126 of 496 requisitions (25 percent) that the Center processed during the test period were incorrectly priced.

Because of these errors, shelf prices did not reflect 9 of 11 vendor price reductions, or 7 of 12 quantity discounts that manufacturers gave for products in their supply bulletins. If properly passed on to the European patrons, these price reductions would have saved patrons an additional 2 to 3 percent.

Examples of vendor price reductions that were not correctly passed through to patrons are shown below:

Product	Regular price	Supply bulletin VPR price ¹	Incorrect shelf price ¹	Overseas commissaries involved
Cleanser	\$1.66	\$1.40	\$1.68	3 AF, 2 Army.
Flour	1.10	.99	1.11	3 AF, 2 Army.
Cake mix.....	.95	.69	.79	2 AF, 2 Army.
Graham crackers.....	1.06	.91	1.00	2 Air Force.
Cooking oil.....	2.10	1.79	2.14	2 AF, 3 Army.

¹ Includes Defense Personnel Support Center surcharge of 0.6 percent.

This table can be explained further, using the cleanser as an example. The regular price of the cleanser, \$1.66, is the normal supply bulletin price. For July 1983 purchases the manufacturer had offered a price reduction of \$.26. However, the vendor price reduction was not passed on, and five of the six European commissaries included in the study sold the cleanser at \$1.68.

Examples of quantity discounts that were not passed on to patrons are shown below:

Product	Regular price	Supply bulletin quantity discount price ¹	Incorrect shelf price ¹	Overseas commissaries involved
Cat food.....	\$2.34	\$2.32	\$2.35	1 AF, 1 Army.
Lunch meat.....	1.43	1.41	1.44	3 AF, 1 Army.
Chili	.78	.76	.77	1 AF, 3 Army.

¹ Includes Defense Personnel Support Center surcharge of 0.6 percent.

The Army and Air Force commissaries in Europe price the goods they receive by two different methods, both furnished by the Defense Personnel Support Center. The Army uses a "Broadcast Price", the predominant purchase price for an item, averaged over a 3-month period. The Air Force uses the price on the consist (bill

of lading), which is the price in effect at the time the items are procured.

Two factors caused the incorrect billings generated during the test period. First, the broadcast price was run by the Center without including the latest—July 1—price change. Second, the prices on some consists were incorrect because they were generated before they were updated.

Although the Center charged the services incorrect prices, it paid the manufacturers the correct amounts for the products delivered. The Center's stock fund absorbed the gains and losses from the incorrectly priced items.

The impact (gains and losses) on the subsistence stock fund from these transactions could not be determined by the Center's financial personnel. All subsistence operations flow through the fund and other transactions such as inventory gains and losses, losses in transit and accounting adjustments are recorded in the fund.

During June 1984, officials from the Defense Logistics Agency, the Army and Air Force commissary systems, and the Center agreed to change the current procedure and to implement actual cost pricing, generally referred to as "lot pricing", for nonperishable products. This procedure is already used for perishable products.

Lot pricing should eliminate most of the pricing problems found during the panel's study. The new procedure is scheduled to be implemented on October 1984 for source load shipments, and in January 1985 for shipments from the Mechanicsburg Depot.

Conclusion

The panel strongly endorses the move to lot pricing. This procedure is less complex and, if correctly implemented, should benefit overseas patrons because shelf prices should then accurately reflect the cost of the goods. In addition, manufacturers may be more willing to offer vendor price reductions if they are confident they will be reflected in the shelf price and benefit the commissary patron rather than being absorbed in the Center's stock fund.

Recommendation

In view of the above, the panel recommends that the Assistant Secretary of Defense (Manpower, Installations and Logistics), instruct the Director, Defense Logistics Agency to monitor the implementation of lot pricing by the Defense Personnel Support Center to ensure that it is completed on schedule and that the invoices generated by the Center correctly reflect the cost of products purchased.

EUROPEAN COMMISSARY PATRONS SOMETIMES FIND THAT NEEDED ITEMS ARE UNAVAILABLE

Not only do military personnel overseas have to pay higher prices for some brand-name items, but they may find that other items they need are unavailable. One reason for this lack of availability is that deficiencies in the Center's computer system sometimes result in the cancellation of requisitions for overseas stores.

A second reason is that the distribution of products to European commissaries is a lengthy and inefficient process.

Deficiencies In Computer System Resulted In Cancellation of Requisitions for Overseas Stores

During the test month the Army and Air Force commissaries in Europe submitted over 45,000 requisitions for brand name products to the Defense Personnel Support Center. Over 9,000 requisitions were cancelled or not filled because of deficiencies in the Center's computer system.

False residual inventory

The Center fills requisitions received from Europe by issuing delivery orders to suppliers, or from a residual inventory at the Defense Depot, Mechanicsburg, Pennsylvania.

The Mechanicsburg Depot utilizes the Direct Commissary Support System. This system consolidates small orders into containerized loads (seavans) of brand name nonperishable items and ships them directly from Mechanicsburg to commissaries in the European/Mediterranean area, the Middle East and the Azores.

When the Center issues a delivery order to a manufacturer for a van load of products to a particular commissary, the manufacturer is directed to ship the seavan to the commissary. When the delivery order for a single commissary is for less than a van load, the products are shipped to the Mechanicsburg Depot. The deliveries received are then segregated by commissary, and, where feasible, all the items requisitioned by one or more commissaries are packed into one seavan.

A small residual inventory at Mechanicsburg is normal because of late deliveries, overshipments by manufacturers, and cancellation of requisitions by commissaries after delivery orders were issued to manufacturers. When a requisition is to be filled from residual stock, the Center issues a Material Release Order to Mechanicsburg. Upon shipment, a confirmation is sent to the Center.

During the test period, the panel staff identified a difference between requisitions submitted by the European commissaries and the number being filled by the Center. After being advised of the discrepancy, the Center found that 30 requisitions for 27 of the 128 nonperishable products included in the test, that were to be filled from the residual inventory at Mechanicsburg, had been cancelled because a residual inventory of over 770 items thought to be on hand did not exist. Overall, 9,000 requisitions, or 20% of those submitted during July 1983 by European commissaries were cancelled.

Investigation by the panel and Center staffs revealed a computer processing problem. During May 1983, or earlier, the Depot's "Automated Supply and Procurement Support System" did not generate shipping confirmations back to the Center. The Center's computer continued automatically to submit followup requests to confirm shipments. After the Center had sent a number of such requests and received no confirmation, the Center's computer system automatically closed the material release orders and placed the stock back on the Center's inventory record for the Depot. This resulted in the Center's falsely believing that a residual stock of 770 brand name items was available at the Depot. Depot personnel saw

no large inventory of residual stock on hand and were unaware that the shipping confirmations were not being sent. In summary, the computer malfunction created the false impression at the Center that the Depot had a substantial residual inventory, while in fact, no such inventory existed.

The Center identified 23 of the 30 test requisitions that had been cancelled. It reinstated the requisitions and delivery orders were sent to manufacturers. It also issued delivery orders to manufacturers for the remaining requisitions (about 9,000, including the seven additional test items) and shipped the requested items to the commissaries during the next cycle—one month late.

Failure to properly implement a system change resulted in cancelled orders

The Defense Personnel Support Center automatically cancelled six requisitions from overseas commissaries because the items ordered were not recorded in the Center's stock number file.

Before the Center accepts a requisition from an overseas commissary, the item ordered must be included on two computer records. They are the Master Item Identification file, a record of the items that can be requisitioned by an overseas store, and the National Inventory Record, a stock number file of these items plus their current price.

During a system change in early 1983, the Center did not ensure that the National Inventory Record included all items on the Master Item Identification file. The comparison needed to eliminate the problem had not been completed at the end of June 1984. As a result, an unknown number of requisitions were cancelled. We understand that there has been a temporary manual fix pending a permanent change to the automated system.

Basic reason for computer system problems

The deficiencies identified relating to cancelled requisitions and incorrect shelf prices (described in the prior section) during the test period were found because of special monitoring that occurred during the study. The monitoring accomplished was extremely difficult, time consuming and costly because it had to be done manually.

The computer systems in use do not routinely provide managers with information needed to track system performance and identify problems. As a result, problems such as those identified during this study can remain unnoticed for extended periods.

The Center is in the process of upgrading its existing computer system. The new system, the Defense Integrated Subsistence Management System, is an expensive and long-term project scheduled for completion in late 1986. When installed, it will greatly improve the efficiency of the existing system. It closely parallels current operations but automates many of the processes currently done manually.

The new system is being developed and implemented in nine increments. The eighth increment, scheduled for implementation in 1986 includes an information system. Performance indicators for the information system had not been developed as of June 30, 1984. The information system should include performance indicators

needed by management to quickly identify and correct problems similar to those surfaced during the panel's study.

Conclusion

Commissary shopping privileges are a highly appreciated benefit of military personnel in the United States because of the savings provided. The existence of overseas commissaries and the availability of U.S. brand name products is more than a benefit. They are a necessity. In overseas locations commissaries are the only available source of American-made products for active duty personnel and their dependents.

The Defense Personnel Support Center and the military commissary systems have the responsibility to provide overseas patrons with products they desire. It is only reasonable to expect that the Center, either by itself or in conjunction with the commissary systems, would have established a workable procedure to verify that delivery orders are issued and products shipped for all requisitions received.

Recommendation

Accordingly, the panel recommends that the Assistant Secretary of Defense (Manpower, Installations and Logistics), instruct the Director, Defense Logistics Agency, in conjunction with Army and Air Force commissary system officials, if necessary, to develop a method of assuring that requisitions from overseas commissaries are received, filled and shipped in accordance with established schedules. It is imperative that the procedure developed permit the Center's management officials to track requisitions through the processing cycle and provide management with data needed to quickly identify problems.

Distribution of Products to European Commissaries is Lengthy and Inefficient

The supply pipeline for Army and Air Force European commissaries is extremely long. The time needed between requisitioning of nonperishable products and their delivery to a commissary depends on the way they are shipped. Source loads, that is, seavans delivered directly to the port by a supplier, require between 45 and 60 days to reach a U.S. port after a delivery order is issued by the Center. Smaller quantities are delivered to the Mechanicsburg Depot, combined with other orders bound for the same destination, and packed in seavans. This method requires between 60 and 70 days before the vans reach the port.

An additional 14 to 19 days is needed under both methods for ocean shipping and ground transport to commissaries. This results in a total of between 59 and 80 days for source loads and between 74 and 89 days for goods shipped through Mechanicsburg. Also, requisitions from Army commissaries require an additional 30 days for processing and review by the Troop Support Agency's regional office in Europe.

The Center issues replenishment orders for perishable items 90 days in advance of the scheduled delivery date to its European depots. These products are then requisitioned by the commissaries as they are needed. To assure an adequate supply of perishable

items 30-day operating stocks and 15-day safety stocks are maintained at the depots.

The long pipeline, combined with the unreliability of the ordering and delivery process, causes many problems for the commissaries and their patrons. For example, an official from the Air Force Commissary Service reported that in April 1984 only 75% of the perishable requisitions submitted to the Center's European depots were filled. The fill rates during certain months of 1983 were even lower. Also, although the 128 nonperishable items included in the panel's test were selected because of their high volume and popularity, many were not ordered because the commissaries had large stocks of these items on hand. The Air Force commissary at Rhein Main did not requisition 66 of the 128 items and the Air Force commissary at Spangdahlem did not requisition 35. Also, the Army commissaries at Wildflecken and Frankfurt did not need 29 and 24, respectively, of the 128 items in the test.

The problems surfaced during the panel's test are not new. European commissaries have been continually plagued with an oversupply of some items and a shortage of others.

Further, the investment required to sustain products in the pipeline and for the backup and safety stocks is significant. Also, the storing of the on-hand inventory is costly when labor, transportation, and operation and maintenance costs of warehouse facilities are considered. The Air Force has 33 commissaries and 29 warehouses in Europe. A recent study showed that over 100 warehouses employing over 500 personnel support the Army's 85 commissaries and annexes in Europe. The same study notes that spoilage in Army warehouses in Europe could be as much as \$3,500 weekly, or over \$187,000 annually.

The supply pipeline for any dry grocery items shipped to Navy commissaries in Europe is about 40 days, compared to the 120 days required by the Army and the 90 days needed by the Air Force. The principal reason for the Navy's shorter pipeline is that these products are stocked in a distribution center operated by the Navy Field Support Office in Norfolk, Virginia.

Navy commissaries in the Norfolk area and those in Italy, Spain, and the United Kingdom send their requisitions to the distribution center. Orders for a particular European commissary are consolidated, packed into a seavan, and delivered to the overseas carrier in Norfolk. Bulk items and large orders are source loaded; that is, they are packed into seavans by the supplier and transported to the port.

The system the Navy uses for filling requisitions from European commissaries is vastly different from that of the Army and Air Force in conjunction with the Defense Personnel Support Center. The Navy's system results in a significantly shorter supply pipeline and may be an alternative the Army and Air Force commissary systems should consider.

Conclusion

The length of time that expires between requisitioning and receiving merchandise at Army and Air Force European commissaries is extremely long, even when it is recognized that items ordered by the Center for the commissary systems are not stocked and

must be ordered from manufacturers. The panel believes present operations need to be examined and alternative steps must be taken to shorten the pipeline and provide a more efficient and responsive warehousing and distribution system.

Because of the problems previously noted, the Troop Support Agency planned to have a consultant study its European distribution system. The panel agrees that such a study is needed but believes that it should include the warehousing and distribution systems of all military commissary systems in Europe, since they have common problems.

The Troop Support Agency cancelled its study when it learned of the panel's proposal. The panel welcomed this action and believes it demonstrates the cooperative spirit that exists among the military commissary systems.

Recommendation

The panel recommends that the Assistant Secretary of Defense (Manpower, Installations and Logistics), authorize that a contract be awarded to a knowledgeable consulting firm for the purpose of—

- Shortening the existing supply pipeline to European commissaries, and

- Identifying more efficient and effective warehousing and distribution systems for Army, Navy and Air Force commissaries in Europe.

The investigation conducted by the panel was limited to the pricing and distribution of products to European commissaries. Planned corrective actions should also consider and eliminate similar problems that exist in military commissaries located in the Pacific area, Asia, and other overseas locations.

APPENDIX I

NONPERISHABLE COMMISSARY ITEMS INCLUDED IN TEST

Nomenclature	Brand name
Aspirin, 100's.....	Bayer
Tab, 100's, Non-Aspirin.....	Tylenol
Vitamins, w/Iron, One-A-Day, 100's	One-A-Day
Pepto-Bismol, Liquid, 8 oz	Pepto-Bismol
Panty Shields, 30's, 18 ct.....	Care-Free
Napkins, Super, Maxi Pads, 30.....	Stay-Free
Swabs, Cotton, 170, box 144.....	Q-Tips
Tampon, Super, 40's Tampax.....	Tampax
Bleach, Liquid, Gal., plas. bt.....	Clorox
Plates, Paper, White, 9", 100 ct.....	Dixie
Pad, Scouring, 18 per carton.....	SOS
Cleaner, 3 lb., 6 oz.....	Spic & Span
Cleaner, Liquid, 28 oz.....	Mr. Clean
Cleaner, Giant, 21 oz.....	Comet
Detergent, Family, 171 oz	Tide
Detergent, Powder, Family, 10 lb., 11 oz.....	Cheer
Softener, Fabric, 40 ct. sheets.....	Bounce
Furniture Polish, 14 oz. Aero.....	Lemon Pledge
Detergent, Liquid, 32 oz	Palmolive
Cleaner, Window, 22 oz.....	Windex
Dishwashing Liquid, Green, 32 oz.....	Good Measure
Bags, Sandwich, 150 ct.....	Glad
Aluminum Foil, reg., 75 sq. ft.....	Reynolds
Wrap, Plastic, Jumbo, 100 ft.....	Saran
Diapers, Disposable, Toddler, 48 ct.....	Pampers
Diapers, Huggies Disposable, Daytime, 18 ct.....	Kleenex
Shampoo, Lotion, 11 oz.....	Head & Shoulders
Shampoo, Baby, 16 oz., plas. bt.....	Johnson & Johnson
Soap, Bath, Gold, 5 oz.....	Dial
Toothpaste, reg., 6.4 oz.....	Crest
Soap, Bar, Bath, 4.5 oz, 3-bar pk.....	Ivory
Toothpaste, Family, 7 oz.....	Colgate
Towels, Paper, White & Decorated, Jumbo, 1 roll pkg.....	Bounty
Tissue, Toilet, Asst. Yellow-Blue, 4-roll pkg.....	Charmin
Tissue, Facial, White, 200-2# ply.....	Kleenex
Tissue, Bathroom, Asst. 2,000 sh., 4-roll pkg.....	Waldorf
Napkins, Assorted Family, 300 ct.....	Scott
Dog Food, Beef Chuck Dinner, 14 oz.....	Alpo
Cat Chow, reg. 4 lb.....	Purina
Dog Chow, reg., 25 lb.....	Purina
Cat, Box Filler, 10 lb.....	Tidy Cat
Sausage, Vienna, 5 oz.....	Armour
Spam, 12 oz. tin.....	Hormel
Tuna, Chunk Light in Oil, 6.5 oz	Star-Kist
Tuna, Light, Chunk pk., 6.5 oz.....	Chicken-of-the-Sea
Ham, Deviled, 4.5 oz.....	Underwood
Cereal, Cheerios, 15 oz.....	Big G
Eagle Brand Condensed Milk, 14 oz	Borden
Milk, Evaporated, Tall, 13 oz.....	Carnation
Carnation Creamer, Coffee, 1 lb.....	Coffeemate
Beans, w/Pork, #300.....	Van Camp
Juice, Grapefruit, Unsweetened, 48 oz.....	Ocean Spray

NONPERISHABLE COMMISSARY ITEMS INCLUDED IN TEST—Continued

Nomenclature	Brand name
Juice, Vegetable Cocktail, 46 oz	V-8
Pork & Beans, 16 oz	Campbell
Beans, Green, Cut, #303	Libby
Corn, Whole Kernel, #303	Libby
Peas, Garden Sweet, #303	Libby
Mushrooms, Sliced in Butter, 3 oz	B&B
Peaches, Y.C., Sliced, 16 oz	Del Monte
Veg. Asparagus, All Green Spears, #303, 15 oz	Del Monte
Beans, Cut, Grn-Blue Lake, 16 oz	Del Monte
Corn, Wk, Family Style, 17 oz	Del Monte
Tomatoes, Peeled, Whole, 28 oz	Hunt
Fruit Cocktail, #303	Libby
Juice, Apple, 40 oz	Mott
Tomatoes, Paste, 12 oz	Contadina
Peas, Early June, 17 oz	Le Seuer
Corn, Niblets, Whole Kernel, 12 oz	Green Giant
Applesauce, 16 oz	Musselman
Cake Mix, Yellow, 18.25 oz	Duncan Hines
Flour, Enr. Kitchen Tested, 5 lb	Goal Medal
Mix, Cake, Yellow	Betty Crocker
Bisquick Mix, 60 oz	Bisquick
Macaroni, Elbow, 16 oz	Mueller
Spaghetti, Thin, 1 lb	Mueller
Cereal, Corn Flakes, 18 oz	Kelloggs
Crackers, Cheezit, 16 oz	Sunshine
Cookie, Oreo, Cream Sandwich, 19 oz	Nabisco
Crackers, Saltine, Premium, 16 oz	Nabisco
Flour, Self-Rising, 5 lb	Pillsbury
Crackers, Graham, Deluxe, 12.5 oz	Keebler
Gum, Chewing, Doublemint, 10 pkg	Wrigley's
Peanuts, Dry Roasted, 16 oz. jar	Planters
Peanut Butter, Chunky 28 oz	Skippy
Peanut Butter, Creamy, 18 oz	Jif
Soup, Tomato, #1 can	Campbell
Soup, Mix, Onion, 2 pkg	Lipton
Spaghetti w/Meatballs, 15 oz	Chef-Boy-Ar-Dee
Potato Chips, Original Style, 9 oz	Pringles
Pudding/Pie Filling, Inst., Van, 3.75 oz	Jell-O
Chili Con Carne w/Beans, 15 oz	Hormel
Spaghettios, 14.75 oz	Franco-American
BFD Str. Applesauce, #431, jar	Gerber
BFD Juice, Apple, #2101 jar	Gerber
Gelatin, Unflavored, 4 Pk., 1 oz	Knox
BFD Formula, w/Iron, 6/32 oz	Enfamil
BFD Formula, Liquid w/Iron, 32 oz	Similac
Dinner, Macaroni, 7¼ oz	Kraft
Oil, Food, Giant 48 oz	Crisco
Mayonnaise, 32 oz	Hellman's
Black Pepper, 4 oz	McCormick
Dressing Mix, Italian Salad Refill	Good Seasons
Ketchup, Tomato, 44 oz	Heinz
Vinegar, White, qt	Heinz
Cinnamon, Spice, 4 oz	McCormick
Salad Dressing, Italian, 16 oz	Wishbone
Sauce, Steak, 10 oz	A-1
Mustard, Cream Salad, 9 oz	French's
Ketchup, Tomato, 32 oz	Hunt
Sauce, Tomato, 8 oz	Hunt
Salt, Plain, 26 oz	Morton
Sauce, Spagetti w/Meat, 32 oz	Ragu
Mayonnaise, 32 oz	Kraft
Pickles, Kosher Spears, 24 oz	Vlassic

NONPERISHABLE COMMISSARY ITEMS INCLUDED IN TEST—Continued

Nomenclature	Brand name
Coffee, Grind Automatic Drip, 3 lb.....	Maxwell House
Coffee, Freeze-Dried, 4 oz.....	Tasters Choice
Tea, Instant, 3 oz.....	Nestea
Tea Bags, 100 ct.....	Lipton
Coffee, Grind Universal, 3 lb.....	Hostess
Tea Bags, 100 ct.....	Tetley
Beverage, Orange, 27 oz.....	Tang
Drink, Orange, 46 oz.....	HI-C
Drink, Fruit Juice, 46 oz.....	Hawaiian Punch
Instant Breakfast, Choc., 6 env/box.....	Carnation
Cigarettes, 100's, ctn.....	Winston
Cigarettes, Filters, Long, flip-top box.....	Marlboro
Coca-Cola, 12 oz.....	Coca-Cola
Pepsi-Cola, 12 oz.....	Pepsi-Cola

PERISHABLE COMMISSARY ITEMS INCLUDED IN TEST

Nomenclature	Brand name
Luncheon Meat, Var-Pack, 12 oz.....	Oscar Mayer
Bacon Sliced, frozen, 1 lb.....	Oscar Mayer
Ham, Canned, 6/3 Chill.....	Oscar Mayer
Fish, Fillets, 12 oz.....	Gorton
Fillet, Chicken Breast, Butter Breaded, Frozen, 12 oz.....	Tasty Bird
Cheese, American Singles, 16 oz.....	Kraft
Cream Cheese, Philadelphia, 8 oz.....	Kraft
Corn, Whole Kernel, frozen, 10 oz.....	Birdseye
Juice, Five Alive, 12 oz.....	Snow Crop
Juice, Orange Concentrate, 12 oz.....	Minute Maid
Potatoes, Shred Hash Brown, 24 oz.....	Ore-Ida
Cake, Layer, Coconut, Frozen, 17 oz.....	Pepperidge Farm
Waffle, Jumbo, 12 oz.....	Downeyflake
Cake, Coffee Peacan, 11.5 oz.....	Sara Lee
White Bread, Pullman, Jumbo, 22 oz.....	Wonder & AAFES
Big Wheels, 12 Pk., 11 oz.....	Hostess
Rolls, Sweet, Twinkles, 12/box, 15 oz.....	Hostess
Apple Pie, 26 oz.....	Mrs. Smiths
Biscuits, Buttermilk, can, 7.5 oz.....	Pillsbury
Candy, Milk Choc., Giant Almond, 12 oz.....	Hershey
Candy Bar, Peanut, Snickers, 6s.....	M&M
Dinner, Salisbury Steak, 19 oz.....	Swanson
Corn Niblets, Butter, 10 oz.....	Green Giant
Cool Whip, Non-Dairy Topping, frozen, 12 oz.....	Birdseye
Marcaroni & Cheese, 12 oz.....	Stouffer
Pizza Deluxe, 23½ oz.....	Celeste
Chicken, Fried, 32 oz.....	Banquet
Pizza, Pepperoni, frozen, 10.3 oz.....	Totino
Margarine Quarters, ¼s, 1 lb.....	Parkay
Margaine, Corn Oils, ¼s, 1 lb.....	Fleischmann's













