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American Logistics Association

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American Logistics Association continues to “sound alarm” on commissary cuts and price increases: 2015 Rand report substantiates dangers

WASHINGTON, D.C. (March 31, 2015) Rand National Defense Research Institute released a report this week on “The Likely Effects of Price Increases on Commissary Patronage.” The report cited, “raising overall price levels will not be a successful strategy to cover shortfalls in costs caused by the elimination of the annual Department of Defense appropriation.”

Key report findings confirmed that, “Raising prices will also negatively affect servicemembers and retirees who currently patronize the commissary system through increased grocery bills...” “In addition, changes in commissary pricing may have negative secondary and nonmarket effects, including effects on retention and recruitment; reductions in contributions to Morale, Well-Being, and Recreation programs; possible demand reductions for military exchanges; and changes in the calculated cost of living adjustment.”

“The Rand impact analysis, produced at the request of the Department of Defense, substantiates the findings of our 2012 economic report — *The Costs and Benefits of the Department of Defense Resale System* — that when you pull the commissary thread the fabric of the critical resale and MWR base support structure starts to unravel,” stated Patrick Nixon, ALA president and former director of the Defense Commissary Agency. Commissaries drive traffic to exchanges; exchanges provide nearly \$500 million a year in earnings to underwrite the cost of vital military community and family support programs.

The Department of Defense (DoD) 2016 budget proposes to cut \$1 billion in fiscal year 2017 annually from the \$1.3 billion annual commissary appropriation, beginning with a reduction of \$322 million in fiscal year 2016 – achieved by cutting back operating days and hours, and increasing commissary prices. Defense officials claim the plan would shrink the value of the benefit for military patrons from its current 30 percent savings to 10 percent compared to off-base grocery prices, but military families would be left to cover the out-of-pocket costs. However, Nixon said that, “the \$1 billion reduction will destroy patronage and economies of scale, leading to wholesale closures of the stores.” DoD proposed a \$200 million cut in 2015, but Congress restored it.

“While the Rand report is correct in pointing out flaws in DoD’s arguments and major second and third order effects of destroying this benefit, it only scratches the surface of the major consequences of pulling the rug out from under a very successful program that delivers so much to so many for so little,” said Nixon.

The ALA report points out that the military resale system is a powerful engine behind the U.S. economy, producing \$18 billion a year in revenue and providing goods at affordable prices, no matter where military personnel are stationed. This system also produces \$10.97 billion in economic benefit to the Department of Defense. This equates to a \$6.24 return for every \$1.00 of appropriations used. The DeCA Director testified last year that they have taken out over \$700 million in annual operating costs, savings that few if any other Defense institutions can make. “DeCA was efficient before efficiency was cool,” Nixon said. “It is an agency and working public private partnership that should be emulated for its success, not decimated and punished for its success.” According to Nixon, there is already in place a system for the rational and methodical closure of commissaries: “It’s called BRAC—DeCA has closed 180 of its 420 stores aligned with basing and force structure reductions, a claim that no other benefit provided to the military can make.”

The resale system is the only benefit provided by DoD to its personnel and their families wherein costs to the government decline the more it is used. While costs of other DoD programs have doubled and even tripled in the past ten years, the cost for the military resale system has been kept constant or dropped in real terms.

Commissary and exchanges are also an integral part of the military fabric. Ninety percent of the military community uses these benefits, which consistently rank as a top compensation benefit, yielding returns far out of proportion to the taxpayer support used. They provide critical jobs for military families and veterans – over 60 percent of employees are military affiliated – and provide healthy living alternatives both stateside and overseas. Service members and their families are partners with taxpayers, having financed billions of dollars in facilities and over 13 billion in quality of life programs.

“DoD is sailing in dangerous and uncharted waters and Congress needs to look behind the curtain and examine DoD’s proposal to cut off the blood flow to this benefit that is cherished and valued by millions of military, particularly young families and fixed income retirees,” added Nixon.

To access the [2012 economic report](#) and [executive summary](#) and the [2015 Rand report](#).

ABOUT THE ALA

The American Logistics Association (ALA) is a 95-year old trade association representing some of the largest consumer package companies and companies that support improved quality of life for our military and their families through strong resale (commissary and exchange) and morale, welfare and recreation programs (MWR) for the Departments of Defense, Veterans Affairs, and Homeland Security. For more information, visit www.ala-national.org.