

ARMY & AIR FORCE EXCHANGE SERVICE

EXCHANGE TOPICS

DIRECTOR/CEO NEWSLETTER

MARCH 2017



Welcoming Home All of America's Veterans with Online Shopping Benefit

After four years of coordination with the Departments of Defense, Army and Air Force as well as several other federal agencies, the Exchange will welcome home approximately 13 million Veterans on Nov. 11.

We are honored to offer this well-deserved benefit to those who raised their right hands, took the oath and served our Nation with honor. Extending an online exchange benefit to America's honorably discharged Veterans enhances the exchanges' online business to better serve all authorized shoppers. Additional authorized shoppers strengthens the exchange benefit through improved buying power as well as better pricing and assortment for every member of the military community.

Extending online shopping to all honorably discharged Veterans directly improves family and support programs for Soldiers, Airmen and their families. Consistent with the Exchange's dividend policy, increased earnings as a result of Veterans online shopping benefit will generate tens of millions of dollars in increased annual dividends. This increase in financial support for Quality-of-Life programs will enhance Army Child Development Centers, libraries and fitness centers, Air Force Outdoor Recreation programs, combat uniform support, overseas school lunch services and more.

A handwritten signature in black ink that reads "Tom Shull".

Historic Turnaround Improves Benefit for All

Since 2012, the Exchange has faced a 10.5 percent decline in its active-duty customer base as more than 80,000 service members and their families left the military. Failure to adjust to this new reality would have driven Exchange earnings to negative \$180 million by 2015. Such poor performance would have triggered, at best, drastically lower funding for critical Quality-of-Life programs including Army Child Development Centers, Air Force Outdoor Recreation and affordable school lunches for our Warfighters' children, cessation of facility improvements and, at worst, insolvency.

Additionally, our turnaround continues to set the bar for affordable and efficient delivery of hard-earned military benefits. Compared to 2011, the Exchange has been able to achieve a near doubling of our profitability from 3.2 percent of sales to 6 percent of sales. Instead of lagging the financial performance of both of our key competitors (Walmart and Target), we now lead with the best financial performance. These stunning achievements came in the face of a steep decline in customer population that could have rendered the Exchange insolvent.

"We remain committed to providing a lifeline for troops and are better prepared to deliver service and support to our military heroes and their families wherever they serve."

Tom Shull

Despite formidable headwinds, a focus on private-sector best practices continues to generate healthy operating earnings and dividends for the communities the Exchange serves. The result is an unprecedented turnaround of a magnitude that has not been seen in the retail industry in the last 40 years.

Intensifying national brands, growing desirable concessions, tailoring convenience stores to local needs, transforming the online experience, forging relationships with movie studios (including Disney, Sony

and Paramount Pictures), to show first-run movies in the continental United States, increasing efficiencies in logistics and many other efforts have transformed the Exchange and the benefit it provides. Noteworthy accomplishments achieved over the past four years include:

- Reduced costs through supply chain optimization (\$100 million margin improvement).
- Workforce reductions of 20 percent through attrition and overhead expenses decrease of \$319 million.
- Intensified national brands including Under Armour, Disney, Fitbit and Ashley to bring shoppers into the Exchange main stores.
- Increased focus on healthier grab-and-go options in Express stores. Healthier BE FIT food options now make up 19 percent of Exchange food sales, up from 9 percent in 2014.
- Provide additional better-for-you choices. Boston Market, Subway, Qdoba, Freshens and Arby's all have menus with better-for-you choices.
- Decreased burden on the American taxpayer through reduced reliance on appropriated funds per year of \$276 million.

In fiscal 2015, the Exchange served more than 107 million meals—Exchange food courts are feeding America's heroes and their families, bringing them a taste of home. Enhanced relations with national brands such as GNC, Firestone, PODs, Paul Mitchell, National Vision, Enterprise, GameStop, Pepsi & Coca-Cola and a host of small to medium retailers including tactical stores, barber and beauty services, dental, laundry dry-cleaning, alterations and gift stores.

This is a critical time for military resale. The Exchange remains committed to providing a lifeline for troops and is better prepared today to deliver service and support to our military heroes and their families wherever they serve.

Exchange Helps Military Shoppers BE FIT with Better-for-You Food Court, Express Options

The Exchange is doing its part to make sure Soldiers and Airmen are mission-ready in body, mind and spirit by offering a variety of healthy dining options, both in the food court and at the Express.

In the food court, the Exchange is focused on bringing in restaurants that offer better-for-you menu choices at all of the Exchange's 1,712 restaurants. For example:

- 216 Exchange Subways carry more than 45 items with less than 350 calories, including the turkey breast sandwiches and steak and garden salads.
- 15 Exchange Boston Markets offer 25 menu items with less than 350 calories and more than 100 meal combinations containing less than 500 calories.

- At 79 Exchange Popeyes Louisiana Kitchen locations, diners can choose from more than 20 items with less than 350 calories, including three-piece blackened tenders, Cajun rice and green beans.
- 101 Exchange Charley's Philly Steaks restaurants offer a variety of items with 350 calories or less, including grilled chicken, steak and garden salads and the small veggie delight sandwich.
- 8 Qdoba Mexican Eats entrees are made with better-for-you ingredients including fresh vegetables and grilled chicken, with several entrees containing less than 500 calories.

For Soldiers, Airmen and family members on the go, Exchange Express locations offer several new snack options for a quick

workout fuel-up, including the low-sugar, high-protein Krave Bar, available in flavors such as Chipotle Cherry Beef and Mango Jalapeno Pork.

Shoppers hungry and in a hurry can also grab Bumble Bee tuna pouches in flavors such as jalapeno, thai chili, lemon pepper, and sun dried tomato and basil. More than 100 Express island coolers now feature wraps, salads, hummus, yogurt, fresh fruit, milk and hard-boiled eggs.

The Exchange recognizes that good dietary habits greatly enhance our service member's ability to perform at their maximum potential. A healthy lifestyle is about making good choices, and the Exchange is providing customers those choices.



Reyes Joins the Exchange as Senior Enlisted Advisor



The Exchange recently welcomed Air Force Chief Master Sgt. Luis Reyes, who took over duties as the organization's Senior Enlisted Advisor.

As the Senior Enlisted Advisor, Reyes serves as the focal point for communication between Exchange leadership and Army and Air Force active duty, Guard, Reserve, family members and retirees as he visits installations worldwide to present updates on Exchange activities and provide feedback on issues affecting customers.

"Being selected for this position at the Exchange allows me the opportunity to take care of Airmen, Soldiers and their families," Reyes said. "We go

where you go' is not just a motto, it's something we truly believe in, and I want to ensure all our customers are aware of that."

In his most recent assignment before joining the Exchange, Reyes served as Squadron Superintendent, 690th Cyberspace Operations Squadron, Joint Base Pearl Harbor-Hickam, Hawaii.

Reyes replaced Chief Master Sgt. Sean Applegate, who retired in 2016 after 27 years of military service.

Exchange questions and comments may be directed to Reyes at 967-3051 (DSN), 214-312-3051 (commercial) or Reyeslu@aafes.com.

Tip of the Spear

[Watch](#) how the Exchange is supporting approximately 4,000 troops serving in Operation Atlantic Resolve in Poland.

