

GAO Highlights

Highlights of [GAO-20-418](#), a report to congressional committees

Why GAO Did This Study

DOD operates about 240 commissaries and 2,500 exchanges that sell groceries and retail goods and services to servicemembers, their families, and retirees. Commissaries and exchanges are operated by four resale organizations, and in November 2018 a DOD task force completed a business case analysis on consolidating those organizations.

The National Defense Authorization Act for Fiscal Year 2020 included a provision for GAO to review DOD's business case analysis. This report evaluates the extent to which (1) DOD's business case analysis for consolidating the four resale organizations provided reliable savings and cost estimates and (2) the military departments concurred with the business case analysis and DOD shared their accompanying comments with Congress.

GAO evaluated the business case analysis against DOD- and GAO-identified key elements of economic analyses; reviewed comments on the business case analysis; and interviewed DOD officials.

What GAO Recommends

GAO is making four recommendations, including that DOD reassess and update as necessary its estimates for consolidation savings and costs, and provide additional information to Congress on the military departments' comments on the November 2018 business case analysis. DOD concurred with three recommendations and provided updated estimates. DOD did not concur with the last recommendation. GAO continues to believe providing such information is beneficial, as discussed in the report.

View [GAO-20-418](#). For more information, contact Elizabeth A. Field at (202) 512-2775 or field1@gao.gov.

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COMMISSARIES AND EXCHANGES

DOD and Congress Need More Reliable Information on Expected Savings and Costs of Consolidating the Defense Resale Organizations

What GAO Found

A Department of Defense (DOD) task force's business case analysis for consolidating the defense resale organizations—the Defense Commissary Agency (DeCA), the Army and Air Force Exchange Service, the Navy Exchange Service Command, and Marine Corps Community Services—may not provide reliable savings and cost estimates. These organizations sell groceries and retail goods to servicemembers, their families, and retirees. The task force recommended consolidating the four resale organizations into a single organization, estimating “net savings” (i.e., savings minus costs) of about \$690 million to \$1.3 billion during the first 5 years. However, the task force may have overestimated savings and underestimated costs.

- **Savings from reducing the cost of goods sold.** The task force estimated that DOD would save several hundred million dollars annually by reducing the cost of purchasing goods that are resold in stores. Specifically, the task force multiplied the fiscal year 2017 total cost of goods sold for all four resale organizations by industry benchmarks, reasoning that mergers lead to more savings when merging organizations sell a high amount of identical products. However, task force data show that DeCA and the exchange organizations have limited identical products; the overlap between DeCA products and those of at least one exchange organization amounts to less than one-third of the total cost of goods sold. Thus, multiplying the benchmarks by the total cost of goods sold for all four organizations may not have been appropriate.
- **Information technology (IT) costs.** The task force estimated the costs of developing new, common IT systems to operate a consolidated resale organization to be between \$326 million and \$401 million, about 50 percent of estimated consolidation costs. The task force stated that it based IT cost estimates on data resale organizations provided for major upgrades or system replacements. But GAO found that about 40 percent of the IT cost estimate was based on minor upgrades or partial replacements, not major upgrades or system replacements. Thus, the estimate may be understated.
- **Headquarters relocation costs.** According to the task force, there will be costs if DOD decides to relocate the four defense resale organizations to a new headquarters location. However, the task force did not include cost estimates for relocation in its business case analysis.

According to federal law, the operation of the commissary and exchange systems may not be consolidated unless authorized by Congress. Until the task force reassesses and updates, as necessary, its savings and costs estimates, DOD and Congress will not have reliable information to consider resale consolidation.

The military departments officially concurred with the business case analysis, but provided written comments detailing fundamental concerns with the analysis, such as the use of proprietary industry benchmarks and the estimated savings and costs. In April 2019, DOD reported to Congress that the military departments agreed with consolidation, but did not disclose the accompanying comments. Without more complete reporting of those comments, Congress has limited visibility of the views of the organizations involved in a potential consolidation.