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MILITARY UPDATE

## Millions more vets to be able to shop at exchanges online



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After two years of study and debate, the Department of Defense has made a policy change, effective next November, to allow 16 million honorably discharged veterans to shop online for discounted military exchange products.

Peter K. Levine, acting undersecretary of defense for personnel and readiness, signed a memorandum Wednesday announcing the benefit expansion, effective Veterans Day (Nov. 11), and giving Congress the required 30 days' notice before actions begin to implement the plan.

Months of preparation are needed to make e-shopping portals more robust and to allow the Defense Manpower Data Center (DMDC) time to create software for verifying veterans' status using Department of Veterans Affairs records.

Several million vets already are eligible to shop in exchanges — on base or online — because they are active or reserve component retirees, or 100 percent disabled from service-connected injuries or ailments, or Medal of Honor recipients.

Thomas C. Shull, chief executive officer of the Army and Air Force Exchange Service, led a three-year quest to expand online exchange shopping to all honorably discharged veterans with access to computers. It cited two reasons.

One was to reward their service with exchange product savings that, on average, will be near to 20 percent versus commercial department store prices when military exemption from state and local sales tax are considered too.

Shull's other purpose was to increase exchange revenues to help offset troubling declines due to the drawdown of active-duty forces, base closures and the end of military tobacco discounts for the higher priority of healthier populations.

The Army and Air Force Exchange Service's web page.

B U Y P H

The Navy, Marine Corps and Coast Guard exchange services joined Shull and AAFES in pushing for the shopping benefit expansion. They worked with Levine's office and with resale board executives in refining the proposal.

The online benefit does not extend to veterans' dependents, although spouses and family members theoretically could use the authorized customer's log-in credentials, given the nature of an online shopping benefit.

Exchange officials project that expanding online shopping will result in \$1.8 million in added annual fixed costs to handle the larger customer base. However, they also project added sales and revenue, which will more than offset any added operating or order-fulfillment costs. Higher net earnings are seen boosting exchange dividends to support on-base Morale, Welfare and Recreational activities.

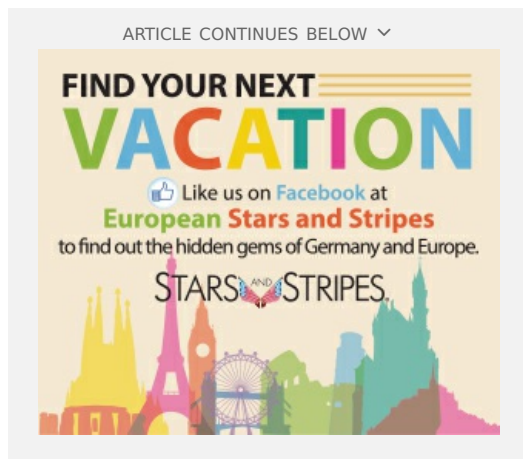
With DMDC verifying shopper identities electronically, the department will not have to produce special identification cards. DMDC estimates that 13 percent of eligible veterans, primarily those who served before 1981, might not be in their database when the shopping benefit becomes available. Presumably guidance will be issued for veterans who might have access problems initially.

DOD officials believe they have mitigated concerns previously raised on expanding the exchange benefit. These included worries it would dilute the benefit for currently authorized patrons, increase appropriated funding costs, reduce state and local tax revenues for civilian communities and harm commercial retailers.

An audit of public comments to earlier news articles on the plan showed 90 percent support for veterans online shopping. Also, the online benefit should have no impact need for taxpayer support of certain exchange operations. Total sales are expected to climb annually by from \$185 million to \$525 million. But that range is viewed as insignificant against \$300 billion in online sales reported across the retail industry, thus muting retailers' complaints.

The four exchange services are to maintain independent websites and separate online portals to the selection

of goods they offer. But for verifying eligibility to shop, online shoppers might have a “common landing page.”



The business case for expanding the online benefit calls it “a low-risk, low-cost opportunity” to better fund Morale, Welfare and Recreation programs and quality-of-life activities. It also notes that smaller percentages of recently discharged veterans are serving until retirement to qualify for base shopping, yet a higher proportion of them probably had multiple tours deployed, often to war.

The Veterans Online Shopping Benefit will help to recognize the contributions of all who served, the business case argues, while strengthening the online benefit to better serve current patrons. The veterans are expected to at least double exchanges’ online presence, which will help attract better terms from vendors, more competitive merchandise assortments and improved efficiencies.

Exchanges project \$18 million to \$72 million in new annual earnings when the online operation is fully matured. Half of the added earnings typically would be distributed as higher dividends to MWR programs, which have come under budget pressure as the services divert funds to more immediate readiness needs.

The Veterans Canteen Service, which sells products to veterans under authority of the VA, is weighing the idea of establishing its own online retail presence. AAFES had reached out to the canteen service about a joint venture online, but the VCS opted to “go it alone,” according to AAFES documents. That is not seen as affecting the future success of the Veterans Online Shopping Benefit.

The four exchange services reached agreement last year on how to divide revenue from the online purchases, in part by using ZIP codes of buyers to estimate their service affiliations. They have been eyeing a “soft launch” of the expanded online benefit to segments of vets by mid-2017 to gauge demand and test system capabilities including the process to verify veteran status before the full launch.

The more highly prized commissary benefit isn’t being opened to all veterans. Current exchange patrons won’t see more store traffic and discounts for exchange shopping on base are expected to remain higher than savings online. These factors helped to persuade major military associations to back the initiative.

Proponents were anxious to see the initiative approved before the Obama administration ends Jan. 20 to avoid having to reargue its merits to new leaders.

Military exchanges acknowledge that they are losing sales to popular online sites such as Amazon, particularly as military patrons grow increasingly comfortable with using smartphones and tablets to shop.

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